Intellicheck Mobilisa, Inc.
Form 10-K
March 25, 2014

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

_____

FORM 10-K

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

For the fiscal year ended December 31, 2013

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	11-3234779
(State or Other Jurisdiction of Incorporation or Organization)	(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

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.001 par value
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. x

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 o	Non-accelerated filer o (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

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: $4,815,664 (based upon the closing price of Issuer's Common Stock, $.001 par value, as of the last business day of the Issuer's most recently completed second fiscal quarter (June 30, 2013)).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common Stock, $.001 Par Value	36,844,467
(Title of Class)	(No. of Shares Outstanding at March 25, 2014)

DOCUMENTS INCORPORATED BY REFERENCE: None

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PART I

Item 1. Business

OVERVIEW

We were originally incorporated in the state of New York in 1994 as Intelli-Check, Inc. In August 1999, we reincorporated in Delaware. On March 14, 2008, our corporation was renamed Intelli-Check - Mobilisa, Inc. after the consummation of the merger with Mobilisa, Inc. ("Mobilisa") (references to "Intelli-Check" in this annual report refer to the Company prior to the merger with Mobilisa). At the closing of the merger, our headquarters were moved to Mobilisa's offices in Port Townsend, Washington. On October 27, 2009, we made a further change in our name to Intellicheck Mobilisa, Inc. ("Intellicheck Mobilisa," "we," "our," "us," or "the Company"). On August 31, 2009, the Compa acquired 100% of the common stock of Positive Access Corporation ("Positive Access"), a developer of driver license reading technology. The acquisition of Positive Access expanded the Company's technology portfolio and related product offerings and allowed the Company to reach a larger number of customers through Positive Access's extensive distribution network.

Our primary businesses include Identity Systems products, including commercial applications of identity card reading and verification and government sales of defense security and identity card applications, and the development of wireless security applications.

Our technologies address problems such as:

- **Commercial Fraud and Risk Management** which may lead to economic losses to merchants from check cashing, debit and credit card, as well as other types of fraud such as identity theft that principally use fraudulent identification cards as proof of identity;

- **Instant Credit Card Approval** retail stores use our technology to scan a Driver's License at a kiosk or at the Point Of Sale (POS) and send the information to a credit card underwriter to get instant approval for a loyalty-branded credit card. This technique protects consumer data and is significantly more likely to result in a completed transaction compared to in-store personnel asking customers to fill out a paper form;

- **Unauthorized Access** our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern;

- **Inefficiencies Associated With Manual Data Entry** by reading encoded data contained in the bar code and magnetic stripe of an identification card with a quick swipe or scan of the card, where permitted by law, customers are capable of accurately and instantaneously inputting information into forms, applications and the like without the errors associated with manual data entry;

- **Marine Environment Communications** our Wireless Over Water® technology allows for instant communication between multiple points, both on land and at sea, across wide, over-water expanses and optimizes performance by taking into account sea state and Fresnel zones (Fresnel zones result from obstructions in the path of radio waves and impact the signal strength of radio transmissions); and

- **Wireless Network Design and Hazard Assessment** our AIRchitect® tool designs optimum wireless networks based on user parameters and location architecture, and our Radiation Hazard (RADHAZ) tool identifies and assesses radio frequency (RF) exposure.

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IDENTITY CARD READING AND VERIFICATION SECTOR

Background on Identification Documentation

Driver license

The driver license is the most widely used form of government issued photo identification in North America. The Real ID Act, which became federal law in May 2005, recognizes that the driver license is also a quasi-identification card. In addition to its primary function, the driver license is used to verify identity for social services, firearm sales, check cashing, credit card use and other applications. Our technology can read the data on all currently encoded driver licenses (even those that do not comply with the AAMVA/ANSI/ISO standards). Currently, the fifty states, the District of Columbia, and ten Canadian Provinces encode their licenses. We believe that the number of readable licenses will continue to grow as the jurisdictions currently not encoding begin issuing encoded documents, and the remaining Canadian jurisdictions begin to issue encoded documents to meet the mandates put forth in the Real ID Act.

Non-driver identification card

Since many people do not have a driver license, numerous jurisdictions offer other identification cards that may contain encoded information. These non-driver identification cards, as well as military IDs, are fundamentally identical to driver licenses. Because driver licenses are the most widely used form of legally acceptable government documentation, we refer to all these types of legally acceptable governmental identification documents as "driver licenses." Our ID√Check® software is equally capable of performing its function with these other types of government identification.

Current Challenges Associated with Verifying Identification Documents

The high-tech revolution has created a major problem for those who rely on identification documents. In an age where scanners, computers and color printers are commonplace, fake IDs of the highest quality are easily obtainable from a number of locations including college campuses and from multiple sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices have the ability to easily alter properly issued ID. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

- § committing identity theft;
- § improperly boarding airplanes;
- § committing credit card, debit card and check cashing fraud;
- § unlawfully committing pharmacy fraud, including false narcotic prescriptions;
- § gaining entrance to high profile buildings and sensitive infrastructures,
- § purchasing age restricted products such as alcohol and tobacco while under age;
- § engaging in medical fraud;
- § obtaining welfare or other government benefits; and
- § committing refund fraud.

§ illegally purchasing firearms;

Given the ease with which identification can be falsified, simply looking at a driver license may not be sufficient to verify age or identity and determine whether or not it is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that a document verification system which can accurately read the electronically stored information is needed. We possess patented technology that provides an analysis of the data contained on the encoded formats of these identification documents by reading and analyzing the encoded format on the magnetic stripe or bar code on the driver license and comparing it against known standards. We believe that we are the only company able to do this for all U.S. jurisdictions and that no other company could provide a similar service without infringing on our patents.

OUR PRODUCTS AND SERVICES

Our Products and Services can be categorized into two main areas, Identity Systems and Wireless Security.

Identity Systems Products and Services

Our Identity Systems are marketed to the Commercial and Government identification sectors.

Commercial Identification

ID√Check® Family Solutions and Benefits

Our patented ID√Check technology is our advanced document verification software. ID√Check is contained in our software products, and is capable of reading and verifying in one swipe or scan the encoded format contained on U.S. and Canadian driver licenses, state issued non-driver identification cards, and military IDs. Our technology has the ability to verify the encoded formats on all currently encoded documents, even those that do not comply with the standards of the American Association of Motor Vehicle Administrators ("AAMVA"), the American National Standards Institute ("ANSI") and the International Standards Organization ("ISO").

We believe that ID√Check and our family of software solutions contain the most advanced, reliable and effective technology, providing users with an easy, reliable, and cost-effective method of document and age verification. We have received encoding formats from all of the issuing jurisdictions in North America. This information, combined with our patented technology, enables all of our ID√Check software products to read, decode, process and verify the encoded formats on driver licenses. As jurisdictions change their documents and guidelines, we believe our software can be adapted to these changes.

ID√Check software does not require a connection to a central database to operate, thus negating privacy concerns. Many of our products have the ability to operate add-on peripherals such as printers, fingerprint readers and other devices.

The ID√Check process is quick, simple and easy to use. After matching the driver license photograph to the person presenting the document for identification, the user simply swipes the driver license through the data capture device. The software quickly determines if:

- the format of the document is valid;
- the document has been altered or is fake, by displaying the parsed, encoded data for comparison with the printed information;
- the document has expired; and
- being used for age verification, the encoded data contains a date of birth equal to or greater than the legal age to purchase age restricted products, such as alcohol and tobacco.

Then, the ID√Check® software applications can:

- respond to the user by displaying the format verification result and the parsed information;
- save information that is permissible by law to memory; and

§ print a record of the transaction including the verification results, if a printer is part of the hardware configuration.

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ID√Check® SDK

Our software product, ID√Check SDK, is designed for software developers that wish to incorporate our ID√Check technology into their applications. It contains our proprietary technology, as well as a device controller, which is also capable of reading the smart chip contained in the military CAC. We currently have multiple license agreements with third parties for integration and sub-licensing of our software applications into their core applications. The SDK is available for multiple platforms such as Microsoft Windows, Windows Mobile, AIX, and certain versions of Linux. It can easily be ported to other platforms as the need arises.

ID√Check® POS

ID√Check POS is a software application that runs on multiple VeriFone devices, such as the Omni 37xx series. Our software uses both the onboard magnetic stripe reader and an optional external 2-D bar code reader that plugs into an open port on the back of the unit. The terminal has an integrated, high-speed thermal printer. The VeriFone devices are multi-application terminals that allow the ID√Check software to run side by side with credit card processing software as well as other value added software applications certified by VeriFone. We have been designated as a VeriFone value added partner.

ID√Check® BHO

This software product, formerly called the Web Form Filler product, is a Browser Helper Object ("BHO") for Internet Explorer. The BHO allows our customers to seamlessly integrate our core ID√Check technology into their web based applications. The BHO can be programmed through a series of drop down menus to populate driver license data in the fields of specific web pages based on web page URLs and web page field names. The technology also provides the ability to check the encoded formats of ID documents.

ScanInn™

ScanInn is a software application that speeds up check-in and ID verification at hotels and motels. This product builds on the BHO and ID√Check PC to enhance user productivity by automating data entry thus improving accuracy. ScanInn allows the check-in at a hotel to occur in seconds and is incorporated into legacy Property Management Systems.

AssureScan™

AssureScan is an application that assists pharmacies with ID verification and tracking drug related purchases. This product focuses on capturing data from drivers' licenses and tracking the sale of controlled medicines such as pseudoephedrine. Many states are now monitoring the sale of controlled medicines and this product tracks those sales.

ID√Check® PC

ID√Check PC is a standalone software solution that is designed to provide the features of ID√Check for Windows based platforms. It may be used only where permitted by law, since certain jurisdictions restrict using this information without customer consent. It allows the user to instantly view data from driver licenses as well as from the smart chip contained in the military common access card (CAC), for further verification and then archives it into a personal computer. It contains features such as recurring entry and age verification.

ID√Check® Mobile

ID√Check Mobile is the designation for multiple hand held devices that we offer our customers. The form-factor is a small, lightweight mobile computer with a durable housing design that has 2-D bar code, magnetic stripe and/or Smart card reading capabilities. By allowing the user to move between locations, ID√Check Mobile products provide the ability to check the encoded format of ID documents at multiple entry points. It additionally has the capability of providing a yes/no response when used for age verification purposes.

Data Collection Devices

Our software products are designed for use with multiple data collection devices, which are commercially available in various compact forms and may contain either one or both of two-dimensional bar code and magnetic stripe readers. These devices enable our software applications to be used on a variety of commercially available data processing devices, including credit card terminals, PDAs, tablets, laptops, desktops and point-of-sale terminals. Many of these devices contain an electronic serial number (ESN) to prevent unauthorized use of our software.

Instant Credit Application Kiosk Software Applications

These are custom software applications that Intellicheck Mobilisa has developed for a variety of major financial service companies and retail stores. The software installed on multiple kiosk devices provides the customers of the major financial service companies with the ability to perform in-store instant credit approval on these devices. The hardware platforms, on which the software applications run, range from stationary devices to handhelds to tablet PCs. The process involves the swiping or scanning of the driver license to verify the encoded format and after verification, the information parsed from the encoded data is populated into the proper fields on the application displayed on the kiosk. The applicant then completes the application by entering the remaining required information that is not encoded on the driver license, such as social security and telephone numbers. The software application then sends the data to the financial service company's backend "decisioning" tool for credit approval. If approved, the applicant is granted instant credit which can then be used to make purchases.

Upgrade Capability

All of the ID√Check products may be updated as states and provinces adjust or modify the format of their electronically stored information. We distribute jurisdictional updates in a variety of ways depending on the product in use. Our technology can be upgraded by the installation of a file sent on an SD card, CD and/or e-mail to the customer. One of our products can be upgraded by modem using a dial-up phone connection. Jurisdictional Updates are included in the purchase price of Intellicheck Mobilisa products for the first year after purchase. We sell upgrade packages for the period commencing after the first year of purchase. We have also developed an automated remote update system that customers can use to automatically download and install updates. This product is currently being used in instant credit kiosk applications.

Government Identification

Defense ID® System

Our Defense ID System offers law enforcement personnel and military security officers additional information for protecting their facilities. The Defense ID System uses rugged, handheld, mobile devices and desktop visitor/vendor approval workstations to read barcodes, magnetic stripes, RFID (radio frequency identification) and OCR (optical character recognition) codes printed on current forms of identification cards. By scanning and comparing the information contained on the ID card to over 100 databases, Defense ID can immediately determine if the card has been reported lost or stolen, the individual's identity information matches watch lists or law enforcement databases, or if they are on an authorized roster of previously-cleared personnel. In 2008, our Defense ID System received a U.S. Navy-wide certification and accreditation referred to as an Authority to Operate ("ATO"), and in 2009, our Defense ID System received U.S. Army-wide, U.S. Marine Corps-wide and U.S. Air Force-wide ATOs. We believe these ATOs will facilitate further deployment of the Defense ID System at military bases and facilities.

Fugitive Finder

Our Fugitive Finder product builds on our patented ID reading technology. Fugitive Finder quickly scans various forms of IDs, such as driver's licenses, military IDs or passports, and instantly compares the data to law enforcement databases. Comparing it to our Defense ID product, it has several enhancements and a key distinction is that some of the accessible data is so sensitive; in order to use Fugitive Finder you need to be a member of Law Enforcement (e.g. a police officer or federal agent).

The enhancements and changes include:

- FiPS 201 certification, which is a federal ID certification standard,
- ability to search NCIC, which is a law enforcement only FBI managed gold standard database,
- capability of biometrics validation to the card when applicable,
- adding a Military Credentials Live Check
- long-term vetted vendor cards.
- TWIC reading capability

For police officers, when they pull over a vehicle, a dangerous period of interaction is when they take the driver's ID and walk back to their cruiser to run a background check. It gives the driver in question and passengers time to reach for weapons, knowing the officer will be coming back to make an arrest. If instead the officers were able to do that check wirelessly after securing the vehicle, never having to turn return to their cruiser, their exposure would be drastically reduced.

TWIC Reader (IM 2700)

One of the first readers on the Department of Homeland Security's Initial Capabilities List of devices, the IM2700 verifies the Character Unique Identifier, Certificates of Authenticity, Biometrics and Personal Identify Number on the Transportation Worker Identification Credential ("TWIC"). The TWIC reader can also be incorporated into all aspects of the Defense ID System. The Department of Homeland Security ("DHS") regulations required that all workers at ports must have a card by April 15, 2009.

Visitor Center (IM 3000)

The Visitor Center is a component of our Defense ID or Fugitive Finder systems and makes it faster and easier to process visitors and vendors. Using the visitor center system it pre-populates fields by scanning the government-issued ID, performs a real time background check utilizing over 100 databases to verify the individual is not on a wanted list and also if the individual has been pre-approved to access the facility or building. The Visitor Center can then take photos and prints a visit pass or new local ID card, all in a matter of seconds.

Upgrade Capability

Like our ID√Check products, our Defense ID products are constantly updated to stay current with identification formats and new forms of ID. In addition, we continuously update the databases related to lost or stolen cards, watch lists and law enforcement database updates, and authorized rosters of cleared personnel. Our Defense ID Systems are maintained via annual subscriptions that are purchased by our customers.

Wireless Security Products and Services

Wireless Over Water® Technology ("WOW ")

WOW technology was first developed to allow passengers of moving vessels, for example passenger ferries, high rates of data transfer through wireless 802.11 networking. WOW technology allows users to access the Internet while in motion on water. WOW was used to develop the Floating Area Network technology.

Floating Area Network® ("FAN ")

FAN technology was developed for the US Navy. FAN utilizes WOW technology to create a mesh type network for Navy Vessels underway and provides an alternative and less expensive communications methodology for the US Navy. Vessels may dynamically join and depart the network while underway at sea.

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Aegeus Wireless Security Buoy and Littoral Sensor Grid ("LSG")

LSG is the next evolution of WOW and FAN. Using the technology developed for WOW and FAN, we incorporated the use of buoys to provide both security and environmental monitoring. Varieties of sensors measure/monitor anything above, on, or below the water and provide that information real time to an operations control center. This technology allows for security monitoring of our harbors and waterways both from a terrorist attack or accidental environmental conditions.

AIRchitect®

AIRchitect is a wireless LAN design expert system that is tailored to military ships, installations and infrastructure. This product uses blueprint drawings in AutoCAD or Visio format and allows a network engineer to optimally design a wireless network including the best location for access points and uses requirements of users, throughput performance, interference, physical structures, and co-channel interference.

In addition to the above products and services, the company provides design, engineering and integration services for commercial Wireless communications systems.

STRATEGY

Our objective is to be a leading security company providing world class solutions in the identity and wireless industry sectors. These solutions include our commercial identity systems focusing on work-flow, productivity enhancement, fraud protection and risk management segments; our government identity systems focusing on access control, vendor validation, and suspect identification; and our wireless security systems, focusing on wireless networking over water, and wireless network planning. Key elements of our strategy are as follows:

Commercial Systems

Productivity Enhancement. We market our technology as a key productivity enhancement tool. Our patented ID√Check software can add functionality to virtually any given software application to automatically populate fields within a given form, when a government-issued photo ID is presented. Our ability to correctly read all US jurisdictions is a key differentiator from our competitors. The automation that results from the intelligence added to the form dramatically increases throughput and data integrity, and it significantly enhances the customer's experience.

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications with multiple biometric companies: AMAG Technology, Inc., in the defense industry; Roper Industries, Inc. (DAP) and Motorola, Inc. hardware manufacturers; and Digimarc Corporation and L1 Identity Solutions, Inc. now part of Safran, producers of driver licenses for approximately 90% of the jurisdictions in North America. We are also a member and board member of The Federation for Identity and Cross-Credentialing Systems or (FiXs) and a member of the Industry Advisory Board of AAMVA. We believe these relationships will broaden our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for document verification and productivity enhancement by continuing to market and support our systems and software. Our sales and marketing departments are organized by target sector rather than geographic area to provide focus and create experts in each area. Our recent focus has been on large enterprise-wide license arrangements in the financial services, retail, and hospitality services industries.

Enter into Additional Licensing Agreements. We intend to continue to license our software for use with a customer's system. We are currently licensing our ID√Check SDK software product for Windows, Windows CE, Windows Mobile and other operating system platforms and intend to similarly continue to license our ID√Check PC, and ID√Check PDA software solutions. Our software is intended to be used with a compatible hardware device. We have entered into multiple licensing agreements to date.

Protect Intellectual Property. We intend to strongly protect our intellectual property portfolio in order to preserve value and obtain favorable settlements where warranted. For example, in February 2003, we filed suit against CardCom, Inc. d/b/a CardCom Technology, Inc., claiming that CardCom had infringed one of our patents. Subsequently, we entered into a patent licensing agreement with CardCom effective March 2003 which provided for a non-exclusive three year license in connection with the manufacture, use and sale of CardCom's age verification products in the United States and Canada. In March 2006, we renewed the licensing agreement with CardCom for an additional five years.

Government Identity Systems

Product Enhancement. Due to the success of Defense ID in the military and government industry sectors, we intend to enhance our product line to support other entities such as law enforcement, port security and commercial installations. We continue our ongoing efforts to research and implement the use of new identification cards, additional databases and upgraded equipment form factors in order to increase the efficiency and performance of the system. We will also continue to work with the information technology and privacy units within all branches of the military to maintain branch-wide ATOs.

TWIC Program. The TWIC program continues to undergo testing for final rules regarding the reader technology. We were on the first list of ICE readers and will continue to provide our software on additional hardware platforms to address the unique needs of each port. We are also combining our Defense ID and TWIC reader applications to provide customers with the benefits of each product in a single device and have submitted this for new government certification program called QTL (Qualified Technology List).

Strengthen Sales and Marketing Efforts. As the need for access control systems continues to grow, our experienced sales and marketing departments are adjusting to target new sectors. Sales and marketing materials are specially designed to clearly outline the capabilities of the system and how it is valuable to each of these specific sectors. We have sales staff and office locations on the West Coast and East Coast, which allows a quick response to questions and personalized assistance for each customer based on location.

Additional Access to Multiple Databases. We continue to increase the data source information accessed through our Defense ID system. This is achieved by increasing the capabilities of our internally-developed scraping programs for publicly-available information as well as by negotiating additional data source agreements with various law enforcement and government agencies. In addition to these general databases, we customize databases for each individual customer based on information provided by the customer.

Wireless Systems

Research and Development. Our wireless security systems program has been primarily research and development funded by the federal government. We intend to continue to pursue research and development projects through funding from various government agencies for research and development work in the wireless and security arenas, while at the same time, pursuing commercialization of these products.

Buoy Systems. The company has completed a US Navy funded program to develop security buoys capable of persistent ISR (intelligence, surveillance, and reconnaissance). These are capable of protecting high value assets such as oil platforms, Liquid Natural Gas refineries, military ports, or active shipping channels. Potential customers in include oil and LNG companies, Coast Guards, military, Department of Homeland Security, and border patrols. These systems are being marketed to US and friendly overseas countries.

Enterprise Wireless. We have started a new initiative of building advanced wireless infrastructure that can be used by telecom companies to supply very high speed broadband to schools, libraries, hospitals, government agencies, and

commercial customers. Recently the company completed a project in the Spokane area and is currently engineering and installing enterprise wireless networks in Western Washington State. As the nation's demands increase for wireless capability the Mobilisa division of IDN is prepared to build that infrastructure.

The Company enjoys an excellent relationship with its current customers and continues to receive funding for additional research and development work stemming from projects already completed or in process. We will continue to work with these customers to determine how best to continue to create innovative solutions that meet customers' changing technological needs. For example, our research and development efforts in FAN and in the Littoral Sensor Grid have the potential of revolutionizing ship-to-ship and ship-to-shore communications. The U.S. Navy, as well as other agencies and commercial customers, will greatly benefit from the successful development of these technologies, and we intend to continue to pursue these industry sectors.

Our Revenue Sources

We derive our revenue from the following sources:

- § Sales of our systems by both our own direct sales force and marketing partners;
- § Per transaction or subscription fees from the licensed use of our technology;
- § Royalties and licensing fees from licensing our patented technology to third parties;
- § Revenue sharing and marketing arrangements through strategic alliances and partnerships;
- § Sale of software upgrades and extended maintenance programs; and
- § Government grants for research and development projects.

Our Target Industry Sectors

Commercial Identity Systems

The use of false identification cards, primarily driver licenses and non-driver identification cards, to engage in commercial fraud, to gain access to unauthorized areas and to gain entry to critical infrastructure is common. Given the ease with which identification can be falsified, we believe that simply looking at a driver license may not be sufficient to verify identity and determine whether or not such an identification card is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that what they need is a document verification system that can accurately read the electronically stored information. We target the industry sectors that would most benefit from our systems and software.

We also market our products to opportunities where our ID√Check technology can be used to enhance productivity. We have made significant progress in the sectors for the retail issuance of instant credit. We believe there are financial benefits and compelling business models for customers in this sector to utilize our technology.

Productivity Enhancement

- § Mass merchandisers and retailers
- § Banks and other financial institutions
- § Credit unions
- § Credit card issuers
- § Check cashing services
- § Auto dealerships and rental car agencies
- § Casinos for enrollment of guests
- § Hospital patient admissions
- § Lodging Industry
- § Airlines

Commercial fraud protection

- § Mass merchandisers and retailers
- § Banks and other financial institutions
- § Credit unions
- § Credit card issuers
- § Check cashing services
- § Auto dealerships and rental car agencies
- § Casino cage operations
- § Hospitals, medical facilities and health plans
- § Lodging Industry
- § Pharmacies

Access control

- § Airports and airlines
- § Departments of Motor Vehicles
- § Prisons
- § Law enforcement agencies
- § Notable buildings
- § Court houses
- § Nuclear facilities
- § Oil refineries and storage facilities
- § Military establishments
- § College campuses
- § Department of Homeland Security
- § Bus, rail and port facilities

Age verification

- § Bars and night clubs
- § Convenience stores
- § Grocery chains
- § Restaurants
- § Stadiums and arenas
- § Casinos and gaming establishments
- § Sellers of sexually explicit material
- § Firearm dealers

Government Identity Systems

Our Defense ID system is tailored to locations that validate identification cards as a means of access. Historically, the military sector has been the primary focus, followed closely by the law enforcement sector. Military bases, for example, are an ideal location for the use of the Defense ID system because individual ID cards are checked prior to allowing base access and, in most cases, bases issue visitor/vendor passes to individuals needing access that do not possess a military ID.

Because Defense ID is customizable, it can be used in many different environments. The information provided via instant access to multiple law enforcement databases proves invaluable to gate officers and law enforcement personnel ensuring the security of a facility. Current targets include:

Military

- § Army
- § Air Force
- § Coast Guard
- § Military and Veterans Hospitals
- § Navy
- § Marines
- § Military Academies

Law Enforcement/Government

- § FBI
- § State Police
- § Bureau of Alcohol, Tobacco, Firearms, and Explosives
- § Customs
- § Department of Homeland Security
- § Drug Enforcement Administration
- § Local Sheriffs
- § Intelligence Agencies
- § Department of Transportation
- § Border Patrol

Wireless Security Systems

We provide wireless services, including wireless environment analysis, custom wireless network design, wireless communication system installation and application and custom wireless application development, to a range of customers across a variety of industry sectors. Our AIRchitect® product enables us to design the ideal wireless network for a variety of different facilities. In addition to designing shipboard networks for the U.S. Navy and the Washington State and British Columbia Ferries, we target metropolitan areas, warehouses, hospitals, public transportation providers and other businesses requiring wireless design and specialty services. Our WOW technology can be adapted for a variety of forms of transportation, including buses and trains, and the Company continues to further explore potential customers in those sectors. Our target customer for both FAN and the Littoral Sensor Network is the U.S. Navy, off-shore oil rig asset protection, and sea ports.

REPRESENTATIVE CUSTOMERS

Commercial Identity Systems

We have generated revenues from our customers from the sale of systems, licensing of software and sale of software upgrades. The following representative customers are using our systems and software for commercial fraud protection and productivity enhancement:

- Fidelity Information Services
- MGM Grand
- Caesar's Palace
- Enterprise
- Toys R Us
- Alliance Data
- Rooms to Go
- Wal-Mart
- Foxwoods Resorts and Casino
- Mohegan Sun Resort Casino
- Barclaycard USA
- JPMorgan Chase
- LL Bean
- GE Consumer Finance
- AT&T
- Winn Dixie

The following representative customers and programs have used or are using our systems and software for access control:

- John F. Kennedy International Airport in New York
- O'Hare International Airport in Chicago
- Reagan National Airport in Washington, DC
- New York Stock Exchange
- Fort Sam Houston
- Fort Hood
- Force Protection Industries
- New York Department of Motor Vehicles
- Vermont Department of Motor Vehicles
- Delaware Department of Motor Vehicles
- Port of Houston
- New Hampshire Department of Motor Vehicles
- Port Authority of New York and New Jersey
- Port of Hawaii
- United States Supreme Court
- Registered Traveler Program

The following representative customers are using our systems and software for age verification:

- Idaho State Liquor Dispensary
- Sunoco
- Exxon/Mobil franchisees
- Drake Petroleum
- Houston's Restaurants

Government Identity Systems

We have generated revenue from our customers from the sale of systems, licensing of software and sale of extended service agreements. The following representative customers have used or are using our systems and software for security and identification purposes.

- The United States Air Force Academy
- Fort Wainwright
- Elmendorf Air Force Base ("AFB")
- Andrews AFB
- Fort Meade
- Fort Richardson
- Bolling AFB
- Fort Polk
- Fort Dix
- Yuma Marine Corps Base

- Fort Belvoir
- USMC Parris Island
- The U.S. Military Academy at West Point
- Bangor Naval Submarine Base
- Fort Jackson
- Fort Leonard Wood
- Fort Benning
- Walter Reed Army Hospital
- McChord AFB
- Claremont County Sheriff Department
- Fort Sill
- 29 Palms
- Camp Atterbury
- Fort Stewart

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Wireless Communications Systems

The following representative customers have used our wireless solutions, including AIRchitect:

§ United States Navy
§ Sound and Sea Technologies
§ British Columbia Ferries
§ Port Townsend Paper Company
§ Parsons Corporation
§ NASA
§ United States Air Force
§ Science Application International Corporation
§ Washington State Ferries
§ Mikros Systems Corporation
§ National Center for Manufacturing Sciences
§ NoaNet

MARKETING AND DISTRIBUTION

Commercial Identity Systems

Our objective is to become the leading developer and distributor of document and age verification products. To date, our marketing efforts have been through direct sales by our sales and marketing personnel, through resellers and license agreements. We are marketing our products through direct marketing approaches such as web marketing, a small number of select trade shows and well known public interest and trade associations.

We generate revenues from the licensing of our software and the selling of bundled solutions that contain hardware and software. Depending on the specific needs of our clients, we tailor the right solution for them. Our bundled solutions, which include, but are not limited to, our ID√Check Mobile and ID√Check POS technology, offer multiple pricing options. We also generate revenues from various new software solutions that are based upon a per transaction or subscription model.

Our ID√Check software runs on Microsoft Windows and Windows Mobile platforms in addition to devices such as credit card terminals and other operating systems such as Linux. We are marketing our ID√Check technology to the government, airlines, airports, high profile buildings or infrastructure, mass merchandisers, grocery, convenience and pharmacy chains, casinos and banks.

We have developed a comprehensive marketing plan to build customer awareness and develop brand recognition in our target industry sectors. We promote the advantages and ease of use of our products through:

§ Endorsements by nationally known public interest groups and trade associations;
§ Trade publications;
§ Trade shows;
§ Web seminars, as well as our own website; and
§ Various conventions and industry specific seminars.

As we gain industry acceptance for our ID√Check technology, we intend to develop and market other related software applications.

Government Identity Solutions

We have sector-specific brochures for each product in our product line for both the military and law enforcement sectors that the sales force utilizes when demonstrating the Defense ID system to potential customers. These brochures serve as a quick reference guide outlining the capabilities of our technology. Once customers have a clear understanding of our products, they can use these brochures to discuss their individual needs and ordering requirements.

When dealing with military and government entities, we must comply with applicable procurement regulations.

In addition to sole source awards, we also respond to Requests for Proposal ("RFPs") and Requests for Qualifications ("RFQs") when our technological capabilities meet that of the desired system. In many cases, we are the only company that is able to meet the requirements in the RFP, which can lead to a quick and easy award.

Also, we have all Defense ID products, as well as individual labor services, listed on GSA Schedule 70. This makes it possible for government entities to make direct purchases of equipment and services for a pre-negotiated price without competition.

We have offices in Port Townsend, WA and Jericho, NY to fully support our current and potential customers. This makes it easy to schedule and complete installations and maintenance in an efficient, time-conscious manner.

Wireless Security Systems

Marketing for our wireless products and capabilities is performed primarily via our website and tradeshow exhibitions, as well as through direct contacts with government agencies. We attend market-specific tradeshows to demonstrate current products and capabilities. We pride ourselves on being an innovative solutions provider and this is a prime arena for showcasing the Company's talents and for interfacing with potential customers who can benefit from our wireless solutions.

We have recently signed partnerships with foreign companies to assist in bringing our wireless technologies, products and services to their country.

Many of our potential wireless customers contact the Company after seeing publicity about current wireless projects. Our wireless systems have garnered both local and national publicity, which has been highly beneficial in projecting to the public the Company's capabilities.

MAJOR CUSTOMERS

Although the composition of our largest customers has changed from year to year, a significant portion of our revenues have been attributable to a limited number of major customers. In 2013, our Wireless Installations subcontracting with Northwest Open Access Network accounted for approximately 17% of total revenues. In 2012, AT&T, our Wireless R&D contract with the U.S. Navy, and TWIC sales to the State of Hawaii accounted for approximately 15%, 14%, and 11% of our total revenues, respectively. While we believe that one or more major customers could account for a significant portion of our sales for at least the next two years, we anticipate that our customer base will continue to expand and that in the future we will be less dependent on major customers.

REGULATION

The sale and use of the Company's Identity System products are not subject to regulation by government authorities. We believe we are currently in compliance with applicable United States, state and local laws and regulations relating to the protection of the environment.

We have made application for commercial sale of the Company's Aegeus Wireless Security Buoys and for export authority to sell this product abroad. No assurance can be given that such authority or licensing will be obtained or that current rules and regulations will not be changed in an adverse manner.

COMPETITION

Commercial Identity Systems

We compete in an industry that is relatively new, intensely competitive and rapidly changing. Unless a device can read, decode and analyze all of the information that is legally permitted to be analyzed, which is electronically stored on a driver license, the user may not obtain accurate and reliable confirmation that a driver license is valid and has not

been altered or tampered with. We are aware of several companies, including CardCom, TriCom Technologies, ID-Logix and Legal Age that are currently offering products that electronically read and calculate age from a driver license. We have tested and compared some of these products to ID√Check and believe that our product is superior in quality and functionality. We believe that units unable to read bar codes are at a significant disadvantage because most states and Canadian provinces currently utilize bar codes to encode their driver licenses, as well as all U.S. military IDs and uniformed services cards.

In the government identity sector, there are several companies, including L-1 Identity Solutions (now part of Safran Group), and Core Street (now part of ActivIdentity Corporation), that are currently offering products that compete with the Defense ID system. The U.S. government also has a product called DBIDS that competes with our products.

We are also aware that Motorola and Honeywell have started offering an embedded driver's license reading solution on a tether scanner that does not parse driver licenses from all U.S. jurisdictions.

We have experienced and expect to continue to experience increased competition in the document verification sector, and have to date experienced limited competition from companies in the document verification sector. If any of our competitors were to become the industry standard or were to enter into or expand relationships with significantly larger companies through mergers, acquisitions or otherwise, our business and operating results could be seriously harmed. In addition, potential competitors could bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products.

In the wireless security sector, we develop and apply WOW technology and believe that our Floating Area Network, Aegeus Wireless Security Buoy and Littoral Sensor Grid projects will enhance the Company's standing with potential customers in the wireless industry. Several competitors have developed technology that may compete with our products. These include EFJ, Inc., Sea-Mobile and Motorola. In addition, other defense or wireless companies may be developing technology that will compete with our current products or with the projects and products that are currently in research and development.

MANUFACTURING

We do not manufacture readers or input devices, but use products from several manufacturers. Some of these devices are private labeled and programmed by the supplier to work with our ID√Check technology. The majority of our hardware consists of commercial off-the-shelf ("COTS") products. We rely on a small number of suppliers to provide our COTS products.

Our government identity and wireless systems products are created with COTS items that we customize with software and specialized configurations. All products are customized, assembled, and tested in-house and then installed and placed by our employees in the field.

RESEARCH AND DEVELOPMENT

Our research and development efforts are mainly concentrated in three areas. The most significant effort is concentrated in the Wireless sector in the Floating Area Network and Littoral Sensor Grid projects, which are funded by government cost plus fixed fee contracts. In the identity sector, we modify existing software applications based on customer's requirements, which are fee based. In addition, we develop new software solutions and make improvements to existing software platforms, which are funded internally. R&D spending during the years ended December 31, 2013 and 2012 was $2,056,744 and $2,239,011, respectively.

INTELLECTUAL PROPERTY

In January 1999, the U.S. Patent and Trademark Office granted us a patent on our ID√Check software technology. In October 2002, we were granted another patent relating to our document authentication and age verification technology. In January 2009, we were granted another patent that is a continuation of our patents relating to our document authentication and age verification technology. Upon our acquisition of the assets of IDentiScan, we also received equitable ownership and sole ownership rights to its intellectual property, including other patents and patent

applications relating to age verification technology.

During 2010, we were granted two additional patents. The first patent was for a software key control for mobile devices. It is used to get a registration key for the parser that is based on the unique internal ID of one mobile device. The Mobile Key Manager communicates with the mobile device, reading its ID, and then requests a registration key specific for that ID from Intellicheck Mobilisa's server. This server maintains a database of all customers using IDecode Mobile Parsers, including the number of licenses they have purchased, the latest software version for which they have paid support, and the registration keys and unique device IDs associated with those licenses. The server generates a new registration key unique to the device ID, and returns it to the Mobile Key Manager to register that device. In this way, the customer can deploy the IDecode Mobile Parser to only one mobile device for each parser purchased.

The second patent was relating to a document comparison system and reinforces the innovative nature of Intellicheck Mobilisa's security solutions involving documents. The technology described in the patent relates to a system and method for comparing information contained in at least two documents. Like information on different documents is compared to determine whether the information is the same on each document. For instance, a name contained on an individual’s driver’s license is automatically compared with a name contained on the individual's airline boarding pass.

In 2011, we were issued another patent. This patent allows for verifying and authenticating the encoded information on driver licenses of all 50 states and other North American driver licenses, and allows the information to be electronically transferred in a secure environment to a local or remote jurisdiction for age verification, organ donor, or criminal activity checks critical in fighting both crime and terrorism.

In 2012, the Company was granted a patent relating to a system and method for comparing information contained in at least two documents, but not limited to just a driver license and passport. This patent compares “like information” on different documents to determine whether the information is the same on each document. As an example, a passport is compared to a boarding pass to determine “like information” matches, for instance name and birthdate.

We currently hold thirteen (13) U.S. patents, two (2) Canadian patents and one (1) United Kingdom patent. At present, we have other patent applications pending in the U.S. Patent and Trademark Office as well as internationally. These patents cover commercially important aspects of our capabilities relating to the authentication and verification of identification documents, and relating to our Defense ID System technology. We will continue to pursue patents for all of our new technologies arising from our research and development efforts.

We own multiple copyrights in the United States, which are effective in Canada and in other major industrial countries. The copyright protection covers software source codes and supporting graphics relating to the operation of ID√Check and other software products. We also have several trademarks relating to our company, its product names and logos.

In connection with the sales or licensing of our intellectual property, we have entered into an agreement with Mr. Kevin Messina, our former Senior Executive V.P. and Chief Technology Officer, under which we will pay royalties equal to 0.005% of cumulative gross sales for cumulative gross sales of $2,000,000 to $52,000,000 and 0.0025% of cumulative gross sales for cumulative gross sales in excess of $52,000,000 pertaining to those patents on which Mr. Messina was identified as an inventor. Cumulatively, as of December 31, 2013, total fees paid under this agreement were about $1,650.

Employees

As of March 25, 2014, we had 31 full-time employees. Four (4) are engaged in executive management, fourteen (14) in information technology, nine (9) in sales and marketing and four (4) in administration. All employees are employed “at will.” We believe our relations with our employees are generally positive and we have no collective bargaining agreements with any labor unions.

Item 1A. Risk Factors

RISK FACTORS

Risks Related to Our Business and Industry

We have incurred principally losses since inception and losses may continue, which could result in a decline in the value of our securities and a loss of your investment.

We sustained net losses of $2,424,256 and $2,260,086 for the fiscal years ended December 31, 2013 and 2012, respectively, and our accumulated deficit was $85,655,564 as of December 31, 2013. Since we expect to incur additional expenditures in line with the sales growth of our business, we may not achieve operating profits in the near future. This could lead to a decline in the value of our securities.

Our proprietary software relies on reference data provided by government and quasi-government agencies. If these governmental and quasi-government agencies were to stop sharing data with us, the utility of our proprietary software would be diminished in those jurisdictions and our business would be damaged.

Currently, the fifty states, ten Canadian provinces and the District of Columbia, which in most instances conform to the guidelines established by certain organizations responsible for implementing industry standards, cooperate with us by providing sample identification cards so that we may modify all of our hardware and software products to read and analyze the encoded information found on such jurisdiction's identification cards. In the event that one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions.

Our business strategy exposes us to long sales and implementation cycles for our products.

Our target customers in the commercial fraud protection, access control and age verification industry sectors include large retailers and government agencies, which typically require longer sales and implementation cycles for our products than do our potential customer base solely interested in age verification, such as restaurant, bar and convenience store operators. The longer sales and implementation cycles for larger retail companies continue to have an adverse impact on the timing of realizing our revenues. In addition, budgetary constraints and potential economic slowdowns may also continue to delay purchasing decisions by these prospective customers. These initiatives have costs associated with them, and we cannot assure you that they ultimately will prove successful or result in, an increase to our revenues or profitability.

In addition, the loss or significant reduction in government spending by government entities could materially limit our ability to obtain government contracts. These limitations, if significant, could also have a material adverse effect on our business, financial condition and results of operations. In addition, we will need to develop additional strategic relationships with large government contractors in order to successfully compete for government contracts. Should we lose or fail to develop these strategic relationships we may not be able to implement our business strategy.

The industry for our systems and software is evolving and its growth is uncertain.

Demand and industry acceptance for recently introduced and existing systems, and software and sales from such systems and software, are subject to a high level of uncertainty and risk. With changing administration in government, changes in government budgets, and slowly evolving government standards on use of identity products, the government sector is slowly developing. The commercial sector has the ability to develop faster than the government

sector, but it is also subject to a higher level of uncertainty because of potential uncertainty in the continued financial health of our commercial customers, as well as long sales cycles. Our business may suffer if the industry develops more slowly than anticipated and does not sustain industry acceptance.

Failure to manage our operations if they expand could impair our future growth.

If we are able to expand our operations, particularly through multiple sales to large retailers and government agencies in the document verification industry, the expansion will place significant strain on our management, financial controls, operating systems, personnel and other resources. Our ability to manage future growth, should it occur, will depend to a large extent upon several factors, including our ability to do the following:

- § build and train our sales force;
- § establish and maintain relationships with distributors;
- § develop customer support systems;
- § develop expanded internal management and financial controls adequate to keep pace with growth in personnel and sales, if they occur; and
- § manage the use of third-party manufacturers and suppliers.

If we are able to grow our business but do not manage our growth successfully, we may experience increased operating expenses, loss of customers, distributors or suppliers and declining or slowed growth of revenues.

We are subject to risks associated with product failure and technological flaws.

Products as complex as those offered by us may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is possible that errors will be found in a new product or enhancement after commencement of commercial shipments. The occurrence of product defects or errors could result in adverse publicity, delay in product introduction, diversion of resources to remedy defects, loss of, or a delay in industry acceptance, claims by customers against us, or could cause us to incur additional costs, any of which could adversely affect our business.

Failure to protect our proprietary technology may impair our competitive position.

We continue to allocate significant resources to developing new and innovative technologies that are utilized in our products and systems. Because our continued success depends on, to a significant degree, our ability to offer products providing superior functionality and performance over those offered by our competitors, we consider the protection of our technology from unauthorized use to be fundamental to our success. This is done by processes aimed at identifying and seeking appropriate protection for newly-developed intellectual property, including patents, trade secrets, copyrights and trademarks, as well as policies aimed at identifying unauthorized use of such property. These processes include:

- § contractual arrangements providing for nondisclosure of proprietary information;
- § maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems;
- § protecting trade secrets;
- § protecting copyrights and trademarks by registration and other appropriate means;
- §

establishing internal processes for identifying and appropriately protecting new and innovative technologies; and

§ establishing practices for identifying unauthorized use of intellectual property.

We may have to litigate to enforce patents or trademarks or to determine the scope and validity of other parties' proprietary rights. Litigation could be very costly and divert management's attention. An adverse outcome in any litigation may have a severe negative effect on our financial results. To determine the priority of inventions, we may have to participate in interference proceedings declared by the U.S. Patent and Trademark Office or oppositions in foreign patent and trademark offices, which could result in substantial cost and limitations on the scope or validity of our patents or trademarks.

In addition, foreign laws treat the protection of proprietary rights differently from laws in the United States. The failure of foreign laws or judicial systems to adequately protect our proprietary rights or intellectual property, including intellectual property developed on our behalf by foreign contractors or subcontractors may have a material adverse effect on our business, operations and financial results.

If our future products incorporate technologies that infringe the proprietary rights of third parties, and we do not secure licenses from them, we could be liable for substantial damages.

We are not aware that our current products infringe the intellectual property rights of any third parties. We also are not aware of any third party intellectual property rights that may hamper our ability to provide future products and services. However, we recognize that the development of our services or products may require that we acquire intellectual property licenses from third parties so as to avoid infringement of those parties' intellectual property rights. These licenses may not be available at all or may only be available on terms that are not commercially reasonable. If third parties make infringement claims against us whether or not they are upheld, such claims could:

- consume substantial time and financial resources;
- divert the attention of management from growing our business and managing operations; and
- disrupt product sales and shipments.

If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter into costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product development, sales and shipments, and our revenues may decline substantially. Additionally, we may not be able to achieve the minimum necessary growth for our continued success.

Failure to attract and retain management and other personnel may damage our operations and financial results and cause our stock price to decline.

We depend to a significant degree on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing or additional personnel could disrupt or otherwise harm our operations and financial results. We do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could cause our stock price to decline.

Our share price may be volatile and could decline substantially

The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to March 25, 2014, the closing price of our common stock has varied from a high of $19.45 to a low of $0.25 per share, as reported on the American Stock Exchange and NYSE Amex. Many factors may cause the market price for our common stock to decline, including:

- shortfalls in revenues, cash flows or continued losses from operations;
- delays in development or roll-out of any of our products;
- announcements by one or more competitors of new product acquisitions or technological innovations; and
- unfavorable outcomes from outstanding litigation.

In addition, the stock market experiences extreme fluctuations in price and volume that particularly affect the market price of shares of emerging technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected companies. Because of this volatility, we

may fail to meet the expectations of our stockholders or of securities analysts, and our stock price could decline as a result. Declines in our stock price for any reason, as well as broad-based market fluctuations or fluctuations related to our financial results or other developments, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de-listing of our common stock.

We incur significant accounting and other control costs that impact our financial condition.

As a publicly traded corporation, we incur certain costs to comply with regulatory requirements. If regulatory requirements were to become more stringent or if controls thought to be effective later fail, we may be forced to make additional expenditures, the amounts of which could be material. Some of our competitors are privately owned, so their accounting and control costs could create a competitive advantage over us. Should our sales decline or if we are unsuccessful at increasing prices to cover higher expenditures for internal controls and audits, our costs associated with regulatory compliance will rise as a percentage of sales.

We have derived a significant portion of our revenue from government R&D (Research and Development) contracts, which are often non-standard, involve competitive bidding, may be subject to cancellation and may produce volatility in earnings and revenue.

In the years ended December 31, 2013 and 2012, we derived 0% and 14.3% of our revenue, respectively, from government R&D contracts. These government contracts often include provisions that substantially differ from those found in typical private commercial transactions. For instance, government contracts may:

- include provisions that allow the agency, in certain circumstances, to terminate the contract without penalty;
- be subject to purchasing decisions by agencies that are subject to political influence;
- include bonding requirements;
- contain comprehensive procurement provisions that require us to expend substantial resources in pursuing the contract;
- specify performance criteria that we must satisfy before the customer accepts the products and services; and
- be subject to cancellation or reduction if funding is reduced or becomes unavailable.

Securing government contracts typically involves a lengthy competitive bidding process. Often, unsuccessful bidders have the ability to challenge contract awards. Such challenges may increase costs, result in delays and risk the loss of the contract by the winning bidder. Protests or other delays related to material government contracts that may be awarded to us could result in revenue volatility. State and local government agency contracts may depend on the availability of matching funds from federal, state or local entities. State and local government agencies are subject to political, budgetary, purchasing and delivery constraints that may result in irregular revenue and operating results. Revenue volatility makes management of our business difficult. Outright loss of any material government contract through the protest process or otherwise, could significantly reduce our revenues. Although our only revenue in 2013 related to such R&D was for the close-out of prior year contracts, we anticipate that we may have revenue from such contracts in 2014.

We could be adversely affected by a negative audit by the U.S. government.

We, like other government contractors, are subject to various routine audits, reviews and investigations by U.S. government agencies, including the Defense Contract Audit Agency and various agency inspectors. These agencies review a contractor's performance under its contracts, cost structure and compliance with applicable laws, regulations, and standards. Any costs found to be misclassified may be subject to repayment. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and

administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. government.

Our business strategy exposes us to long sales and implementation cycles for our products.

Historically, some of our primary target customers have been government agencies and branches of the U.S. military, both of which require long sales and implementation cycles for products, which may result in a long period of time prior to revenue realization. The loss or significant reduction in government spending could limit our ability to obtain government contracts. These limitations, if significant, could significantly reduce our revenues. We will need to develop additional strategic relationships with large government contractors in order to successfully compete for government contracts. Should we lose or fail to develop these strategic relationships, we may not be able to implement our business strategy.

We cannot be certain that our backlog estimates will result in actual revenues in any particular fiscal period because our clients may modify or terminate projects or may decide not to exercise contract options.

Our backlog represents sales value of firm orders for products and services not yet delivered and, for long-term, executed contractual arrangements (contracts, subcontract and customer commitments), the estimated future sales value of product shipments, transactions processed and services to be provided over the term of the contractual arrangements, including anticipated renewal options. For contracts with indefinite quantities, our backlog is estimated based on current activity levels. Our backlog includes estimates of revenues, the receipt of which require future government appropriations, depend on option exercise by clients or are subject to contract modification or termination. At December 31, 2013, our backlog approximated $380,586, $158,720 of which is estimated to be realized in the next twelve months. These estimates are based on our experience under such contracts and similar contracts, and we believe that such estimates are reasonable. If we do not realize a substantial amount of our backlog, as we presently anticipate, our operations could be harmed and future revenues could be significantly reduced.

Long lead times for the components used in certain products creates uncertainty in our supply chain and may prevent us from making required deliveries to our customers on time.

We rely exclusively on commercial off-the-shelf technology in manufacturing our products. The lead-time for ordering certain components used in our products and for the production of products can be lengthy. As a result, we must, from time to time, order products based on forecasted demand. If demand for products lags significantly behind forecasts, we may purchase more product than we can sell. Conversely, if demand exceeds forecasts, we may not have enough products to meet our obligations to our customers.

We rely on commercial off-the-shelf technology to provide hardware products.

Although we believe that we can find alternative sources for hardware, any disruption in our ability to obtain required hardware could result in delaying deliveries or in the loss of sales. Loss of suppliers may result in delays or additional expenses, and we may not be able to meet our obligations to our customers.

We obtain certain hardware and services, as well as some software applications, from a limited group of suppliers, and our reliance on these suppliers involves significant risks, including reduced control over quality and delivery schedules.

Any financial instability of our suppliers could result in having to find new suppliers. We may experience significant delays in manufacturing and deliveries of products and services to customers if we lose our sources or if supplies and services delivered from these sources are delayed. As a result, we may be required to incur additional development, manufacturing and other costs to establish alternative supply sources. It may take several months to locate alternative suppliers, if required. We cannot predict whether we will be able to obtain replacement hardware within the required time frames at affordable costs, or at all. Any delays resulting from suppliers failing to deliver hardware or delays in obtaining alternative hardware, in sufficient quantities and of sufficient quality, or any significant increase in the cost

of hardware from existing or alternative suppliers could result in delays on the shipment of product which, in turn, could result in the loss of customers we may not be able to successfully complete.

Our Defense ID system relies on access to databases run by various government agencies. If these governmental agencies were to stop sharing data with us, the utility of the Defense ID system would be diminished and business would be damaged.

Currently, our Defense ID system accesses over 100 separate databases run by various government and law enforcement agencies. We cannot be assured that each of these agencies will continue to cooperate with us. In the event that one or more of these agencies does not continue to provide access to these databases, the utility of the Defense ID system may be diminished and as a result, our sales could suffer.

Our Defense ID system requires permission from each branch of the U.S. military in the form of an Authority to Operate (ATO). If an existing ATO is revoked, we would risk losing our ability to install our Defense ID system at military bases.

We cannot be assured that these permissions will be renewed, and it is possible that they could be revoked. If one or more of these permissions is revoked or not renewed, then the sector for the Defense ID system would be reduced and as a result, our sales could suffer.

Our Defense ID system manages private personal information and information related to sensitive government functions and a breach of the security systems protecting such information may result in a loss of suppliers or customers or result in litigation.

The protective security measures designed to protect sensitive information and contained in our products may not prevent all security breaches. Failure to prevent security breaches may disrupt our business, damage our reputation and expose us to litigation and liability. A party who is able to circumvent protective security measures used in these systems could misappropriate sensitive information or cause interruptions or otherwise damage our products, services and reputation as well as the property and privacy of customers. If unintended parties obtain sensitive data and information, or create bugs or viruses or otherwise sabotage the functionality of our products, we may receive negative publicity, incur liability to our customers or lose the confidence of our customers, any of which may cause the termination or modification of contracts. Further, our existing insurance coverage may be insufficient to cover losses and liabilities that may result from such events.

In addition, we may be required to expend significant capital and other resources to protect against the threat of security breaches or to alleviate problems caused by the occurrence of any such breaches. However, protective or remedial measures may not be available at a reasonable price or at all, or may not be entirely effective if commenced.

Future government regulation restricting the capture of information electronically stored on identification cards could adversely affect our business.

The Defense ID system is designed to read, verify and capture information from identification cards. Currently, some jurisdictions have restrictions on what can be done with this information. Because issues of personal privacy continue to be a major topic of public policy debate, it is possible that, in the future, these or other jurisdictions may introduce similar or additional restrictions on capturing this information. Therefore, the implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected industry sectors to become impractical and reduce our revenues and potential revenues.

We are subject to risks associated with product failure and technological flaws.

Our products are complex and may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is

possible that errors will be found in a new product or enhancement after commercial shipments have commenced. The occurrence of product defects or errors could result in negative publicity, delays in product introduction, the diversion of resources to remedy defects and loss of or delay in industry acceptance or claims by customers against us and could cause us to incur additional costs, any one of which could adversely affect our business. Because of the risk of undetected error, we may be compelled to accept liability provisions that vary from our preferred contracting model in certain critical transactions. There is a risk that in certain contracts and circumstances we may not be successful in adequately minimizing product and related liabilities or that the protections negotiated will not ultimately be deemed enforceable.

We carry product liability insurance, but existing coverage may not be adequate to cover potential claims. The failure of our products to perform as promised could result in increased costs, lower margins, liquidated damage payment obligations and harm to our reputation.

We may not be able to keep up with rapid technological change.

The sectors for all of our products are characterized by rapid technological advancements. Significant technological change could render existing technology obsolete. If we are unable to successfully respond to these developments, or do not respond in a cost-effective manner, our business, financial condition and results of operations will be materially adversely affected.

We cannot guarantee that projects currently in research and development stage, including FANs and Littoral Sensor Grids, will result in operational systems or prototypes or that such systems or prototypes, if produced, will be commercially marketable.

Projects in the research and development stage have not yet been proven operational. While we anticipate that we will be able to produce operational systems or prototypes based on our research and development, there is no guarantee that we will be able to do so. Furthermore, even if we are able to produce operational systems or prototypes, there is no guarantee that those systems or prototypes will prove commercially marketable.

Future capital requirements may require incurring debt or dilution of existing stockholders.

Acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital or incur debt. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted.

Because we do not intend to pay dividends on our Common Stock, stockholders will benefit from an investment in our stock only if it appreciates in value.

We have never declared or paid any cash dividends on our shares of stock. We currently intend to retain all future earnings, if any, for use in the operations and expansion of the business. As a result, we do not anticipate paying cash dividends in the foreseeable future. Any future determination as to the declaration and payment of cash dividends will be at the discretion of our Board of Directors and will depend on factors the Board of Directors deems relevant, including among others, our results of operations, financial condition and cash requirements, business prospects, and the terms of Intellicheck Mobilisa's credit facilities and other financing arrangements. Accordingly, realization of a gain on stockholders' investments will depend on the appreciation of the price of our stock. There is no guarantee that our stock will appreciate in value.

Our management team controls a substantial interest in Intellicheck Mobilisa and thus may influence certain actions requiring a stockholder vote.

As of March 24, 2014, our management team (including all of our directors) own approximately 32.1% of our issued and outstanding common stock; Dr. Ludlow and Mrs. Ludlow own approximately 30.2%. By owning this many shares, our management team may be able to control decisions to be made by our stockholders.

Item 1B. Unresolved Staff Comments

Not applicable.

Item 2. Properties

Our corporate headquarters is currently located in Port Townsend, WA, where we occupy approximately 5,840 square feet pursuant to a lease that expires on July 31, 2017. We also occupy 9,233 square feet of office space in Jericho, NY pursuant to a lease that expires on March 1, 2018. In addition, we lease approximately 3,289 square feet in Alexandria, VA pursuant to an amended lease that expires on January 31, 2015. Most U.S. sales, marketing and technical personnel for all product divisions are in these locations, with a small number of individuals operating out of home offices. We believe that our existing facilities are adequate to meet current requirements and that additional or substitute space will be available as needed to accommodate any expansion of operations.

Item 3. Legal Proceedings

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.

Item 4. Mine Safety Disclosures

None

PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

(a) Our common stock is traded on the NYSE Amex Stock Exchange under the symbol "IDN." The following table indicates high and low sales prices for the periods indicated.

	Low	High

2012		
First quarter	$ 0.81	$ 1.70
Second quarter	$ 1.28	$ 1.96
Third quarter	$ 1.40	$ 1.99
Fourth quarter	$ 0.57	$ 1.74
2013		
First quarter	$ 0.39	$ 0.94
Second quarter	$ 0.30	$ 0.70
Third quarter	$ 0.28	$ 0.82
Fourth quarter	$ 0.45	$ 0.76
2014		
First quarter*	$ 0.43	$ 1.23

* Portion of first fiscal quarter through March 21, 2014.

(b) Number of Record Holders of Common Stock. The number of holders of record of our common stock on March 25, 2014 was 2,738, which does not include individual participants in security position listings held in “street name.”

(c) Dividends. There were no cash dividends or other cash distributions made by us during the fiscal year ended December 31, 2013. Future dividend policy will be determined by our Board of Directors based on our earnings, financial condition, capital requirements and other then existing conditions. It is anticipated that cash dividends will not be paid to the holders of our common stock in the foreseeable future.

(d) Recent Sales of Unregistered Securities

None.

(e) Repurchases of Equity Securities

There were no shares purchased during 2013.

Item 6. Selected Financial Data

The following selected financial data presented under the captions “Statement of Operations Data” and “Balance Sheet Data” as of the end of each of the five years ended December 31, 2013, are derived from the financial statements of Intellicheck Mobilisa. The selected financial data should be read in conjunction with the financial statements as of December 31, 2013 and 2012 and for each of the two years in the period ended December 31, 2013, the accompanying notes and the report of independent registered public accounting firms thereon, which are included elsewhere in this Form 10-K. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa and 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.

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	Years Ended December 31,				
	2009	2010	2011	2012	2013
	(In thousands, except per share data)				
Statement of Operations Data:					
Revenue	$ 12,415	$ 12,292	$ 12,484	$ 8,803	$ 7,298
Income (loss) from operations	(517)	(2,547)	(282)	(2,261)	(2,424)
Net income (loss)	(526)	(2,573)	(291)	(2,260)	(2,424)
Net income (loss) per common share					
Basic	(0.02)	(0.10)	(0.01)	(0.08)	(0.09)
Diluted	(0.02)	(0.10)	(0.01)	(0.08)	(0.09)
Common shares used in computing per share amounts					
Basic	25,673	26,646	27,248	27,724	27,897
Diluted	25,673	26,646	27,248	27,724	27,897

	As of December 31,				
	2009	2010	2011	2012	2013
	(In thousands)				
Balance sheet data:					
Cash and cash equivalents	$ 3,008	$ 1,489	$ 1,394	$ 1,686	$ 224
Working capital	2,257	1,174	1,984	744	(720)
Total assets	25,758	23,974	22,945	20,461	17,902
Total liabilities	4,179	4,188	3,190	2,782	2,546
Stockholders' equity	21,579	19,786	19,755	17,679	15,356

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

Overview

We are a technology company that provides wireless technology and identity systems for various applications including mobile and handheld access control and security systems for the government, military and commercial markets. Our products include the Defense ID and Fugitive Finder systems, advanced ID card access control products currently protecting approximately 100 military and federal locations, and ID√Check, a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions designed to improve the Customer Experience for the financial, hospitality and retail sectors. Our wireless products include Aegeus, a wireless security buoy system for the government, military and oil industry.

Critical Accounting Policies and the Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in our 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, revenue allocation of multi-element arrangements and the fair value of stock options granted under our 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, goodwill and intangible asset valuation and impairment, and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

Valuation of goodwill and other long-lived assets

Our long-lived assets include property and equipment, goodwill and intangible assets. As of December 31, 2013, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and amortization, were $369,095, $12,308,661 and $3,724,354, respectively. As of December 31, 2012, the balances of property and equipment, goodwill and intangible assets, all net of accumulated depreciation and amortization, were $449,438, $12,308,661 and $4,631,577, respectively.

We depreciate property and equipment and amortize intangible assets that have finite lives over their estimated useful lives. For purposes of determining whether there are any impairment losses, as further discussed below, management evaluates the carrying amounts of identifiable long-lived tangible and intangible assets, including their estimated useful lives, when indicators of impairment are present as more fully described below. Based on our review of the carrying amounts of the long-lived tangible and intangible assets with finite lives, we may also determine that shorter estimated useful lives are appropriate. In that event, we record depreciation and amortization over shorter future periods, which would reduce our earnings.

Goodwill

The excess of the purchase consideration over the fair value of the assets of acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. The Company had goodwill of $12,308,661 at December 31, 2013 and December 31, 2012. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2013 and 2012, the Company performed its annual impairment test of goodwill and concluded that no impairment charge was required for either year. Under authoritative guidance, the Company can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

For the years ended December 31, 2013 and 2012, after a review of these qualitative factors, the Company determined that it was necessary to perform a two-step quantitative analysis. The first step is to compare the fair value of the Company’s reporting unit, including goodwill to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired otherwise, there is an indication that goodwill may be impaired and the amount of loss, if any is measured by performing step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of Goodwill.

The Company engaged an outside consulting firm to perform this analysis. This firm appraised the fair value of the Company’s reporting unit is excess of its carrying value as of the reporting date, so no second step was necessary. The firm used the income approach, on a debt-free basis, to perform its analysis, because of the uniqueness of the Company and unrepresentative nature of the Company’s historical performance.

Based on the outside consultant’s report and the Company’s review of its market capitalization and movement in stock price, Management determined that no impairment of Goodwill exists as of December 31, 2013.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 5. 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 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. No impairments were recognized during the years ended December 31, 2013 and 2012.

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.

Under the provisions of ASC Topic 605-25, “Revenue Arrangements with Multiple Deliverables,” for multi-element arrangements that include tangible products containing software essential to the tangible product’s functionality and undelivered software elements relating to the tangible product’s essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value (“VSOE”), (ii) third-party evidence of selling price and (iii) best estimate of the selling price (“ESP”). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company’s best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual 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 one to three years.

Stock-Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance with ASC Topic 718 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.

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 December 31, 2013, due to the uncertainty of the realizability of those assets.

Commitments and Contingencies

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.

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 (All figures were rounded to the nearest $1,000)

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2013 TO THE YEAR ENDED DECEMBER 31, 2012

REVENUE. Total revenues were approximately 17% lower in the year ended December 31, 2013 as compared to the year ended December 31, 2012.

Year Ended December 31,					
	2013	2012	% Change		
Identity Systems	$ 5,665,000	$ 7,544,000	(25)	%	
Wireless	1,634,000	1,259,000	30	%	
	7,299,000	$ 8,803,000	(17)	%	

The decrease in the Identity Systems revenues in 2013 is a result of $1.0 million lower commercial identity sales, $422K lower Defense ID sales, and $335K less in subscription and warranty revenue The increase in Wireless revenues in 2013 is because the Company completed $1.3 million in wireless installations in rural Washington state, offset by $933K less in wireless R&D revenue caused by the end of this project with the Navy. Total booked orders were $5.9 million in 2013 compared to $7.0 million in 2012.

As of December 31, 2013, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately $381K. Our backlog as of December 31, 2012 was $1.2 million. The backlog consists of subscriptions, maintenance and support to Defense ID customers, and lease revenue related to wireless installations in Washington state. $159K of the backlog is expected to be realized over the next twelve months. Period to period comparisons may not be indicative of future operating results, since we still face long sales cycles, particularly in the Wireless sector, and, therefore, we cannot predict with certainty in which period the opportunities currently in the pipeline will develop into sales or if they will develop at all.

GROSS PROFIT. Gross profit decreased by $1,276,000 or 22% to $4,526,000 for the year ended December 31, 2013 from $5,801,000 in the year ended December 31, 2012. Our gross profit, as a percentage of revenues, was 62% and 66% in 2013 and 2012, respectively. The decrease in gross profit was driven by low-margin work installing wireless

networks in rural areas on Washington State, which was not done in prior years. The lower margins on this work was due to the high amount of equipment expense.

OPERATING EXPENSES. Operating expenses, which consist of selling, general and administrative and research and development expenses decreased by $1,112,000 or 14% to $6,950,000 for the year ended December 31, 2013 from $8,062,000 for the year ended December 31, 2012. Consolidated selling expenses decreased 32% to $1,096,000 for the year ended December 31, 2013 from $1,614,000 for the year ended December 31, 2012, principally as a result of a decrease in total salaries and commissions paid for sales and sales support employees. The Company also spent less on trade shows in 2013. General and administrative expenses decreased 10% to $3,797,000 for the year ended December 31, 2013 from $4,209,000 for the year ended December 31, 2012, principally as a result of a decrease in total salaries paid and multiple directors of the board waiving some of their fees. Research and development expenses decreased 8% to $2,057,000 for the year ended December 31, 2013 from $2,239,000 for the year ended December 31, 2012, principally as a result of lower fees paid for consulting, bonuses and professional dues.

The Company completed its annual impairment testing of goodwill and other intangible assets in accordance with ASC Topic 350 "Goodwill and Other Intangible Assets" and ASC Topic 360 “Accounting for the Impairment or Disposal of Long-Lived Assets.” Based upon this review, it was determined that there was no impairment of goodwill or other intangible assets as of December 31, 2013.

INTEREST INCOME. Interest income was insignificant in both periods presented.

INTEREST EXPENSE. Interest expense was insignificant in both periods presented.

INCOME TAXES. We have incurred net losses to date; therefore, we have paid nominal income taxes.

NET LOSS. As a result of the factors noted above, we incurred a net loss of $2,424,000 for the year ended December 31, 2013 as compared to a net loss of $2,261,000 for the year ended December 31, 2012.

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

As of December 31, 2013, the Company had cash and cash equivalents of $224,000, working capital (defined as current assets minus current liabilities) of $(720,000), total assets of $17,902,000 and stockholders’ equity of $15,356,000.

During 2013, the Company decreased its cash and cash equivalents by $1,461,000. Cash used in operating activities was ($1,451,000) in 2013 compared to cash provided by operating activities of $346,000 in 2012. The decrease in cash flow in 2013 is primarily a result of collections on the Company’s accounts receivable, which decreased $2,364,000 from $2,192,000 in 2012 to $(172,000) in 2013. We used cash of $81,000 in investing activities during 2013 compared to $184,000 in 2012 due to few new-hires and a low need for new computer hardware. Cash generated in financing activities was $71,000 in 2013 compared to $130,000 in cash generated by financing activities in 2012.

On August 17, 2011, the Company entered into a 2-year revolving credit facility with Silicon Valley Bank. On August 15, 2013, it renewed this facility for an additional year. The maximum borrowing under the facility is $2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company’s assets. The facility bears interest at a rate of U.S. prime (3.25% at December 31, 2013) plus 1.25% - 1.75%, depending on the Company’s cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2014. At December 31, 2013, there were no amounts outstanding, the Company is in compliance with its covenants, and unused availability under the facility was approximately $594,000.

On January 14, 2014, the Company announced the closing of an underwritten second public offering of 8,947,000 shares of its common stock, offered to the public at $0.45 per share. Aegis Capital Corp. acted as the sole book-running manager for this offering. The offering grossed and netted the Company approximately $4,026,000 and

$3,644,000 in cash, respectively. Aegis received a warrant to purchase 389,000 shares of common stock, at the price of $0.56, which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering.

We currently anticipate that our available cash, as well as cash from the previously mentioned stock offering, and expected cash from operations and availability under the revolving credit agreement, will be sufficient to meet our anticipated working capitals and capital expenditure requirements for at least the next 12 months.

We keep the option open 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.

The Company has filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission (“SEC”), which became effective July 19, 2010. Under the shelf registration statement, the Company may offer and sell, from time to time in the future in one or more public offerings, its common stock, preferred stock, warrants, and units. The aggregate initial offering price of all securities sold by the Company will not exceed $25,000,000, and, pursuant to SEC rules, the Company may only sell up to one-third of the market cap held by non-affiliate stockholders in any 12-month period. The Company renewed this registration statement with the SEC on July 31, 2013.

The specific terms of any future offering, including the prices and use of proceeds, will be determined at the time of any such offering and will be described in detail in a prospectus supplement which will be filed with the SEC at the time of the offering.

The shelf registration statement is designed to give the Company the flexibility to access additional capital at some point in the future when market conditions are appropriate.

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.

Adjusted EBITDA

The Company uses Adjusted EBITDA as a non-GAAP financial performance measurement. Adjusted EBITDA is calculated by adding back to net loss interest, income taxes, impairments of long-lived assets and goodwill, depreciation, amortization and stock-based compensation expense. Adjusted EBITDA is provided to investors to supplement the results of operations reported in accordance with GAAP. Management believes that Adjusted EBITDA provides an additional tool for investors to use in comparing Intellicheck Mobilisa financial results with other companies that also use Adjusted EBITDA in their communications to investors. By excluding non-cash charges such as impairments of long-lived assets and goodwill, amortization, depreciation and stock-based compensation, as well as non-operating charges for interest and income taxes, investors can evaluate the Company's operations and can compare its results on a more consistent basis to the results of other companies. In addition, adjusted EBITDA is one of the primary measures management uses to monitor and evaluate financial and operating results.

Intellicheck Mobilisa considers Adjusted EBITDA to be an important indicator of the Company's operational strength and performance of its business and a useful measure of the Company's historical operating trends. However, there are significant limitations to the use of Adjusted EBITDA since it excludes interest income and expense, impairments of long lived assets and goodwill, stock based compensation expense, all of which impact the Company's profitability, as well as depreciation and amortization related to the use of long term assets which benefit multiple periods. The Company believes that these limitations are compensated by providing Adjusted EBITDA only with GAAP net loss and clearly identifying the difference between the two measures. Consequently, Adjusted EBITDA should not be considered in isolation or as a substitute for net loss presented in accordance with GAAP. Adjusted EBITDA as defined by the Company may not be comparable with similarly named measures provided by other entities.

A reconciliation of GAAP net loss to Adjusted EBITDA follows: (Rounded to the nearest $1,000)

	Year Ended December 31, (Unaudited)	
	2013	2012
Net income (loss)	$ (2,424,000)	$ (2,260,000)
Reconciling items:		
Interest net	-	(1,000)
Provision (benefit) for income taxes	-	-
Depreciation and amortization	1,068,000	1,094,000
Stock-based compensation costs	32,000	53,000
Impairments of long lived assets and goodwill	-	-
Adjusted EBITDA	$ (1,324,000)	$ (1,114,000)

Related Party Transactions

Mobilisa leases office space from a company (“Lessor Company”) that is wholly-owned by two directors, who are members of management. The Company entered into a 10-year lease for the office space ending in 2017. The annual rent for this facility is currently $85,000 and is subject to annual increases based on the increase in the CPI index plus 1%. For the years ended December 31, 2013 and 2012, total rent payments for this office space were $92,000 and $92,000, respectively.

The Lessor Company's entire operations consist of the leased property and related bank debt. The Company is a guarantor of the loans for the leased property. As of December 31, 2013, the Company's maximum exposure to loss is $178,000.

Under ASC Topic 810-10, “Amendments to FASB Interpretation No. 46(R),” companies are required to consolidate a related variable interest entity ("VIE") when the reporting company is the "primary beneficiary" of that entity and holds a variable interest in the VIE. The determination of whether a reporting company is the primary beneficiary of a VIE ultimately turns on whether the reporting entity will absorb a majority of the VIE's anticipated losses or receive a majority of the VIE's anticipated gains.

The Company analyzed its transactions with and relationship to the Lessor Company and concluded that it had an implicit variable interest in the Lessor Company. However, the primary beneficiary, based on an assessment of what entity absorbs a majority of the entity’s expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, is the common owners. Accordingly, the Company is not required to consolidate the operations of the Lessor Company.

Net Operating Loss Carry Forwards

As of December 31, 2013, the Company had net operating loss carryforwards (“NOLs”) for federal income tax purposes of approximately $41.2 million. There can be no assurance that the Company will realize the benefit of the NOLs. The federal NOLs are available to offset future taxable income and expire from 2018 to 2030 if not utilized. The Company has not yet completed its review to determine whether or not these NOLs will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa.

Contractual Obligations

Below is a table, which presents our contractual obligations and commitments at December 31, 2013:

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	Payments Due by Period				
	Total	Less than 1 year	1-3 years	3-5 years	More than 5 years
Operating Leases	$ 1,799,000	$ 521,000	$ 816,000	$ 462,000	$ -
Consulting Agreements	-	-	-	-	-
Purchase Obligations	-	-	-	-	-
Total Contractual Obligations	$ 1,799,000	$ 521,000	$ 816,000	$ 462,000	$ 0

Recently Issued Accounting Pronouncements

Except as discussed below, the Company does not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on the Company's financial statements.

On February 5, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" The standard requires that entities present information about reclassification adjustments from accumulated other comprehensive income in their annual financial statements in a single note or on the face of the financial statements. Public companies will also have to provide this information in their interim financial statements. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. The Company adopted ASU 2013-02 on January 1, 2013, but has no components of comprehensive income. Accordingly, its net income (loss) is equal to its comprehensive income (loss).

On September 13, 2013, the Internal Revenue Service issued final Tangible Property Regulations (TPR) under Internal Revenue Code (IRC) Section 162 and IRC Section 263(a), which prescribe the capitalization treatment of certain repair costs, asset betterments and other costs which could affect temporary deferred taxes. Although the regulations are not effective until tax years beginning on or after January 1, 2014, certain portions may require an accounting method change on a retroactive basis, thus requiring an IRC Section 481(a) adjustment related to fixed and real asset deferred taxes. Pursuant to U.S. GAAP, as of the date of the issuance, the release of the regulations is treated as a change in tax law. Therefore, we are required to determine whether there will be an impact on our financial statements as of October 31, 2013. We are currently analyzing the expected impact of the new regulations and we do not believe the impact will be material to our financial position or results of operations. We will continue to monitor any future changes in the TPR prospectively.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

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 7A. 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 three financial institutions. The marketable securities and short term investments are invested in money market funds and bank certificates of deposit. The Company performs periodic evaluations of the relative credit standing of these institutions.

Item 8. Financial Statements and Supplementary Data

Our financial statements and supplementary data are attached hereto beginning on Page F-1.

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There have been no changes in or disagreements with the Company's principal independent registered public accounting firm for the two-year period ended December 31, 2013.

Item 9A. 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 Annual Report on Form 10-K. As of December 31, 2013, 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), were effective.

Our disclosure controls and procedures have been formulated to ensure (i) that information that 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 (ii) 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.

Changes in Internal Control over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Annual Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) for the Company. Management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2013 (the end of our fiscal year), based on the framework and criteria established in Internal Control Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2013.

Item 9B. Other Information

Pursuant to Regulation FD Disclosure, on November 14, 2013, the Company filed a Form 8-K, announcing the results of its Annual Shareholders Meeting held November 5, 2013. The Company's shareholders elected Vice Admiral Michael D. Malone, Mrs. Bonnie Ludlow, General Emil R. Bedard, Dr. Nelson Ludlow and Mr. Guy L. Smith to serve as directors for one-year terms or until their respective successors have been duly elected and qualified. The Company's stockholders also ratified the appointment of EisnerAmper, LLP as the Company's Independent Registered Public Accounting Firm for the fiscal year ending December 31, 2013. In addition, the Company's stockholders authorized an advisory vote approving the compensation of our named executive officers and ratified a three-year frequency of future advisory votes approving executive compensation.

On November 7, 2013, the Company filed a Form 8-K, which announced the renewal of its Loan and Security Agreement with Silicon Valley Bank. The Parties agreed to a Revolving Credit Facility based on borrowing formula up to a lesser of $2,000,000 or 80% of eligible accounts receivable (as defined in the Loan Agreement), a maturity period of one year, the loan secured by first priority perfected interest in all the Borrower's assets, an interest rate of WSJ Prime plus 1.25% while on Streamline Reporting (or WSJ Prime plus 1.75% while off Streamline Reporting) payable monthly, subject to a financial covenant that Tangible Net Worth will not be less than ($800,000) and customary representations and warranties of the Borrower and customary events of default.

On October 15, 2013, the Company filed a Form 8-K advising that Mr. Woody McGee would be retiring from the Board of Directors, effective at the time of the Company's 2013 Annual Meeting of Stockholders on November 5, 2013, and therefore, would not stand for re-election.

On July 8, 2013, the Company filed a Form 8-K stating that after having a self-imposed blackout period for Directors and Officers to trade stock for the previous two quarters, the Company presently intended to lift this blackout on August 8, 2013. The lifting of the blackout is consistent with the Company's general policy to allow trades by Directors and Officers 48 hours after the announcement of quarterly or annual results.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

Our Board of Directors has one class of directors, with each director elected annually for a term of one year. As of March 25, 2014, the Company's directors and executive officers were as follows:

Name	Age	Position
Dr. Nelson Ludlow	51	Chief Executive Officer, President and Director
Russell T. Embry	49	Chief Technology Officer
Bonnie Ludlow	58	Senior Vice President and Director
Bill White	52	Chief Financial Officer, Treasurer & Secretary
Vice-Admiral Michael D. Malone	65	Chairman of the Board and Director
General Emil R. Bedard	69	Director
Guy L. Smith	63	Director

Nelson Ludlow, PhD was re-appointed Chief Executive Officer of the Company effective November 13, 2012. From April 15, 2011 to November 12, 2012, Dr. Ludlow served as the Company’s Chairman of the Board. He became a director of the Company on March 14, 2008. From March 14, 2008 to April 14, 2011, he was the Chief Executive Officer of the Company. He was a co-founder of Mobilisa and was its Chief Executive Officer and a director of Mobilisa from its inception in March 2001. He has over 25 years’ experience in software development for the military and corporate sectors. From 1982 to 1998, while in the U. S. Air Force, Dr. Ludlow served as a mathematician, a pilot, an intelligence officer at the National Air Intelligence Center, Technical Director for Artificial Intelligence at USAF Rome Laboratory, Assistant Professor of Computer Science at the Naval Postgraduate School, and the Director of Technology and Services for Radar Evaluation Squadron. In the corporate sector, Dr. Ludlow served as the Director of C2 Modeling for SAIC, Chief Scientist for the ORINCON Corporation and Chief Technology Officer for Ameranth Wireless all in San Diego. He holds a PhD in Artificial Intelligence from the University of Edinburgh, Scotland and completed Post-Doctoral work in Computer Science at the University of Cambridge, England. Additional degrees include a B.S. from Washington State University in Math and Physical Sciences, as well as a M.S. in Computer Science from Wright State University in Dayton, Ohio. Dr. Ludlow was selected to be a Director in part due to his knowledge of the Company, including as a founder and director of Mobilisa, his position with the Company, his extensive experience working with government contracts, and his considerable knowledge of the sectors in which the Company does business. Dr. Ludlow is married to Bonnie Ludlow, a Director of the Company.

Russell T. Embry was appointed Senior Vice President and Chief Technology Officer in July 2001 and has been Vice President, Information Technology, since July 1999. From January 1998 to July 1999, Mr. Embry was Lead Software Engineer with RTS Wireless. From April 1995 to January 1998, he served as Principal Engineer at GEC-Marconi Hazeltine Corporation. From August 1994 through April 1995, he was a staff software engineer at Periphonics Corporation. From September 1989 to August 1994, Mr. Embry served as Senior Software Engineer at MESC/Nav-Com. From July 1985 through September 1989, he was a software engineer at Grumman Aerospace. Mr. Embry holds a B.S. in Computer Science from Stony Brook University and an M.S. in Computer Science from Polytechnic University, Farmingdale.

Bonnie Ludlow was named Senior Vice President and was appointed a member of the Board of Directors on March 14, 2008. Ms. Ludlow was a co-founder of Mobilisa and was its Senior Vice President of Finance and a director since its inception in March 2001. As Senior Vice President of Finance, Ms. Ludlow was responsible for all financial

transactions, including contracting and purchasing agreements, invoicing, and payroll as well as managing human resources for recruiting, hiring, and benefits administration. Ms. Ludlow has 15 years of experience working with the Federal Government, six of which were active duty in the United States Air Force (March 1980 to February 1986), and nine as a Department of Defense civilian (February 1986 to October 1995). While on active duty, she was assigned to the Defense Security Agency (DSA) as a Czech linguist (September 1981 to September 1983). As a civil servant, Ms. Ludlow worked as a geodetic surveyor and engineering assistant, in which she positioned navigational aids on military runways. Additional duties in this position included the generation of technical drawings, maps and reports. Ms. Ludlow was selected to be a Director in part due to her knowledge of the Company, including as a director and founder of Mobilisa, as well as her extensive experience working with government contracts. Ms. Ludlow is married to Nelson Ludlow, PhD, a Director of the Company.

Bill White was named Chief Financial Officer, Secretary and treasurer on April 1, 2012. Mr. White has more than 28 years of experience in financial management, operations and business development. Prior to joining Intellicheck Mobilisa, he served 11 years as the Chief Financial Officer, Secretary and Treasurer of FocusMicro, Inc. (“FM”). As co-founder of FM, Mr. White played an integral role in growing the business from the company's inception to over $36 million in annual revenue in a five year period. Mr. White has broad domestic and international experience including managing rapid and significant growth, import/export, implementing tough cost management initiatives, exploiting new growth opportunities, merger and acquisitions, strategic planning, resource allocation, tax compliance and organization development. Prior to co-founding FM, he served 15 years in various financial leadership positions in the government sector. Mr. White started his career in Public Accounting. Mr. White holds a Bachelor of Arts in Business Administration from Washington State University, and is a Certified Fraud Examiner.

Lieutenant General Emil R. "Buck" Bedard was appointed a member of the Board of Directors on March 14, 2008. General Bedard was appointed a director of Mobilisa in September 2004. He retired from the U.S. Marine Corps with over 37 years of active duty service in 2003. General Bedard’s military career included two combat tours in Vietnam, as well as commanding the 7th Marine Regiment in Somalia and the 1st Marine Expeditionary Force during Operation Desert Storm. General Bedard’s final active duty tour was as the Deputy Commandant for Plans, Policies and Operations for the US Marine Corps Headquarters in Washington, D.C., where he served until his retirement in 2003. He has continued to serve with the Marine Corps in Afghanistan and Iraq since his retirement. General Bedard’s many military awards include a Distinguished Service Medal, Legion of Merit, and Bronze Star (with Combat V). General Bedard graduated from the University of North Dakota in 1967 with a Masters in Science. General Bedard was selected to serve as a Director in part due to his considerable experience as an officer in the U.S. military working with government contracts and his knowledge of the Company, including as a director of Mobilisa.

Guy L. Smith was appointed a member of the Board of Directors in June 2005. Mr. Smith has been the Executive Vice President of Diageo, the world’s leading premium drinks company, since 2000 and is responsible for Corporate Relations and Marketing Public Relations. At Diageo, Mr. Smith’s responsibilities include overseeing the corporation’s civic and social responsibility efforts in North America, including the Diageo Marketing Code. The code governs the company’s social responsibility activities with regard to the marketing and sale of alcoholic beverages and the company’s undertakings to reduce underage access and abuse of alcohol. From 1998 to 1999, prior to joining Diageo, Mr. Smith was Special Advisor to President Clinton on The White House staff, where he served on the impeachment defense team. Mr. Smith also served as an informal strategic communications advisor to President Clinton from the beginning of the Clinton Administration. From 1999 to 2000, Mr. Smith was associated with The Hawthorn Group, a Washington-based public affairs firm, as well as with his own firm, Smith Worldwide Inc., from 1994 to 1996, which focused on reputation and crisis management. He was Chief Operating Officer of Hill & Knowlton International Public Relations, from 1992 to 1993, where he consulted with the firm's largest consumer product, technology, and legal clients. Prior to that Mr. Smith was Vice President-Corporate Affairs, the senior public affairs and public relations officer, for Philip Morris Companies Inc. from 1975 to 1992. During his 17 years with Philip Morris, Mr. Smith led the Corporate Affairs departments of the Miller Brewing Company and The Seven-Up Company, both then Philip Morris operating companies. Mr. Smith began his career as a reporter and assistant city editor for The Knoxville Journal. He is currently chairman of the Barrier Island Trust, an environmental protection organization and sits on the Board of Advisors of Mount Vernon, George Washington’s home outside Washington, D.C. Mr. Smith also serves as an Honorary Battalion Chief of the Fire Department of New York. Mr. Smith was selected to serve as a Director in part due to his extensive experience with the alcoholic beverage business and other businesses that rely on age verification, his work in government and public relations, his knowledge of the Company, including as a director of Intelli-Check, Inc. prior to the merger with Mobilisa and his general business experience.

Michael D. Malone, Vice Admiral, U.S. Navy, Retired, was appointed Chairman of the Board effective November 13, 2012. Admiral Malone became a member of the Board of Directors July 1, 2011. From November 2004 to February 2011, he was President of Skarven Enterprises, a designer and developer of analytic approaches and technology applications specializing in real time/streaming data fusion and analysis for a variety of applications in government, financial services, auditing and industry competitive intelligence. During his time at Skarven Enterprises he led the company through a significant period of reorganization and growth, dramatically improving the company's research and development efforts, and production and field support capability, while dramatically cutting costs and increasing revenue five-fold. As a result of his efforts, Skarven Enterprises was acquired by The Boeing Company in December 2008. Admiral Malone remained President of the company, as part of the acquisition agreement, until February 2011. Since leaving the military, Admiral Malone has also served as a technical advisor and consultant to Pequot Capital, a venture capital firm (in 2006 and 2007) and Environmental Tectonics Corporation, a high-technology simulation and manufacturing company (June 2007 to present). Admiral Malone was selected to serve as a director in part due to his considerable experience as an officer in the U.S. military working with government contracts, and his knowledge of the sectors in which the Company does business.

There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Audit Committee of the Board of Directors

The Board of Directors has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, which is currently comprised of Vice-Admiral Malone, chairperson, General Bedard and Guy Smith. The members of the Audit Committee are independent as defined in Section 803(A) of the NYSE Amex's listing standards. The Audit Committee recommends to the Board of Directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants. The Audit Committee has adopted a written charter, which sets forth the responsibilities, authority and specific duties of the Audit Committee. A copy of the Audit Committee charter is incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed April 27, 2007.

The Board of Directors has determined that it has at least one audit committee financial expert serving on the audit committee. Mr. Malone has vast corporate experience including his position as President of Skarven Enterprises. He is considered an "audit committee financial expert" and is the Chairman of the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

The Securities and Exchange Commission has adopted rules relating to the filing of ownership reports under Section 16(a) of the Securities Exchange Act of 1934. One such rule requires disclosure of filings, which under the Commission's rules, are not deemed to be timely. Based on a review of the filings received, Intellicheck Mobilisa is not aware of any non-timely filings for fiscal year 2013.

Code of Ethics

We maintain a code of ethics that applies to all Company employees including the Chief Executive Officer, Chief Financial Officer, Directors and other persons who perform similar functions. Our Code of Business Conduct and Ethics is intended to be a codification of the business and ethical principles which guide our Directors, Officers and Employees, to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to this Code. The Code of Business Conduct and Ethics is also available on our website at www.icmobil.com. To the extent permitted, we intend

to post on our web site any amendments to, or waivers from, our Code of Business Conduct and Ethics.

Item 11. Executive Compensation

INTELLICHECK MOBILISA EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of Intellicheck Mobilisa's executive officers who served as named executive officers during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but also describes compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of Intellicheck Mobilisa's executive compensation disclosure.

The Compensation Committee currently oversees the design and administration of Intellicheck Mobilisa's executive compensation program and compensation for the Board of Directors.

The principal elements of Intellicheck Mobilisa's executive compensation program are base salary, annual cash incentives, long-term equity incentives in the form of stock options and other benefits. Intellicheck Mobilisa's other benefits consist of reimbursed business travel and entertainment expenses, health insurance benefits, vacation and sick pay and a qualified 401(k) savings plan. Intellicheck Mobilisa's philosophy is to position the aggregate of these elements at a level that is commensurate with Intellicheck Mobilisa's size and performance.

Compensation Program Objectives and Philosophy

In General. The objectives of Intellicheck Mobilisa's compensation programs are to:

- attract, motivate and retain talented and dedicated executive officers;
- provide Intellicheck Mobilisa's executive officers with both cash and equity incentives to further Intellicheck Mobilisa's interests and those of Intellicheck Mobilisa's stockholders; and
- provide employees with long-term incentives so Intellicheck Mobilisa can retain them and provide stability during Intellicheck Mobilisa's growth stage.

Generally, the compensation of Intellicheck Mobilisa's executive officers is composed of a base salary, an annual incentive compensation award and equity awards in the form of stock options. In setting base salaries, the Compensation Committee generally reviews the individual contributions of the particular executive. Annual incentive compensation awards for 2012 and 2013 have been paid in accordance with the Executive Compensation Bonus Plan approved by the Compensation Committee based on expected Company performance. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of Intellicheck Mobilisa's common stock over time.

Intellicheck Mobilisa generally intends to qualify executive compensation for deductibility without limitation under Section 162(m) of the Internal Revenue Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is

limited to no more than $1.0 million per year. The non-exempt compensation paid to any of our executive officers for fiscal 2013 as calculated for purposes of Section 162(m) did not exceed the $1.0 million limit.

Competitive Marketplace for Talent. Intellicheck Mobilisa defines its competitive marketplace for executive talent and investment capital to be the technology and business services industries. To date, Intellicheck Mobilisa has not engaged in the benchmarking of executive compensation but Intellicheck Mobilisa may choose to do so in the future.

Compensation Process. For each of Intellicheck Mobilisa's named executive officers, the Compensation Committee reviews and approves all elements of compensation, taking into consideration recommendations from Intellicheck Mobilisa's CEO (for compensation other than his own), as well as competitive marketplace guidance. Based upon its review, the Compensation Committee approves salaries for executive officers. The Compensation Committee sets the salary level of each executive officer on a case by case basis, taking into account the individual's level of responsibilities and performance. All executive officer salaries are reviewed on an annual basis. Salary changes for executives are based primarily on their performance in supporting the strategic initiatives of the Chief Executive Officer, economic and competitive factors, meeting individual goals and objectives set by the Chief Executive Officer, and improving the operating efficiency of the company. Also, where applicable, changes in the duties and responsibilities of each other executive officer may be considered in deciding on changes in annual salary. For 2013, the aggregate of the compensation paid to Intellicheck Mobilisa's Chief Executive Officer and other executive officers was 100% cash.

Executive Officer Bonuses. The Board of Directors approved an Executive Compensation Bonus Plan beginning with the third quarter of 2009 and effective until otherwise stopped or revised. The Compensation Committee will review the bonus plan each year in accordance with its duties to ensure that the plan continues to be in the best interest of the Company. As long as the following named executives are contributing to the overall success of the Company, quarterly cash bonuses will be paid if there is net income under GAAP as shown below:

	Quarterly Net Income		
	$30,000 - $499,000	$500,000 - $999,999	$1,000,000 or more
Nelson Ludlow	$ 5,000	$ 10,000	$ 25,000
Russell Embry	2,500	5,000	12,500
Bonnie Ludlow	2,500	5,000	12,500
Bill White	2,500	5,000	12,500

During 2013, no bonuses were paid under the Executive Compensation Bonus Plan. During 2012, the following bonuses were paid under the Executive Compensation Bonus Plan: Nelson Ludlow - $10,000; Steven Williams (former CEO) - $10,000; Russell Embry - $5,000; Bonnie Ludlow - $5,000; Bill White - $2,500.

Stock Option Grants. The Compensation Committee currently administers Intellicheck Mobilisa's stock option and equity incentive plans for executive officers, employees, consultants and outside directors. Under the plans, the Compensation Committee grants options to purchase Common Stock with an exercise price of no less than the fair market value of the Common Stock on the date of grant. The Compensation Committee believes that providing stock options to the executive officers, who are responsible for Intellicheck Mobilisa's management and growth, gives them an opportunity to own Intellicheck Mobilisa stock and better aligns their interests with the interests of the stockholders. It also promotes retention of the officers because of the vesting provisions of the option grants and the potential for stock price appreciation.

For these reasons, the Compensation Committee considers stock options as an important element of compensation when it reviews executive officer compensation. At its discretion, the Compensation Committee also grants options based on individual and corporate achievements.

Normally, the Chief Executive Officer makes a recommendation to the Committee for awards to be made to executive officers other than the Chief Executive Officer. The Committee approves grants made to the Chief Executive Officer and other executive officers and, in certain cases, recommends grants for approval by the entire Board. The Compensation Committee determines the number of shares underlying each stock option grant based upon the executive officer's and Intellicheck Mobilisa's performance, the executive officer's role and responsibilities at Intellicheck Mobilisa and the executive officer's base salary.

Chief Executive Officer Compensation. Dr. Ludlow receives an annual base salary of $246,000. Dr. Ludlow may also receive an annual bonus based on reasonable objectives established by the Company's Board of Directors. In addition, Dr. Ludlow is entitled to receive benefits in accordance with the Company's existing benefit policies and is reimbursed for Company expenses in accordance with the Company's expense reimbursement policies.

The determination of the base salary to be paid to the Chief Executive Officer was based on a number of factors including the position's historical compensation and the relative compensation in comparison to the other existing senior executives in the Company. In deciding on future changes in the base salary of the Chief Executive Officer, the Compensation Committee will consider several performance factors. Among these are operating and administrative efficiency and the maintenance of an appropriately experienced management team. The Compensation Committee also evaluates the Chief Executive Officer's performance in the area of finding and evaluating new business opportunities to establish the most productive strategic direction for Intellicheck Mobilisa.

Severance and Change-in-Control Agreements

On November 16, 2010, the Company entered into an Executive Severance Agreement with Mr. Mundy, the Company's former Chief Financial Officer. Under the agreement, if Mr. Mundy was terminated without cause, if he resigned with "good reason" (as defined in the agreement), or if he was terminated as a result of a change of control, he would have been entitled to 1.99 years of his then base salary, a gross amount equal to any quarterly bonus target applicable during the quarter, accelerated vesting of all outstanding stock options and coverage of health benefits for a period of up to 12 months. The agreement had a term of two years. On April 1, 2012, Mr. Mundy resigned from the Company. In lieu of the above mentioned agreement, the Company entered into a consulting agreement with Mr. Mundy which had a term of nine months at $15,250 per month. The final payment was made pursuant to this agreement on January 4, 2013.

INTELLICHECK MOBILISA SUMMARY COMPENSATION TABLE

The following table sets forth compensation paid to executive officers whose compensation was in excess of $100,000 for any of the three fiscal years ended December 31, 2013. No other executive officers received total salary and bonus compensation in excess of $100,000 during any of such fiscal years.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards $(1)	All Other Compensation $(2)		Total ($)
Nelson Ludlow (3)	2013	246,000	-	-	-		246,000
Chief Executive Officer &	2012	227,667	10,000	-	-		237,667
President	2011	141,450	10,000	-	22,986	(5)	174,436
Russell T. Embry	2013	185,400	-	7,250	2,781	(6)	195,431
Chief Technology Officer	2012	185,400	5,000	-	2,781	(6)	193,181
	2011	185,400	5,000	-	2,781	(6)	193,181
Bonnie Ludlow (7)	2013	124,999	-	-	-		124,999
Senior Vice President	2012	67,708	5,000	-	-		72,708
	2011	85,938	5,000	-	-		90,938
Bill White	2013	185,000	-	7,250	-		192,250
Chief Financial Officer	2012	131,042	2,500	-	3,238	(6)	136,780
Peter J. Mundy	2013	-	-	-	-		-
Former Chief Financial Officer	2012	49,583	-	-	153,547	(9)	203,130
	2011	170,000	5,000	-	7,218	(8)	182,218
Steven D. Williams	2013	-	-	-	-		-

Former Chief Executive Officer	2012	207,167	10,000	-	37,941	(10)	255,108
	2011	219,334	10,000	-	19,011	(4)	248,345

(1) The amounts reported in the "Option Awards" column reflect the aggregate grant date fair value of awards for the years ended December 31, 2013, 2012, and 2011 computed in accordance with FASB ASC Topic 718. See Note 11 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.

(2) No other compensation in excess of $10,000, including perquisites, was paid to any of Intellicheck Mobilisa's named executive officers.

(3) Re-appointed Chief Executive Officer effective November 13, 2012.

(4) Represents matching contribution under the Company's 401(K) Plan of $6,433 and pay in lieu of vacation time of $12,578.

(5) Represents pay in lieu of vacation time. Does not include amounts paid as director compensation.

(6) Represents matching contribution under the Company's 401(K) Plan.

(7) Returned to full-time effective November 16, 2012.

(8) Represents matching contribution under the Company's 401(K) Plan of $5,100 and pay in lieu of vacation time of $2,118.

(9) Represents matching contribution under the Company's 401(K) Plan of $1,488, pay in lieu of vacation time of $22,430, and $129,629 under the Consulting agreement discussed above in Severance and Change-in-Control Agreements.

(10) Represents matching contribution under the Company's 401(K) Plan of $6,215 and pay in lieu of vacation time of $31,726.

Stock Option and Equity Incentive Plans

The principal purpose of the Stock Option and Equity Incentive Plans is to attract, motivate, reward and retain selected employees, consultants and directors through the granting of stock-based compensation awards. The Plans provide for a variety of awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Code), stock appreciation rights, restricted stock awards, performance-based awards and other stock-based awards.

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.

Administration. The Plans are currently administered by the Compensation Committee as designated by the Board of Directors. The Compensation Committee has the power to interpret the Plans and to adopt rules for the administration, interpretation and application according to terms of the Plans.

Grant of Awards; Shares Available for Awards. Certain employees, consultants and directors are eligible to be granted awards under the Plans. The Compensation Committee will determine who will receive awards under the Plans, as well as the form of the awards, the number of shares underlying the awards, and the terms and conditions of the awards consistent with the terms of the Plans.

A total of 2,548,087 shares of Intellicheck Mobilisa's Common Stock are available for issuance or delivery under the existing Plans. The number of shares of the Company's Common Stock issued or reserved pursuant to the Plans will be adjusted at the discretion of the Board of Directors or the Compensation Committee as a result of stock splits, stock dividends and similar changes in the Company's Common Stock.

Stock Options. The Plans permit the Compensation Committee to grant participants incentive stock options, which qualify for special tax treatment in the United States, as well as non-qualified stock options. The Compensation Committee will establish the duration of each option at the time it is granted, with maximum ten-year duration for incentive stock options, and may also establish vesting and performance requirements that must be met prior to the exercise of options. Stock option grants (other than incentive stock option grants) also may have exercise prices that are less than, equal to or greater than the fair market value of the Company's Common Stock on the date of grant. Incentive stock options must have an exercise price that is at least equal to the fair market value of the Company's Common Stock on the date of grant. Stock option grants may include provisions that permit the option holder to exercise all or part of the holder's vested options, or to satisfy withholding tax liabilities, by tendering shares of the Company's Common Stock already owned by the option holder for at least six months (or another period consistent with the applicable accounting rules) with a fair market value equal to the exercise price.

Other Equity-Based Awards. In addition to stock options, the Compensation Committee may also grant certain employees, consultants and directors shares of restricted stock, with terms and conditions as the Compensation Committee may, pursuant to the terms of the 2006 Plan, establish. The 2006 Plan does not allow awards to be made under terms and conditions which would cause such awards to be treated as deferred compensation subject to the rules of Section 409A of the Code.

Change-in-Control Provisions. In connection with the grant of an award, the Compensation Committee may provide that, in the event of a change in control, any outstanding awards that are unexercisable or otherwise unvested will become fully vested and immediately exercisable.

Amendment and Termination. The Compensation Committee may adopt, amend and rescind rules relating to the administration of the Plans, and amend, suspend or terminate the Plans, but no amendment will be made that adversely affects in a material manner any rights of the holder of any award without the holder's consent, other than amendments that are necessary to permit the granting of awards in compliance with applicable laws. Intellicheck Mobilisa attempted to structure the Plans so that remuneration attributable to stock options and other awards will not be subject to a deduction limitation contained in Section 162(m) of the Code.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table summarizes options granted during the year ended December 31, 2013 to the named executive officers:

Name	Grant Date	Approval Date	Number of Securities Underlying Options Granted	Exercise or Base Price of Option Awards ($/Sh)	Fair Value at Grant Date ($) (1)	Expiration Date
Russell T. Embry	3/28/2013	3/28/2013	25,000	0.39	7,250	3/28/2018
Bill White	3/28/2013	3/28/2013	25,000	0.39	7,250	3/28/2018

(1) The grant date fair value of each equity award has been computed in accordance with ASC 718. These options vest at a rate of 25% per year on the anniversary of the date of grant.

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The following table summarizes unexercised options as of year-end December 31, 2013 for the named executive officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

Name	No. of Securities Underlying Unexercised Options / Warrants Exercisable	Unexercisable		Option Exercise Price ($)	Option Expiration Date
Nelson Ludlow	25,000	-		3.63	03/20/18
Russell T. Embry	20,000	-		1.57	09/25/14
	32,500	2,500	(1)	1.45	06/02/15
	-	25,000	(2)	0.39	03/28/18
Bill White	-	25,000	(2)	0.39	03/28/18

(1) 10,000 of these shares vest at a rate of 25% per year on the anniversary of the date of grant beginning June 2, 2011. 25,000 of these shares vested on December 31, 2010, when a milestone was achieved.

(2) These shares vest 25% per year on the anniversary of the date of grant beginning March 28, 2013.

OPTION EXERCISES AND STOCK VESTED TABLE

	Stock Options		Stock Awards	
Name	No. of Shares Acquired Upon Exercise (#)	Value Received Upon Exercise ($)(1)	No. of Shares Acquired Upon Vesting (#)	Value Received Upon Vesting ($)
-	-	-	-	-

No officers named in the Summary Compensation Table exercised stock options or received shares from vested or unrestricted awards during fiscal year 2013.

Pension Benefits

The Company does not sponsor any qualified or non-qualified defined benefit plans.

Nonqualified Deferred Compensation

Intellicheck Mobilisa does not maintain any non-qualified defined contribution or deferred compensation plans. The Compensation Committee, which is comprised solely of “outside directors” as defined for purposes of Section 162(m) of the Code, may elect to provide Intellicheck Mobilisa’s officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in the company’s best interests. Intellicheck Mobilisa sponsors a tax qualified defined contribution 401(k) plan in which Mr. Embry, Mr. White, Mr. Mundy and Mr. Williams participated in in 2012. Intellicheck Mobilisa made a matching contribution to the plan equal to 50% of the first 6% an employee contributes into the plan.

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Compensation of Directors

The table below sets forth certain information concerning compensation of Intellicheck Mobilisa's directors who served in 2013.

Name and Principal Position	Fees Paid in Cash ($)	Option Awards ($)(1)	Stock Awards ($)(1)	All Other Compensation ($) (4)	Total ($)
Nelson Ludlow, Director (2)	-	-	-	-	-
General Emil Bedard, Director	30,000	-	-	-	30,000
Bonnie Ludlow, Director	-	-	-	-	-
Guy L. Smith, Director (3)	-	-	-	-	-
Woody M. McGee, Director	41,060	-	-	-	41,060
Michael D. Malone, Chairman	40,000	-	-	-	40,000

(1) The amounts reported in the "Option Awards" and "Stock Awards" columns reflect the aggregate grant date fair value of awards computed in accordance with FASB ASC Topic 718. See Note 10 of the Notes to Consolidated Financial Statements in our Annual Report on Form 10-K, filed in this report, for information regarding assumptions underlying the valuation of equity awards.

(2) As of December 31, 2013, Mr. Ludlow had aggregate outstanding options to purchase 25,000 shares of common stock.

(3) As of December 31, 2013, Mr. Smith had aggregate outstanding options to purchase 93,852 shares of common stock.

(4) No other compensation, including perquisites in excess of $10,000, was paid to any of the directors.

The Company reimburses directors for reasonable out-of-pocket expenses incurred in connection with attendance at board meetings.

Effective July 1, 2011, all directors receive the following annual compensation: the Chairman of the Board $80,000; other non-employee and employee directors $60,000. The amounts are payable quarterly. In 2013, directors waived the majority of their fees to assist with the Company's cash management.

Compensation Committee Interlocks and Insider Participation

None of the members of our Compensation Committee has ever been one of our officers or employees. None of our executive officers currently serves, or has served, as a member of the Board of Directors or Compensation Committee of any entity that has one or more executive officers serving as a member of our Board of Directors or Compensation Committee.

Compensation Committee Report

The Compensation Committee Report is not to be deemed to be "soliciting material" or to be "filed" with the SEC or subject to Regulation 14A or 14C or to the liabilities of Section 18 of the Exchange Act, except to the extent that the Company specifically requests that such information be treated as soliciting material or specifically incorporates it by reference into any filing under the Securities Act of 1933, as amended, or the Exchange Act.

The Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis required by Item 402(b) of Regulation S-K with management. Based on this review and discussion, the Compensation Committee has recommended to the Company's Board of Directors that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K.

Compensation Committee:

Guy Smith, Chairman
Emil R. Bedard, Member
Michael D. Malone, Member

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

BENEFICIAL OWNERSHIP OF SECURITIES

The following table sets forth information with respect to the beneficial ownership of the Company's common stock as of March 25, 2014, by each person who is known by Intellicheck Mobilisa to beneficially own more than 5% of Intellicheck Mobilisa's common stock, each officer, each director and all officers and directors as a group.

Shares of common stock which an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, warrants or other similar convertible or derivative securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

There are no arrangements known to the Company, including any pledge by any person of securities of the Company, the operation of which may at a subsequent date result in a change in control of the Company.

The applicable percentage of ownership is based on 36,844,467 shares outstanding.

Name	Shares Beneficially Owned	Percent
Dr. Nelson Ludlow (1)	4,216,726	11.4
Bonnie Ludlow	6,896,279	18.7
L. Gen. Emil R. Bedard	468,494	1.3
Russell T. Embry (2)	52,500	*
Bill White	5,800	*
Guy L. Smith (3)	182,955	*
Michael D. Malone	22,500	*
All Executive Officers & Directors as a group (8 persons) (4)	11,845,254	32.1

* Indicates beneficial ownership of less than one percent of the total outstanding Common Stock.

(1) Includes 25,000 shares issuable upon exercise of stock options exercisable within 60 days.
(2) Includes 52,500 shares issuable upon exercise of stock options exercisable within 60 days.
(3) Includes 93,852 shares issuable upon exercise of stock options exercisable within 60 days.
(4) Includes 171,352 shares issuable upon exercise of stock options exercisable within 60 days.

Equity Compensation Plan Information

The following table sets forth information regarding Intellicheck Mobilisa's Equity Compensation Plans as of December 31, 2013:

Plan Category	Number of Securities to be issued upon exercise of outstanding options, warrants and rights (a)	Weighted average exercise price of outstanding options, warrants and rights (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a) (c)
Equity compensation plans approved by security holders	327,486	$ 2.31	2,548,087
Equity compensation plans not approved by security holders	-	-	-
Total	327,486	$ 2.31	2,548,087

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Item 13. Certain Relationships and Related Transactions, and Director Independence

The Governance Committee reviews transactions with firms associated with directors and nominees for director. Intellicheck Mobilisa's management also monitors such transactions on an ongoing basis. Executive officers and directors are governed by Intellicheck Mobilisa's Code of Business Conduct and Ethics which provides that waivers may only be granted by the Board of Directors and must be promptly disclosed to stockholders. No such waivers were granted nor applied for in 2013. Intellicheck Mobilisa's Corporate Governance Guidelines require that all directors recuse themselves from any discussion or decision affecting their personal, business or professional interests.

The Company entered into a 10-year lease for the office space ending in 2017. Mobilisa leases office space from Eagle Coast, LLC, an entity that is wholly-owned by Dr. and Mrs. Ludlow, our Chief Executive Officer and one of our directors, respectively. For the years ended December 31, 2013 and 2012, total rent payments for this office space were $92,046 and $91,780.

The Board of Directors has determined that Messrs. Bedard, Smith and Malone are each independent directors as defined in Section 803(A) of the NYSE MKT Company Guide.

The Board of Directors has established a compensation committee which is currently comprised of Mr. Malone, chairperson, Mr. Bedard and Mr. Smith, each of whom is independent as defined in Section 803(A) of the NYSE MKT listing standards. The compensation committee reviews and recommends to the board the compensation for all officers and directors of our company and reviews general policy matters relating to the compensation and benefits of all employees. The compensation committee also administers the stock option plans.

The Board of Directors has established corporate governance and nominating committee, which is comprised of Mr. Malone, chairperson, Mr. Bedard and Mr. Smith, each of whom is independent as defined in Section 803(A) of the NYSE MKT listing standards. The corporate governance and nominating committee reviews our internal policies and procedures and by-laws. With respect to nominating director candidates, this committee identifies and evaluates potential director candidates and recommends candidates for appointment or election to the Board.

The Board of Directors has a separately designated audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, as amended (the "Exchange Act"), which is currently comprised of Mr. Malone, chairperson, Mr. Bedard and Mr. Smith. The members of the Audit Committee are independent as defined in Section 803(A) of the NYSE MKT listing standards and Rule 10A-3(b)(1) under the Exchange Act (subject to the exemptions provided in Rule 10A-3(c) under the Exchange Act). The audit committee recommends to the Board of Directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants.

Item 14. Principal Accountant Fees and Services

For the fiscal years ended December 31, 2013 and 2012, Intellicheck Mobilisa's principal independent auditor was EisnerAmper, LLP, the services of which were provided in the following categories and amount:

Audit Fees

The aggregate fees billed by EisnerAmper, LLP for professional services rendered for the audit of Intellicheck Mobilisa's annual financial statements for the fiscal year ended December 31, 2013, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for such fiscal year were $145,000. Overages related to the 2012 audit, billed in 2013, amounted to a total of $27,000.

The aggregate fees billed by EisnerAmper, LLP for professional services rendered for the audit of Intellicheck Mobilisa's annual financial statements for the fiscal year ended December 31, 2012, and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for such fiscal year were $145,000.

Audit-Related Fees

Other than the fees described under the caption "Audit Fees" above, EisnerAmper, LLP did not bill any fees for services rendered to Intellicheck Mobilisa during the fiscal years ended December 31, 2013 or 2012 for assurance and related services in connection with the audit or review of the company's financial statements.

Tax Fees

EisnerAmper, LLP billed Intellicheck Mobilisa $16,000 for tax related services for the fiscal years ended December 31, 2013 and 2012.

All Other Fees

EisnerAmper, LLP billed approximately $7,000 related to the Company's filing of its S-3/A in 2013. There were no other fees billed by EisnerAmper, LLP in 2012.

Pre-approval of Services

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by Intellicheck Mobilisa's independent registered public accounting firm. For audit services, each year the independent auditor provides the Audit Committee with an engagement letter outlining the scope of proposed audit services to be performed during the year, which must be formally accepted by the Committee before the audit commences. The independent auditor also submits an audit services fee proposal, which also must be approved by the Committee before the audit commences.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Consolidated Balance Sheets as of December 31, 2013 and 2012
Consolidated Statements of Operations for the years ended December 31, 2013 and 2012
Consolidated Statements of Stockholders' Equity for the years ended December 31, 2012 and 2013
Consolidated Statements of Cash Flows for the years ended December 31, 2013 and 2012

(b) Exhibits

Exhibit No.	Description
3.1	Certificate of Incorporation of the Company (1)
3.2	Amendment to the Certificate of Incorporation of the Company (11)
3.3	Amended and Restated By-laws of the Company (14)
3.4	Certificate of Designation of Preferred Stock of Intelli-Check, Inc. (5)
4.1	Specimen Stock Certificate (7)
10.1	Agreement of Lease between the Company and JQ1 Associates, LLC, dated as of April 19, 2010 (4)
10.2	Agreement of Lease between Mobilisa and Eagle Coast, LLC, dated as of August 1, 2007. (7)
10.3	Agreement of Lease between the Company and King I, LLC, dated as of February 1, 2010. (7)
10.4	1998 Stock Option Plan (1) *
10.5	1999 Stock Option Plan (1) *
10.6	2001 Stock Option Plan (2) *
10.7	2003 Stock Option Plan (3) *
10.8	2006 Equity Incentive Plan **

10.9	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective January 29, 2002 (4)
10.10	Merger Agreement dated November 20, 2007 by and among Intelli-Check Inc., Intelli-Check Merger Sub, Inc., Mobilisa, Inc., and the Principal Shareholders of Mobilisa, Inc. (9)
10.11	Agreement and Plan of Merger dated August 31, 2009 by and among Intelli-Check Mobilisa Inc., PA Acquisition Corporation, Positive Access Corporation, and the Principal Shareholders of Positive Access Corporation (10)

10.12	Executive Severance Agreement dated November 16, 2010 by and between Peter J. Mundy and Intellicheck Mobilisa, Inc. (12) *
10.13	Loan and Security Agreement dated August 17, 2011 by and between the Company and Silicon Valley Bank (13)
14.1	Code of Business Conduct and Ethics (6)
21	List of Subsidiaries (7)
23.1	Consent of EisnerAmper, LLP **
31.1	Certification of CEO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **
31.2	Certification of CFO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002 **
32	Certification of CEO and CFO pursuant to Section 906 of The Sarbanes-Oxley Act of 2002 **
101.INS	XBRL Instance Document***
101.SCH	XBRL Taxonomy Extension Schema***
101.CAL	XBRL Taxonomy Extension Calculation Linkbase***
101.DEF	XBRL Taxonomy Extension Definition Linkbase***
101.LAB	XBRL Taxonomy Extension Label Linkbase***
101.PRE	XBRL Taxonomy Extension Presentation Linkbase***

* Denotes a management contract or compensatory plan, contract or arrangement.

** Filed herewith.

*** Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

(1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September 24, 1999.

(2) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.

(3) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed June 13, 2003.

(4) Incorporated by reference to Registrant's Quarterly Report on Form 10-Q filed August 10, 2010.

(5) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 31, 2003.

(6) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 30, 2004.

(7) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 11, 2010.

(8) Incorporated by reference to Registrant's Current Report on Form 8-K filed June 15, 2007.

(9) Incorporated by reference to Registrant's Current Report on Form 8-K filed November 21, 2007.

(10) Incorporated by reference to Registrant's Current Report on Form 8-K filed September 1, 2009.

(11) Incorporated by reference to Registrant's Current Report on Form 8-K filed October 28, 2009.

(12) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 8, 2011.

(13) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 22, 2011.

(14) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date:	March 25, 2014	INTELLICHECK MOBILISA, INC. By: /s/ Nelson Ludlow Nelson Ludlow, Ph.D. Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

		INTELLICHECK MOBILISA, INC.
Date:	March 25, 2014	By: /s/ Nelson Ludlow Nelson Ludlow, Ph.D. Chief Executive Officer (Principal Executive Officer)
Date:	March 25, 2014	By: /s/ Bill White Bill White Chief Financial Officer (Principal Financial and Accounting Officer)
Date:	March 25, 2014	By: /s/ Michael D. Malone Michael D. Malone, Chairman and Director
Date:	March 25, 2014	By: /s/ Emil R. Bedard Lt. Gen. Emil R. Bedard, Director
Date:	March 25, 2014	By: /s/ Bonnie Ludlow Bonnie Ludlow, Director
Date:	March 25, 2014	By: /s/ Guy L. Smith Guy L. Smith, Director

EXHIBIT INDEX

Exhibit No.	Description
10.8	2006 Equity Incentive Plan
23.1	Consent of EisnerAmper, LLP
31.1	Certification of CEO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
31.2	Certification of CFO pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
32	Certification of CEO and CFO pursuant to Section 906 of The Sarbanes-Oxley Act of 2002
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

* Pursuant to Rule 406T of Regulation S-T, these interactive data files are deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933 or Section 18 of the Securities Act of 1934 and otherwise are not subject to liability.

FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Board of Directors and Stockholders of
Intellicheck Mobilisa, Inc.

We have audited the accompanying consolidated balance sheets of Intellicheck Mobilisa, Inc. (the "Company") as of December 31, 2013 and 2012, and the related consolidated statements of operations, stockholders' equity, and cash flows for each of the years in the two-year period ended December 31, 2013. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Intellicheck Mobilisa, Inc. as of December 31, 2013 and 2012, and the consolidated results of its operations and its cash flows for each of the years in the two-year period ended December 31, 2013, in conformity with accounting principles generally accepted in the United States of America.

/s/ EisnerAmper LLP
March 25, 2014
Iselin, NJ

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS
DECEMBER 31, 2013 and 2012

		2013		2012
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	224,386	$	1,685,879
Accounts receivable, net of allowance of $0 and $1,613		1,041,519		869,747
Inventory		54,677		337,559
Other current assets		107,519		105,881
Total current assets		1,428,101		2,999,066
PROPERTY AND EQUIPMENT, net		369,095		449,438
GOODWILL		12,308,661		12,308,661
INTANGIBLE ASSETS, net		3,724,354		4,631,577
OTHER ASSETS		72,006		72,006
Total assets	$	17,902,217	$	20,460,748
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	478,588	$	247,289
Accrued expenses		701,928		556,814
Deferred revenue, current portion		967,912		1,450,923
Total current liabilities		2,148,428		2,255,026
OTHER LIABILITIES				
Deferred revenues, long-term portion		233,732		341,948
Deferred rent		163,753		185,339
Total liabilities		2,545,913		2,782,313
STOCKHOLDERS' EQUITY:				
Common stock $.001 par value; 40,000,000 shares authorized; 27,897,467 and 27,724,267 shares issued and outstanding as of 2013 and 2012, respectively		27,897		27,724
Additional paid-in capital		100,983,971		100,882,019
Accumulated deficit		(85,655,564)		(83,231,308)
Total stockholders' equity		15,356,304		17,678,435
Total liabilities and stockholders' equity	$	17,902,217	$	20,460,748

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
REVENUES	$ 7,298,537	$ 8,803,217
COST OF REVENUES	(2,772,984)	(3,001,997)
Gross profit	4,525,553	5,801,220
OPERATING EXPENSES		
Selling	1,096,486	1,613,819
General and administrative	3,796,735	4,209,385
Research and development	2,056,744	2,239,011
Total operating expenses	6,949,965	8,062,215
Loss from operations	(2,424,412)	(2,260,995)
OTHER INCOME		
Interest income	156	909
Net loss	$ (2,424,256)	$ (2,260,086)
PER SHARE INFORMATION:		
Net loss per common share		
Basic	$ (0.09)	$ (0.08)
Diluted	$ (0.09)	$ (0.08)
Weighted average common shares used in computing per share amounts		
Basic	27,828,699	27,724,267
Diluted	27,828,699	27,724,267

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2012 AND 2013

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, December 31, 2011	27,462,504	$ 27,462	$ 100,699,156	$ (80,971,222)	$ 19,755,396
Stock based compensation expense (employees and directors)	-	-	52,677	-	52,677
Exercise of stock options	261,763	262	130,186	-	130,448
Net loss	-	-	-	(2,260,086)	(2,260,086)
BALANCE, December 31, 2012	27,724,267	27,724	100,882,019	(83,231,308)	17,678,435
Stock based compensation expense (employees and directors)	-	-	19,053	-	19,053
Exercise of stock options	153,200	153	70,319	-	70,472
Issuance of common stock	20,000	20	12,580	-	12,600
Net loss	-	-	-	(2,424,256)	(2,424,256)
BALANCE, December 31, 2013	27,897,467	$ 27,897	$ 100,983,971	$ (85,655,564)	$ 15,356,304

The accompanying notes are an integral part of these consolidated statements.

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (2,424,256)	$ (2,260,086)
Adjustments to reconcile net loss to net cash (used in) provided by operating activities:		
Depreciation and amortization	1,068,408	1,094,173
Non cash stock based compensation expense	31,653	52,677
Provision for doubtful accounts	-	(3,271)
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	(171,772)	2,192,312
Decrease (increase) in inventory	282,882	(325,665)
(Increase) decrease in other current assets	(1,637)	2,888
Increase (decrease) in accounts payable and accrued expenses	376,413	(92,823)
(Decrease) in deferred revenue	(591,227)	(305,200)
(Decrease) in deferred rent	(21,587)	(9,420)
Net cash (used in) provided by operating activities	(1,451,123)	345,585
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(80,842)	(184,303)
Net cash (used in) investing activities	(80,842)	(184,303)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock from exercise of stock options and warrants	70,472	130,448
Net cash provided by financing activities	70,472	130,448
Net (decrease) increase in cash and cash equivalents	(1,461,493)	291,730
CASH AND CASH EQUIVALENTS, beginning of year	1,685,879	1,394,148
CASH AND CASH EQUIVALENTS, end of year	$ 224,386	$ 1,685,878

The accompanying notes are an integral part of these consolidated statements.

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa, Inc. (the "Company" or "Intellicheck") is a leading technology company that is engaged in developing, integrating and marketing wireless technology and identity systems for various applications including mobile and handheld access control and security systems for the government, military and commercial markets. Products include the Defense ID and Fugitive Finder systems, advanced ID card access control products currently protecting military and federal locations, and ID-Check, a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions designed to improve the Customer Experience for the financial, hospitality and retail sectors. Wireless products and services include Aegeus, a wireless security buoy system for the government, military and oil industry. The company is also engaged in the engineering, design and installation of wireless communications systems.

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"). All intercompany balances and transactions have been eliminated upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES

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 December 31, 2013 and 2012, cash equivalents were $0 and $0, respectively.

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. As of December 31, 2013, the majority of our inventory related to Government and Commercial Identity products for intended near-term sales.

Long-Lived Assets and Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment, goodwill and intangible assets.

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" and SFAS 142, "Goodwill and other Intangible 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. No impairments were recognized during the years ended December 31, 2013 or 2012.

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Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from three to ten-years using the straight-line method. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the term of the lease or estimated useful life of the asset.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances. Under guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

The Company determined that a two-step quantitative analysis was necessary for both years ended December 31, 2013 and 2012. See Note 5 and Management's Discussion and Analysis.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 5. 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 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. No impairments were recognized during the years ended December 31, 2013 and 2012.

Costs of Computer Software Developed or Obtained for Internal Use

The Company accounts for certain software costs under ASC Topic 350, which provides guidance for determining whether computer software is internal-use software and guidance on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use.

Capitalized Software Development Costs

Costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Software production costs for computer software that is to be used as an integral part of a product or process shall not be capitalized until both (a) technological feasibility has been established for the software and (b) all research and development activities for the other components of the product or process have been completed. The Company has not capitalized any software costs for the years ended December 31, 2013 and 2012.

Deferred Rent

The Company received certain rent abatements and incentives from landlords as an inducement to move into its New York office facility. In accordance with ASC Topic 840, the Company is amortizing these incentives on a straight line basis over the periods of the respective leases.

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.

Under the provisions of ASC Topic 605-25, "Revenue Arrangements with Multiple Deliverables," for multi-element arrangements that include tangible products containing software essential to the tangible product's functionality and undelivered software elements relating to the tangible product's essential software, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price and (iii) best estimate of the selling price ("ESP"). VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis.

The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual 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 one to three years.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Shipping Costs

The Company’s shipping and handling costs are included in cost of revenues for all periods presented.

Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, "Accounting for 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 carryforwards. 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. The Company has recorded a full valuation allowance for its net deferred tax assets as of December 31, 2013 and 2012, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments" (ASC Topic 820). This pronouncement requires that the Company calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. At December 31, 2013 and 2012, the carrying value of the Company's financial instruments approximated fair value, due to their short-term nature.

Business Concentrations and Credit Risk

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

The Company's sales are principally made to large retail customers, financial institutions concentrated in the United States of America and to U.S. government entities. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

During the years ended December 31, 2013 and 2012, the Company had one and three customers that accounted for approximately 17% and 40% of total revenues, respectively. The revenue resulted from wireless network installations in Washington State. These customers represented 12% and 5% of total accounts receivable at December 31, 2013 and 2012, respectively.

As of December 31, 2013, the Company had three suppliers for the production of its input devices. The Company has modified its software to operate in windows based systems and can integrate with different hardware platforms that are readily available in the marketplace. The Company does not maintain a manufacturing facility of its own and is not dependent on maintaining its production relationships due to the flexibility of its software to run on multiple existing platforms.

Net Loss and Net Loss Per 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 income (loss) per share for the periods indicated:

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The following table summarizes the common stock equivalents excluded from loss per diluted share because their effect would be anti-dilutive:

	2013	2012
Stock options	327,486	711,135
Warrants	-	-
Total	327,486	711,135

Share Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance 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. Period compensation costs are included in selling, general and administrative and research and development expenses.

The Company recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period.

Options granted to consultants and other non-employees are accounted for in accordance with ASC Topic 505-50. Accordingly, such options are recorded at fair value at the date of grant and subsequently adjusted to fair value at the end of each reporting period until such options vest, and the fair value of the options, as adjusted, is amortized to consulting expense over the related vesting period.

Comprehensive Loss

The Company's comprehensive loss is equal to its net loss for the years ended December 31, 2013 and 2012.

Segment Information

The Company adheres to the provisions of ASC Topic 280, which establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial statements issued to shareholders. Management has determined that it has only one reporting segment.

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 and intangible assets, deferred tax valuation allowances, allowances for doubtful accounts, revenue allocation of multi-element arrangements and the fair value of options granted under the Company's share based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Recently Issued Accounting Pronouncements

The Company does not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on the Company's consolidated financial statements.

On February 5, 2013, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2013-02, "Comprehensive Income (Topic 220): Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income" The standard requires that entities present information about reclassification adjustments from accumulated other comprehensive income in their annual financial statements in a single note or on the face of the financial statements. Public companies will also have to provide this information in their interim financial statements. The standard requires that companies present either in a single note or parenthetically on the face of the financial statements, the effect of significant amounts reclassified from each component of accumulated other comprehensive income based on its source and the income statement line items affected by the reclassification. If a component is not required to be reclassified to net income in its entirety, companies would instead cross reference to the related footnote for additional information. The Company adopted ASU 2013-02 on January 1, 2013, and expects no material impact on its financials as a result.

On September 13, 2013, the Internal Revenue Service issued final Tangible Property Regulations (TPR) under Internal Revenue Code (IRC) Section 162 and IRC Section 263(a), which prescribe the capitalization treatment of certain repair costs, asset betterments and other costs which could affect temporary deferred taxes. Although the regulations are not effective until tax years beginning on or after January 1, 2014, certain portions may require an accounting method change on a retroactive basis, thus requiring an IRC Section 481(a) adjustment related to fixed and real asset deferred taxes. Pursuant to U.S. GAAP, as of the date of the issuance, the release of the regulations is treated as a change in tax law. Therefore, we are required to determine whether there will be an impact on our financial statements as of October 31, 2013. We are currently analyzing the expected impact of the new regulations and we do not believe the impact will be material to our financial position or results of operations. We will continue to monitor any future changes in the TPR prospectively.

3. ACCOUNTS RECEIVABLE

Accounts receivable represent amounts due from the Company's customers and are presented net of allowance for doubtful accounts. These balances include revenue recognized in advance of customer billings but do not include unbilled contractual commitments executed under license agreements. The components of accounts receivable, net are as follows:

	2013	2012
Accounts receivable - billed	$ 975,996	$ 774,726
Accounts receivable - unbilled	65,523	96,634
Less: Allowance for doubtful accounts	-	(1,613)
Accounts receivable, net	$ 1,041,519	$ 869,747

4. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of December 31, 2013 and 2012:

	2013	2012
Computer equipment	$ 743,857	$ 719,053
Furniture and fixtures	72,480	72,480
Leasehold improvements	169,032	169,032
Office equipment	491,340	435,302
Vehicles	147,310	147,310
	1,624,019	1,543,177
Less - Accumulated depreciation and amortization	1,254,924	1,093,739
	$ 369,095	$ 449,438

Depreciation expense for the years ended December 31, 2013 and 2012 amounted to $161,185 and $174,601, respectively.

5. GOODWILL AND INTANGIBLE ASSETS AND IMPAIRMENT

Goodwill

The carrying value of goodwill was $12,308,661 and $12,308,661 for the years ended December 31, 2013 and 2012.

Identifiable intangible assets

The changes in the carrying amount of intangible assets for the year ended December 31, 2013 and 2012 were as follows:

	2013	2012
Balance at beginning of year	$ 4,631,577	$ 5,551,149
Amortization expense	(907,223)	(919,572)
Balance at end of year	$ 3,724,354	$ 4,631,577

The Company 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 December 31, 2013 and 2012:

		As of December 31, 2013		
	Estimated Useful Life	Adjusted Carrying Amount	Accumulated Amortization	Net as of 12/31/2013
Trade name	20 years	$ 704,458	$ (260,641)	$ 443,817
Patents and copyrights	17 years	1,117,842	(454,421)	663,421
Non-compete agreements	5 years	310,000	(268,667)	41,333
Developed technology	7 years	3,941,310	(3,295,135)	646,175
Backlog	3 years	303,400	(303,400)	-
Non-contractual customer relationships	15 years	3,268,568	(1,338,960)	1,929,608
		$ 9,645,578	$ (5,921,224)	$ 3,724,354

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	As of December 31, 2012		
	Adjusted Carrying Amount	Accumulated Amortization	Net as of 12/31/2012
Trade name	$ 704,458	$ (229,975)	$ 474,483
Patents and copyrights	1,117,842	(396,575)	721,267
Non-compete agreements	310,000	(206,667)	103,333
Developed technology	3,941,310	(2,760,370)	1,180,940
Backlog	303,400	(303,400)	-
Non-contractual customer relationships	3,268,568	(1,117,014)	2,151,554
	$ 9,645,578	$ (5,014,001)	$ 4,631,577

The following summarizes amortization of acquisition related intangible assets included in the statement of operations:

	Years Ended December 31,	
	2013	2012
Cost of sales	$ 771,416	$ 771,416
General and administrative	135,807	148,156
	$ 907,223	$ 919,572

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

2014	$ 416,657
2015	$ 310,458
2016	$ 310,458
2017	$ 310,458
2018	$ 310,458

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

Goodwill and Intangible Asset Impairment

The excess of the purchase consideration over the fair value of the assets of acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. The Company had goodwill of $12,308,661 and $12,308,661 at December 31, 2013 and December 31, 2012. This goodwill resulted from the acquisitions of Mobilisa, Inc. and Positive Access Corporation.

For the years ended December 31, 2013 and 2012, the Company performed its annual impairment test of goodwill and concluded that no impairment charge was required for either year. Under authoritative guidance, the Company can use industry and Company specific qualitative factors to determine whether it is more likely than not that impairment exists, before using a two-step quantitative analysis. Events or changes in circumstances which could trigger an impairment review include macroeconomic conditions, industry and market conditions, cost factors, overall financial performance, other entity specific events and sustained decrease in share price.

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For the years ended December 31, 2013 and 2012, after a review of these qualitative factors, the Company determined that it was necessary to perform a two-step quantitative analysis. The first step is to compare the fair value of the Company's reporting unit, including goodwill to its carrying value. If the fair value of the reporting unit exceeds its carrying amount, goodwill is considered not impaired otherwise, there is an indication that goodwill may be impaired and the amount of loss, if any is measured by performing step two. Under step two, the impairment loss, if any, is measured by comparing the implied fair value of the reporting unit goodwill with the carrying amount of Goodwill.

The Company engaged an outside consulting firm to perform this analysis. This firm appraised the fair value of the Company's reporting unit is excess of its carrying value as of the reporting date, so no second step was necessary. The firm used the income approach, on a debt-free basis, to perform its analysis, because of the uniqueness of the Company and unrepresentative nature of the Company's historical performance.

Based on the outside consultant's report and the Company's review of its market capitalization and movement in stock price, Management determined that no impairment of Goodwill exists as of December 31, 2013.

The Company also considered whether long-lived assets including intangibles were also impaired. These assets are stated at cost, less accumulated amortization, which is provided for by charges to income on a basis consistent with the utilization of the assets over their useful lives. The carrying value of intangible and long-lived assets is reviewed periodically by the Company for the existence of facts or circumstances that may suggest impairment. If such circumstances exist, the Company would estimate the future, undiscounted cash flows associated with the asset, and compare that to the carrying value. If the carrying value exceeds the estimated cash flows, the asset would be written down to its estimated fair value. As of December 31, 2013 and 2012, the Company determined that there was no impairment of intangible assets.

6. REVOLVING LINE OF CREDIT

On August 17, 2011, the Company entered into a 2-year revolving credit facility with Silicon Valley Bank. On August 15, 2013, it renewed this facility for an additional year. The maximum borrowing under the facility is $2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company's assets. The facility bears interest at a rate of U.S. prime (3.25% at December 31, 2013) plus 1.25% - 1.75%, depending on the Company's cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2014. At December 31, 2013, there were no amounts outstanding, the Company is in compliance with its covenants, and unused availability under the facility was approximately $593,575.

The facility contains a tangible net worth covenant requiring that, as of each monthly reporting, total assets minus intangible assets minus capitalized software development costs minus total liabilities plus subordinated debt is at least equal to $(800,000), starting October 31, 2013, and increasing immediately by 50% for new debt or equity received and 50% of quarterly net income (with no reduction for losses).

7. ACCRUED EXPENSES

Accrued expenses are comprised of the following as of December 31, 2013 and 2012:

	2013	2012
Professional fees	$ 136,152	$ 186,488
Payroll and related	362,960	345,013
Navy Contract Close-out	117,970	-
Other	84,846	25,313

		$ 701,928	$ 556,814

8. INCOME TAXES

ASC Topic 740-10 created a new recognition threshold and a measurement approach for tax positions recognized in the financial statements. As of December 31, 2013, the Company has no material uncertain tax positions.

As a result of continuing losses for tax purposes, the Company has historically not paid income taxes and has recorded a full valuation allowance against the net deferred tax asset. Interest and penalties related to unrecognized tax benefits are recorded in income tax expense. There was no accrued interest related to unrecognized tax benefits at December 31, 2013. The tax years 2010-2013 remain open to examination by the major taxing jurisdictions to which the Company is subject.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2013 and 2012 are as follows:

	2013	2012
Deferred tax assets:		
Net operating loss carryforwards	$ 16,473,000	$ 16,024,000
Reserves	-	1,000
Deferred rent	66,000	74,000
Research & development tax credits	139,000	78,000
Total deferred tax assets	16,678,000	16,177,000
Deferred tax liabilities:		
Intangible assets	(1,355,000)	(1,718,000)
Other	(1,000)	-
Depreciation	(138,000)	(120,000)
Total deferred tax liabilities	(1,494,000)	(1,838,000)
Net deferred tax assets	15,184,000	14,339,000
Less: Valuation allowance	(15,184,000)	(14,339,000)
Deferred tax assets, net of allowance	$ -	$ -

Realization of deferred tax assets is dependent upon future earnings, if any. The Company has recorded a full valuation allowance against its deferred tax assets since management believes that it is more likely than not that these assets will not be realized.

As of December 31, 2013 the Company had net operating loss carryforwards (NOL's) for federal and New York State income tax purposes of approximately $41.2 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2030 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes.

The effective tax rate for the years ended December 31, 2013 and 2012 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

9. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

In January 1997, the Board of Directors authorized the creation of a class of Series A Convertible Preferred Stock with a par value of $.01. The Series A Convertible Preferred Stock is convertible into an equal number of common shares at the holder's option, subject to adjustment for anti-dilution. The holders of Series A Convertible Preferred Stock are entitled to receive dividends as and if declared by the Board of Directors. In the event of liquidation or dissolution of the Company, the holders of Series A Convertible Preferred Stock are entitled to receive all accrued dividends, if applicable, plus the liquidation price of $1.00 per share. As of December 31, 2013 and 2012, there were no outstanding shares of Series A Convertible Preferred Stock.

Stock Options and Share Based Compensation

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.

Stock option activity under the 1998, 1999, 2001, 2003 and 2006 Stock Option Plans during the periods indicated below is as follows:

	Number of Shares Subject to Issuance	Weighted-average Exercise Price	Weighted-average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2011	1,244,260	$ 1.93	2.29 years	
Granted	-	-		
Forfeited or expired	(235,862)	3.10		
Exercised	(261,763)	0.50		$ 348,352
Outstanding at December 31, 2012	746,635	$ 2.06	1.66 years	
Granted	135,000	0.39		
Forfeited or expired	(400,949)	1.89		
Exercised	(153,200)	0.46		
Outstanding at December 31, 2013	327,486	$ 2.31	2.42 years	$ 12,100
Exercisable at December 31, 2013	212,236	$ 3.33	1.52 years	$ -

There were 135,000 and no options granted in the years ended December 31, 2013 and 2012.

The following is a summary of stock options as of December 31, 2013:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number of Options	Weighted-average Remaining Life	Weighted average Exercise Price	Number of Options	Weighted-average Exercise Price
$0.39 to $1.00	110,000	1.42 years	$ 0.13	-	$ -
$1.01 to $3.00	110,636	0.27 years	$ 0.50	105,386	$ 0.73
$3.01 to $5.00	25,000	0.32 years	$ 0.28	25,000	$ 0.43
$5.01 to $5.64	81,850	0.40 years	$ 1.41	81,850	$ 2.17

327,486	2.42	years	$	2.31	212,236	$ 3.33

The weighted-average fair value of the options granted during the years ended December 31, 2013 and 2012 is $0.39 and $0 respectively.

As of December 31, 2013, the Company had 2,548,087 options available for future grant under the existing Stock Option and Equity Incentive Plans.

As of December 31, 2013, there was $41,700 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and restricted stock, which is expected to be recognized over a weighted average period of approximately 3.17 years.

Share based compensation expense for the years ended December 31, 2013 and 2012 is as follows:

	Years Ended December 31,	
	2013	2012
Compensation cost recognized:		
Stock options	$ 19,053	$ 52,677
Restricted stock	0	0
	$ 19,053	$ 52,677

Share based compensation is included in operating expenses as follows:

	Years Ended December 31,	
	2013	2012
Selling	$ 499	$ 9,216
General and administrative	6,467	16,788
Research and development	12,087	26,673
	$ 19,053	$ 52,677

The Company capitalized $0 in share-based compensation cost in both years 2013 and 2012.

The Company has a net operating loss carry-forward as of December 31, 2013, and no excess tax benefits for the tax deductions related to share based awards were recognized in the statements of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in 2013 that would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

All stock options have been issued with an exercise price that is equal or above the fair market value of the Company's Common Stock on the date of grant.

Warrants

All previously granted warrants were issued with an exercise price that was equal to or above the fair market value of the Company's common stock on the date of grant. As of December 31, 2013, the Company had no remaining warrants outstanding. No warrants were exercised in 2013 or 2012.

11. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company has entered into various leases for office space. The Company leases offices in New York and Washington states. Those leases expire in March, 2018 and July, 2017, respectively. The Washington office is owned by a related party and is discussed in Note 12. Future minimum lease payments under these lease agreements are as follows for the years ended December 31:

2014	$ 520,623
2015	408,030
2016	408,019
2017	379,226
2018	82,327
Total	$ 1,798,225

Rent expense for the years ended December 31, 2013 and 2012 amounted to $532,081 and $534,047, respectively.

Royalty and License Agreements

The Company entered into an agreement with a former officer of the Company during 1996 to license certain software. The agreement stipulated, among other provisions, that the officer would receive royalties equal to a percentage of the Company's gross sales. This agreement was terminated in May 1999 and was superseded by a new agreement which calls for payment of royalties of .005% on gross sales from $2,000,000 to $52,000,000 and .0025% on gross sales in excess of $52,000,000 pertaining to those patents on which Mr. Messina was identified as an inventor. As of December 31, 2013, total fees paid under this agreement amounted to approximately $1,650.

Consulting Agreements

In March 2009, the Company entered into an agreement with an investor relations firm. The engagement period was for twelve months commencing March 16, 2009. In exchange for its services, the Company paid the firm $13,500 per month for the first 24 months of the agreement. In addition, each month for the first 24 months of the agreement, the Company delivered to the investor relations firm 10,417 shares of restricted stock. The stock is restricted from sale for a period of two years from the date of grant.

The agreement is automatically renewed for successive twelve month periods unless either party gives written notice no later than 30 days prior to the expiration period. Afterwards, the fee may be subject to change by mutual agreement of the parties.

As of April 11, 2011, the fee was reduced to $10,000 per month. No additional shares were issued after February 2011.

Legal Proceedings

The Company is not aware of any infringement by our products or technology on the proprietary rights of others.

The Company is not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on its business.

Severance and Change-in-Control Agreements

On November 16, 2010, the Company entered into an Executive Severance Agreement with Mr. Mundy, the Company's former Chief Financial Officer. Under the agreement, if Mr. Mundy was terminated without cause, if he resigned with "good reason" (as defined in the agreement), or if he was terminated as a result of a change of control, he would have been entitled to 1.99 years of his then base salary, a gross amount equal to any quarterly bonus target applicable during the quarter, accelerated vesting of all outstanding stock options and coverage of health benefits for a period of up to 12 months. The agreement had a term of two years. On April 1, 2012, Mr. Mundy resigned from the Company. In lieu of the above mentioned agreement, the Company entered into a consulting agreement with Mr. Mundy which had a term of nine months at $15,250 per month. The final payment was made pursuant to this agreement on January 4, 2013.

401(k) Plan

The Company has a retirement savings 401(k) plan. The plan permits eligible employees to make voluntary contributions to a trust, up to a maximum of 35% of compensation, subject to certain limitations. The Company has elected to contribute a matching contribution equal to 50% of the first 6% of an eligible employee's deferral election. The Company may also make discretionary contributions, subject to certain conditions, as defined in the plan. The Company's matching contributions were $38,050 and $52,972 for 2013 and 2012, respectively.

12. RELATED PARTY TRANSACTIONS

Mobilisa leases office space from a company ("Lessor Company") that is wholly-owned by two directors, who are members of management. The Company entered into a 10-year lease for the office space ending in 2017. The base annual rent for this facility is currently $85,498 and is subject to annual increases based on the increase in the CPI index plus 1%. For the year ended December 31, 2013 and 2012, total rent payments for this office space were $92,046 and $91,780, respectively. This operating lease is referenced in Note 11.

The Lessor Company's entire operations consist of the leased property and related bank debt. The Company is a guarantor of the loans for the leased property. As of December 31, 2013, the Company's maximum exposure to loss was $177,999.

In June 2009, the FASB issued guidance included in ASC Topic 810-10, "Amendments to FASB Interpretation No. 46(R)." 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. Under the FASB guidance, companies are required to consolidate a related variable interest entity ("VIE") when the reporting company is the "primary beneficiary" of that entity and holds a variable interest in the VIE. The determination of whether a reporting company is the primary beneficiary of a VIE ultimately turns on whether the reporting entity will absorb a majority of the VIE's anticipated losses or receive a majority of the VIE's anticipated gains.

The Company analyzed its transactions with and relationship to the Lessor Company and concluded that it had an implicit variable interest in the Lessor Company. However, the primary beneficiaries, based on an assessment of what entity absorbs a majority of the entity's expected losses, receives a majority of its expected residual returns, or both, as a result of holding variable interests, are the common owners. Accordingly, the Company is not required to consolidate the operations of the Lessor Company.

13. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth unaudited financial data for each of the Company's last eight fiscal quarters.

	Year Ended December 31, 2013				Year Ended December 31, 2012			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands, except per share data)							
Income Statement Data:								
Revenues	$ 1,633	$ 1,720	$ 2,579	$ 1,366	$ 2,711	$ 3,441	$ 2,123	$ 528
Gross profit	895	960	1,781	889	1,958	2,230	1,567	46
Income (loss) from operations	(921)	(919)	16	(601)	15	61	(381)	(1,956)

Net income (loss)	(921)	(919)	16	(600)	$ 15	$ 61	$ (381)	$ (1,955)
Net income (loss) per common share:								
Basic	$ (0.03)	$ (0.03)	$ 0.00	$ (0.02)	$ 0.00	$ 0.00	$ (0.01)	$ (0.07)
Diluted	$ (0.03)	$ (0.03)	$ 0.00	$ (0.02)	$ 0.00	$ 0.00	$ (0.01)	$ (0.07)

Due to rounding, quarterly net income (loss) per share may not add up to the total net loss for the year.

14. SUBSEQUENT EVENTS

On January 14, 2014, the Company closed a secondary public offering of a previously announced 7,780,000 shares of its common stock and an over-allotment option of 1,167,000 additional shares. The stock was offered to the public at $0.45 per share. The offering grossed and netted the Company approximately $4,026,000 and $3,644,000 in cash, respectively. The difference between the two is from the underwriting discount and other offering expenses payable by the Company. Aegis Capital Corp. acted as the sole underwriter for the offering. The Company offered the underwriter 389,000 of common stock warrants, at a price of $0.56, which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering. After the offering, the Company had 36,844,467 shares of common stock outstanding.