

Intellicheck Mobilisa, Inc.
Form 10-Q
November 03, 2011

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

Form 10-Q

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

For the quarterly period ended September 30, 2011

OR

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

For the transition period from _____ to _____

Commission File No.: 001-15465

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

11-3234779
(I.R.S. Employer Identification No.)

191 Otto Street, Port Townsend, WA 98368
(Address of Principal Executive Offices) (Zip Code)

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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

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

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

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

| Class | Outstanding at November 3, 2011 |
|--------------------------------|---------------------------------|
| Common Stock, \$.001 par value | 27,462,504 |

INTELLICHECK MOBILISA, INC.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

| | September 30, 2011 (Unaudited) | December 31, 2010 |
|---|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 1,514,679 | \$ 1,488,904 |
| Accounts receivable, net of allowance of \$4,884 and \$1,651 as of September 30, 2011 and December 31, 2010, respectively | 3,376,402 | 2,905,794 |
| Inventory | 47,569 | 17,524 |
| Other current assets | 102,597 | 115,195 |
| Total current assets | 5,041,247 | 4,527,417 |
| PROPERTY AND EQUIPMENT, net | 480,243 | 570,613 |
| GOODWILL | 12,308,661 | 12,308,661 |
| INTANGIBLE ASSETS, net | 5,782,480 | 6,494,134 |
| OTHER ASSETS | 72,006 | 73,051 |
| Total assets | \$ 23,684,637 | \$ 23,973,876 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 906,114 | \$ 366,924 |
| Accrued expenses | 758,613 | 858,058 |
| Deferred revenue, current portion | 1,736,422 | 1,935,144 |
| Notes payable, current portion | - | 193,333 |
| Total current liabilities | 3,401,149 | 3,353,459 |
| OTHER LIABILITIES | | |
| Deferred revenue, long-term portion | 340,501 | 709,378 |
| Deferred rent | 195,574 | 125,426 |
| Total liabilities | 3,937,224 | 4,188,263 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock - \$.001 par value; 40,000,000 shares authorized; 27,462,504 and 27,006,547 shares issued and outstanding, respectively | 27,462 | 27,007 |
| Additional paid-in capital | 100,677,266 | 100,438,969 |
| Accumulated deficit | (80,957,315) | (80,680,363) |
| Total stockholders' equity | 19,747,413 | 19,785,613 |

| | | |
|--|---------------|---------------|
| Total liabilities and stockholders' equity | \$ 23,684,637 | \$ 23,973,876 |
|--|---------------|---------------|

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

| | Three Months Ended September | | Nine Months Ended September | |
|---|------------------------------|---------------|-----------------------------|-----------------|
| | 2011 | 30, 2010 | 2011 | 30, 2010 |
| REVENUES | \$ 3,595,303 | \$ 3,567,137 | \$ 9,616,300 | \$ 9,244,984 |
| COST OF REVENUES | (1,275,292) | (1,326,083) | (3,412,306) | (3,253,898) |
| Gross profit | 2,320,011 | 2,241,054 | 6,203,994 | 5,991,086 |
| OPERATING EXPENSES | | | | |
| Selling | 478,095 | 740,226 | 1,466,178 | 1,693,057 |
| General and administrative | 940,108 | 1,153,830 | 3,049,606 | 3,968,513 |
| Research and development | 592,185 | 847,294 | 1,956,532 | 2,236,799 |
| Total operating expenses | 2,010,388 | 2,741,350 | 6,472,316 | 7,898,369 |
| Income (loss) from operations | 309,623 | (500,296) | (268,322) | (1,907,283) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 9 | 19 | 37 | 76 |
| Interest expense | (3,667) | (7,308) | (8,667) | (22,308) |
| Other expense | - | (1,864) | - | (1,864) |
| | (3,658) | (9,153) | (8,630) | (24,096) |
| Net income (loss) | \$ 305,965 | \$ (509,449) | \$ (276,952) | \$ (1,931,379) |
| PER SHARE INFORMATION | | | | |
| Net income (loss) per common share - | | | | |
| Basic | \$ 0.01 | \$ (0.02) | \$ (0.01) | \$ (0.07) |
| Diluted | \$ 0.01 | \$ (0.02) | \$ (0.01) | \$ (0.07) |
| Weighted average common shares used in computing per share amounts - | | | | |
| Basic | 27,409,630 | 26,851,430 | 27,175,909 | 26,530,926 |
| Diluted | 27,703,484 | 26,851,430 | 27,175,909 | 26,530,926 |

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

| | Nine Months Ended September 30, | |
|---|------------------------------------|-----------------|
| | 2011 | 2010 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net loss | \$ (276,952) | \$ (1,931,379) |
| Adjustments to reconcile net loss to net cash provided by (used in) operating activities: | | |
| Depreciation and amortization | 847,654 | 851,865 |
| Provision for doubtful accounts | 3,233 | (5,335) |
| Noncash stock-based compensation expense | 11,997 | 372,143 |
| Amortization of debt discount | 6,667 | 20,833 |
| Loss on disposal of equipment | - | 1,864 |
| Changes in assets and liabilities: | | |
| Increase in accounts receivable | (473,841) | (1,312,126) |
| (Increase) decrease in inventory | (30,045) | 43,534 |
| Decrease in other current assets | 12,598 | 80,137 |
| Decrease (increase) in other assets | 1,045 | (59,062) |
| Increase in accounts payable and accrued expenses | 439,745 | 722,703 |
| Decrease in deferred revenue | (567,599) | (389,614) |
| Increase in deferred rent | 70,148 | 56,393 |
| Net cash provided by (used in) operating activities | 44,650 | (1,548,044) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (45,630) | (231,807) |
| Net cash used in investing activities | (45,630) | (231,807) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Repayment of notes payable | (200,000) | (400,000) |
| Net proceeds from issuance of common stock from exercise of stock options | 226,755 | 305,870 |
| Net cash provided by (used in) financing activities | 26,755 | (94,130) |
| Increase (decrease) in cash and cash equivalents | 25,775 | (1,873,981) |
| CASH AND CASH EQUIVALENTS, beginning of period | 1,488,904 | 3,008,472 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 1,514,679 | \$ 1,134,491 |
| SUPPLEMENTAL CASH FLOW INFORMATION | | |
| Cash paid during the period for: | | |
| Income taxes | \$ - | \$ - |
| Interest | \$ 2,000 | \$ 1,475 |

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2011

(Unaudited)

| | Common Stock | | Additional | Accumulated | Total |
|---|--------------|----------|--------------------|----------------|--------------|
| | Shares | Amount | Paid-in Capital | Deficit | |
| BALANCE, January 1, 2011 | 27,006,547 | \$27,007 | \$100,438,969 | \$(80,680,363) | \$19,785,613 |
| Stock-based compensation expense | - | - | (17,899) | - | (17,899) |
| Issuance of restricted common stock as consultant's compensation | 20,834 | 20 | 29,876 | - | 29,896 |
| Exercise of options | 435,123 | 435 | 226,320 | - | 226,755 |
| Net loss | - | - | - | (276,952) | (276,952) |
| BALANCE, September 30, 2011 | 27,462,504 | \$27,462 | \$100,677,266 | \$(80,957,315) | \$19,747,413 |

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business

Intellicheck Mobilisa, Inc. (the “Company” or “Intellicheck”) is a leading technology company in developing and marketing wireless technology and identity systems for various applications, including: mobile and handheld wireless devices for the government, military and commercial markets. Products include the Defense ID and Fugitive Finder systems, advanced ID card access-control product that is currently protecting approximately 100 military and federal locations and ID-Check, a technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from U.S. and Canadian jurisdictions for the financial, hospitality and retail sectors. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys. Creating improved communications across water, our wireless solutions have capabilities for security, environmental protection and mobile networking.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. (“Mobilisa”) and Positive Access Corporation (“Positive Access”). All intercompany balances and transactions have been eliminated upon consolidation.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at September 30, 2011 and the results of its operations for the three and nine months ended September 30, 2011 and 2010, stockholders’ equity for the nine months ended September 30, 2011 and cash flows for the nine months ended September 30, 2011 and 2010. All such adjustments are of a normal and recurring nature. Interim financial statements are prepared on a basis consistent with the Company’s annual financial statements. Results of operations for the nine month period ended September 30, 2011, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2011.

The balance sheet as of December 31, 2010 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

References in this Quarterly Report on Form 10-Q to “authoritative guidance” are to the Accounting Standards Codification issued by the Financial Accounting Standards Board (“FASB”).

For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2010.

Recently Issued Accounting Pronouncements

In October 2009, the FASB issued ASU No. 2009-13, "Multiple-Deliverable Revenue Arrangements." This ASU establishes the accounting and reporting guidance for arrangements including multiple revenue-generating activities. This ASU provides amendments to the criteria for separating deliverables, measuring and allocating arrangement consideration to one or more units of accounting. The amendments in this ASU also establish a selling price hierarchy for determining the selling price of a deliverable. Significantly enhanced disclosures are also required to provide information about a vendor's multiple-deliverable revenue arrangements, including information about the nature and terms, significant deliverables, and its performance within arrangements. The amendments also require providing information about the significant judgments made and changes to those judgments and about how the application of the relative selling-price method affects the timing or amount of revenue recognition. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. This guidance became effective for the Company as of January 1, 2011, and its adoption did not have a material impact on its consolidated results of operations and financial condition.

In October 2009, the FASB issued ASU No. 2009-14, "Certain Revenue Arrangements That Include Software Elements." This ASU changes the accounting model for revenue arrangements that include both tangible products and software elements that are "essential to the functionality," and scopes these products out of current software revenue guidance. The new guidance will include factors to help companies determine what software elements are considered "essential to the functionality." The amendments will now subject software-enabled products to other revenue guidance and disclosure requirements, such as guidance surrounding revenue arrangements with multiple-deliverables. The amendments in this ASU are effective prospectively for revenue arrangements entered into or materially modified in the fiscal years beginning on or after June 15, 2010. This guidance became effective for the Company as of January 1, 2011, and its adoption did not have a material impact on its consolidated results of operations and financial condition.

In January 2010, the FASB issued ASU No. 2010-6, "Improving Disclosures About Fair Value Measurements," that amends existing disclosure requirements under ASC 820 by adding required disclosures about items transferring into and out of Levels 1 and 2 in the fair value hierarchy; adding separate disclosures about purchases, sales, issuances, and settlements relative to Level 3 measurements; and clarifying, among other things, the existing fair value disclosures about the level of disaggregation. For the Company, this ASU was effective beginning January 1, 2010, except for the requirement to provide Level 3 activity of purchases, sales, issuances, and settlements on a gross basis, which is effective beginning January 1, 2011. Since this standard impacts disclosure requirements only, its adoption did not have a material impact on the Company's consolidated results of operations or financial condition.

In March 2010, the FASB ratified a consensus of the FASB Emerging Issues Task Force that recognizes the milestone method as an acceptable revenue recognition method for substantive milestones in research or development arrangements. This consensus would require its provisions be met in order for an entity to recognize consideration that is contingent upon achievement of a substantive milestone as revenue in its entirety in the period in which the milestone is achieved. In addition, this consensus would require disclosure of certain information with respect to arrangements that contain milestones. This issue is effective on a prospective basis for milestones achieved in fiscal years beginning after June 15, 2010. This guidance became effective for the Company as of January 1, 2011, and its adoption did not have a material impact on its consolidated results of operations and financial condition.

In May 2011, the FASB issued ASU 2011-4, "Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs," which clarifies the wording and disclosures required in Accounting Standards Codification ("ASC") Topic 820, Fair Value Measurement ("ASC 820"), to converge with those used (to be used) in International Financial Reporting Standards ("IFRS"). The update explains how to measure and disclose fair value under ASC 820. However, the FASB does not expect the changes in this standards update to alter the current application of the requirements in ASC 820. The provisions of ASU 2011-04 are effective for public entities prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is prohibited. Therefore, ASU 2011-04 is effective for the Company during the first quarter of fiscal 2012. The Company does not expect ASU 2011-04 to have a material effect on the Company's results of operations, financial condition, and cash flows.

In June 2011, the FASB issued ASU 2011-05, "Comprehensive Income (Topic 220)" which amends the presentation of other comprehensive income (OCI). This guidance requires entities to present net income and OCI in either a single continuous statement or in separate consecutive statements. The guidance does not change the components of net income or OCI, when OCI should be reclassified to net income, or the earnings per share calculation. The provisions of ASU 2011-05 are effective for public entities prospectively for interim and annual periods beginning after December 15, 2011. Early adoption is prohibited. Therefore, ASU 2011-05 is effective for the Company during the first quarter of fiscal 2012. The Company does not expect ASU 2011-05 to have a material effect on the Company's results of operations and financial condition.

In September 2011, the FASB issued ASU 2011-08, “Intangibles, Goodwill and Other (Topic 350)”, which is intended to simplify goodwill impairment testing. Entities will be allowed to perform a qualitative assessment on goodwill impairment to determine whether a quantitative assessment is necessary. The provisions of ASU 2011-08 are effective for goodwill impairment tests performed in interim and annual periods for fiscal years beginning after December 15, 2011. Therefore, ASU 2011-08 is effective for the Company during the first quarter of fiscal 2012. The Company does not expect ASU 2011-08 to have a material effect on the Company’s results of operations and financial condition.

Use of Estimates

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

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of September 30, 2011, no amounts were invested in cash equivalents.

Allowance for Doubtful Accounts

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

Inventory

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

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. Pursuant to ASC Topic 350, the Company tests goodwill for impairment on an annual basis in the fourth quarter, or between annual tests, in certain circumstances, such as the occurrence of operating losses or a significant decline in earnings associated with the asset. The Company evaluates goodwill for impairment using the two-step process. The first step is to compare the fair value of the reporting unit to the carrying amount of the reporting unit. If the carrying amount exceeds the fair value, a second step must be followed to calculate impairment. The Company performs the initial step by comparing the carrying value to the estimated fair value of the reporting units, which is determined by considering future discounted cash flows, market transactions and multiples, among other factors.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 2. 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.

Financial Instruments

The Company's financial instruments include cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and notes payable. At September 30, 2011 and December 31, 2010 the carrying value of the Companies financial instruments approximated fair value, due to their short term nature.

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed. The Company 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. For the nine month periods ended September 30, 2011 and 2010, the Company received \$3,665 and \$4,815 respectively, in royalty fees.

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

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

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

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

Under the provisions of ASC Topic 605-25, "Revenue Arrangements with Multiple Deliverables," revenue arrangements are allocated to the separate units of accounting based on their relative fair values and revenue is recognized in accordance with its policy as stated above.

Business Concentrations and Credit Risk

During the three and nine month periods ended September 30, 2011, the Company made sales to two customers that accounted for approximately 28% and 31% of total revenues, respectively. These revenues resulted from contracts with the U.S. government and sales to a large communications company. These customers represented 32% of total accounts receivable at September 30, 2011. During the three and nine months ended September 30, 2010, the Company made sales to two customers that accounted for approximately 38% and 39% of total revenues, respectively. These customers represented 21% of total accounts receivable at September 30, 2010.

Net Income (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.

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|----------------|
| | 2011 | 2010 | 2011 | 2010 |
| Numerator: | | | | |
| Net income (loss) | \$305,965 | \$(509,449) | \$(276,952) | \$(1,931,379) |
| Denominator: | | | | |
| Weighted average common shares – basic | 27,409,630 | 26,851,430 | 27,175,909 | 26,530,926 |
| Dilutive effect of equity incentive plans | 293,854 | - | - | - |
| Weighted average common shares – diluted | 27,703,484 | 26,851,430 | 27,175,909 | 26,530,926 |
| Net income (loss) per share | | | | |
| Basic | \$0.01 | \$(0.02) | \$(0.01) | \$(0.07) |
| Diluted | \$0.01 | \$(0.02) | \$(0.01) | \$(0.07) |

Common stock equivalents excluded from loss per diluted share because their effect would be anti-dilutive:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------|-------------------------------------|-----------|------------------------------------|-----------|
| | 2011 | 2010 | 2011 | 2010 |
| Stock options | 817,317 | 1,978,703 | 1,270,465 | 1,978,703 |
| Warrants | - | 100,000 | - | 100,000 |
| | 817,317 | 2,078,703 | 1,270,465 | 2,078,703 |

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

Note 2. Goodwill and Identified Intangible Assets

The changes in the carrying amount of goodwill for the nine months ended September 30, 2011 were as follows:

| | |
|-------------------------------|--------------|
| Balance at January 1, 2011 | \$12,308,661 |
| 2011 activity | - |
| Balance at September 30, 2011 | \$12,308,661 |

Identifiable intangible assets

The changes in the carrying amount of intangible assets for the nine months ended September 30, 2011 were as follows:

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| | |
|-------------------------------|-------------|
| Balance at January 1, 2011 | \$6,494,134 |
| Amortization expense | (711,654) |
| Balance at September 30, 2011 | \$5,782,480 |

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 September 30, 2011 and December 31, 2010:

| Amortized Intangible Assets | Estimated Useful Life | Adjusted Carrying Amount | As of September 30, 2011 | |
|--|-----------------------|--------------------------|--------------------------|----------------------|
| | | | Accumulated Amortization | Net as of 09/30/2011 |
| Trade name | 20 years | \$ 704,458 | \$ (174,163) | \$ 530,295 |
| Patents and copyrights | 17 years | 1,117,842 | (324,870) | 792,972 |
| Non-compete agreements | 5 years | 310,000 | (129,167) | 180,833 |
| Developed technology | 7 years | 3,941,310 | (2,091,914) | 1,849,396 |
| Backlog | 3 years | 303,400 | (303,400) | - |
| Non-contractual customer relationships | 15 years | 3,268,568 | (839,584) | 2,428,984 |
| | | \$ 9,645,578 | \$ (3,863,098) | \$ 5,782,480 |

| Amortized Intangible Assets | Adjusted Carrying Amount | As of December 31, 2010 | |
|--|--------------------------|--------------------------|----------------------|
| | | Accumulated Amortization | Net as of 12/31/2010 |
| Trade name | \$ 704,458 | \$ (137,486) | \$ 566,972 |
| Patents and copyrights | 1,117,842 | (277,259) | 840,583 |
| Non-compete agreements | 310,000 | (82,667) | 227,333 |
| Developed technology | 3,941,310 | (1,677,507) | 2,263,803 |
| Backlog | 303,400 | (303,400) | - |
| Non-contractual customer relationships | 3,268,568 | (673,125) | 2,595,443 |
| | \$ 9,645,578 | \$ (3,151,444) | \$ 6,494,134 |

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

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|-----------|-------------------|-----------|
| | September 30, | | September 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Cost of sales | \$196,188 | \$197,853 | \$591,896 | \$593,561 |
| General and administrative | 39,916 | 39,921 | 119,758 | 119,763 |
| | \$236,104 | \$237,774 | \$711,654 | \$713,324 |

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

| | |
|--------|-----------|
| Year 1 | \$924,096 |
| Year 2 | 907,223 |
| Year 3 | 565,848 |

| | |
|--------|---------|
| Year 4 | 310,458 |
| Year 5 | 310,458 |

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

Note 3. Notes Payable

In connection with the Positive Access acquisition, the Company issued notes to the principals totaling \$600,000, payable \$400,000 at August 31, 2010 and \$200,000 at August 31, 2011. The notes payable were initially recorded in the financial statements net of deferred debt discount of \$40,000. The deferred debt discount was amortized on a straight line basis, which approximated the effective interest method. Total interest expense of \$1,667 and \$6,667 was recorded in the three and nine month periods ended September 30, 2011. Total interest expense of \$5,833 and \$20,833 was recorded in the quarter and nine month periods ended September 30, 2010, respectively. The notes were fully paid on August 31, 2011.

The notes are shown net of the deferred debt discount as follows:

| | September 30, 2011 | As of December 31, 2010 |
|------------------------|--------------------------|-------------------------------|
| Gross | \$- | \$ 200,000 |
| Deferred debt discount | - | (6,667) |
| Net | \$- | \$ 193,333 |

Note 4. Revolving Line of Credit

On August 17, 2011, the Company entered into a revolving credit facility with Silicon Valley Bank. The maximum borrowing under the facility is \$2,000,000. 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 September 30, 2011) plus 1.25%. Interest is payable monthly and the principal is due upon maturity on August 17, 2013. At September 30, 2011, there were no amounts outstanding and unused availability under the facility was \$1,047,000.

Note 5. Income Taxes

As of September 30, 2011, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately \$38.9 million. There can be no assurance that the Company will realize the entire benefit of the NOL's. The federal and New York state NOL's are available to offset future taxable income and expire from 2018 through 2029 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes. The Company has not yet completed its review to determine whether or not these NOL's will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

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

In the first nine months of 2011 and 2010, the Company has not recorded tax provisions due to the net taxable losses incurred during the periods. The effective tax rate for the nine months ended September 30, 2011 and 2010 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

Note 6. 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. These pronouncements establish fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

In addition, the Company accounts for the issuance of equity awards to consultants in accordance with ASC Topic 505-50. Subject to a consulting agreement described below with an investor relations firm, the Company issued 10,417 restricted shares of its common stock per month commencing March 16, 2009 through February 16, 2011. During the three and nine month periods ending September 30, 2011 and 2010, the Company recorded the fair value of \$0 and \$29,896 and \$37,814 and \$181,464, respectively, for these shares in general and administrative expenses.

Stock based compensation expense for the three and nine months ended September 30, 2011 and 2010 is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|--------------------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Compensation cost recognized: | | | | |
| Stock options | \$ 19,582 | \$ 105,043 | \$ (17,899) | \$ 190,679 |
| Restricted stock | - | 37,814 | 29,896 | 181,464 |
| | \$ 19,582 | \$ 142,857 | \$ 11,997 | \$ 372,143 |

In the first nine months of 2011, certain performance based options were forfeited resulting in negative stock-based compensation expense of \$108,546.

Stock based compensation included in operating expenses is as follows:

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|----------------------------|-------------------------------------|------------|------------------------------------|------------|
| | 2011 | 2010 | 2011 | 2010 |
| Selling | \$ 4,155 | \$ 26,952 | \$ (34,327) | \$ 46,209 |
| General and administrative | 9,476 | 66,802 | 58,384 | 237,466 |
| Research & development | 5,951 | 49,103 | (12,060) | 88,468 |
| | \$ 19,582 | \$ 142,857 | \$ 11,997 | \$ 372,143 |

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

Option activity under the Plans as of September 30, 2011 and changes during the nine months ended September 30, 2011 were as follows:

| | Shares | Weighted-Average Exercise Price | Weighted Average Remaining Contractual Term | Aggregate Intrinsic Value |
|-----------------------------------|------------|---------------------------------|---|---------------------------|
| Outstanding at January 1, 2011 | 1,972,203 | \$ 1.62 | 2.86 years | \$ 774,018 |
| Granted | - | - | | |
| Exercised | (435,123) | 0.52 | | \$ 326,172 |
| Forfeited or expired | (266,615) | 1.84 | | |
| Outstanding at September 30, 2011 | 1,270,465 | \$ 1.95 | 2.50 years | \$ 242,751 |
| Exercisable at September 30, 2011 | 1,136,715 | \$ 1.97 | 2.46 years | \$ 242,751 |

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the third quarter of 2011 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on September 30, 2011. This amount changes based upon the fair market value of the Company's stock. The total intrinsic value of options exercised for the nine months ended September 30, 2011 was \$326,172.

As of September 30, 2011, unrecognized compensation expense, net of estimated forfeitures, related to granted and non-vested stock options amounted to \$116,948 and is expected to be recognized over a weighted-average period of 1.6 years.

As of September 30, 2011, the Company had 1,564,785 options available for future grant under the Plans.

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

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

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---------------------------------------|-------------------------------------|---------|------------------------------------|---------|
| | 2011 | 2010 | 2011 | 2010 |
| Weighted average fair value of grants | * | \$ 0.96 | * | \$ 1.44 |
| Valuation assumptions: | | | | |
| Expected dividend yield | * | 0.00 % | * | 0.00 % |
| Expected volatility | * | 79.3 % | * | 77.4 % |
| Expected life (in years) | * | 4.50 | * | 4.50 |
| Risk-free interest rate | * | 1.60 % | * | 2.13 % |

* No options were granted in the three and nine month periods ended September 30, 2011.

Note 7. Warrants

All warrants have been issued with an exercise price that is equal to or above the fair market value of the Company's common stock on the date of grant. As of September 30, 2011, the Company had no warrants outstanding. No warrants were exercised during the nine months ended September 30, 2011.

Note 8. Legal Proceedings

On December 8, 2010, the Company and Eid Passport, Inc. announced the settlement of the federal antitrust and false advertising lawsuit that Eid Passport brought against it in late 2009. Although specific terms of the settlement are confidential, the parties agreed that the following information about the settlement could be made public:

- 1) Intellicheck Mobilisa has agreed to assure Eid Passport the availability of the drivers' license parsing software that Eid Passport previously had licensed from Positive Access Corporation. Positive Access Corporation is a wholly owned subsidiary of Intellicheck Mobilisa;
- 2) All claims in the lawsuit are being dismissed with prejudice; each party is bearing its own costs and attorneys fees; the parties are mutually releasing all claims against one another relating to the lawsuit up to the effective date of the Settlement Agreement; and neither party has admitted any wrong-doing or any validity to any of the allegations made against it in the lawsuit;
- 3) In connection with the settlement, neither party is making any payment to the other.

The Company is not aware of any infringement by its 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 our business.

Note 9. Commitments and Contingencies

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 1, 2011, the fee was reduced to \$10,000 per month. No additional shares were issued after February 2011.

Note 10. Related Party Transactions

Mobilisa leases office space from a 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 \$85,498 and is subject to annual increases based on the increase in the CPI index plus 1%. The Company is a guarantor of the leased property. For the three and nine months ended September 30, 2011 total rental payments for this office space were \$21,258 and \$63,306, respectively. In addition, in the third quarter of 2011, the Company paid an additional \$15,792 representing prior year CPI increases. For the three and nine months ended September 30, 2010, total rental payments for this office space were \$18,744 and \$56,232, respectively.

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

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

The following discussion and analysis of our financial condition and results of operations constitutes management's review of the factors that affected our financial and operating performance for the nine month period ended September 30, 2011 and 2010. This discussion should be read in conjunction with the financial statements and notes thereto contained elsewhere in this report and in our Annual Report on Form 10-K, for the year ended December 31, 2010. The consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries, Mobilisa, Inc. ("Mobilisa") and Positive Access Corporation ("Positive Access").

Overview

Intellicheck Mobilisa is a leading technology company, developing and marketing wireless technology and identity systems for various applications including: mobile and handheld wireless devices for the government, military and commercial markets. Products include the Defense ID and Fugitive Finder systems, advanced ID card access control product currently protecting approximately 100 military and federal locations, and ID-Check, 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 for the financial, hospitality and retail sectors. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys. Creating improved communications across water, our wireless solutions have capabilities for security, environmental protection and mobile networking.

Critical Accounting Policies and the Use of Estimates

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

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

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed. 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 one to 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 September 30, 2011, due to the uncertainty of the realizability of those assets.

Commitments and Contingencies

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

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

Results of Operations (All figures have been rounded to the nearest \$1,000)

Comparison of the three months ended September 30, 2011 to the three months ended September 30, 2010

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Revenues for quarter ended September 30, 2011 increased 1% to \$3,595,000 compared to \$3,567,000 for the previous year.

| | Three months ended September | | % |
|------------------|------------------------------|--------------|--------|
| | 2011 | 2010 | Change |
| Identity Systems | \$ 3,421,000 | \$ 2,744,000 | 25 |
| Wireless R&D | 174,000 | 823,000 | (79) |
| | \$ 3,595,000 | \$ 3,567,000 | 1 |

The increase in Identity Systems revenues in the third quarter of 2011 is primarily a result of increased Fugitive Finder and Defense ID sales to military bases. Commercial sales of ID Check systems also increased during the current quarter. There were no enterprise license contracts recorded in either period presented. The decrease in Wireless R&D revenues is because the previous funding of the FAN/buoy contract expired as of June 30, 2011 and the new funding was not awarded until the middle of September. Total booked orders were \$6.2 million in the third quarter of 2011 compared to \$3.9 million in the third quarter of 2010. As of September 30, 2011, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately \$3.3 million compared to \$4.8 million at September 30, 2010.

Our gross profit as a percentage of revenues was 64.5% for the three months ended September 30, 2011 compared to 62.8% for the three months ended September 30, 2010. The increase in the percentage is primarily a result of a change in product mix.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased 27% to \$2,010,000 for the three months ended September 30, 2011 from \$2,741,000 for the three months ended September 30, 2010. As previously stated, during the first quarter of 2011, we made reductions in our operating expenses which approximated \$2 million on an annualized basis, which began to impact our reported results during the second and third quarters. These changes included reductions in both personnel and the use of outside consultants. Selling expenses decreased by \$262,000 principally as a result of decreased personnel and lower related travel costs. General and administrative expenses decreased by \$214,000 principally due to the cost reductions, as well as lower legal fees of \$207,000 and the elimination of \$33,000 in contracted consulting fees to the former Positive Access principals. Research and development costs decreased by \$255,000, principally due to a decrease in personnel working on the FAN/Buoy contract during the gap in funding during the current quarter.

Interest income was insignificant in both the three months ended September 30, 2011 and 2010.

Interest expense in 2011 represents the interest and amortization of deferred debt discount on the notes payable to the former principals of Positive Access.

We have incurred cumulative net losses through the first nine months of 2011 and 2010 and have not provided for income taxes.

As a result of the factors noted above, our net income was \$306,000 for the three month ended September 30, 2011 as compared to a net loss of \$509,000 for the three months ended September 30, 2010.

Comparison of the nine months ended September 30, 2011 to the nine months ended September 30, 2010

Revenues increased by 4%, to \$9,616,000 for the nine months ended September 30, 2011 from \$9,245,000 for the nine months ended September 30, 2010.

| | Nine months ended September | | % |
|------------------|-----------------------------|--------------|--------|
| | 2011 | 2010 | Change |
| Identity Systems | \$ 7,458,000 | \$ 6,754,000 | 10 |
| Wireless R&D | 2,158,000 | 2,491,000 | (13) |
| | \$ 9,616,000 | \$ 9,245,000 | 4 |

Our gross profit as a percentage of revenues amounted to 64.5% for the nine months ended September 30, 2011 compared to 64.8% for the nine months ended September 30, 2010.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased 18% to \$6,472,000 for the nine months ended September 30, 2011 from \$7,898,000 for the nine months ended September 30, 2010. Selling expenses decreased by \$227,000 principally as a result of a reduction in sales personnel and related travel, as well as a reversal of \$50,000 of previously booked noncash compensation from contingent stock options. General and administrative expenses decreased by \$919,000 principally due to the cost reductions that began in Q1, as well as lower legal fees of \$704,000 and the elimination of \$150,000 in contracted consulting fees to the former Positive Access principals. Research and development costs decreased by \$280,000, principally resulting from a decrease in personnel and a reversal of \$59,000 of previously booked noncash compensation from contingent stock options.

Interest income was insignificant in both periods presented.

Interest expense of \$22,000 in 2010 represents the amortization of deferred debt discount on the notes payable to former principals of Positive Access.

We have incurred net losses to date; therefore, we have not provided for income taxes.

As a result of the factors noted above, our net loss decreased from \$1,931,000 for the nine months ended September 30, 2010 to \$277,000 for the nine months ended September 30, 2011.

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

As of September 30, 2011, the Company had cash and cash equivalents of \$1,515,000, working capital (defined as current assets minus current liabilities) of \$1,640,000, total assets of \$23,685,000 and stockholders' equity of \$19,747,000.

During the nine months ended September 30, 2011, the Company generated net cash of \$26,000 compared to a net use of cash of \$1,874,000 in the nine months ended September 30, 2010. The Company generated net cash of \$45,000 in operating activities in the first nine months of 2011 as compared to a net use of cash of \$1,548,000 in the same period last year. The decrease in 2011 is primarily driven by a lower net loss. Cash used by investing activities was \$46,000 for the first nine months of 2011 compared to \$232,000 in the same period last year due to lower capital expenditures. Cash provided by financing activities was \$27,000 during the period ended September 30, 2011 compared to cash used in financing activities of \$94,000 in the period ended September 30, 2010. In accordance with the merger agreement, the final payment of \$200,000 was made to the former principals of Positive Access Corporation in August 2011 compared to a payment of \$400,000 in August 2010. This was offset by a reduction in the amount of stock option exercises in the current period.

On August 17, 2011, the Company entered into a two year revolving credit facility with Silicon Valley Bank. The maximum borrowing under the facility is \$2,000,000. 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 substantially all of the Company's assets. At September 30, 2011, there were no outstanding borrowings and unused availability under the facility was \$1,047,000.

We currently anticipate that our available cash, as well as 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 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.

Net Operating Loss Carry Forwards

As of September 30, 2011, the Company had net operating loss carryforwards (“NOL’s”) for federal and New York state income tax purposes of approximately \$38.9 million. There can be no assurance that the Company will realize the entire benefit of the NOL’s. The federal and New York state NOL’s are available to offset future taxable income and expire from 2018 to 2031, if not utilized. The Company has not yet completed its review to determine whether or not these NOL’s will be limited under Section 382 of the Internal Revenue Code due to the ownership change from the acquisition of Mobilisa, Inc.

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 income (loss) to Adjusted EBITDA follows:

| | (Unaudited) | | | |
|--------------------------------------|--------------------|--------------|-------------------|---------------|
| | Three Months Ended | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2011 | 2010 | 2011 | 2010 |
| Net income (loss) | \$305,965 | \$(509,449) | \$(276,952) | \$(1,931,379) |
| Reconciling items: | | | | |
| Interest – net | 3,658 | 7,289 | 8,630 | 22,232 |
| (Benefit) provision for income taxes | - | - | - | - |
| Depreciation and amortization | 280,948 | 285,576 | 847,654 | 851,865 |
| Stock-based compensation costs | 19,582 | 142,857 | 11,997 | 372,143 |

| | | | | |
|-----------------|-----------|-------------|-----------|--------------|
| Adjusted EBITDA | \$610,153 | \$(73,727) | \$591,329 | \$(685,139) |
|-----------------|-----------|-------------|-----------|--------------|

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Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. Other than Mobilisa's guarantee on the mortgage of the property it leases from a related party as disclosed in Note 10, 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 substance in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Item 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Item 4T. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

Our Chief Executive Officer and our Chief Financial Officer evaluated, with the participation of our management, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-Q. As of September 30, 2011, our Chief Executive Officer and our Chief Financial Officer concluded that our disclosure controls and procedures, as defined in Securities Exchange Act Rule 13a-15(e) and 15d-15(e), were 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 Controls over Financial Reporting

There was no change in our internal controls over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during the third quarter of 2011 covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

PART II - OTHER INFORMATION

Item 1. LEGAL PROCEEDINGS

See Note 8 to the Notes to Consolidated Financial Statements found in Item 1 of this Form 10-Q (listed under “Legal Proceedings”).

Item 1A. RISK FACTORS

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

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

Our operations and financial results are subject to various other risks and uncertainties that could adversely affect our business, financial condition, results of operations, and trading price of our common stock. Please refer to our annual report on Form 10-K for fiscal year 2010 for information concerning other risks and uncertainties that could negatively impact us.

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

None

Item 3. DEFAULTS UPON SENIOR SECURITIES

None

Item 4. (REMOVED AND RESERVED)

Item 5. OTHER INFORMATION

None

Item 6. EXHIBITS

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

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

Signatures

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

Date: November 3, 2011

INTELLICHECK MOBILISA, INC.

By: /s/ Steven D. Williams
Steven D. Williams
Chief Executive Officer

By: /s/ Peter J. Mundy
Peter J. Mundy
Chief Financial Officer
(Principal Financial and Accounting Officer)