

Intellicheck Mobilisa, Inc.
Form 10-Q
November 14, 2012

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
^X ACT OF 1934

For the quarterly period ended September 30, 2012

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 (I.R.S. Employer Identification No.)
Incorporation or Organization)

191 Otto Street, Port Townsend, WA 98368

(Address of Principal Executive Offices) (Zip Code)

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

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

Yes x No "

Indicate by check mark whether 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 (§ 232.405 of this chapter) 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 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):

<input checked="" type="checkbox"/> Large accelerated filer	<input type="checkbox"/> Accelerated filer	<input type="checkbox"/> Non-accelerated filer	<input type="checkbox"/> Smaller reporting company
(Do not check if a smaller reporting company)			x

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

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

<u>Class</u>	<u>Outstanding at November 14, 2012</u>
Common Stock, \$.001 par value	27,724,267

INTELLICHECK MOBILISA, INC.

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PART I – FINANCIAL INFORMATION**Item 1. FINANCIAL STATEMENTS****INTELLICHECK MOBILISA, INC.****CONSOLIDATED BALANCE SHEETS**

	September 30, 2012 (Unaudited)	December 31, 2011
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$2,737,506	\$1,394,148
Accounts receivable, net of allowance of \$4,884 and \$4,884 as of September 30, 2012 and December 31, 2011, respectively	1,883,042	3,058,788
Inventory	117,867	11,894
Other current assets	116,369	108,770
Total current assets	4,854,784	4,573,600
PROPERTY AND EQUIPMENT, net	378,936	439,736
GOODWILL	12,308,661	12,308,661
INTANGIBLE ASSETS, net	4,858,384	5,551,149
OTHER ASSETS	72,006	72,006
Total assets	\$22,472,771	\$22,945,152
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	\$317,739	\$221,019
Accrued expenses	578,252	675,907
Deferred revenue, current portion	1,314,460	1,692,881
Total current liabilities	2,210,451	2,589,807
OTHER LIABILITIES		
Deferred revenue, long-term portion	445,362	405,190
Deferred rent	189,151	194,759

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Total liabilities	2,844,964	3,189,756
STOCKHOLDERS' EQUITY:		
Common stock - \$.001 par value; 40,000,000 shares authorized; 27,724,267 and 27,462,504 shares issued and outstanding, respectively	27,724	27,462
Additional paid-in capital	100,876,604	100,699,156
Accumulated deficit	(81,276,521)	(80,971,222)
Total stockholders' equity	19,627,807	19,755,396
Total liabilities and stockholders' equity	\$22,472,771	\$22,945,152

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.**CONSOLIDATED STATEMENTS OF OPERATIONS**

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2012	2011	2012	2011
REVENUES	\$ 2,123,403	\$ 3,595,303	\$ 8,274,841	\$ 9,616,300
COST OF REVENUES	(556,265)	(1,275,292)	(2,519,753)	(3,412,306)
Gross profit	1,567,138	2,320,011	5,755,088	6,203,994
OPERATING EXPENSES				
Selling	370,208	478,095	1,231,566	1,466,178
General and administrative	1,051,901	940,108	3,080,224	3,049,606
Research and development	526,325	592,185	1,748,597	1,956,532
Total operating expenses	1,948,434	2,010,388	6,060,387	6,472,316
Income (loss) from operations	(381,296)	309,623	(305,299)	(268,322)
OTHER INCOME (EXPENSE)				
Interest income	-	9	-	37
Interest expense	-	(3,667)	-	(8,667)
Other expense	-	-	-	-
	-	(3,658)	-	(8,630)
Net (loss) income	\$ (381,296)	\$ 305,965	\$ (305,299)	\$ (276,952)
PER SHARE INFORMATION				
Net (loss) income per common share -				
Basic	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.01)
Diluted	\$ (0.01)	\$ 0.01	\$ (0.01)	\$ (0.01)
Weighted average common shares used in computing per share amounts -				
Basic	27,523,587	27,409,630	27,482,865	27,175,909
Diluted	27,523,587	27,703,484	27,482,865	27,175,909

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2012

(Unaudited)

	Common Stock Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, January 1, 2012	27,462,504	\$27,462	\$100,699,156	\$(80,971,222)	\$19,755,396
Stock-based compensation expense	-	-	47,262	-	47,262
Exercise of stock options	261,763	262	130,186	-	130,448
Net loss	-	-	-	(305,299)	(305,299)
BALANCE, September 30, 2012	27,724,267	\$27,724	\$100,876,604	\$(81,276,521)	\$19,627,807

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.**CONSOLIDATED STATEMENTS OF CASH FLOWS**

(Unaudited)

	Nine months ended September 30,	
	2012	2011
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (305,299)	\$ (276,952)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	824,589	847,654
Provision for doubtful accounts	-	3,233
Noncash stock-based compensation expense	47,262	11,997
Amortization of debt discount	-	6,667
Changes in assets and liabilities:		
(Increase) decrease in accounts receivable	1,175,746	(473,841)
(Increase) decrease in inventory	(105,973)	(30,045)
(Increase) decrease in other current assets	(7,599)	12,598
(Increase) decrease in other assets	-	1,045
(Decrease) increase in accounts payable and accrued expenses	(935)	439,745
(Decrease) increase in deferred revenue	(338,249)	(567,599)
(Decrease) increase in deferred rent	(5,608)	70,148
Net cash provided by operating activities	1,283,934	44,650
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(71,024)	(45,630)
Net cash used in investing activities	(71,024)	(45,630)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Repayment of notes payable	-	(200,000)
Net proceeds from issuance of common stock from exercise of stock options	130,448	226,755
Net cash provided by financing activities	130,448	26,755
Increase in cash and cash equivalents	1,343,358	25,775
CASH AND CASH EQUIVALENTS, beginning of period	1,394,148	1,488,904
CASH AND CASH EQUIVALENTS, end of period	\$ 2,737,506	\$ 1,514,679

SUPPLEMENTAL CASH FLOW INFORMATION

Cash paid during the period for:

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Income taxes	\$ 6,000	\$ -
Interest	\$ -	\$ 2,000

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa, Inc. (the “Company” or “Intellicheck”) is a leading technology company that is engaged in developing 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 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. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys (Aegeus), which is a wireless security buoy system for the government, military and oil industry.

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

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 Rule 8-03 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, 2012 and the results of its operations for the three and nine months ended September 30, 2012 and 2011, stockholders' equity for the nine months ended September 30, 2012 and cash flows for the nine months ended September 30, 2012 and 2011. 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 three and nine month periods ended September 30, 2012, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2012.

The balance sheet as of December 31, 2011 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, 2011.

Recently Issued Accounting Pronouncements

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. The provisions of ASU 2011-04 were effective for public entities prospectively for interim and annual periods beginning after December 15, 2011. The Company adopted ASU 2011-04 during the first quarter of fiscal 2012 and it did not 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. In the current period, ASU 2011-05 had no 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. There were no cash equivalents held on September 30, 2012 and December 31, 2011.

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 guidance under ASU 2011-8, which allows the Company to complete a quantitative analysis to determine whether it is necessary to perform the two step qualitative impairment test.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog from the acquisition of Mobilisa and Positive Access. 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. There were no impairment charges recognized during the nine months ended September 30, 2012 and 2011.

Financial Instruments

The Company adheres to the provisions of ASC Topic 820, which requires that the Company to 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 September 30, 2012 and December 31, 2011, the carrying value of the Company's 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.

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.

In March 2012, there were modifications made to an existing research and development contract which were applied retroactively. The change in terms effectively increased the amounts to be billed under the terms of the contract dating back to September 2011. Prior invoices were revised to reflect the change in contract billing terms which increased revenue a total of \$65,390 related to the prior year. The Company determined that the change in contract terms and resulting additional billings related to 2011 did not constitute an accounting error.

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 four years.

Business Concentrations and Credit Risk

During the three and nine month periods ended September 30, 2012, the Company made sales to four customers that accounted for approximately 37% and 49% of total revenues, respectively. These revenues resulted from a few large sales across our product mix, from commercial and government Defense ID to buoys. These customers represented 59% of total accounts receivable at September 30, 2012. 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 telecommunications company. These customers represented 32% of total accounts receivable at September 30, 2011.

Net (Loss) Income Per Share

Basic net (loss) income per share is computed by dividing the net (loss) income for the period by the weighted average number of common shares outstanding during the period. Diluted net (loss) income per share is computed by dividing the net (loss) income 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 (loss) income per share excludes all anti-dilutive shares.

	Three Months Ended September 30, 2012		Nine months ended September 30, 2011	
Numerator:				
Net (loss) income	\$(381,296) \$305,965	\$(305,299) \$(276,952)
Denominator:				
Weighted average common shares – basic	27,523,587	27,409,630	27,482,865	27,175,909
Dilutive effect of equity incentive plans	-	293,854	-	-
Weighted average common shares – diluted	27,523,587	27,703,484	27,482,865	27,175,909
Net (loss) income per share				
Basic	\$(0.01) \$0.01	\$(0.01) \$(0.01)
Diluted	\$(0.01) \$0.01	\$(0.01) \$(0.01)

The following table summarizes the common stock equivalents excluded from income (loss) per diluted share because their effect would be anti-dilutive because the exercise prices of these common stock equivalents exceeded the average market price of the Company's common stock:

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Stock options	935,635	817,317	935,635	1,270,465
Warrants	-	-	-	-
	935,635	817,317	935,635	1,270,465

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.

3. INTANGIBLE ASSETS

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,	
	2012	2011	2012	2011
Cost of revenues	\$192,853	\$196,188	\$578,562	\$591,896
General and administrative	36,896	39,916	114,203	119,758
	\$229,749	\$236,104	\$692,765	\$711,654

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 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 September 30, 2012) plus 1.25%. Interest is payable monthly and the principal is due upon maturity on August 17, 2013. At September 30, 2012, there were no amounts outstanding and unused availability under the facility was \$0.7 million.

5. INCOME TAXES

As of September 30, 2012, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately \$38.1 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.

The effective tax rate for the nine months ended September 30, 2012 and 2011 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

6. SHARE 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.

Stock-based compensation expense for the three and nine months ended September 30, 2012 and 2011 is as follows:

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Compensation cost recognized:				
Stock options	\$ 5,986	\$ 19,582	\$47,262	\$(17,899)
Restricted stock	-	-	-	29,896
	\$ 5,986	\$ 19,582	\$47,262	\$ 11,997

Stock-based compensation included in operating expenses is as follows:

	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Selling	\$ 748	\$ 4,155	\$8,468	\$(34,327)
General and administrative	1,563	9,476	15,225	58,384
Research & development	3,675	5,951	23,569	(12,060)
	\$ 5,986	\$ 19,582	\$47,262	\$ 11,997

7. LEGAL PROCEEDINGS

The Company is not aware of any infringement by the Company's 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.

8. 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.

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 is terminated without cause, if he resigns with "good reason" (as defined in the agreement), or if he is terminated as a result of a change of control, he would be 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 has a term of two years. On April 1, 2012, Mr. Mundy resigned from the Company. In lieu of the above mentioned agreement, he received a consulting agreement which has a term of nine months. The provisions of the original agreement apply should the Company have a change in control during the consulting period.

9. 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, 2012, total rental payments for this office space were \$0 and \$42,750, respectively, because the third quarter's rent of \$22,075 was accrued but not paid until October, 15, 2012. 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.

10. SUBSEQUENT EVENT

As previously reported in a press release and on a Form 8-K dated November 13, 2012, Steve Williams, President and CEO of the Company was separated from his position as President and CEO effective November 13, 2012. Dr. Nelson Ludlow has been appointed to serve as President and CEO and director Michael D. Malone, Vice Admiral, US Navy, Retired, will serve as Chairman of the Board of Directors, each effective November 13, 2012.

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 three and nine month periods ended September 30, 2012 and 2011. 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, 2011. 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, Inc. (the “Company” or “Intellicheck”) is a leading technology company that is engaged in developing 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 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. Wireless products include Wireless Over Water (WOW), Floating Area Network (FAN), AIRchitect and Wireless Buoys (Aegeus), which is a wireless security buoy system for the government, military and oil industry.

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.

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.

In March 2012, there were modifications made to an existing research and development contract which were applied retroactively. The change in terms effectively increased the amounts to be billed under the terms of the contract dating back to September 2011. Prior invoices were revised to reflect the change in contract billing terms which increased revenue a total of \$65,390 related to the prior year. The Company determined that the change in contract terms and resulting additional billings related to 2011 did not constitute an accounting error.

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 four 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, 2012, 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, 2012 to the three months ended September 30, 2011

Revenues for quarter ended September 30, 2012 decreased 41% to \$2,123,000 compared to \$3,595,000 for the previous year.

	Three months ended September 30,		
	2012	2011	% Change
Identity Systems	\$ 1,572,000	\$ 3,421,000	(54)
Wireless	551,000	174,000	217
	\$ 2,123,000	\$ 3,595,000	(41)

The decrease in Identity Systems revenues in the third quarter of 2012 is primarily the result of decreased Fugitive Finder and Defense ID sales to military bases. The increase in Wireless revenue in the third quarter of 2012 is attributable to the timing on the funding of the FAN/buoy contract which expired as of June 30, 2011 and the new funding was not awarded until mid-September, 2011. Total booked orders were \$1.4 million in the third quarter of 2012 compared to \$6.2 million in the third quarter of 2011. As of September 30, 2012, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately \$0.3 million at September 30, 2012, compared to \$3.3 million at September 30, 2011. Backlog at December 31, 2011 was \$2.7 million. The decrease is due to the FAN/buoy funding awarded in mid-September, 2011, which added an unusually large amount on the backlog.

Our gross profit as a percentage of revenues was 73.8% for the three months ended September 30, 2012 compared to 64.5% for the three months ended September 30, 2011. The increase in the percentage is primarily a result of a change in product mix: The decrease in Identity Systems revenue in 2012 was primarily related to 2011 equipment sales.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$62,000 or 3% to \$1,948,000 for the three months ended September 30, 2012 compared to \$2,010,000 for the three months ended September 30, 2011. Selling expenses for the quarter decreased by \$108,000 resulting from lower overall salaries and commissions, and from general cost reduction measures. General and administrative expenses increased by \$112,000 because of increased salaries for business development, bids and proposals, and professional services. Research and development costs decreased \$66,000 primarily because of a decrease in personnel.

Interest income was insignificant in the three month periods ended September 30, 2012 and 2011.

Interest expense for the three months ending September 30, 2012 was \$0 compared to \$4,000 for the same period last year. The 2011 expense represented the interest and amortization of deferred debt discount on the notes payable to the former principals of Positive Access, which has been paid in full.

As a result of the net loss, no provision for income tax has been made for the three months ended September 30, 2012.

As a result of the factors noted above, the Company generated a net loss of \$381,000 for the three months ended September 30, 2012 as compared to net income of \$306,000 for the three months ended September 30, 2011.

Comparison of the nine months ended September 30, 2012 to the nine months ended September 30, 2011

Revenues decreased by 14%, to \$8,275,000 for the nine months ended September 30, 2012 from \$9,616,000 for the nine months ended September 30, 2011.

	Nine months ended September 30,		
	2012	2011	% Change
Identity Systems	\$ 6,341,000	\$ 7,458,000	(15)
Wireless R&D	1,934,000	2,158,000	(10)
	\$ 8,275,000	\$ 9,616,000	(14)

The decrease in Identity Systems revenues in 2012 is primarily the result of decreased Fugitive Finder and Defense ID sales to military bases. The decrease in Wireless revenue in 2012 is the result of decreased direct equipment buoy sales.

Our gross profit as a percentage of revenues was 69.5% for the nine months ended September 30, 2012 compared to 64.5% for the nine months ended September 30, 2011. The increase in the percentage is primarily a result of changes in the product mix as discussed in the three month period discussed above.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$412,000 or 6% to \$6,060,000 for the nine months ended September 30, 2012 from \$6,472,000 for the nine months ended September 30, 2011. Selling expenses decreased by \$234,000 principally because of the decrease in Defense ID military sales. General and administrative expenses increased by \$30,000 primarily because of an increase in salaries for business development, bids and proposals, and professional services. Research and development costs decreased by \$208,000 because of a decrease in personnel.

Interest income was insignificant in both periods presented.

Interest expense for the nine months ending September 30, 2012 was \$0 compared to \$9,000 for the same period last year. The 2011 expense represented the interest and amortization of deferred debt discount on the notes payable to the former principals of Positive Access, which has been paid in full.

Because of the net loss, no provision for income tax has been made for the nine months ended September 30, 2012.

As a result of the factors noted above, the Company generated a net loss of \$305,000 for the nine months ended September 30, 2012 as compared to a net loss of \$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, 2012, the Company had cash and cash equivalents of \$2,738,000, working capital (defined as current assets minus current liabilities) of \$2,644,000, total assets of \$22,473,000 and stockholders' equity of \$19,628,000.

During the nine months ended September 30, 2012, the Company generated net cash from operating activities of \$1,284,000 compared to \$45,000 in the nine months ended September 30, 2011. Cash used by investing activities was \$71,000 for the nine months ended September 30, 2012 compared to \$46,000 for the nine months ended September 30, 2011. Cash provided by financing activities was \$130,000 during the period ended September 30, 2012 compared to \$27,000 in the same period last year.

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 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. At September 30, 2012, there were no outstanding borrowings and unused availability under the facility was \$0.7 million.

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 capital 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, 2012, the Company had net operating loss carryforwards (“NOL’s”) for federal and New York state income tax purposes of approximately \$38.1 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 income 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) income to Adjusted EBITDA follows:

	(Unaudited)			
	Three Months Ended		Nine months ended	
	September 30,		September 30,	
	2012	2011	2012	2011
Net (loss) income	\$ (381,296)	\$ 305,965	\$ (305,299)	\$ (276,952)
Reconciling items:				
Interest - net	-	3,658	-	8,630
(Benefit) provision for income taxes	-	-	-	-
Depreciation and amortization	273,125	280,948	824,589	847,654
Stock-based compensation costs	5,986	19,582	47,262	11,997
Adjusted EBITDA	\$ (102,185)	\$ 610,153	\$ 566,552	\$ 591,329

Off-Balance Sheet Arrangements

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

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 in one financial institution. The Company performs periodic evaluations of the relative credit standing of this institution.

Item 4. 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, 2012, 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 2012 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

None.

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 2011 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. MINE SAFETY DISCLOSURES

Not applicable.

Item 5. OTHER INFORMATION

None

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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	18 U.S.C. Section 1350 Certifications

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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 14, 2012 INTELLICHECK MOBILISA, INC.

By: /s/ Dr. Nelson Ludlow
Dr. Nelson Ludlow
Chief Executive Officer

By: /s/ Bill White
Bill White
Chief Financial Officer
(Principal Financial and Accounting Officer)