

Intellicheck Mobilisa, Inc.
Form 10-Q
May 13, 2014

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 March 31, 2014

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 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 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 <input type="checkbox"/>	Accelerated filer <input type="checkbox"/>	Non-accelerated filer <input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company <input checked="" type="checkbox"/>
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Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

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

Class	Outstanding at May 13, 2014
Common Stock, \$.001 par value	39,461,467

INTELLICHECK MOBILISA, INC.

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Exhibits

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
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

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

	March 31 2014 (Unaudited)	December 31, 2013
CURRENT ASSETS:		
Cash and cash equivalents	\$2,670,764	\$224,386
Accounts receivable, net of allowance of \$0 as of both March 31, 2014, and December 31, 2013	954,357	1,041,519
Inventory	91,787	54,677
Other current assets	106,400	107,519
Total current assets	3,823,308	1,428,101
PROPERTY AND EQUIPMENT, net	340,886	369,095
GOODWILL	12,308,661	12,308,661
INTANGIBLE ASSETS, net	3,566,374	3,724,354
OTHER ASSETS	72,006	72,006
Total assets	\$20,111,235	\$17,902,217

LIABILITIES AND STOCKHOLDERS' EQUITY**CURRENT LIABILITIES:**

Accounts payable	\$154,207	\$478,588
Accrued expenses	655,107	701,928
Deferred revenue, current portion	1,013,674	967,912
Total current liabilities	1,822,988	2,148,428

OTHER LIABILITIES

Deferred revenue, long-term portion	194,335	233,732
Deferred rent	156,199	163,753

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Total liabilities	2,173,522	2,545,913
STOCKHOLDERS' EQUITY:		
Common stock - \$.001 par value; 40,000,000 shares authorized; 36,844,467 and 27,897,467 shares issued and outstanding, respectively	36,844	27,897
Additional paid-in capital	104,466,117	100,983,971
Accumulated deficit	(86,565,248)	(85,655,564)
Total stockholders' equity	17,937,713	15,356,304
Total liabilities and stockholders' equity	\$20,111,235	\$17,902,217

See accompanying notes to consolidated financial statements

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

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
REVENUES	\$1,092,049	\$1,632,875
COST OF REVENUES	(362,647)	(738,326)
Gross profit	729,402	894,549
OPERATING EXPENSES		
Selling	298,054	280,115
General and administrative	910,653	1,027,743
Research and development	430,523	507,734
Total operating expenses	1,639,230	1,815,592
Loss from operations	(909,828)	(921,043)
OTHER INCOME (EXPENSE)		
Interest income	223	15
Interest expense	(79)	-
Loss	\$(909,684)	\$(921,028)
PER SHARE INFORMATION		
Loss per common share -		
Basic	\$(0.03)	\$(0.03)
Diluted	\$(0.03)	\$(0.03)
Weighted average common shares used in computing per share amounts -		
Basic	35,452,711	27,724,267
Diluted	35,452,711	27,724,267

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the three months ended March 31, 2014

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, January 1, 2014	27,897,467	\$27,897	\$100,983,971	\$(85,655,564)	\$15,356,304
Stock option compensation			2,286		2,286
Issuance of common stock	8,947,000	8,947	3,479,860		3,488,807
Net loss	-	-	-	(909,684)	(909,684)
BALANCE, March 31, 2014	36,844,467	\$36,844	\$104,466,117	\$(86,565,248)	\$17,937,713

See accompanying notes to consolidated financial statements

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

(Unaudited)

	Three Months Ended March 31,	
	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net Loss	\$(909,684)	\$(921,028)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	197,338	270,316
Noncash stock-based compensation expense	2,286	4,784
Changes in assets and liabilities:		
Decrease in accounts receivable	87,162	207,146
(Increase) Decrease in inventory	(37,110)	187,921
Decrease (Increase) in other current assets	1,119	(27,095)
(Decrease) in accounts payable, accrued expenses	(371,202)	(59,727)
Increase (Decrease) in deferred revenue	6,365	(260,786)
(Decrease) in deferred rent	(7,554)	(4,448)
Net cash (used in) operating activities	(1,031,280)	(602,917)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of property and equipment	(11,149)	(5,762)
Net cash used in investing activities	(11,149)	(5,762)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	3,488,807	-
Net cash provided by financing activities	3,488,807	-
Net Increase (Decrease) in cash and cash equivalents	2,446,378	(608,679)
CASH AND CASH EQUIVALENTS, beginning of period	224,386	1,685,879
CASH AND CASH EQUIVALENTS, end of period	\$2,670,764	\$1,077,200

SUPPLEMENTAL CASH FLOW INFORMATION

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 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 enterprise wireless system installation in rural areas of the country.

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 March 31, 2014 and the results of its operations for the three months ended March 31, 2014 and 2013, stockholders' equity for the three months ended March 31, 2014 and cash flows for the three months ended March 31, 2014 and 2013. 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 month period ended March 31, 2014, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2014.

The balance sheet as of December 31, 2013 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" is 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, 2013.

Recently Issued Accounting Pronouncements

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

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 March 31, 2014 and December 31, 2013.

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 qualitative analysis to determine whether it is necessary to perform the two step quantitative 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 three months ended March 31, 2014 and 2013.

Income Taxes

The Company accounts for income taxes under in accordance with ASC Topic 740, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The Company has recorded a full valuation allowance for its net deferred tax assets as of March 31, 2014 and December 31, 2013, due to the uncertainty of the realizability of those assets.

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 and accrued expenses. At March 31, 2014 and December 31, 2013, 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.

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 month period ended March 31, 2014, the Company made sales to one customer that accounted for approximately 17% of total revenues. The revenue was associated with a commercial ID Check sale. This customer represented 21% of total accounts receivable at March 31, 2014. During the three month period ended March 31, 2013, the Company made sales to one customer that accounted for approximately 16% of total revenues. The revenue was associated with an enterprise wireless installation contract focused upon bringing high speed wireless internet access to rural communities in Washington State. This customer represented 21% of total accounts receivable at March 31, 2013.

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	
	March 31,	
	2014	2013
Numerator:		
Net Loss	\$ (909,684)	\$ (921,028)
Denominator:		
Weighted average common shares – basic	35,452,711	27,724,267
Dilutive effect of equity incentive plans	-	-
Weighted average common shares – diluted	35,452,711	27,724,267
Net Loss per share		
Basic	\$ (0.03)	\$ (0.03)
Diluted	\$ (0.03)	\$ (0.03)

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 March 31,	
	2014	2013
Stock options	299,486	627,405
Warrants	389,000	-
	688,486	627,405

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 March 31,	
	2014	2013
Cost of sales	\$ 124,028	\$ 192,854
General and administrative	33,952	33,952
	\$ 157,980	\$ 226,806

4. REVOLVING LINE OF CREDIT

On August 17, 2011, the Company entered into a 2-year revolving credit facility with Silicon Valley Bank. On August 15, 2013, it renewed this facility for an additional year. The maximum borrowing under the facility is \$2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company's assets. The facility bears interest at a rate of U.S. prime (3.25% at March 31, 2014) plus 1.25% - 1.75%, depending on the Company's cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2014. At March 31, 2014, there were no amounts outstanding, the Company is in compliance with its covenants, and unused availability under the facility was approximately \$516,618.

The facility contains a tangible net worth covenant requiring that, as of each monthly reporting, total assets minus intangible assets minus capitalized software development costs minus total liabilities plus subordinated debt is at least equal to \$(800,000), starting October 31, 2013, and increasing immediately by 50% for new debt or equity received and 50% of quarterly net income (with no reduction for losses). As of March 31, 2014, the tangible net worth requirement was approximately \$1,022,000.

5. INCOME TAXES

As of March 31, 2014, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately \$41.9 million. There can be no assurance that the Company will realize any 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 2030 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 three months ended March 31, 2014 and 2013 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.

All stock-based compensation is included in operating expenses for the periods as follows:

	Three Months Ended March 31, 2014 2013	
Compensation cost recognized:		
Selling	\$-	\$499
General & Administrative	970	1,314
Research & Development	1,316	2,971
	\$2,286	\$4,784

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

	Number of Shares Subject to Issuance	Weighted- average Exercise Price	Weighted- average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2013	327,486	\$ 2.31	2.42 years	\$ 12,100
Granted	-	-		
Forfeited or expired	(28,000)	1.36		
Exercised	-	-		
Outstanding at March 31, 2014	299,486	\$ 2.40	2.39 years	\$ 58,300
Exercisable at March 31, 2014	213,736	\$ 3.19	1.79 years	\$ 14,575

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 period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had they all exercised their options on March 31, 2014. This amount changes based upon the fair market value of the Company's stock.

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As of March 31, 2014, there was \$23,137 of total unrecognized compensation expense, net of estimated forfeitures, related to all unvested stock options and restricted stock, which is expected to be recognized over a weighted-average period of 3.86 years.

As of March 31, 2014, the Company had 1,714,112 options available for future grants 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 the time to option expiration. 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 March 31,	
	2014	2013
Weighted average fair value of grants	\$0.00	\$0.29
Valuation assumptions:		
Expected dividend yield	0	0.00 %
Expected volatility	0	100.4%
Expected life (in years)	0	5.00
Risk-free interest rate	0	0.77 %

No options were granted during the three months ended March 31, 2014.

7. ISSUANCE OF COMMON STOCK

On January 14, 2014, the Company completed a public offering of 8,947,000 shares of common stock at a price to the public of \$0.45 per share. The number of shares the Company sold includes the underwriters' full exercise of their over-allotment option of 1,167,000 shares. Net proceeds to the Company from the offering, before expenses, were approximately \$3,644,000. The underwriter received a warrant to purchase 389,000 shares of common stock, at the price of \$0.56 (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering.

8. 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.

9. COMMITMENTS AND CONTINGENCIES

In March 2009, the Company entered into an agreement with an investor relations firm. 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.

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

Company. In lieu of the above mentioned agreement, the Company entered into a consulting agreement with Mr. Mundy which had a term of nine months at \$15,250 per month. Pursuant to this agreement, the final payment was made January 4, 2013.

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 months ended March 31, 2014 and 2013, total rental payments for this office space were \$22,075 and \$22,075, respectively.

As of March 31, 2014, the Company had \$80,000 in accrued expenses related to board fees for the first quarter of 2014.

11. SUBSEQUENT EVENT

On April 10, 2014, the Company completed a public offering of 2,617,000 shares of common stock at a price to the public of \$0.80 per share. Net proceeds to the Company from the offering, before expenses, were approximately \$2,094,000. Starting April 3, 2014, the underwriter received a 45-day option to purchase up to an aggregate of 392,550 additional shares of common stock to cover over-allotments, if any. The underwriter received a warrant to purchase 130,850 shares of common stock, at a price of \$1.00 per share (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering. The underwriter and certain directors and officers waived the right to exercise an aggregate of 747,252 stock options and warrants until a future date yet to be determined.

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 month periods ended March 31, 2014 and 2013. 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, 2013. 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 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 enterprise wireless system installation in rural areas of the country.

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.

Goodwill

The excess of the purchase consideration over the fair value of the assets of acquired businesses is considered goodwill. Under authoritative guidance, purchased goodwill is not amortized, but rather it is periodically reviewed for impairment. The Company had goodwill of \$12,308,661 at March 31, 2014. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

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

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

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

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

The Company determined that no events occurred or circumstances changed during the three months ended March 31, 2014 that would more likely than not reduce the fair value of the Company below its carrying amounts. The Company will, however, continue to monitor its stock price and operations for any potential indicators of impairment. The Company will conduct its 2014 annual test for goodwill impairment in the fourth quarter.

Revenue Recognition and Deferred Revenue

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

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

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

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

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

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

The Company offers enhanced extended warranties for its sales of hardware and software at a set price. The revenue from these sales are deferred and recognized on a straight-line basis over the contractual period, which is typically one to 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 March 31, 2014, due to the uncertainty of the our ability to realize 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 March 31, 2014 to the three months ended March 31, 2013

Revenues for quarter ended March 31, 2014 decreased 33% to \$1,092,000 compared to \$1,633,000 for the previous year.

	Three months ended		%
	March 31,		
	2014	2013	Change
Identity Systems	\$1,074,000	\$1,360,000	(21)
Wireless	18,000	273,000	(93)
	\$1,092,000	\$1,633,000	(33)

The decrease in Identity Systems revenue in the first quarter of 2014 is primarily the result of no enterprise license sales in 2014 and lower subscriptions for DID. The decrease in Wireless revenue in the first quarter of 2014 is attributable to the fact that no wireless installation projects were in progress in 2014. Total booked orders increased 18% to \$1,095,000 in the first quarter of 2014 compared to \$928,000 in the first quarter of 2013. As of March 31, 2014, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, was approximately \$358,000 compared to \$782,000 at March 31, 2013. As of December 31, 2013, our backlog was approximately \$381,000.

Our gross profit as a percentage of revenues was 66.8% for the three months ended March 31, 2014 compared to 54.8% for the three months ended March 31, 2013. The increase in percentage is due to the decrease in Wireless revenue and, instead, the focus on Identity Systems, which typically have higher margins.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$176,000 or 9.7% to \$1,639,000 for the three months ended March 31, 2014 compared to \$1,816,000 for the three months ended March 31, 2013. Selling expenses increased by \$18,000 resulting from an increase in travel expenses in an effort to penetrate the Company's markets. General and administrative expenses decreased by \$117,000 principally driven by a decrease in salaries, because the Company had three fewer employees in this category in 2014. Research and development costs decreased by \$77,000 principally driven by a decrease in salaries, because the Company had three fewer employees in this category in 2014.

Interest income and interest expense was insignificant in the three month periods ended March 31, 2014 and 2013.

As further explained in Note 5, the Company has a net operating loss carryforward for losses generated in prior years of \$41.9 million and, therefore, no provision for income tax has been made for the three months ended March 31, 2014.

As a result of the factors noted above, the Company generated a net loss of \$910,000 for the three months ended March 31, 2014 compared to a net loss of \$921,000 for the three months ended March 31, 2013.

Intangible Assets

As of March 31, 2014, the Company had no indication of impairment of any of its definite-lived intangible assets.

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

As of March 31, 2014, the Company had cash and cash equivalents of \$2,671,000, working capital (defined as current assets minus current liabilities) of \$2,000,000, total assets of \$20,111,000 and stockholders' equity of \$17,938,000.

During the three months ended March 31, 2014, the Company used net cash of \$1,031,000 in operating activities compared to net cash used of \$603,000 in the three months ended March 31, 2013, driven by decreasing accounts payable in 2014. Cash used by investing activities was \$11,000 for the three months ended March 31, 2014 compared to \$6,000 for the three months ended March 31, 2013. Cash provided by financing activities was \$3,489,000 for the three months ended March 31, 2014, driven by the issuance of common stock discussed in Note 7, compared to \$0 for the three months ended March 31, 2013.

As discussed in Note 10, Related Party Transactions, as of March 31, 2014, the Company had \$80,000 in accrued expenses related to board fees for the first three quarters of 2014.

On August 17, 2011, the Company entered into a revolving credit facility with Silicon Valley Bank. On August 15, 2013, it renewed this facility for an additional year. The maximum borrowing under the facility is \$2 million. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company's assets. The facility bears interest at a rate of U.S. prime (3.25% at March 31, 2014) plus 1.25% - 1.75%, depending on the Company's cash plus availability. Interest is payable monthly and the principal is due upon maturity on October 15, 2014. At March 31, 2014, there were no amounts outstanding and unused availability under the facility was approximately \$517,000.

On January 14, 2014, the Company completed a public offering of 8,947,000 shares of common stock at a price to the public of \$0.45 per share. The number of shares the Company sold includes the underwriters' full exercise of their over-allotment option of 1,167,000 shares. Net proceeds to the Company from the offering, before expenses, were approximately \$3,644,000. The underwriter received a warrant to purchase 389,000 shares of common stock, at the price of \$0.56 (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering.

On April 10, 2014, the Company completed a public offering of 2,617,000 shares of common stock at a price to the public of \$0.80 per share. Net proceeds to the Company from the offering, before expenses, were approximately \$2,094,000. Starting April 3, 2014, the underwriter received a 45-day option to purchase up to an aggregate of 392,550 additional shares of common stock to cover over-allotments, if any. The underwriter received a warrant to purchase 130,850 shares of common stock, at a price of \$1.00 per share (125% of the price of the shares sold in the offering), which will be exercisable one year after the date of the offering and will expire on the fifth anniversary of that offering.

We currently anticipate that our available cash, as well as expected cash from operations and availability under the current credit facility with Silicon Valley Bank, 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 filed a universal shelf registration statement on Form S-3 with the Securities and Exchange Commission ("SEC"), which became effective July 6, 2010. Under the shelf registration statement, the Company may offer and sell, from time to time in the future in one or more public offerings, its common stock, preferred stock, warrants, and units. The aggregate initial offering price of all securities sold by the Company will not exceed \$25,000,000, and, pursuant to SEC rules, the Company may only sell up to one-third of the market cap held by non-affiliate stockholders in any 12-month period. The Company renewed its registration with the SEC on July 31, 2013.

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

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

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

Net Operating Loss Carry Forwards

As of March 31, 2014, the Company had net operating loss carryforwards (“NOL’s”) for federal and New York state income tax purposes of approximately \$41.9 million. There can be no assurance that the Company will realize any 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 2030, 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 (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	
	March 31,	
	2014	2013
Net Income (Loss)	\$(909,684)	\$(921,028)
Reconciling items:		
Interest – net	144	(15)
Depreciation and amortization	197,338	270,316
Stock-based compensation costs	2,286	4,784
Adjusted EBITDA	\$(709,916)	\$(645,943)

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 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 March 31, 2014, 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 first quarter of 2014 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 2013 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

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
101.INS*	XBRL Instance Document
101.SCH*	XBRL Taxonomy Extension Schema
101.CAL*	XBRL Taxonomy Extension Calculation Linkbase
101.DEF*	XBRL Taxonomy Extension Definition Linkbase
101.LAB*	XBRL Taxonomy Extension Label Linkbase
101.PRE*	XBRL Taxonomy Extension Presentation Linkbase

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

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: May 13, 2014 INTELLICHECK MOBILISA, INC.

By: /s/ Nelson Ludlow
Nelson Ludlow, PhD
Chief Executive Officer

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