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

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 September 30, 2011

OR

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

For the transition period from ________________ to ________________

Commission File No.: 001-15465

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

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

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

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

Indicate by check mark whether registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes 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 November 3, 2011
Common Stock, $.001 par value	27,462,504

INTELLICHECK MOBILISA, INC.

Index

		Page
Part I Financial Information		
Item 1.	Financial Statements	
	Consolidated Balance Sheets – September 30, 2011 (Unaudited) and December 31, 2010	3
	Consolidated Statements of Operations for the three and nine months ended September 30, 2011 and 2010 (Unaudited)	4
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2011 and 2010 (Unaudited)	5
	Consolidated Statement of Stockholders' Equity for the nine months ended September 30, 2011 (Unaudited)	6
	Notes to Consolidated Financial Statements (Unaudited)	7-16
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations	17-22
Item 3.	Quantitative and Qualitative Disclosures About Market Risk	22
Item 4T.	Controls and Procedures	22
Part II Other Information		
Item 1.	Legal Proceedings	23
Item 1A.	Risk Factors	23
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds	23
Item 3.	Defaults on Senior Securities	23
Item 4.	(Removed and Reserved)	23
Item 5.	Other Information	23
Item 6.	Exhibits	23
	Signatures	24
	Exhibits	

31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32.	18 U.S.C. Section 1350 Certifications

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

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

Total liabilities and stockholders’ equity	$ 23,684,637	$ 23,973,876

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

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

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOW
(Unaudited)

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

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the nine months ended September 30, 2011
(Unaudited)

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

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

Note 1. Summary of Significant Accounting Policies

Business

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

Principles of Consolidation

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

Basis of Presentation

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

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

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

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

Recently Issued Accounting Pronouncements

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

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

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

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

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

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

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

Use of Estimates

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

Cash and Cash Equivalents

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

Allowance for Doubtful Accounts

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

Inventory

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

Goodwill

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

Intangible Assets

Acquired intangible assets include trade names, patents, developed technology and backlog described more fully in Note 2. The Company uses the straight line method to amortize these assets over their estimated useful lives. The

Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of these assets may not be fully recoverable in accordance with ASC Topic 360. To determine recoverability of its long-lived assets, the Company evaluates the probability that future undiscounted net cash flows, without interest charges, will be less than the carrying amount of the assets. Impairment is measured at fair value.

Financial Instruments

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

Revenue Recognition and Deferred Revenue

Revenue is generally recognized when persuasive evidence of an arrangement exists, delivery has occurred, the fee is fixed and determinable, collectability is probable, and there is no future Company involvement or commitment. The Company sells its commercial products directly through its sales force and through distributors. Revenue from direct sales of products is recognized when shipped to the customer and title has passed. The Company also recognizes revenues from licensing of its patented software to customers. The licensed software requires continuing service or post contractual customer support and performance; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one to three years. Royalties from the licensing of the Company's technology are recognized as revenues in the period they are earned. For the nine month periods ended September 30, 2011 and 2010, the Company received $3,665 and $4,815 respectively, in royalty fees.

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

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

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

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

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

Business Concentrations and Credit Risk

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

10

Net Income (Loss) Per Share

Basic net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of common shares outstanding during the period. Diluted net income (loss) per share is computed by dividing the net income (loss) for the period by the weighted average number of shares of common stock and potentially dilutive common stock outstanding during the period. The dilutive effect of outstanding options and restricted stock is reflected in diluted earnings per share by application of the treasury stock method. The calculation of diluted net income (loss) per share excludes all anti-dilutive shares.

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

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

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

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

Note 2. Goodwill and Identified Intangible Assets

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

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

Identifiable intangible assets

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

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

The Company has recorded the fair value of the acquired identifiable intangible assets, which are subject to amortization, using the income approach. The following table sets forth the components of these intangible assets as of September 30, 2011 and December 31, 2010:

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

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

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

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

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

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

Year 4	310,458
Year 5	310,458

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

Note 3. Notes Payable

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

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

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

Note 4. Revolving Line of Credit

On August 17, 2011, the Company entered into a revolving credit facility with Silicon Valley Bank. The maximum borrowing under the facility is $2,000,000. Borrowings under the facility are subject to certain limitations based on a percentage of accounts receivable, as defined in the agreement, and are secured by all of the Company's assets. The facility bears interest at a rate of U.S. prime (3.25% at September 30, 2011) plus 1.25%. Interest is payable monthly and the principal is due upon maturity on August 17, 2013. At September 30, 2011, there were no amounts outstanding and unused availability under the facility was $1,047,000.

Note 5. Income Taxes

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

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

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

Note 6. Stock-Based Compensation

The Company accounts for the issuance of equity awards to employees in accordance with ASC Topic 718 and 505, which requires that the cost resulting from all share based payment transactions be recognized in the financial statements. These pronouncements establish fair value as the measurement objective in accounting for share based payment arrangements and requires all companies to apply a fair value based measurement method in accounting for all share based payment transactions with employees.

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

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

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

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

Stock based compensation included in operating expenses is as follows:

	Three Months Ended September 30,	Nine Months Ended September 30,