

Intellicheck Mobilisa, Inc.
Form 10-Q
November 04, 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 September 30, 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
(State or Other Jurisdiction of
Incorporation or Organization)

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

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

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

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

Yes No

Indicate by check mark whether 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 Accelerated filer Non-accelerated filer Smaller reporting
(Do not check if a smaller reporting company) company

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:

| <u>Class</u> | <u>Outstanding at November 4, 2014</u> |
|--------------------------------|--|
| Common Stock, \$.001 par value | 4,932,057 |

INTELLICHECK MOBILISA, INC.

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| 31.1 | Rule 13a-14(a) Certification of Chief Executive Officer |
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| 32 | 18 U.S.C. Section 1350 Certifications |
| 99.1 | N. Ludlow separation and consulting agreement |
| 99.2 | B. Ludlow separation and consulting agreement |
| 99.3 | Bill Roof CEO agreement |
| 99.4 | Bill White severance agreement |
| 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**

| | September 30, 2014 (Unaudited) | December 31, 2013 |
|--|--------------------------------------|----------------------|
| ASSETS | | |
| CURRENT ASSETS: | | |
| Cash and cash equivalents | \$ 3,066,968 | \$ 224,386 |
| Accounts receivable, net of allowance of \$0 as of September 30, 2014, and December 31, 2013 | 2,622,301 | 1,041,519 |
| Inventory | 115,021 | 54,677 |
| Other current assets | 90,796 | 107,519 |
| Total current assets | 5,895,086 | 1,428,101 |
| PROPERTY AND EQUIPMENT, net | 348,919 | 369,095 |
| GOODWILL | 12,308,661 | 12,308,661 |
| INTANGIBLE ASSETS, net | 3,972,812 | 3,724,354 |
| OTHER ASSETS | 72,006 | 72,006 |
| Total assets | \$ 22,597,484 | \$ 17,902,217 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES: | | |
| Accounts payable | \$ 637,492 | \$ 478,588 |
| Accrued expenses | 637,898 | 701,928 |
| Deferred revenue, current portion | 1,173,130 | 967,912 |
| Other current liabilities | 505,000 | - |
| Total current liabilities | 2,953,520 | 2,148,428 |
| OTHER LIABILITIES | | |
| Deferred revenue, long-term portion | 495,614 | 233,732 |
| Deferred rent | 134,965 | 163,753 |

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| | | |
|--|---------------|---------------|
| Other long-term liabilities | 82,500 | 0 |
| Total liabilities | 3,666,599 | 2,545,913 |
| STOCKHOLDERS' EQUITY: | | |
| Common stock - \$.001 par value; 40,000,000 shares authorized; 4,932,057 and 3,486,557 shares issued and outstanding, respectively | 4,932 | 3,487 |
| Additional paid-in capital | 106,264,525 | 101,008,381 |
| Accumulated deficit | (87,338,572) | (85,655,564) |
| Total stockholders' equity | 18,930,885 | 15,356,304 |
| Total liabilities and stockholders' equity | \$ 22,597,484 | \$ 17,902,217 |

See accompanying notes to consolidated financial statements

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

(Unaudited)

| | Three Months Ended September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|--------------|------------------------------------|-----------------|
| | 2014 | 2013 | 2014 | 2013 |
| REVENUES | \$ 3,218,344 | \$ 2,578,863 | \$ 5,507,434 | \$ 5,932,239 |
| COST OF REVENUES | (1,202,760) | (797,488) | (2,013,218) | (2,295,871) |
| Gross profit | 2,015,584 | 1,781,375 | 3,494,216 | 3,636,368 |
| OPERATING EXPENSES | | | | |
| Selling | 398,035 | 257,000 | 1,106,206 | 793,908 |
| General and administrative | 836,841 | 1,035,941 | 2,744,225 | 3,074,299 |
| Research and development | 453,022 | 472,711 | 1,327,376 | 1,592,056 |
| Total operating expenses | 1,687,898 | 1,765,652 | 5,177,807 | 5,460,263 |
| Income (loss) from operations | 327,686 | 15,723 | (1,683,591) | (1,823,895) |
| OTHER INCOME (EXPENSE) | | | | |
| Interest income | 7 | 73 | 661 | 88 |
| Interest expense | - | - | (78) | - |
| Other income (expense) | 50 | - | - | - |
| Net income (loss) | \$ 327,743 | \$ 15,796 | \$ (1,683,008) | \$ (1,823,807) |
| PER SHARE INFORMATION | | | | |
| Income (loss) per common share - | | | | |
| Basic | \$ 0.07 | \$ 0.00 | \$ (0.35) | \$ (0.53) |
| Diluted | \$ 0.07 | \$ 0.00 | \$ (0.35) | \$ (0.53) |
| Weighted average common shares used in computing per share amounts - | | | | |
| Basic | 4,932,057 | 3,474,449 | 4,756,703 | 3,471,477 |
| Diluted | 4,945,807 | 3,480,170 | 4,756,703 | 3,471,477 |

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2014

(Unaudited)

| | Common Stock Shares | Common Stock Amount | Additional Paid-in Capital | Accumulated Deficit | Total |
|-----------------------------|------------------------|------------------------|----------------------------------|------------------------|---------------|
| BALANCE, January 1, 2014 | 3,486,557 | \$ 3,487 | \$ 101,008,381 | \$(85,655,564) | \$ 15,356,304 |
| Stock option compensation | | | 10,266 | | 10,266 |
| Issuance of common stock | 1,445,500 | 1,445 | 5,245,878 | | 5,247,323 |
| Net loss | - | - | - | (1,683,008) | (1,683,008) |
| BALANCE, September 30, 2014 | 4,932,057 | \$ 4,932 | \$ 106,264,525 | \$(87,338,572) | \$ 18,930,885 |

See accompanying notes to consolidated financial statements

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

(Unaudited)

| | Nine Months Ended September 30, | |
|---|---------------------------------|-----------------|
| | 2014 | 2013 |
| CASH FLOWS FROM OPERATING ACTIVITIES: | | |
| Net Loss | \$ (1,683,008) | \$ (1,823,807) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | |
| Depreciation and amortization | 454,971 | 802,402 |
| Noncash stock-based compensation expense | 10,266 | 27,958 |
| Changes in assets and liabilities: | | |
| Decrease (Increase) in accounts receivable | (1,580,782) | (712,613) |
| Decrease (Increase) in inventory | (60,344) | 283,284 |
| (Decrease)Increase in other current assets | 16,723 | 4,430 |
| (Decrease) Increase in accounts payable, accrued expenses | 94,874 | 835,518 |
| (Decrease)Increase in deferred revenue | 467,100 | (442,310) |
| (Decrease) Increase in deferred rent | (28,788) | (14,690) |
| Net cash used in operating activities | \$ (2,308,988) | \$ (1,039,828) |
| CASH FLOWS FROM INVESTING ACTIVITIES: | | |
| Purchases of property and equipment | (95,753) | (73,106) |
| Net cash used in investing activities | \$ (95,753) | \$ (73,106) |
| CASH FLOWS FROM FINANCING ACTIVITIES: | | |
| Net proceeds from issuance of common stock from exercise of stock options | 5,247,323 | 70,472 |
| Net cash provided by financing activities | 5,247,323 | 70,472 |
| Net increase in cash and cash equivalents | \$ 2,842,582 | \$ (1,042,462) |
| CASH AND CASH EQUIVALENTS, beginning of period | 224,386 | 1,685,879 |
| CASH AND CASH EQUIVALENTS, end of period | \$ 3,066,968 | \$ 643,417 |
| Supplemental disclosure of noncash investing activities: | | |
| Covenant not to compete (note 10) | \$ 587,500 | \$ - |

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa is a leading technology company providing 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 Fugitive Finder™ system, an advanced ID card access control product currently protecting military bases and secure federal locations; ID Check®, a patented technology that instantly reads, analyzes, and verifies encoded data in magnetic stripes and barcodes on government-issued IDs, designed to improve the Customer Experience for the financial, hospitality and retail sectors; barZapp™, an ID-checking mobile app that allows a user's smartphone to check an ID card. Wireless products include enterprise wireless system installation in rural areas of the country.

Reverse Stock Split

Effective on August 12, 2014 and commencing with the opening of trading on August 13, 2014, the Company effected a reverse stock split of the issued and outstanding common stock, \$0.001 par value per share, at a ratio of one-for-eight, with each eight (8) issued and outstanding shares of the common stock automatically combined and converted into one (1) issued and outstanding share of the common stock. The reverse stock split was approved by stockholders holding a majority of the outstanding voting power at a special meeting of stockholders held on August 12, 2014. All information in the consolidated financial statements and the notes thereto regarding share amounts of the common stock and prices per share of the common stock has been adjusted to reflect the application of the reverse stock split on a retroactive basis.

Principles of Consolidation

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

2. SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation

The accompanying unaudited financial statements have been prepared in accordance with generally accepted accounting principles for interim financial information and with the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and notes required by generally accepted accounting principles for complete financial statements. In the opinion of management, the unaudited interim financial statements furnished herein include all adjustments necessary for a fair presentation of the Company’s financial position at September 30, 2014 and the results of its operations for the three and nine months ended September 30, 2014 and 2013, stockholders’ equity for the nine months ended September 30, 2014 and cash flows for the nine months ended September 30, 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 nine month period ended September 30, 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.

In May 2014, the FASB issued a new standard on revenue recognition which outlines a single comprehensive model to use in accounting for revenue arising from contracts with customers and supersedes most current revenue recognition guidance, including industry-specific guidance. The core principle of the revenue model is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. The standard is designed to create greater comparability for financial statement users across industries and jurisdictions and also requires enhanced disclosures. The guidance is effective for fiscal years, and interim periods within those years, beginning after December 15, 2016. Early adoption is not permitted. The Company is currently evaluating the impact of the adoption of this standard on the consolidated financial statements.

Recent Accounting Pronouncements

In August 2014, the FASB issued Accounting Standards Update (“ASU”) No. 2014-15, “Presentation of Financial Statements - Going Concern (Subtopic 205-40): Disclosure of Uncertainties about an Entity’s Ability to Continue as a Going Concern” (“ASU 2014-15”). ASU 2014-15 is intended to define management’s responsibility to evaluate whether there is substantial doubt about an entity’s ability to continue as a going concern and to provide related footnote disclosures. Specifically, ASU 2014-15 provides a definition of the term substantial doubt and requires an assessment for a period of one year after the date that the financial statements are issued (or available to be issued). It also requires certain disclosures when substantial doubt is alleviated as a result of consideration of management’s plans and requires an express statement and other disclosures when substantial doubt is not alleviated. The new standard will be effective for reporting periods beginning after December 15, 2016, with early adoption permitted. Management is currently evaluating the impact of the adoption of ASU 2014-14 on the consolidated financial statements and disclosures.

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, and the fair value of stock options granted under the Company's stock-based compensation plans. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. There were no cash equivalents held on September 30, 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 primarily trade names, patents, developed technology and backlog from the acquisition of Mobilisa and Positive Access. The Company uses the straight line method to amortize these assets over their estimated useful lives. The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value. There were no impairment charges recognized during the nine months ended September 30, 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 September 30, 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 September 30, 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 September 30, 2014, the Company made sales to one customer that accounted for approximately 10% of total revenues. The revenue was associated with a commercial ID Check sale. This customer represented 1% of total accounts receivable at September 30, 2014. There were no significant customers for the nine months ended September 30, 2014. During the three and nine month periods ended September 30, 2013, the Company made sales to one customer that accounted for approximately 23% and 21% of total revenues. The revenue was associated with wireless network installations in Washington State. This customer represented 24% of total accounts receivable at September 30, 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 September 30, | | Nine Months Ended September 30, | |
|---|-------------------------------------|-----------|------------------------------------|---------------|
| | 2014 | 2013 | 2014 | 2013 |
| Numerator: | | | | |
| Net income (loss) | \$327,743 | \$15,796 | \$(1,683,008) | \$(1,823,807) |
| Denominator: | | | | |
| Weighted average common shares – basic | 4,932,057 | 3,474,449 | 4,756,703 | 3,471,477 |
| Dilutive effect of equity incentive plans | 13,750 | 5,721 | - | - |
| Weighted average common shares – diluted | 4,945,807 | 3,480,170 | 4,756,703 | 3,471,477 |
| Net income (loss) per share | | | | |
| Basic | \$0.07 | \$0.00 | \$(0.35) | \$(0.53) |
| Diluted | \$0.07 | \$0.00 | \$(0.35) | \$(0.53) |

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

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| | Three Months Ended | | Nine Months Ended | |
|---------------|-----------------------|---------|-----------------------|---------|
| | September 30, 2014 | 2013 | September 30, 2014 | 2013 |
| Warrants | 64,981 | - | 64,891 | - |
| Stock options | 61,728 | 141,372 | 75,478 | 126,841 |
| | 126,709 | 141,372 | 140,369 | 126,841 |

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

3. INTANGIBLE ASSETS

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

| | Three Months Ended | | Nine Months Ended | |
|----------------------------|--------------------|------------|-------------------|------------|
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Cost of sales | \$ 59,163 | \$ 192,854 | \$ 242,354 | \$ 578,562 |
| General and administrative | \$ 28,785 | 33,952 | \$ 96,688 | 101,855 |
| | \$ 87,948 | \$ 226,806 | \$ 339,042 | \$ 680,417 |

On September 30, 2014 the Company entered into a non-compete agreement, amounting to \$578,500 which has been capitalized as an intangible asset. (Note 10)

4. REVOLVING LINE OF CREDIT

The Company entered into a revolving credit facility with Silicon Valley Bank. On October 15, 2014, this facility was renewed 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 September 30, 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, 2015. At September 30, 2014, there were no amounts outstanding, and unused availability under the facility was approximately \$658,000.

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 \$1,948,400, starting October 15, 2014, and increasing immediately by 50% for new debt or equity received and 50% of quarterly net income (with no reduction for losses).

5. INCOME TAXES

As of September 30, 2014, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately \$41 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 nine months ended September 30, 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 September 30, | | Nine Months Ended September 30, | |
|-------------------------------|-------------------------------------|----------|------------------------------------|-----------|
| | 2014 | 2013 | 2014 | 2013 |
| Compensation cost recognized: | | | | |
| Selling | \$ - | \$ - | \$- | \$ 13,100 |
| General & Administrative | 4,928 | 1,761 | 6,927 | 4,923 |
| Research & Development | 757 | 3,538 | 3,339 | 9,935 |
| | \$ 5,685 | \$ 5,299 | \$ 10,266 | \$ 27,958 |

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 | 40,936 | \$ 18.48 | 2.42 years | \$ 12,100 |
| Granted | 43,622 | 4.58 | | |
| Forfeited or expired | (9,080 |) \$ 11.79 | | |
| Exercised | | | | |
| Outstanding at September 30, 2014 | 75,478 | \$ 11.27 | 3.75 years | \$ 11,138 |
| Exercisable at September 30, 2014 | 21,544 | \$ 28.70 | 1.58 years | \$ 2,784 |

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 September 30, 2014. This amount changes based upon the fair market value of the Company's stock.

As of September 30, 2014, there was \$324,990 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 2.99 years.

As of September 30, 2014, the Company had 3,505,041 options available for future grants under the Plans. The Company uses the Black-Scholes option pricing model to value the options. The Company issued 34,351 shares of restricted stock units during the quarter ended September 30, 2014.

7. ISSUANCE OF COMMON STOCK

On January 14, 2014, the Company completed a public offering of 1,118,375 shares of common stock at a price to the public of \$3.60 per share. The number of shares the Company sold includes the underwriters' full exercise of their over-allotment option of 145,875 shares. Net proceeds to the Company from the offering, before expenses, were approximately \$3,644,000. The underwriter received a warrant to purchase 48,625 shares of common stock, at the price of \$4.48 (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 327,125 shares of common stock at a price to the public of \$6.40 per share. Net proceeds to the Company from the offering, before expenses, were approximately \$2,094,000. The underwriter received a warrant to purchase 16,356 shares of common stock, at a price of \$8.00 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 93,407 stock options and warrants until a future date yet to be determined.

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.

10. RELATED PARTY TRANSACTIONS

Mobilisa leases office space from an entity that is wholly-owned by two former directors, who are also former members of management. The Company entered into a 10-year lease for the office space ending in 2017. The annual rent for this facility is currently \$85,498 and is subject to annual increases based on the increase in the CPI index plus 1%. The Company is a guarantor of the leased property. For the three and nine months ended September 30, 2014, total rental payments for this office space were \$22,075 and \$66,226, respectively. For the three and nine months ended September 30, 2013, total rental payments for this office space were \$22,075 and \$66,226, respectively.

On September 30, 2014, the CEO and a Senior Vice President (collectively, the “Executives”), who were also board members, retired from the Company and simultaneously resigned from the board of directors. In connection with the separation, the Company entered into a separation and consulting agreement with the Executives. Included as part of the arrangement, the Company committed to payments totaling \$587,500 to be made over a period of 15 months. In exchange for the consideration, the Executives agreed not to compete with the Company, solicit any employee, contractor or consultant of the Company to terminate employment or contractual relationship with the Company, as well refrain from other activities, as defined in the agreement. There is a renewal option contained in each agreement, which must be mutually agreed to, for an additional nine month period commencing on January 1, 2015 in exchange for aggregate monthly payments of \$27,500. At September 30, 2014, the Company recorded the future payments of the agreement as a liability and as a non-compete intangible asset totaling \$587,500. The costs of the non-compete will be amortized over the term of the agreement (15 months). There was no amortization expense recognized for the three or nine months ended September 30, 2014. The Company made a lump sum payment of \$87,500 on October 1, 2014, will make a payment of \$87,500 January 1, 2015, and will make 15 monthly payments of \$27,500 beginning on November 1, 2014 as a result of entering into the agreements with the Executives.

As of September 30, 2014, the Company had \$0 in accrued expenses related to board fees for the first three quarters of 2014. The Company and directors entered into an agreement to take restricted stock units and stock options in lieu of a portion of the cash payments.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

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

The following discussion and analysis of our financial condition and results of operations constitutes management’s review of the factors that affected our financial and operating performance for the nine month periods ended September 30, 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 September 30, 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 nine months ended September 30, 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 September 30, 2014, due to the uncertainty of 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 September 30, 2014 to the three months ended September 30, 2013

Revenues for quarter ended September 30, 2014 increased 25% to \$3,218,000 compared to \$2,579,000 for the previous year.

| | Three months ended September 30, | | |
|------------------|---|--------------|----------|
| | 2014 | 2013 | % Change |
| Identity Systems | \$ 2,477,000 | \$ 1,641,000 | 51 % |
| Wireless/R&D | 741,000 | 938,000 | (21)% |
| | \$ 3,218,000 | \$ 2,579,000 | 25 % |

The increase in Identity Systems revenues in the third quarter of 2014 is the result of increased license sales and higher subscriptions for Identity Systems. The decrease in Wireless revenue in the third quarter of 2014 is attributable to the fact that there were less wireless installation projects in progress in 2014. Total booked orders increased 100% to \$3.08 million in the third quarter of 2014 compared to \$1.54 million in the third quarter of 2013. As of September 30, 2014, our backlog, which represents non-cancelable sales orders for products not yet shipped and services to be performed, increased 73% to approximately \$710,000 compared to \$411,000 at September 30, 2013. Our backlog at December 31, 2013, was approximately \$381,000.

Our gross profit as a percentage of revenues was 62.6% for the three months ended September 30, 2014 compared to 69.1% for the three months ended September 30, 2013. The decrease in the percentage is primarily due to a product mix.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$78,000 or 4.4% to \$1,688,000 for the three months ended September 30, 2014 compared to \$1,766,000 for the three months ended September 30, 2013. Selling expenses for the quarter increased by \$141,000 resulting primarily from an increase in sales compensation on increased sales and sales salaries. General and administrative expenses decreased by \$199,000 primarily due to a decrease in legal and professional fees. Research and development expenses decreased by \$20,000 due to a decrease in subscriptions and dues expense.

Interest income and expense was insignificant in both periods presented.

No provision for income tax has been made for the three months ended September 30, 2014 due to the NOL carry forward.

As a result of the factors noted above, the Company generated net income of \$328,000 for the three months ended September 30, 2014 as compared to a net income of \$16,000 for the three months ended September 30, 2013, or an increase of 1,950%.

Comparison of the nine months ended September 30, 2014 to the nine months ended September 30, 2013

Revenues decreased by 7.16%, to \$5,507,000 for the nine months ended September 30, 2014 from \$5,932,000 for the nine months ended September 30, 2013.

| | Nine months ended September 30, | | |
|------------------|---------------------------------|--------------|----------|
| | 2014 | 2013 | % Change |
| Identity Systems | \$ 4,576,000 | \$ 4,326,000 | 6 % |
| Wireless/R&D | 931,000 | 1,606,000 | (42)% |
| | \$ 5,507,000 | \$ 5,932,000 | (7)% |

The increase in Identity Systems revenues in 2014, was due to an increase in all segments of Defense ID, TWIC and Secure ID, was offset by a decrease in Wireless revenues for a net decrease for the nine months ended September 30, 2014. Fewer Wireless projects were completed during the nine month period ended September 30, 2014.

Our gross profit as a percentage of revenues was 63.5% for the nine months ended September 30, 2014 compared to 61.3% for the nine months ended September 30, 2013. The increase in the percentage is primarily a result of less

Wireless revenue which produce lower margins than Identity Systems.

Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased \$282,000 or 5.2% to \$5,177,000 for the nine months ended September 30, 2014 from \$5,460,000 for the nine months ended September 30, 2013. Selling expenses increased by \$312,000 resulting primarily from an increase in sales salaries and related travel expenses. General and administrative expenses decreased by \$330,000 primarily due to a decrease in travel and legal fees and other professional fees. The research and development costs decreased by \$265,000 due to a decrease in salary and wage expense, overhead costs and dues and subscriptions.

Interest income and expense was insignificant in both periods presented.

No provision for income tax has been made for the nine months ended September 30, 2014, due to the NOL carry forward.

As a result of the factors noted above, the Company generated net loss of \$1,683,000 for the nine months ended September 30, 2014 as compared to a net loss of \$1,824,000 for the nine months ended September 30, 2013.

Intangible Assets

As of September 30, 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 September 30, 2014, the Company had cash and cash equivalents of \$3,067,000, working capital (defined as current assets minus current liabilities) of \$2,942,000, total assets of \$22,597,00 and stockholders' equity of \$18,931,000.

During the nine months ended September 30, 2014, the Company used net cash from operating activities of \$2,309,000 compared to using net cash from operating activities of \$1,040,000 in the nine months ended September 30, 2013. Cash used by investing activities was \$96,000 for the nine months ended September 30, 2014 compared to \$73,000 for the nine months ended September 30, 2013. Cash provided by financing activities was \$5,247,000 during the period ended September 30, 2014 compared to \$70,000 in the same period last year.

As discussed in Note 10, Related Party Transactions, as of September 30, 2014, the Company had \$0 in accrued expenses related to board fees for the first three quarters of 2014. On September 30, 2014, the CEO and a Senior Vice President (collectively, the "Executives"), who were also board members, retired from the Company and simultaneously resigned from the board of directors. In connection with the separation, the Company entered into a separation and consulting agreement with each Executive. Included as part of the arrangement, the Company committed to payments totaling \$587,500 to be made over a period of 15 months. In exchange for the consideration, the Executives agreed not to compete with the Company, solicit any employee, contractor or consultant of the Company to terminate employment or contractual relationship with the Company, as well refrain from other activities, as defined in the agreement. There is a renewal option contained in each agreement, which must be mutually agreed to, for an additional nine month period commencing on January 1, 2015 in exchange for aggregate monthly payments of \$27,500. At September 30, 2014, the Company has recorded the future payments of the agreement as a liability and as a non-compete intangible asset totaling \$587,500. The costs of the non-compete will be amortized over the term of the agreement (15 months). There was no amortization expense recognized for the three or nine months ended September 30, 2014. The Company made a lump sum payment of \$87,500 on October 1, 2014 will make a payment of \$87,500 on January 1, 2015, and will make 15 monthly payments of \$27,500 beginning on November 1, 2014 as a result of entering into the agreements with the Executives.

The Company entered into a revolving credit facility with Silicon Valley Bank. On October 15, 2014, this facility was renewed 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 September 30, 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, 2015. At September 30, 2014, there were no amounts outstanding and unused availability under the facility was approximately \$658,000.

On January 14, 2014, the Company completed a public offering of 1,118,375 shares of common stock at a price to the public of \$3.60 per share. The number of shares the Company sold includes the underwriters' full exercise of their over-allotment option of 145,875 shares. Net proceeds to the Company from the offering, before expenses, were approximately \$3,644,000. The underwriter received a warrant to purchase 48,625 shares of common stock, at the price of \$4.48 (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 327,125 shares of common stock at a price to the public of \$6.40 per share. Net proceeds to the Company from the offering, before expenses, were approximately \$2,094,000. The underwriter received a warrant to purchase 16,356 shares of common stock, at a price of \$8.00 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, which has a maturity date of October 15, 2015, 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 this 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 September 30, 2014, the Company had net operating loss carryforwards ("NOL's") for federal and New York state income tax purposes of approximately \$41 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 | | Nine Months Ended | |
| | September 30, | | September 30, | |
| | 2014 | 2013 | 2014 | 2013 |
| Net (loss) income | \$327,743 | \$15,796 | \$(1,683,008) | \$(1,823,807) |
| Reconciling items: | | | | |
| Interest - net | (7) | (73) | (583) | (88) |
| Depreciation and amortization | 111,177 | 265,943 | 454,971 | 802,402 |
| Stock-based compensation costs | 5,685 | 5,299 | 10,266 | 27,958 |
| Adjusted EBITDA | \$444,598 | \$286,965 | \$(1,218,354) | \$(993,535) |

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 September 30, 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 second 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 |
| 99.1 | N. Ludlow separation and consulting agreement |
| 99.2 | B. Ludlow separation and consulting agreement |
| 99.3 | Bill Roof CEO agreement |
| 99.4 | Bill White severance agreement |
| 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: November __, 2014 Intellicheck Mobilisa, Inc.

By:/s/ William Roof
William Roof, PhD, MBA
Chief Executive Officer

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