Intelli Check Mobilisa, Inc
Form 10-Q
August 12, 2008

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

Form 10-Q

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

For the quarterly period ended June 30, 2008

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

Intelli-Check – Mobilisa, Inc.
(Exact name of Registrant as specified in its charter)

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

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

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

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

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

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

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

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

Class	Outstanding at August 11, 2008
Common Stock, $.001 par value	25,180,109

INTELLI-CHECK - MOBILISA, INC.

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PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLI-CHECK – MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

	June 30, 2008 (Unaudited)	December 31, 2007
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 1,253,363	$ 392,983
Marketable securities and short-term investments	800,000	1,650,000
Accounts receivable, net of allowance of $10,000 as of June 30, 2008 and December 31, 2007	1,784,436	1,076,732
Inventory	143,959	62,784
Other current assets	382,356	543,571
Total current assets	4,364,114	3,726,070
PROPERTY AND EQUIPMENT, net	535,132	81,464
GOODWILL	37,615,522	-
INTANGIBLE ASSETS, net	13,986,728	23,961
DEFERRED ACQUISITION COSTS	-	208,000
OTHER ASSETS	52,835	34,916
Total assets	$ 56,554,331	$ 4,074,411
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$ 340,138	$ 150,099
Accrued expenses	672,664	533,609
Deferred revenue	1,772,350	1,278,869
Income taxes payable	168,732	-
Total current liabilities	2,953,884	1,962,577
OTHER LIABILITIES	785,560	91,681
Total liabilities	3,739,444	2,054,258
STOCKHOLDERS' EQUITY:		
Common stock - $.001 par value; 40,000,000 shares authorized; 25,174,654 and 12,281,728 shares issued and outstanding, respectively	25,175	12,282
Additional paid-in capital	98,114,510	46,668,941
Accumulated deficit	(45,324,798)	(44,661,070)
Total stockholders' equity	52,814,887	2,020,153

Total liabilities and stockholders’ equity	$	56,554,331	$	4,074,411

See accompanying notes to financial statements

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INTELLI-CHECK – MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
REVENUES	$ 2,709,998	$ 739,476	$ 3,863,132	$ 1,424,595
COST OF REVENUES	(670,082)	(249,859)	(1,005,572)	(487,162)
Gross profit	2,039,916	489,617	2,857,560	937,433
OPERATING EXPENSES				
Selling	472,083	440,657	717,943	805,920
General and administrative	1,123,328	856,683	1,838,150	1,360,251
Research and development	667,710	293,385	1,007,014	550,045
Total operating expenses	2,263,121	1,590,725	3,563,107	2,716,216
Loss from operations	(223,205)	(1,101,108)	(705,547)	(1,778,783)
Interest income	10,941	42,840	41,819	98,082
Net loss	$ (212,264)	$ (1,058,268)	$ (663,728)	$ (1,680,701)
PER SHARE INFORMATION				
Net loss per common share - Basic and diluted	$ (0.01)	$ (0.09)	$ (0.03)	$ (0.14)
Weighted average common shares used in computing per share amounts - Basic and diluted	24,754,483	12,250,209	19,665,293	12,244,188

See accompanying notes to financial statements

INTELLI-CHECK – MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$ (663,728)	$ (1,680,701)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	523,641	18,942
Noncash stock-based compensation expense	212,888	376,075
Changes in assets and liabilities:		
Decrease (increase) in accounts receivable	676,017	(34,171)
Increase in inventory	(18,681)	(51,505)
Decrease (increase) in other current assets	191,184	(10,448)
Increase in other assets	(149,862)	-
(Decrease) increase in accounts payable and accrued expenses	(252,250)	87,191
(Decrease) increase in deferred revenue	(562,734)	140,533
Decrease in income taxes payable	(476,394)	-
Decrease in other liabilities	-	(75,000)
Net cash used in operating activities	(519,919)	(1,229,084)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of marketable securities and short-term investments	-	(2,737,000)
Sales of marketable securities and short-term investments	850,000	4,648,137
Purchases of property and equipment	(87,225)	(20,293)
Cash of Mobilisa, Inc., at date of acquisition	335,836	-
Net cash provided by investing activities	1,098,611	1,890,844
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock from exercise of stock options and warrants	281,688	232,359
Net cash provided by financing activities	281,688	232,359
Increase in cash and cash equivalents	860,380	894,119
CASH AND CASH EQUIVALENTS, beginning of period	392,983	526,917
CASH AND CASH EQUIVALENTS, end of period	$ 1,253,363	$ 1,421,036

Supplemental schedule of noncash investing and financing activities: On March 14, 2008, the Company acquired all of the common stock of Mobilisa, Inc. by issuing common stock and options in the amount of $50,963,886.
See accompanying notes to financial statements

INTELLI-CHECK – MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the Six months ended June 30, 2008
(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, January 1, 2008	12,281,728	$ 12,282	$ 46,668,941	$ (44,661,070)	$ 2,020,153
Stock-based compensation expense			212,888		212,888
Issuance of common stock for the acquisition of Mobilisa, Inc.	12,281,650	12,282	50,951,604		50,963,886
Exercise of options	611,276	611	281,077		281,688
Net loss	-	-	-	(663,728)	(663,728)
BALANCE, June 30, 2008	25,174,654	25,175	$ 98,114,510	$ (45,324,798)	$ 52,814,887

See accompanying notes to financial statements

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INTELLI-CHECK – MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business

Intelli-Check - Mobilisa, Inc. (the “Company” or “Intelli-Check” or “We”) is a leading technology company in developing and marketing wireless technology and identity systems for various applications including: mobile and handheld wireless devices for the government, military and commercial markets. Products include the Defense ID systems, an advanced ID card access-control product that is currently protecting over 50 military and federal locations and ID-Check a technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issue IDs from approximately 60 jurisdictions in the U.S. and Canada to determine if the content and format are valid.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly owned subsidiary, Mobilisa, Inc. (“Mobilisa”). The acquisition of Mobilisa was completed on March 14, 2008, and therefore Mobilisa’s results of operations are included in the financial statements for the period March 15 through June 30, 2008. All intercompany balances and transactions have been eliminated upon consolidation.

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Article 10 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at June 30, 2008 and the results of its operations for the three and six months ended June 30, 2008 and 2007, stockholders’ equity for the six months ended June 30, 2008 and cash flows for the six months ended June 30, 2008 and 2007. 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 six month periods ended June 30, 2008, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2008.

The balance sheet as of December 31, 2007 has been derived from the audited financial statements at that date but does not include all of the information and notes required by accounting principles generally accepted in the United States of America for complete financial statements.

For further information, refer to the financial statements and notes thereto included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2007.

Liquidity

The Company anticipates that its cash on hand, marketable securities and cash resources from expected revenues from the sale of the units in inventory and the licensing of its technology will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. These requirements are expected to include the purchase of inventory, product development, sales and marketing expenses, working capital requirements and other general corporate purposes. The Company may need to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for its technology, enhance its operating infrastructure, respond to competitive pressures, or acquire complementary businesses or 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.

Recently Issued Accounting Pronouncements

In September 2006, the Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards (“SFAS”) No. 157, “Fair Value Measurements,” which is effective for calendar year companies on January 1, 2008. The Statement defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In February 2008, the FASB issued FASB Staff Position (“FSP”) No. FAS 157-2, “Effective Date of FASB Statement No. 157” (“FSP FAS 157-2”), which delays the effective date of SFAS 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on at least an annual basis, until fiscal years beginning after November 15, 2008. The Company is currently evaluating the impact of this pronouncement.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financials Liabilities — Including an Amendment of FASB Statement No. 115”. This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2007. The Company has elected not to adopt the fair value option of SFAS No. 159.

In December 2007, the FASB issued SFAS No. 141 (revised 2007) (SFAS 141R), “Business Combinations.” SFAS 141R replaces SFAS No. 141, “Business Combinations.” SFAS 141R establishes principles and requirements for how an acquirer, a) recognizes and measures the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree, b) recognizes and measures the goodwill acquired and c) determines what information to disclose. SFAS 141R also requires that all acquisition-related costs, including restructuring, be recognized separately from the acquisition. SFAS 141R applies prospectively to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after December 15, 2008. This Statement eliminates adjustments to goodwill for changes in deferred tax assets and uncertain tax positions after the acquisition accounting measurement period (limited to one year from acquisition), including for acquisitions prior to adoption of SFAS 141R. The Company does not expect the adoption of SFAS 141R will have a material impact on the results of its consolidated operations and financial condition.

In December 2007, the FASB also issued SFAS No. 160, “Noncontrolling Interests in Consolidated Financial Statements”. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements and eliminates the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In March 2008, the FASB issued SFAS No. 161, “Disclosures about Derivative Instruments and Hedging Activities,” which changes the disclosure requirements for derivative instruments and hedging activities. SFAS No. 161 requires enhanced disclosures about (a) how and why and entity uses derivative instruments, (b) how derivative instruments and related hedged items are accounted for under SFAS No. 133, “Accounting for Derivative Instruments and Hedging

Activities” and its related interpretations, and (c) how derivative instruments and related hedged items affect an entity’s financial position, financial performance, and cash flows. This statement’s disclosure requirements are effective for fiscal years and interim periods beginning after November 15, 2008. The Company is currently evaluating the impact, if any, that the adoption of SFAS 161 will have on its consolidated results of operations and financial condition.

In June 2007, the FASB issued EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities,” which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The adoption of EITF Issue No. 07-3 did not have a material impact on the consolidated results of operations and financial condition.

In April 2008, the FASB issued Staff Position FSP 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3). FSP 142-3 amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under FASB Statement No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for financial statements issued after December 15, 2008. The Company does not expect the adoption of FSP 142-3 to have a material effect on its consolidated results of operations and financial condition.

In May 2008, the FASB issued FASB Staff Position No. APB 14-1, "Accounting for Convertible Debt Instruments That May Be Settled in Cash upon Conversion (including Partial Cash Settlement)" ("APB 14-1"). APB 14-1 requires that issuers of certain convertible debt instruments that may be settled in cash upon conversion to separately account for the liability and equity components in a manner that will reflect the entity's nonconvertible debt borrowing rate when interest cost is recognized in subsequent periods. The accounting for these types of instruments under APB 14-1 is intended to appropriately reflect the underlying economics by capturing the value of the conversion options as borrowing costs; therefore, recognizing their potential dilutive effects on earnings per share. The effective date of APB 14-1 is for financial statements issued for fiscal years and interim periods beginning after December 15, 2008 and does not permit earlier application. However, the transition guidance requires retrospective application to all periods presented and does not grandfather existing instruments. The Company is currently evaluating the potential impact, if any, the adoption of APB 14-1 may have on its consolidated results of operations and financial condition.

In June 2008, the FASB issued FASB Staff Position EITF 03-6-1, "Determining Whether Instruments Granted in Share-Based Payment Transactions are Participating Securities" ("EITF 03-6-1"). EITF 03-6-1 applies to the calculation of earnings per share for share-based payment awards with rights to dividends or dividend equivalents under Statement No. 128, Earnings Per Share. Unvested share-based payment awards that contain nonforfeitable rights to dividends or dividend equivalents will be considered participating securities and will be included in the computation of earning per share pursuant to the two-class method. The effective date of EITF 03-6-1 is for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those years. Early adoption is not permitted. Once effective, all prior period earnings per share data presented will be adjusted retrospectively. The Company is currently evaluating the potential impact, if any, the adoption of EITF 03-6-1 may have on its consolidated 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 deferred tax valuation allowances and allowance for doubtful accounts. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of June 30, 2008, cash equivalents included money market funds and other liquid short-term debt instruments (with maturities at date of purchase of three months or less) of $742,787.

Marketable Securities and Short Term Investments

The Company classifies its investments in marketable securities as available-for-sale securities and accounts for them in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities". Under SFAS No. 115, securities purchased to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. The Company continually evaluates whether any marketable investments have been impaired and, if so, whether such impairment is temporary or other than temporary. All of the Company's marketable securities have maturities of less than one year with a weighted average interest rate of 1.3%. The carrying value of the marketable securities as of June 30, 2008 approximated their fair market value. Marketable Securities and Short Term Investments are invested in Municipal Auction Rate Securities. Realized gains and losses on available-for-sale securities are calculated using the specific identification method. During the three and six month periods ended June 30, 2008 and 2007, realized gains and losses on available-for-sale securities were insignificant.

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.

Goodwill

Goodwill represents the excess of acquisition cost over the fair value of net assets acquired in business combinations. In accordance with Statement of Financial Accounting Standards ("SFAS") No. 142, "Goodwill and Other Intangible Assets", goodwill is not amortized but reviewed annually for impairment.

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 4. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with SFAS No. 144, "Accounting for Impairment or Disposal of Long-Lived Assets." To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

Revenue Recognition and Deferred Revenue

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

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

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

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

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

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

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.

Business Concentrations and Credit Risk

During the three and six months ended June 30, 2008, the Company made sales to one customer that accounted for approximately 31% and 26% of total revenues, respectively. These revenues result from a research contract with the U.S. government. During the three and six months ended June 30, 2007, the Company made sales to one customer that accounted for approximately 21% and 15% of total revenues, respectively.

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

Note 2. Acquisition of Mobilisa, Inc.

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

	Three Months Ended June 30, 2008	Three Months Ended June 30, 2007	Six Months Ended June 30, 2008	Six Months Ended June 30, 2007
Revenues	$ 2,709,998	$ 2,056,807	$ 4,910,042	$ 3,439,725
Net loss	$ (212,264)	$ (1,320,527)	$ (1,506,281)	$ (2,506,601)
Net loss per share	$ (0.01)	$ (0.05)	$ (0.06)	$ (0.10)

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

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

Purchase Price Allocation

The allocation of the purchase price to Mobilisa’s tangible and identifiable intangible assets acquired and liabilities assumed was based on their estimated fair values.

The calculation of purchase price and goodwill and other intangible assets is estimated as follows:

Fair value of Intelli-Check common stock issued to Mobilisa shareholders	$ 43,477,040
Fair value of Intelli-Check common vested stock awards to be issued as consideration for replacement of outstanding Mobilisa vested stock awards	7,486,846
Transaction costs	357,861
Estimated total purchase price	$ 51,321,747
Purchase price allocated to:	
Tangible assets acquired less liabilities assumed	$ (523,067)
Identifiable intangible assets	14,440,000
Deferred tax adjustments	(210,708)
Goodwill	37,615,522
	$ 51,321,747

The allocation of the purchase price is preliminary and subject to change.

Tangible assets acquired and liabilities assumed

Intelli-Check has estimated the fair value of tangible assets acquired and liabilities assumed. These estimates are based on a valuation dated as of March 14, 2008, the date of the acquisition.

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Identifiable intangible assets

Intelli-Check has estimated the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach. The following table sets forth the components of these intangible assets and their estimated useful lives:

	Estimated Useful Life	Cost	Accumulated Amortization	Net
Trade name	20 years	$ 1,300,000	$ 18,958	$ 1,281,042
Patents	17 years	1,550,000	26,593	1,523,407
Developed technology	7 years	5,140,000	214,167	4,925,833
Backlog	3 years	820,000	111,779	708,221
Non-contractual customer relationships	15 years	5,630,000	102,630	5,527,370
		$ 14,440,000	$ 474,127	$ 13,965,873

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

Year 1	$ 1,614,358
Year 2	1,500,636
Year 3	1,320,237
Year 4	1,242,337
Year 5	1,242,337

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

Note 3. Income Taxes

As of June 30, 2008, the Company had net operating loss carryforwards (NOL's) for federal and New York State income tax purposes of approximately $36.2 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2026 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 effective tax rate for the three and six months ended June 30, 2008 and 2007 is different from the tax benefit that would result from applying the statutory tax rates primarily due to full valuation allowance on the deferred tax assets.

Note 4. Net Loss per Common Share

The Company computes net loss per common share in accordance with SFAS No. 128, "Earnings Per Share." Under the provisions of SFAS No. 128, basic net loss per common share is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted net loss per common share is computed by dividing net loss by the weighted average number of common shares then outstanding, but does not include the impact of stock options and warrants then outstanding, as the effect of their inclusion would be antidilutive.

The following table summarizes the additional number of common shares that would be outstanding assuming that all the options and warrants that were outstanding as of June 30, 2008 and 2007 had been converted:

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	2008	2007
Stock options	3,038,997	2,006,467
Warrants	875,551	922,636
Total	3,194,548	2,929,103

Note 5. Stock-Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance with SFAS No. 123(R), which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. SFAS No. 123(R) establishes fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees. We included stock based compensation in selling, general and administrative expense for the cost of stock options.

Stock based compensation expense for the three and six months ended June 30, 2008 and 2007 is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
	2008	2007	2008	2007
Compensation cost recognized:				
Stock options	$ 29,639	$ 204,825	$ 212,888	$ 250,075
Restricted stock	--	126,000	--	126,000
	$ 29,639	$ 330,825	$ 212,888	$ 376,075

In order to retain and attract qualified personnel necessary for the success of the Company, the Company adopted several Stock Option Plans from 1998 through 2004 (and an amendment to the 2004 plan in 2006 pursuant to which the plan was renamed the “2006 Equity Incentive Plan” and amended to provide for the issuance of other types of equity incentives such as restricted stock grants) (collectively, the “Plans”) covering up to 3,250,000 of the Company’s common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers these Plans and determines the terms and conditions of options granted, including the exercise price. These Plans generally provide that all stock options will expire within ten years of the date of grant. Incentive stock options granted under these Plans must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. These Plans also entitle non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors. At the Company’s special meeting of Stockholders held on March 14, 2008, the stockholders voted to amend the 2006 Equity Incentive Plan (the “Plan”) to increase the number of shares of Common Stock authorized to be issued by 3,000,000.

Option activity under the Plans as of June 30, 2008 and changes during the six months ended June 30, 2008 were as follows:

	Shares (1)		Weighted-Average Exercise Price	Weighted Average Remaining Contractual Term (in years)		Aggregate Intrinsic Value
Outstanding at January 1, 2008	1,460,217	$	5.47			
Granted	35,000		3.47			
Replacement options issued to Mobilisa employees	2,363,381		0.49			
Exercised	(611,276)		0.46			
Forfeited or expired	(208,325)		6.60			
Outstanding at June 30, 2008	3,038,997	$	2.50	3.72	$	3,153,392
Exercisable at June 30, 2008	3,017,247	$	2.48	3.71	$	3,020,171

(1) Included in the table are 442,500 non-plan options, of which all options are fully vested.

The aggregate intrinsic value in the table above represents the total pretax intrinsic value (the difference between the Company's closing stock price on the last trading day of the second quarter of 2008 and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on June 30, 2008. This amount changes based upon the fair market value of the Company's stock. The total intrinsic value of options exercised for the six months ended June 30, 2008 was $1,401,417.

As of June 30, 2008, unrecognized compensation expense related to granted and non-vested stock options amounted to approximately $55,068 and is expected to be recognized over a weighted-average period of 11 months.

As of June 30, 2008, the Company had 2,240,434 options available for future grant under the Plans.

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

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

	Three Months Ended June 30,			Six Months Ended June 30,			
	2008		2007		2008		2007
Weighted average fair value of grants	--	$	3.33	$	2.33	$	3.35
Valuation assumptions:							
Expected dividend yield	--		0.00%		0.00%		0.00%
Expected volatility	--		57.9%		72.2%		58.1%
Expected life (in years)	--		4.5		8.4		4.6
Risk-free interest rate	--		4.79%		3.19%		4.79%

No options were granted in the three month period ended June 30, 2008.

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Note 6. Legal Proceedings

On August 1, 2003, we filed a summons and complaint against Tricom Card Technologies, Inc. alleging infringement on our patent and seeking injunctive and monetary relief. On October 23, 2003, we amended our complaint to include infringement on an additional patent. On May 18, 2004, we filed a Second Amended Complaint alleging infringement and inducement to infringe against certain principals of Tricom in their personal capacities, as well as alleging in the alternative false advertising claims under the Lanham Act against all the defendants. The principals moved to dismiss the claims against them, and Tricom moved to dismiss the false advertising claims, which motions have been administratively terminated by the Court. On August 1, 2005, defendants filed an Answer and Affirmative Defenses to the Second Amended Complaint and Tricom filed a declaratory counterclaim. On November 2, 2005, the Court allowed Tricom to plead two additional defenses and declaratory counterclaims in the case, and on January 3, 2006, the parties filed a Stipulation of Dismissal of the Estoppel and Unenforceability Counterclaims and Affirmative Defenses. On February 28, 2006, the parties filed a Supplemental Proposed Joint Pretrial Order, and on March 1, 2006, the Court certified that fact discovery in this action was complete. On June 29, 2006, the Court held a pre-motion conference at our request to discuss our proposed motion to disqualify defendants' counsel for a conflict of interest. Pursuant to the Court's order, we served moving papers upon defendants on July 14, 2006 and defendants served opposition to the motion on around July 28, 2006. We served a reply to the opposition on August 11, 2006 and filed the motion with the Court. Also, on or about July 21, 2006, defendants filed with the Court a motion for claim construction together with our opposition to defendants' motion and defendants' reply to the opposition. There has been no change in the status of this lawsuit. As of June 30, 2008, the Court has not scheduled a hearing date for either motion and there is no trial date pending.

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

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

Note 7. Commitments and Contingencies

On March 14, 2008, the Company entered into an employment agreement with Dr. Ludlow, pursuant to which Dr. Ludlow was appointed the Company’s Chief Executive Officer. Dr. Ludlow will receive a salary of $220,000 per year, be granted options to purchase 25,000 shares of the Company’s common stock on March 20, 2008 that will be immediately exercisable at a price per share equal to 110% of the fair market value of the Company’s common stock on the date of grant, and an annual bonus based on reasonable objectives established by the Company’s Board of Directors. In the first quarter of 2008, the Company recorded $66,120 of stock based compensation related to these options. Dr. Ludlow will be entitled to receive benefits in accordance with the Company’s existing benefit policies and will be reimbursed for Company expenses in accordance with the Company’s expense reimbursement policies. The employment agreement has a term of two years. Dr. Ludlow may terminate the agreement at any time on 60 days prior written notice to the Company. In addition, the Company or Dr. Ludlow may terminate the employment agreement immediately for cause, as described in the employment agreement. If the Company terminates the agreement without cause, Dr. Ludlow will be entitled to severance equal to one year of his base salary, in addition to salary already earned. If Dr. Ludlow terminates the agreement for cause, Dr. Ludlow will be entitled to receive a payment equal to $50,000, in addition to salary already earned.

Note 8. Related Party Transactions

The Company’s Mobilisa subsidiary leases office space from a Company that is wholly-owned by two directors, who are members of management. For the three and six months ended June 30, 2008, total rental payments for this office space was $18,744 and $21,865, respectively. The Company entered into a 10-year lease for the office space ending in 2017.

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

References made in this Quarterly Report of Form 10-Q to “we,” “our,” “us,” or the “Company,” refer to Intelli-Check 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 six month periods ended June 30, 2008 and 2007. 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-KSB, for the year ended December 31, 2007.On November 20, 2007, Intelli-Check and Mobilisa, a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which our wholly-owned subsidiary would merge with and into Mobilisa, resulting in Mobilisa becoming a wholly-owned subsidiary.

Overview

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

The former shareholders of Mobilisa received shares of Intelli-Check common stock such that they own 50% of Intelli-Check’s common stock and options and warrant to purchase 2,429,932 shares of Intelli-Check – Mobilisa common stock. The aggregate value of the purchase consideration was $51,321,747, based on the closing price of our common stock on November 20, 2007.

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