Intelli Check Mobilisa, Inc
Form 10-Q
November 10, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2009

OR

¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from ________________ to ________________

Commission File No.: 001-15465

Intellicheck Mobilisa, Inc.
(Exact name of Registrant as specified in its charter)

Delaware (State or Other Jurisdiction of Incorporation or Organization)	11-3234779 (I.R.S. Employer Identification No.)

191 Otto Street, Port Townsend, WA 98368

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (360) 344-3233

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes x No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check One):

Large accelerated filer ¨	Accelerated filer ¨	Non-accelerated filer ¨ (Do not check if a smaller reporting company)	Smaller reporting company x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

Number of shares outstanding of the issuer's Common Stock:

Class	Outstanding at November 10, 2009
Common Stock, $.001 par value	26,203,726

INTELLICHECK MOBILISA, INC.

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	31.1 Officer	Rule 13a-14(a) Certification of Chief Executive
	31.2 Officer	Rule 13a-14(a) Certification of Chief Financial
	32.	18U.S.C. Section 1350 Certifications

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2009 (Unaudited)	December 31, 2008 (Revised)
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 3,345,485	$ 3,400,948
Accounts receivable, net of allowance of $14,067 and $22,038 as of September 30, 2009 and December 31, 2008, respectively	2,418,249	1,533,434
Inventory	33,958	39,350
Other current assets	352,565	230,901
Total current assets	6,150,257	5,204,633
PROPERTY AND EQUIPMENT, net	493,529	464,790
GOODWILL	12,391,014	11,736,660
INTANGIBLE ASSETS, net	7,673,706	6,877,752
OTHER ASSETS	51,395	51,395
Total assets	$ 26,759,901	$ 24,335,230
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 314,988	$ 144,062
Accrued expenses	853,354	616,999
Deferred revenue, current portion	2,150,778	1,900,528
Notes payable, current portion	380,000	-
Income taxes payable	-	168,732
Total current liabilities	3,699,120	2,830,321
OTHER LIABILITIES		
Deferred revenue, long-term portion	695,883	724,234
Notes payable, long-term portion	180,000	-
Total liabilities	4,575,003	3,554,555
STOCKHOLDERS' EQUITY:		
Common stock - $.001 par value; 40,000,000 shares authorized; 26,193,309 and 25,335,175 shares issued and outstanding, respectively	26,193	25,335
Additional paid-in capital	99,692,274	98,336,965
Accumulated deficit	(77,533,569)	(77,581,625)

Total stockholders’ equity		22,184,898		20,780,675
Total liabilities and stockholders’ equity	$	26,759,901	$	24,335,230

See accompanying notes to financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (Revised)	2009	2008 (Revised)
REVENUES	$ 3,754,633	$ 3,553,653	$ 9,837,508	$ 7,441,792
COST OF REVENUES	(1,358,329)	(1,301,792)	(3,396,538)	(2,690,389)
Gross profit	2,396,304	2,251,861	6,440,970	4,751,403
OPERATING EXPENSES				
Selling	508,999	453,969	1,536,845	1,171,912
General and administrative	1,091,954	946,394	2,840,384	2,401,519
Research and development	686,132	684,373	2,016,703	1,691,387
Total operating expenses	2,287,085	2,084,736	6,393,932	5,264,818
Income (loss) from operations	109,219	167,125	47,038	(513,415)
OTHER INCOME (EXPENSE)				
Interest income	584	9,708	2,414	51,527
Other expense	-	(10,199)	(1,396)	(10,199)
	584	(491)	1,018	41,328
Net income (loss)	$ 109,803	$ 166,634	$ 48,056	$ (472,087)
PER SHARE INFORMATION				
Net income (loss) per common share -				
Basic	$ 0.00	$ 0.01	$ 0.00	$ (0.02)
Diluted	$ 0.00	$ 0.01	$ 0.00	$ (0.02)
Weighted average common shares used in computing per share amounts -				
Basic	25,675,033	25,244,594	25,593,395	21,502,992
Diluted	26,774,305	26,614,889	26,606,397	21,502,992

See accompanying notes to financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Nine months ended September 30, 2009	Nine months ended September 30, 2008 (Revised)
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income (loss)	$ 48,056	$ (472,087)
Adjustments to reconcile net income (loss) to net cash used in operating activities:		
Depreciation and amortization	708,638	973,294
Provision for (recovery of) doubtful accounts	(7,271)	43,000
Noncash stock-based compensation expense	419,563	294,917
Loss on sale of equipment	1,396	10,199
Changes in assets and liabilities:		
Increase in accounts receivable	(835,453)	(52,802)
Decrease (increase) in inventory	5,642	(35,164)
(Increase) decrease in other current assets	(4,478)	316,410
Increase in other assets	-	(148,422)
Increase (decrease) in accounts payable and accrued expenses	387,669	(321,936)
Increase (decrease) in deferred revenue	72,304	(370,042)
Decrease in income taxes payable	(168,732)	(476,394)
Net cash provided by (used in) operating activities	627,334	(239,027)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Sales of marketable securities and short-term investments	-	850,000
Purchases of property and equipment	(139,128)	(107,232)
Proceeds from sale of equipment	400	-
Cash paid for Positive Access Corporation acquisition	(638,000)	-
Cash of Positive Access Corporation at date of acquisition	39,681	-
Cash of Mobilisa, Inc., at date of acquisition	-	335,836
Net cash (used in) provided by investing activities	(737,047)	1,078,604
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock from exercise of stock options and warrants	54,250	287,709
Net cash provided by financing activities	54,250	287,709
(Decrease) increase in cash and cash equivalents	(55,463)	1,127,286
CASH AND CASH EQUIVALENTS, beginning of period	3,400,948	392,983
CASH AND CASH EQUIVALENTS, end of period	$ 3,345,485	$ 1,520,269
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING AND FINANCING ACTIVITIES		

On August 31, 2009, the Company acquired all the common stock of Positive Access Corporation by issuing common stock in the amount of $882,354 and notes payable of $560,000, net of deferred debt discount.

On March 14, 2008, the Company acquired all the common stock of Mobilisa, Inc. by issuing common stock and options in the amount of $50,963,886.

SUPPLEMENTAL CASH FLOW INFORMATION

Income taxes paid	$	131,175	-

See accompanying notes to financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Nine Months ended September 30, 2009
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit (Revised)	Total (Revised)
BALANCE, January 1, 2009	25,335,175	$ 25,335	$ 98,336,965	$ (77,581,625)	$ 20,780,675
Stock-based compensation expense	-	-	313,830	-	313,830
Issuance of restricted common stock as consultant's compensation	72,919	73	105,660	-	105,733
Issuance of common stock as directors compensation	35,622	36	(36)	-	-
Issuance of common stock for the acquisition of Positive Access Corporation	608,520	608	881,746	-	882,354
Exercise of options and warrants	141,073	141	54,109	-	54,250
Net income	-	-	-	48,056	48,056
BALANCE, September 30, 2009	26,193,309	$ 26,193	$ 99,692,274	$ (77,533,569)	$ 22,184,898

See accompanying notes to financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business

Intellicheck Mobilisa, Inc. (the "Company" or "Intellicheck" or "We") is a leading technology company in developing and marketing wireless technology and identity systems for various applications, including: mobile and handheld wireless devices for the government, military and commercial markets. Products include the Defense ID systems, an advanced ID card access-control product that is currently protecting over 50 military and federal locations and ID-Check, a technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from approximately 60 jurisdictions in the U.S. and Canada to determine if the content and format are valid. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys. Creating improved communications across water, our wireless solutions have capabilities for security, environmental protection and mobile networking.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. ("Mobilisa") and Positive Access Corporation ("Positive Access"). The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa's results of operations are included in the financial statements beginning from March 15, 2008. The acquisition of Positive Access was completed on August 31, 2009, and therefore Positive Access's results of operations are included in the financial statements beginning from September 1, 2009. All intercompany balances and transactions have been eliminated upon consolidation.

Certain amounts have been reclassified to conform to current period presentation.

Prior Period Adjustments

In September 2009, we discovered an accounting error related to the interpretation of and recording of the fixed fee under our government cost plus fixed fee contracts in our Mobilisa subsidiary, which impacted our reported operating results for the year ended December 31, 2008 and first two quarters of 2009. We evaluated the impact that these errors would have had on our financial statements and determined that these errors would not have been material to our financial statements from a quantitative or qualitative perspective for those periods. However, the amount of the adjustment required to correct these errors was deemed to be material to the results for 2009. We corrected these errors as of September 30, 2009 and have made the required adjustments to our reported results for the comparative quarter and nine months ended September 30, 2008. In addition, we have adjusted our previously published balance sheet at December 31, 2008, decreasing accumulated deficit by $141,149. As applicable, we will revise our published financials in future filings, including our Annual Report on Form 10-K for the year ended December 31, 2009, including revised comparative results for the years ended December 31, 2008. We have labeled our balance sheet, statement of operations and statement of cash flows as "Revised" where applicable.

The following tables summarize the impact of these accounting errors on our previously published financial statements by caption for each of the comparable periods presented in this Quarterly Report on Form 10-Q.

STATEMENTS OF OPERATIONS:

	Quarter Ended September 30, 2008			Nine Months Ended September 30, 2008		
	Original Presentation	Prior Period Adjustments	Revised Presentation	Original Presentation	Prior Period Adjustments	Revised Presentation
Revenues	$ 3,538,994	$ 14,659	$ 3,553,653	$ 7,402,126	$ 39,666	$ 7,441,792
Cost of revenues	1,301,792	—	1,301,792	2,690,389	—	2,690,389
Gross profit	2,237,202	14,659	2,251,861	4,711,737	39,666	4,751,403
Operating expenses	2,084,736	—	2,084,736	5,264,818	—	5,264,818
Income (loss) from operations	152,466	14,659	167,125	(553,081)	39,666	(513,415)
Other income (expense)	(491)	-	(491)	41,328	-	41,328
Net income (loss)	$ 151,975	$ 14,659	$ 166,634	$ (511,753)	$ 39,666	$ (472,087)
Earnings per share:						
Basic	$ 0.01	$ 0.00	$ 0.01	$ (0.00)	$ 0.00	$ (0.00)
Diluted	$ 0.01	$ 0.00	$ 0.01	$ (0.00)	$ 0.00	$ (0.00)

BALANCE SHEET:

	As of December 31, 2008		
Caption	Original Presentation	Prior Period Adjustments	Revised Presentation
Accounts receivable	$ 1,392,285	$ 141,149	$ 1,533,434
Accumulated deficit	$ (77,722,774)	$ 141,149	$ (77,581,625)

STATEMENT OF CASH FLOWS:

	For the Nine Months Ended September 30, 2008		
Caption	Original Presentation	Prior Period Adjustments	Revised Presentation
Net loss	$ (511,753)	$ 39,666	$ (472,087)
Accounts receivable	$ (13,136)	$ (39,666)	$ (52,802)
Net cash used in operating activities	$ (239,027)	$ -	$ (239,027)

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at September 30, 2009 and the results of its operations for the three and nine months ended September 30, 2009 and 2008, stockholders’ equity for the nine months ended September 30, 2009 and cash flows for the nine months ended September 30, 2009 and 2008. All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company’s annual financial statements. Results of operations for the nine month period ended September 30, 2009, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2009.

The balance sheet as of December 31, 2008 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2008.

Recently Issued Accounting Pronouncements

In June 2009, the FASB issued Accounting Standards Update No. 2009-01, “Generally Accepted Accounting Principles” (ASC Topic 105) which establishes the FASB Accounting Standards Codification (“the Codification” or “ASC”) as the official single source of authoritative U.S. generally accepted accounting principles (“GAAP”). All existing accounting standards are superseded. All other accounting guidance not included in the Codification will be considered non-authoritative. The Codification also includes all relevant Securities and Exchange Commission (“SEC”) guidance organized using the same topical structure in separate sections within the Codification.

Following the Codification, the Board will not issue new standards in the form of Statements, FASB Staff Positions or Emerging Issues Task Force Abstracts. Instead, it will issue Accounting Standards Updates (“ASU”) which will serve to update the Codification, provide background information about the guidance and provide the basis for conclusions on the changes to the Codification.

The Codification is not intended to change GAAP, but it will change the way GAAP is organized and presented. The Codification is effective for our third-quarter 2009 financial statements and the principal impact on our financial statements is limited to disclosures as all future references to authoritative accounting literature will be referenced in accordance with the Codification. In order to ease the transition to the Codification, we are providing the Codification cross-reference alongside the references to the standards issued and adopted prior to the adoption of the Codification.

In April 2009, the FASB issued FASB Staff Positions FAS 115-2 and FAS 124-2, “Recognition and Presentation of Other-Than-Temporary Impairments” (ASC Topic 320-10-65). This update provides guidance for allocation of charges for other-than-temporary impairments between earnings and other comprehensive income. It also revises subsequent accounting for other-than-temporary impairments and expands required disclosure. The update was effective for interim and annual periods ending after June 15, 2009. The adoption of FAS 115-2 and FAS 124-2 did not have a material impact on the results of operations and financial condition.

In April 2009, the FASB issued FSP SFAS 107-1 and APB 28-1, “Interim Disclosures About Fair Value of Financial Instruments” (ASC Topic 320-10-65). This update requires fair value disclosures for financial instruments that are not currently reflected on the balance sheet at fair value on a quarterly basis and is effective for interim periods ending after June 15, 2009. The Company’s financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. At September 30, 2009 and December 31, 2008 the carrying value of the Companies financial instruments approximated fair value, due to their short term nature.

In May 2009, the FASB issued SFAS No. 165, “Subsequent Events” (ASC Topic 855). This guidance is intended to establish general standards of accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or available to be issued. It is effective for interim and annual reporting periods ending after June 15, 2009. The adoption of this guidance did not have a material impact on our consolidated financial statements. The Company evaluated all events and transactions that occurred after September 30, 2009 up through November 10, 2009. During this period no material subsequent events came to our attention.

In June 2009, the FASB issued SFAS No. 167, “Amendments to FASB Interpretation No. 46(R)” (ASC Topic 810-10). This updated guidance requires a qualitative approach to identifying a controlling financial interest in a variable interest entity (VIE), and requires ongoing assessment of whether an entity is a VIE and whether an interest in a VIE makes the holder the primary beneficiary of the VIE. It is effective for annual reporting periods beginning after November 15, 2009. We are currently evaluating the impact of the pending adoption of SFAS No. 167 on our consolidated financial statements.

In October 2009, the FASB issued ASU No. 2009-13, “Multiple-Deliverable Revenue Arrangements.” This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor’s multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

In October 2009, the FASB issued ASU No. 2009-14, “Certain Revenue Arrangements That Include Software Elements.” This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are “essential to the functionality,” and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered “essential to the functionality.” The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. Early application is permitted. The Company is currently evaluating this new ASU.

Use of Estimates

The preparation of the Company’s financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company’s financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment of goodwill, valuation of intangible assets, deferred tax valuation allowances, allowance for doubtful accounts and the fair value of stock options granted under the Company’s stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of September 30, 2009, cash equivalents included money market funds (with maturities at date of purchase of three months or less) of $1,316,889.

Marketable Securities and Short Term Investments

The Company classifies its investments in marketable securities as available-for-sale securities and accounts for them in accordance with Statement of Financial Accounting Standards (“SFAS”) No. 115, “Accounting for Certain Investments in Debt and Equity Securities” (“SFAS No. 115”) (ASC Topic 320-10). Under SFAS No. 115, securities purchased to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. The Company continually evaluates whether any marketable investments have been impaired and, if so, whether such impairment is temporary or other than temporary. All of the Company’s marketable securities have maturities of less than one year with a weighted average interest rate of 0.02%. The carrying value of the marketable securities as of September 30, 2009 approximated their fair market value. Marketable Securities and Short Term Investments are invested in money market funds. Realized gains and losses on available-for-sale securities are calculated using the specific identification method. During the periods ended September 30, 2009 and 2008, realized gains and losses on available-for-sale securities were insignificant. At September 30, 2009 all marketable securities had maturity dates of less than three months and were classified as cash equivalents.

Allowance for Doubtful Accounts

The Company records its allowance for doubtful accounts based upon its assessment of various factors. The Company considers historical experience, the age of the accounts receivable balances, credit quality of the Company’s customers, current economic conditions and other factors that may affect customers’ ability to pay.

Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to SFAS No. 142, "Goodwill and Other Intangible Assets," (ASC Topic 350) the Company tests goodwill for impairment on an annual basis, or between annual tests, in certain circumstances, such as the occurrence of operating losses or a significant decline in earnings associated with the asset. The Company evaluates goodwill for impairment using the two-step process as prescribed in SFAS No. 142. The first step is to compare the fair value of the reporting unit to the carrying amount of the reporting unit. If the carrying amount exceeds the fair value, a second step must be followed to calculate impairment. The Company performs the initial step by comparing the carrying value to the estimated fair value of the reporting units, which is determined by considering future discounted cash flows, market transactions and multiples, among other factors.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 3. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets" (ASC Topic 360). To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed. The Company's products require continuing service or post contract customer support and performance; accordingly, a portion of the revenue pertaining to the service and support is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years.

The Company recognizes revenues from licensing of its patented software to customers. The Company's licensed software requires continuing service or post contract customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned. For the nine month periods ended September 30, 2009 and 2008, the Company received $6,030 and $6,093 respectively, in royalty fees.

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

The Company also performs consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically three years.

Under the provisions of EITF 00-21, “Revenue Arrangements with Multiple Deliverables,” (ASC Topic 605-25) revenue arrangements were allocated to the separate units of accounting based on their relative fair values and revenue is recognized in accordance with its policy as stated above.

Business Concentrations and Credit Risk

During the three months ended September 30, 2009, the Company made sales to two customers that accounted for approximately 39% of total revenues. These revenues resulted from a research contract and sales to a military base both with branches of the U.S. government. These customers represented 28% of total accounts receivable at September 30, 2009. During the nine months ended September 30, 2009, the Company made sales to two customers that accounted for approximately 46% of total revenues. These revenues were the result of a research contract with the U.S. government and sales to a large telecommunications company. During the three and nine month periods ended September 30, 2008, the Company made sales to two and one customer that accounted for approximately 36% and 26% of total revenues, respectively. These revenues were the result of a research contract with the U.S. government and sales to a large retail customer.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Note 2. Acquisitions

Acquisition of Positive Access Corporation

On August 31, 2009, the Company acquired 100% of the common stock of Positive Access Corporation, the leading competitor to Intellicheck Mobilisa for developing drivers' license reading software. The acquisition of Positive Access will increase the Company's market presence in the commercial markets. The terms include cash payments of $1,225,000, payable $625,000 at August 31, 2009, $400,000 at August 31, 2010 and $200,000 at August 31, 2011. The notes payable have been recorded in the financial statements net of deferred debt discount of $40,000. In addition, the Company issued 608,520 shares of common stock valued at $882,354 (based on the closing stock price on August 31, 2009) plus direct issue costs of $13,000. Acquisition related costs of approximately $35,000 were expensed in connection with this transaction. The transaction was accounted for using the purchase method of accounting. The results of Positive Access Corporation's operations have been included in the accompanying consolidated financial statements from September 1, 2009. Pro forma supplemental financial information was not included as the impact of the acquisition was not material to the operations of the Company.

The total provisional purchase price was allocated to the estimated fair value of the assets acquired and liabilities assumed based on third party valuations and managements estimates. The fair value of identified intangible assets and goodwill are considered provisional pending completion of the final valuation.

Purchase Price Allocation

The provisional calculation of purchase price and goodwill and other intangible assets as of August 31, 2009 was as follows:

Cash	$ 625,000
Fair value of Intellicheck common stock issued to Positive Access shareholders	882,354
Fair value of notes issued, net of deferred debt discount	560,000
Direct issue costs	13,000
Total purchase price	$ 2,080,354

Purchase price allocated to:

Tangible assets acquired less liabilities assumed	$ 33,000
Identifiable intangible assets	1,393,000
Goodwill	654,354
Tangible assets acquired and liabilities assumed	$ 2,080,354

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Acquisition of Mobilisa, Inc.

On November 20, 2007, the Intellicheck and Mobilisa, Inc., a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which a wholly-owned subsidiary of Intellicheck would merge with and into Mobilisa, resulting in Mobilisa becoming a wholly-owned subsidiary. At a special meeting of stockholders held on March 14, 2008, the Company's stockholders voted to approve the merger, as well as to amend Intellicheck's certificate of incorporation to change the name of the Company to Intellicheck – Mobilisa, Inc., increase the authorized shares of common stock and to increase the number of shares issuable under the 2006 Equity Incentive Plan by 3,000,000. The headquarters of Intellicheck was moved to Mobilisa's offices in Port Townsend, Washington. The transaction was accounted for using the purchase method of accounting. The unaudited pro forma condensed statements of operations are presented below as if the acquisition had been completed as of the beginning of the applicable periods presented.

		Nine Months Ended September 30, 2008
Revenues	$	8,488,702
Net loss	$	(1,438,626)
Net loss per share	$	(0.06)

The purchase price allocation included within these unaudited consolidated financial statements is based upon a purchase price of approximately $51.3 million, consisting of an exchange ratio of 1.091 shares of Intellicheck common stock for each share of Mobilisa common stock, stock options, warrants and transaction costs. On March 14, 2008, the Company issued 12,281,650 common shares to Mobilisa stockholders. Under the purchase method of accounting and the guidance of EITF 99-12 "Determination of the Measurement Date for the Market Price of Acquirer Securities Issued in a Purchase Business Combination," the fair value of the equity consideration was determined using an average of Intellicheck's closing share prices beginning two days before and ending two days after November 21, 2007, the date on which the Merger Agreement was announced, or $3.54 per share.

Outstanding options to purchase Mobilisa common stock were assumed by Intellicheck and converted into options to purchase Intellicheck common stock, based on a formula in the merger agreement. No cash consideration was paid for stock options. For purpose of the valuation, the fair value of the assumed options was estimated using the Black Scholes model. The vested portion of this fair value is included in the purchase price. The valuation assumptions used were: expected dividend yield 0%, expected volatility 63%, expected life 2.5 years and risk free interest rate 1.65%.

Purchase Price Allocation

The calculation of purchase price and goodwill and other intangible assets as of March 14, 2008 was as follows:

Fair value of Intellicheck common stock issued to Mobilisa shareholders	$43,477,040
Fair value of Intellicheck common vested stock awards to be issued as consideration for replacement of outstanding Mobilisa vested stock awards	7,486,846
Transaction costs	357,575
Total purchase price	$51,321,461
Purchase price allocated to:	
Tangible assets acquired less liabilities assumed	$ (523,067)

Identifiable intangible assets	14,440,000
Deferred tax adjustments	(210,708)
Goodwill	37,615,236
Tangible assets acquired and liabilities assumed	$51,321,461

At March 14, 2008, Intellicheck estimated the fair value of tangible assets acquired and liabilities assumed. These estimates were based on a valuation dated as of March 14, 2008, the date of the acquisition. At December 31, 2008, the Company finalized its allocation of the purchase price of Mobilisa.

As a component of the acquisition, the Company acquired software maintenance and database subscription obligations and the associated deferred revenue. In accordance with EITF Issue No 01-3 "Accounting in a Business Combinations for Deferred Revenue of an Acquiree" the Company determined there was a legal performance obligation. The deferred revenue was measured at fair value and is recognized over the remaining contractual period, generally from one to three years.

Note 3. Goodwill and Identified Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2009 were as follows:

Balance at January 1, 2009	$ 11,736,660
Acquisition of Positive Access Corporation	654,354
Balance at September 30, 2009	$ 12,391,014

Identifiable intangible assets

The changes in the carrying amount of intangible assets for the nine months ended September 30, 2009 were as follows:

Balance at January 1, 2009	$ 6,877,752
Acquisition of Positive Access Corporation	1,393,000
Amortization expense	(597,046)
Balance at September 30, 2009	$ 7,673,706

Intellicheck has recorded the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach. The following table sets forth the components of these intangible assets as of September 30, 2009:

	As of September 30, 2009			As of December 31, 2008		
Amortized Intangible Assets	Adjusted Carrying Amount	Accumulated Amortization	Net as of 09/30/2009	Adjusted Carrying Amount	Accumulated Amortization	Net as of 12/31/2008
Trade name	$ 704,458	$ (76,358)	$ 628,100	$ 651,458	$ (51,458)	$ 600,000
Patents and copyrights	1,135,342	(215,401)	919,941	885,342	(177,590)	707,752
Non-compete agreements	310,000	(5,167)	304,833	-	-	-
Developed technology	3,941,310	(984,050)	2,957,260	3,901,310	(581,310)	3,320,000
Backlog	303,400	(303,400)	-	303,400	(303,400)	-
Non-contractual customer relationships	3,268,568	(404,996)	2,863,572	2,528,568	(278,568)	2,250,000
	$ 9,663,078	$ (1,989,372)	$ 7,673,706	$ 8,270,078	$ (1,392,326)	$ 6,877,752

In the fourth quarter of 2008, the Company recorded an impairment of $6,293,083 for intangible assets and an impairment of $25,878,576 for goodwill related to the Mobilisa acquisition.

The Company expects that amortization expense for the next five succeeding years will be as follows:

Year 1	$ 944,890
Year 2	943,223
Year 3	923,417
Year 4	907,223
Year 5	703,500

These amounts are subject to change based upon the review of recoverability and useful lives that are performed at least annually.

Note 4. Income Taxes

As of September 30, 2009, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately $36.8 million. There can be no assurance that the Company will realize the entire benefit of the NOL's. The federal and New York state NOL's are available to offset future taxable income and expire from 2018 through 2029 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes. The Company has not yet completed its review to determine whether or not these NOL's will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

The Company has recorded a full valuation allowance against its net deferred assets since management believes that it is more likely than not that these assets will not be realized.

At December 31, 2008, income taxes payable of $168,732 represented Mobilisa's prior estimated tax liability. In the nine months of 2009 the Company paid $131,175 in settlement of this liability.

In the third quarter of 2009, we have not recorded a tax provision due to the expected utilization of net operating loss carryforwards. The effective tax rate for the nine months ended September 30, 2009 and 2008 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

Note 4. Net Income (Loss) per Common Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive shares. The following table sets forth the computation of basic and diluted net (loss) income per share for the periods indicated:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2009	2008 (Revised)	2009	2008 (Revised)
Numerator:				
Net income (loss)	$ 109,803	$ 166,634	$ 48,056	$ (472,087)
Denominator:				

Weighted average common shares – basic	25,675,033	25,244,594	25,593,395	21,502,992
Dilutive effect of equity incentive plans	1,099,272	1,370,295	1,013,002	-
Weighted average common shares – diluted	26,774,305	26,614,889	26,606,397	21,502,992

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Net income (loss) per share				
Basic	$ 0.00	$ 0.01	$ 0.00	$ (0.02)
Diluted	$ 0.00	$ 0.01	$ 0.00	$ (0.02)
Common stock equivalents excluded from income (loss) per diluted share because their effect would be anti-dilutive				
Stock options	993,011	1,228,940	1,077,647	3,076,306
Warrants	599,000	809,000	599,000	875,551
Total	1,592,011	2,037,940	1,676,647	3,951,857

Note 5. Stock-Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance with SFAS No. 123(R) (ASC Topic 715 and 505), which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. This pronouncement establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

In addition, the Company accounts for the issuance of equity awards to consultants in accordance with EITF 96-18 (ASC Topic 505-50). Subject to a consulting agreement described below with an investor relations firm, the Company issued 10,417 restricted shares of its common stock per month commencing March 16, 2009. During the three and nine month periods ending September 30, 2009, the Company recorded the fair value of $46,043 and $105,733, respectively for these shares in general and administrative expenses.

Stock based compensation expense for the three and nine months ended September 30, 2009 and 2008 is as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Compensation cost recognized:				
Stock options	$ 56,722	$ 50,656	$ 178,092	$ 263,544
Restricted stock	96,577	31,373	241,471	31,373
	$ 153,299	$ 82,029	$ 419,563	$ 294,917

Stock based compensation included in operating expenses as follows:

	Three Months Ended September 30, 2009	Three Months Ended September 30, 2008	Nine Months Ended September 30, 2009	Nine Months Ended September 30, 2008
Selling	$ 6,371	$ 4,735	$ 17,156	$ 35,883
General and administrative	134,912	64,707	366,636	241,678
Research & development	12,016	12,587	35,771	17,356
	$ 153,299	$ 82,029	$ 419,563	$ 294,917

In order to retain and attract qualified personnel necessary for the success of the Company, the Company adopted several Stock Option Plans from 1998 through 2004 (and an amendment to the 2004 plan in 2006 pursuant to which the plan was renamed the "2006 Equity Incentive Plan" and amended to provide for the issuance of other types of equity incentives such as restricted stock grants) (collectively, the "Plans") covering up to 6,250,000 of the Company's common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers these Plans and determines the terms and conditions of options granted, including the exercise price. These Plans generally provide that all stock options will expire within ten years of the date of grant. Incentive stock options granted under these Plans must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. These Plans also entitle non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

Option activity under the Plans as of September 30, 2009 and changes during the nine months ended September 30, 2009 were as follows:

	Shares	Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at January 1, 2009	2,897,801	$ 2.03	4.05 years	$ 1,918,870
Granted	155,136	1.49		
Exercised	(74,522)	0.44		
Forfeited or expired	(284,830)	5.12		
Outstanding at September 30, 2009	2,693,585	$ 1.75	3.74 years	$ 1,572,367
Exercisable at September 30, 2009	2,311,243	$ 1.69	3.67 years	$ 1,563,595

Included in the table are 35,000 non-plan options, of which all options are fully vested.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 2009 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2009. This amount changes based upon the fair market value of the Company's stock. The total intrinsic value of options exercised for the three and nine months ended September 30, 2009 was $71,218 and $84,257, respectively.

As of September 30, 2009, unrecognized compensation expense, net of estimated forfeitures, related to granted and non-vested stock options and restricted stock amounted to approximately $396,254 and is expected to be recognized over a weighted-average period of 2.7 years.

As of September 30, 2009, the Company had 1,637,134 options available for future grant under the Plans.

The Company uses the Black-Scholes option pricing model to value the options. The table below presents the weighted average expected life of the options in years. The expected life computation is based on historical exercise patterns and post-vesting termination behavior. Volatility is determined using changes in historical stock prices. The interest rate for periods within the expected life of the award is based on the U.S. Treasury yield curve in effect at the time of grant.

The fair value of share-based payment units was estimated using the Black-Scholes option pricing model with the following assumptions and weighted average fair values as follows:

	Three Months Ended September 30, 2009		Three Months Ended September 30, 2008		Nine Months Ended September 30, 2009		Nine Months Ended September 30, 2008
Weighted average fair value of grants	$	0.78	$	1.13	$	0.76	$	1.20
Valuation assumptions:								
Expected dividend yield		0.00%		0.00%		0.00%		0.00%
Expected volatility		58.9%		58.8%		58.9%		59.6%
Expected life (in years)		4.65		4.62		4.60		4.85
Risk-free interest rate		2.39%		3.27%		2.18%		3.26%

Note 6. Warrants

All warrants have been issued with an exercise price that is equal to or above the fair market value of the Company's common stock on the date of grant. As of September 30, 2009, the Company had warrants outstanding for 599,000 shares of common stock at a weighted average exercise price of $5.27, which will expire between August 9, 2010 and March 14, 2013. During the three and nine months ended September 30, 2009, warrants for 27,275 and 66,551 common shares were exercised at average exercise prices of $0.46 and $0.32 per share with intrinsic values of $22,366 and $36,898, respectively.

Note 7. Legal Proceedings

On April 28, 2009, the Company and TriCom Card Technologies, Inc. ended long-term patent dispute litigation by entering into a patent settlement agreement and a license agreement. Intellicheck Mobilisa sued TriCom in 2003 for infringement of two patents relating to machine reading of identification cards, including driver licenses. Pursuant to the settlement agreement, TriCom acknowledged the validity of Intellicheck Mobilisa's patents, and that sales of TriCom's age verification products are subject to the terms of a license agreement entered contemporaneously with the settlement agreement, the terms of which are confidential. The impact of this settlement did not have a material impact on the financial statements.

We are not aware of any infringement by our products or technology on the proprietary rights of others.

Other than as set forth above, we are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

Note 8. Commitments and Contingencies

In March 2009, the Company entered into an agreement with an investor relations firm. The engagement period is for twelve months commencing March 16, 2009. The agreement shall be automatically renewed for successive twelve month periods unless either party gives written notice no later than 30 days prior to the expiration period. In exchange for its services, the Company will pay the firm $13,500 per month for the first 24 months of the agreement. Afterwards, the fee may be subject to change by mutual agreement of the parties.

In addition to the cash fees described above, each month for the first 24 months of the agreement, the Company shall deliver to the investor relations firm 10,417 shares of restricted stock. The stock will be restricted from sale for a period of two years from the date of grant.

In August 2009, the Company entered into consulting agreements with two previous principals of Positive Access. In exchange for their services related to the transitioning of operations of Positive Access with Intellicheck Mobilisa, the Company will pay each of the principals $8,333 per month for a period of twelve months commencing September 1, 2009.

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Note 9. Related Party Transactions

Mobilisa leases office space from a company that is wholly-owned by two directors, who are members of management. For the three and nine months ended September 30, 2009, total rental payments for this office space were $18,744 and $56,232, respectively. For the three and nine months ended September 30, 2008, total rental payments for this office space were $18,746 and $40,611, respectively. The Company entered into a 10-year lease for the office space ending in 2017. The annual rent for this facility is currently $74,976 and is subject to annual increases based on the increase in the CPI index plus 1%. The Company is a guarantor of the leased property.

In addition, the Company's Mobilisa subsidiary has a $250,000 revolving credit line with a bank that is guaranteed by two directors of the Company who are also members of management. There were no borrowings under this facility during the nine months ended September 30, 2009.

Item 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

References made in this Quarterly Report on Form 10-Q to "we," "our," "us," "Intellicheck," or the "Company," refer Intellicheck Mobilisa, Inc.

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the three and nine month periods ended September 30, 2009 and 2008. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K, for the year ended December 31, 2008. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. ("Mobilisa") and Positive Access Corporation ("Positive Access"). The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa's results of operations are included in the financial statements beginning from March 15, 2008. The acquisition of Positive Access was completed on August 31, 2009, and therefore Positive Access's results of operations are included in the financial statements beginning from September 1, 2009.

Overview

At a special meeting of stockholders held on March 14, 2008, Intellicheck's stockholders voted to approve the merger, as well as to amend Intellicheck's certificate of incorporation to change our name to Intelli-Check -Mobilisa, Inc., increase the authorized shares of common stock and to increase the number of shares issuable under our 2006 Equity Incentive Plan. The headquarters of Intellicheck was moved to Mobilisa's offices in Port Townsend, Washington.

The former shareholders of Mobilisa received shares of Intellicheck common stock such that they own 50% of Intellicheck's common stock and options and warrant to purchase 2,429,932 shares of Intellicheck – Mobilisa common stock. The aggregate value of the purchase consideration was $51,321,461, based on the closing price of our common stock on November 20, 2007.

Mobilisa, Inc. was incorporated in the state of Washington in March 2001. Mobilisa was designated as a woman- and veteran-owned small business. Mobilisa's headquarters in Port Townsend, Washington are located in a Historically Underutilized Business Zone ("HUBZone"). Mobilisa specializes in custom software development for mobile and wireless devices and Wireless Over Water ("WOW") technology implementation and is comprised of two business units—ID systems and wireless technologies—designed to address the following issues:

§

Access Control: Mobilisa's Defense ID® system is designed to increase security at access points manned by law enforcement and military personnel.

§ Marine Environment Communications: Mobilisa's WOW technology allows for high-speed communication between multiple points, both on land and at sea, across wide or over-water expanses, and optimizes performance by making point-to-point systems work as point-to-multipoint, using intelligent routing across a dynamic network topology, and minimizing Fresnel zones (Fresnel zones result from obstructions in the path of radio waves and impact the signal strength of radio transmissions). Mobilisa is currently developing Floating Area Network ("FAN") technology, which allows ships within line of site to communicate with each other wirelessly at speeds faster than current, and overused, satellite communications. In addition, our Littoral Sensor Grid technology is being developed as the next evolutionary step in marine communications and port security. Through the use of buoys, we have created multipurpose systems with environmental and military applications that are capable of having wireless connectivity and networking capabilities, are environmental sensors data collectors and have mobile and configurable plug-n-play surveillance packages.

§ Network Design: Mobilisa's AIRchitect™ tool designs optimum wireless networks based on equipment capabilities, user requirements and physical architecture of location where the wireless is to be installed.

Mobilisa also derives its revenue from selling handheld communication devices with patent-pending software which allows users to send various forms of identification and compare it to information on databases. A key component of Mobilisa's business strategy is its commitment to cutting-edge research and development in both ID systems and advanced applications of wireless technologies.

Intellicheck was formed in 1994 to address a growing need for a reliable document and age verification system that could be used to detect fraudulent driver licenses and other widely accepted forms of government-issued identification documents. Since then, our technology has been further developed for application in the commercial fraud protection, access control and governmental security markets. Additionally, it is currently being used to increase productivity by addressing inefficiencies and inaccuracies associated with manual data entry. The core of Intellicheck's product offerings is our proprietary software technology that verifies the authenticity of driver licenses and state issued non-driver and military identification cards used as proof of identity. Our patented ID-Check® software technology instantly reads, analyzes, and verifies the encoded format in magnetic stripes and barcodes on government-issued IDs from over 60 jurisdictions in the U.S. and Canada to determine if the encoded format is valid. We have served as the national testing laboratory for the American Association of Motor Vehicle Administrators (AAMVA) since 1999.

Because of continuing terrorist threats worldwide, we believe there has been a significant increase in awareness of our software technology to help improve security across many industries, including airlines, rail transportation and high profile buildings and infrastructure, which we believe may enhance future demand for our technology. The adaptation of Homeland Security Presidential Directive 12 (HSPD 12) and the promulgation of Federal Identity Processing Standards 201 (FIPS-201) have raised the awareness of our technology in the government sector. Therefore, we have begun to market to various government and state agencies, which have long sales cycles, including extended test periods. In view of the acquisition of Mobilisa and evolving nature of our business and our operating history, we believe that period-to-period comparisons of revenues and operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

By verifying the encoded format, our ID-Check® patented technology provides the ability to verify the validity of military IDs, driver licenses and state issued non-driver ID cards that contain magnetic stripes, bar codes SMART chips, and Radio Frequency ID technologies, which enables us to target three distinct markets. Our original target market was focused on resellers of age-restricted products, such as alcohol and tobacco, where the proliferation of high-tech fake IDs exposes merchants to fines and penalties for the inadvertent sale of these products to underage purchasers. We now also target commercial fraud, which includes identity theft, and our technology is designed to help prevent losses from these frauds. We are also marketing our products for security applications involving access control. As a result of its applicability in these markets, we have sold our products to some of the largest companies in the gaming industry, significant retailers, several large financial service companies and military facilities. Our technology is currently being used or tested by several Fortune 500 Companies. We have a strategic alliance with VeriFone, the largest provider of credit card terminals in the U.S., several system integrators in the defense industry and hardware manufacturers to utilize our systems and software as the proposed or potential verification application for their proposed solutions for credentialing in the government sector and to jointly market these security applications. Recent Department of Homeland Security initiatives, along with the regulations arising from HSPD-12, which sets the policy for a common identification standard for federal employees and contractors, and the new Transportation Worker Identity Credential or TWIC card, which is currently required for all sea-port workers, have additionally created opportunities for our verification technology in the governmental market at the federal, state and local levels. In addition, we have executed agreements with some high profile organizations to promote the use of our technology and our products. We believe these relationships have broadened our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional high profile organizations and providers of security solutions.

We have developed additional software products that take advantage of our patented software technology. Our products include ID-Check® POS, ID-Check® BHO, ScanInnTM and AssureScanTM. ID-Check® POS is the technology that has been integrated into multiple VeriFone platforms such as the 37xx series to enable the user to do verification of the encoded format on driver licenses as an additional function of the terminal. ID-Check® BHO is a browser helper object that enables a customer to add the ID-Check® technology as a "plug-in" to Internet Explorer pages without requiring software programming expertise. ScanInn is a software application that speeds up check-in and ID verification at hotels and motels. AssureScan is an application that assists pharmacies with ID verification and tracking related drug purchases. Additional software solutions include ID-Check® PC and ID-Check® Mobile, which replicate the features of ID-Check®. Another application is C-Link®, the company's networkable data management software. Additionally, ID-Check® PC and C-Link® are designed to read the smart chip contained on the military Common Access Card (CAC). These products, which run on a personal computer, were created to work in conjunction with our ID-Check® technology and allow a user to first verify the encoded format and then view the encoded data for further verification. Our ID-Check® Mobile product gives the user the additional flexibility of utilizing our software in a hand-held product. To date, we have entered into multiple licensing agreements and are in discussions with additional companies to license our software to be utilized within other existing systems. We also have created the IM2700, or Mobile TWIC Reader, for use with the Department of Homeland Security's new TWIC card.

Critical Accounting Policies and the Use of Estimates

The preparation of the Company's financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in the Company's financial statements and accompanying notes. Significant estimates and assumptions that affect amounts reported in the financial statements include impairment of goodwill, valuation of intangible assets, deferred tax valuation allowances, allowance for doubtful accounts and the fair value of stock options granted under the Company's stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, stock based compensation, deferred taxes and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of our products is recognized when shipped to the customer and title has passed. The Company's products require continuing service or post contract customer support and performance; accordingly, a portion of the revenue pertaining to the service and support is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Currently, with respect to sales of certain of our products, the Company does not have enough experience to identify the fair value of each element, therefore the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

The Company recognizes sales from licensing of its patented software to customers. The Company's licensed software requires continuing service or post contract customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned.

Revenue from research and development contracts are generally with government agencies under long-term cost-plus fixed-fee contracts, where revenue is based on time and material costs incurred. Revenue from these arrangements is recognized as time is spent on the contract and materials are purchased. Research and development costs are expensed as incurred.

The Company also performs consulting work for other companies. These services are billed based on time and materials. Revenue from these arrangements is also recognized as time is spent on the contract and materials are purchased.

Subscriptions to database information can be purchased for month-to-month, one, two, and three year periods. Revenue from subscriptions are deferred and recognized over the contractual period, which is typically three years.

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically three years.

Stock-Based Compensation

We are required to record compensation expense for all awards granted. SFAS No. 123(R) (ASC Topic 715 and 505) requires that the cost resulting from all share based payment transactions be recognized in the financial statements. SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires us to apply a fair value based measurement method in accounting for generally all share based payment transactions with employees.

Deferred Income Taxes

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carry forwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We have recorded a full valuation allowance for our net deferred tax assets as of September 30, 2009, due to the uncertainty of the realizability of those assets.

Commitments and Contingencies

We are not currently involved in any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

Results of Operations

Comparison of the three months ended September 30, 2009 to the three months ended September 30, 2008
(All figures have been rounded to the nearest $1,000)

Revenues for quarter ended September 30, 2009 increased 5.7% to $3,755,000 compared to $3,554,000 for the previous year.

	Three months ended September 30, 2009	2008	% Change
Commercial ID	$ 1,367,000	$ 1,261,000	8
Government ID	1,286,000	1,164,000	10
Wireless R&D	1,102,000	1,129,000	(2)
	$ 3,755,000	$ 3,554,000	6

The increase in the Commercial ID revenues in the third quarter of 2009 is primarily a result of continuing equipment sales to a large telecommunications company. Government ID sales increased primarily due to the Defense ID sales to the US Army at Fort Benning. There was a slight decrease in Wireless R&D contract revenue in the quarter as we were winding down our RADHAZ contract. During this quarter, we received from the U.S. Navy, a contract modification adding $4.5 million of additional funding for the Company's Floating Area Network (FAN) and Littoral Sensor Grid wireless security buoy technology.

As of September 30, 2009, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately $7.2 million compared to $9.4 million at September 30, 2008. Approximately $3.2 million of the current backlog could be recognized in excess of one year. Mobilisa has a significant amount of multi-year wireless research and development contracts with the US government that will be recognized as the research is performed. In the Commercial ID market, the actual recognition periods are determined depending upon the release dates by the customer.

Our gross profit as a percentage of revenues was 63.8% for the three months ended September 30, 2009 compared to 63.4% for the three months ended September 30, 2008. The gross profit percentage increase in 2009 was a result of several factors. The most significant factor resulted from lower merger related intangible amortization costs included in cost of sales, which represented $171,000 in the third quarter of 2009 compared to $367,000 in the third quarter of 2008. This was offset by a higher portion of equipment only sales in the third quarter of 2009 at lower than normal margins. Going forward, we anticipate that our gross margins may decrease if we sell a greater percentage of bundled hardware/software solutions and lower percentage of large enterprise wide software licenses.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 9.7% to $2,287,000 for the three months ended September 30, 2009 from $2,085,000 for the three months ended September 30, 2008. Selling expenses increased by $55,000 principally as a result of an increase in personnel and higher commissions on the increased revenue levels. General and administrative expenses increased by $146,000 principally due to an increase in investor relations and consulting fees. Research and development costs increased by $2,000. As the Company experiences sales growth, we expect that we will incur additional operating expenses to support this growth, including the hiring of additional salespersons and participation in more trade shows. Research and development expenses may also increase as the level of research and development projects increase and we continue to integrate additional products and technologies with our patented ID-Check technology.

Interest income decreased from $10,000 for the three months ended September 30, 2008 to $1,000 for the three months ended September 30, 2009, which is principally a result of a decrease in our invested cash and short term investments as well as significantly lower interest rates received on investments during 2009. We have continued our investment strategy to invest in short term liquid investments with emphasis on FDIC and SIPC insured protection.

In the third quarter of 2009, we have not recorded a tax provision due to the expected utilization of net operating loss carryforwards.

As a result of the factors noted above, our net income was $110,000 for the three months ended September 30, 2009 as compared to $167,000 for the three months ended September 30, 2008.

Comparison of the nine months ended September 30, 2009 to the nine months ended September 30, 2008

The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa's results of operations are included in the financial statements for the period March 15, 2008 through September 30, 2008 compared to the full nine month period in 2009.

Revenues increased by 32.2%, to $9,838,000 for the nine months ended September 30, 2009 from $7,442,000 for the nine months ended September 30, 2008.

	As Reported Nine months ended September 30,			Pro Forma Nine months ended September 30,	
	2009	2008	% Change	2008	% Change
Commercial ID	$ 3,900,000	$ 3,240,000	20	$ 3,240,000	20
Government ID	2,346,000	1,818,000	29	2,333,000	1
Wireless R&D	3,592,000	2,384,000	51	3,016,000	19
	$ 9,838,000	$ 7,442,000	32	$ 8,589,000	15

The increase in the Commercial ID revenues in the first nine months of 2009 is primarily a result of a large sale to a telecommunications company, including an enterprise wide software license. The wireless R&D contract revenue increased primarily due to the continued development in the FAN and Buoy projects.

Our gross profit as a percentage of revenues amounted to 65.5% for the nine months ended September 30, 2009 compared to 63.8% for the nine months ended September 30, 2008. The increase in the percentage is primarily a result of lower merger related intangible amortization costs, which represented $367,000 of cost of sales in the first nine months of 2009 compared to $796,000 of cost of sales in the first nine months of 2008. This was partially offset by higher software design fees in 2008 which generate higher margins than traditional products offered.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 21.4% to $6,394,000 for the nine months ended September 30, 2009 from $5,265,000 for the nine months ended September 30, 2008. Consolidated selling expenses increased 31.1% to $1,537,000 for the nine months ended September 30, 2009 from $1,172,000 for the nine months ended September 30, 2008. General and administrative expenses increased 18.2% to $2,840,000 for the nine months ended September 30, 2009 from $2,402,000 for the nine months ended September 30, 2008. Research and development expenses increased 19.3% to $2,017,000 for the nine months ended September 30, 2009 from $1,691,000 for the nine months ended September 30, 2008. Generally, the higher increases in expenses in the current period is because the 2008 period only include Mobilisa operating expenses for a period of 6.5 months.

Interest income decreased from $52,000 for the nine months ended September 30, 2008 to $2,000 for the nine months ended September 30, 2009, which is a result of a decrease in our invested cash, marketable securities and short term investments, as well as lower interest rates received on investments during 2009.

In the first nine months of 2009, we have not recorded a tax provision due to the expected utilization of net operating loss carryforwards. In the first nine months of 2008, we incurred net losses; therefore, we have paid nominal income taxes.

As a result of the factors noted above, our net income was $48,000 for the nine months ended September 30, 2009 compared to a net loss of $472,000 for the nine months ended September 30, 2008.

Liquidity and Capital Resources (All figures have been rounded to the nearest $1,000)

As of September 30, 2009, the Company had cash and cash equivalents of $3,345,000, working capital (defined as current assets minus current liabilities) of $2,451,000, total assets of $26,760,000 and stockholders' equity of $22,185,000. The Company currently is not utilizing any bank financing.

The primary sources of cash and cash equivalents for the nine months ended September 30, 2009 have been cash provided from net income. The primary uses of cash have been for working capital needs and acquisitions.

The Company generated $627,000 in net cash from operating activities, principally a result of the cumulative net income for the year offset by changes in working capital. Net capital expenditures were $139,000, principally related to the purchase of additional computer equipment.

On August 31, 2009, the Company acquired 100% of the common stock of Positive Access Corporation, the leading competitor to Intellicheck Mobilisa for developing drivers' license reading software for $2,080,000. The terms include cash payments of $1,225,000, payable $625,000 at August 31, 2009, $400,000 at August 31, 2010 and $200,000 at August 31, 2011. The notes payable have been recorded in the financial statements net of deferred debt discount of $40,000. In addition, the Company issued 608,520 shares of common stock valued at $882,000 (based on the closing stock price on August 31, 2009) plus direct issue costs of $13,000. Acquisition related costs of approximately $35,000 were expensed in connection with this transaction. The transaction was accounted for using the purchase method of accounting. The initial cash payments were funded out of the operating cash of the Company.

Cash proceeds from stock option and warrant exercises were $54,000 in the first nine months of 2009.

Including the net cash used to purchase Positive Access, the Company only used $55,000 during the nine months ended September 30, 2009.

We currently anticipate that our available cash on hand and marketable securities, as well as cash from operations will be sufficient to meet our anticipated working capitals and capital expenditure requirements for at least the next 12 months.

We may need to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies. There can be no assurance that the Company will be able to secure the additional funds when needed or obtain such on terms satisfactory to the Company, if at all.

We are not currently involved in any legal proceedings that we believe would have a material adverse effect on our financial position, results of operations or cash flows.

Net Operating Loss Carry Forwards

As of September 30, 2009, the Company had net operating loss carryforwards ("NOL's") for federal and New York state income tax purposes of approximately $36.8 million. There can be no assurance that the Company will realize the entire benefit of the NOL's. The federal and New York state NOL's are available to offset future taxable income and expire from 2018 to 2029 if not utilized. The Company has not yet completed its review to determine whether or not these NOL's will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. Other than Mobilisa's guarantee on the mortgage of the property it leases from a related party as disclosed in Note 9, we have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

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Forward Looking Statements

This document contains “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, loss from operations and cash flow. Words such as “anticipates,” “estimates,” “expects,” “projects,” “intends,” “plans,” “believes” and words and terms of similar substan in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management’s current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash and cash equivalents. The Company maintains cash between two financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions.

Item 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. As of September 30, 2009, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e) and 15d-15(e), were ineffective. This conclusion was based on the material weakness identified in the Company’s internal control over financial reporting as noted below.

Such disclosure controls and procedures are designed to ensure that all material information we are required to disclose in reports that we file or submit under the Securities Exchange Act of 1934 were recorded, processed, summarized and reported within the time periods specified in Securities and Exchange Commission rules and forms and that the information required to be disclosed by us is accumulated and communicated to our management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosures.

A material weakness is a deficiency, or combination of deficiencies, in internal control over financial reporting such that there is a reasonable possibility that a material misstatement of our annual or interim financial statements will not be prevented or detected on a timely basis.

As of September 30, 2009, we did not maintain effective controls to discover an error related to the interpretation of and recording of fixed fee under our government cost plus fixed fee contract, including subsequent modifications, that impacted our reported operating results for the year ended December 31, 2008 and first two quarters of 2009. Additionally, this control deficiency could have resulted in a material misstatement of our annual or interim consolidated financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

In light of the material weakness described above, we have performed additional analyses and other post-closing procedures to ensure that our financial statements were prepared in accordance with generally accepted accounting principles. Accordingly, we believe that the financial statements included in this report fairly present, in all material respects, our financial condition, results of operations, and cash flows for the periods presented. Based in part on these additional efforts, our Chief Executive Officer and Chief Financial Officer have included their certifications as exhibits to this Quarterly Report on Form 10-Q.

Change in Internal Control over Financial Reporting

As described above with respect to the material weakness identified, there have been changes in our internal control over financial reporting that occurred during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are likely to materially affect, our internal control over financial reporting.

Management's Remediation Initiatives

As a result of the material weakness, we continue to review and make changes to improve our internal control over financial reporting, including but not limited to, the review of all new government contracts or contract revisions by the CFO and/or controller or, when necessary, by consulting with outside accounting specialists to assist us with the interpretation and application of the appropriate government regulations regarding these contracts.

See Note 1: "Summary of Significant Accounting Policies—Prior Period Adjustments" of this Quarterly Report on Form 10-Q for a further discussion of these adjustments.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 7 to the Notes to Consolidated Financial Statements found in Item 1 of this Form 10-Q (listed under "Legal Proceedings").

Item 1A. RISK FACTORS

Current economic conditions may cause a decline in business and consumer spending which could adversely affect our business and financial performance.

While a significant portion of our business is with the U.S. government, our operating results may be impacted by the overall health of the North American economy. Our business and financial performance, including collection of our accounts receivable, realization of inventory, recoverability of assets including investments, may be adversely affected by current and future economic conditions, such as a reduction in the availability of credit, financial market volatility, recession, etc.

Our operations and financial results are subject to various other risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2008 for information concerning other risks and uncertainties that could negatively impact us.

Item 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

Our Annual Meeting of Shareholders was held October 27, 2009.

A proposal to elect five (5) directors each to serve for a one-year term was approved by the stockholders. The nominees received the following votes:

Name	Votes For

		Votes Withheld
Lieutenant General Emil R. Bedard	23,389,393	218,839
Bonnie Ludlow	23,135,078	473,154
Nelson Ludlow	23,338,081	270,151
John W. Paxton	23,369,167	239,065
Guy L. Smith	23,365,467	242,765

Our stockholders ratified the appointment of Amper, Politziner & Mattia, LLP as the Company's independent registered public accounting firm for the year ended December 31, 2009. This proposal received the following votes:

For	Against	Abstain
23,323,270	265,502	19,460

Our stockholders ratified the streamlining of the Company name from Intelli-Check – Mobilisa, Inc. to Intellicheck Mobilisa, Inc. This proposal received the following votes:

For	Against	Abstain
23,305,772	265,498	36,962

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

(a) The following exhibits are filed as part of the Quarterly Report on Form 10-Q:

Exhibit No.	Description
31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.1	18 U.S.C. Section 1350 Certifications

Signatures

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

Date: November 10, 2009	INTELLICHECK MOBILISA, INC.		
	By:	/s/ Nelson Ludlow Nelson Ludlow, PhD Chief Executive Officer	
	By:	/s/ Peter J. Mundy Peter J. Mundy Chief Financial Officer (Principal Financial and Accounting Officer)	