Intellicheck Mobilisa, Inc.
Form 10-Q
November 10, 2016

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, 2016

OR

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

For the transition period from ________________ to ________________

Commission File No.: 001-15465

Intellicheck Mobilisa, Inc.

(Exact name of Registrant as specified in its charter)

Delaware 11-3234779

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

100 Jericho Quadrangle, Suite 202, Jericho, NY 11753

(Address of Principal Executive Offices) (Zip Code)

Registrant's telephone number, including area code: (516) 992-1900

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

Yes [X]   No [ ]

Indicate by check mark whether registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files.)

Yes [X]   No [ ]

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

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 10, 2016
Common Stock, $.001 par value	10,565,553

INTELLICHECK MOBILISA, INC.

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Exhibits

31.1	Rule 13a-14(a) Certification of Chief Executive Officer
31.2	Rule 13a-14(a) Certification of Chief Financial Officer
32	18 U.S.C. Section 1350 Certifications
101.INS	XBRL Instance Document
101.SCH	XBRL Taxonomy Extension Schema
101.CAL	XBRL Taxonomy Extension Calculation Linkbase
101.DEF	XBRL Taxonomy Extension Definition Linkbase
101.LAB	XBRL Taxonomy Extension Label Linkbase
101.PRE	XBRL Taxonomy Extension Presentation Linkbase

PART I – FINANCIAL INFORMATION

Item 1. FINANCIAL STATEMENTS

INTELLICHECK MOBILISA, INC.

CONSOLIDATED BALANCE SHEETS

	September 30, 2016 (Unaudited)	December 31, 2015
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$3,534,399	$5,953,257
Accounts receivable, net of allowance of $12,764 and $18,411 as of September 30, 2016 and December 31, 2015, respectively	827,890	1,158,972
Inventory	74,241	74,732
Other current assets	299,138	178,362
Total current assets	4,735,668	7,365,323
NOTES RECEIVABLE, net of current portion	121,477	150,496
PROPERTY AND EQUIPMENT, net	284,701	325,427
GOODWILL	8,101,661	8,101,661
INTANGIBLE ASSETS, net	2,233,454	2,470,127
OTHER ASSETS	61,298	59,800
Total assets	$15,538,259	$18,472,834
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Accounts payable	$99,649	$260,276
Accrued expenses	685,856	536,316
Deferred revenue, current portion	909,822	909,233
Total current liabilities	1,695,327	1,705,825
OTHER LIABILITIES		
Deferred revenue, long-term portion	213,574	341,242
Deferred rent	72,240	99,355

Total liabilities	1,981,141	2,146,422
COMMITMENTS AND CONTINGENCIES		
STOCKHOLDERS EQUITY:		
Common stock - $.001 par value; 40,000,000 shares authorized; 10,548,983 and 9,878,906 shares issued and outstanding, respectively	10,549	9,879
Additional paid-in capital	116,825,843	114,950,278
Accumulated deficit	(103,279,274)	(98,633,745)
Total stockholders' equity	13,557,118	16,326,412
Total liabilities and stockholders' equity	$15,538,259	$18,472,834

See accompanying notes to consolidated financial statements

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INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
REVENUES	$1,214,308	$2,199,473	$3,105,330	$5,478,170
COST OF REVENUES	(268,137)	(803,484)	(622,833)	(2,446,392)
Gross profit	946,171	1,395,989	2,482,497	3,031,778
OPERATING EXPENSES				
Selling, general and administrative	1,268,915	2,083,137	5,115,838	5,087,682
Research and development	407,615	692,310	2,024,818	1,869,063
Total operating expenses	1,676,530	2,775,447	7,140,656	6,956,745
Loss from operations	(730,359)	(1,379,458)	(4,658,159)	(3,924,967)
OTHER INCOME (EXPENSE)				
Interest and other income	3,437	112,233	12,630	144,391
Interest expense	-	(572)	-	(3,307)
Net loss	$(726,922)	$(1,267,797)	$(4,645,529)	$(3,783,883)
PER SHARE INFORMATION				
Loss per common share - Basic/Diluted	$(0.07)	$(0.13)	$(0.48)	$(0.39)
Weighted average common shares used in computing per share amounts - Basic/Diluted	10,246,629	9,851,764	9,680,010	9,584,582

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY

For the nine months ended September 30, 2016

(Unaudited)

	Common Stock Shares	Common Stock Amount	Additional Paid-in Capital	Accumulated Deficit	Total
BALANCE, January 1, 2016	9,878,906	$9,879	$114,950,278	$(98,633,745)	$16,326,412
Stock-based compensation expense	-	-	802,623	-	802,623
Issuance of common stock, net of costs	1,200,000	1,200	1,779,141	-	1,780,341
Purchase and retirement of common stock	(979,114)	(979)	(1,095,629)	-	(1,096,608)
Exercise of stock options	345,127	345	389,534	-	389,879
Vesting of restricted stock	104,064	104	(104)	-	-
Net loss	-	-	-	(4,645,529)	(4,645,529)
BALANCE, September 30, 2016	10,548,983	$10,549	$116,825,843	$(103,279,274)	$13,557,118

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(Unaudited)

	Nine Months Ended September 30, 2016	2015
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(4,645,529)	$(3,783,883)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	328,105	798,072
Noncash stock-based compensation expense	802,623	685,892
Provision for doubtful accounts	12,764	-
Gain on sale of wireless assets	-	(108,825)
Gain on sale of property and equipment	-	(31,500)
Deferred rent	(27,115)	(20,311)
Changes in assets and liabilities:		
Decrease (Increase) in accounts receivable	318,318	(832,929)
Decrease in inventory	491	22,576
(Increase) in other current assets	(120,776)	(59,512)
(Increase) Decrease in other assets	(1,498)	12,207
(Decrease) in accounts payable, accrued expenses	(11,087)	(90,223)
(Decrease) in deferred revenue	(127,079)	(336,329)
Net cash used in operating activities	(3,470,783)	(3,744,765)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchases of patents	-	(125,000)
Purchases of property and equipment	(50,707)	(93,142)
Collection of note receivable	29,020	-
Proceeds from sale of property and equipment	-	31,500
Proceeds from sale of wireless assets	-	30,000
Net cash used in investing activities	(21,687)	(156,642)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	1,780,341	7,630,757
Net proceeds from issuance of common stock from exercise of stock options	389,879	977
Purchase and retirement of common stock	(1,096,608)	-
Payments on note payable	-	(31,078)
Net cash provided by financing activities	1,073,612	7,600,656
Net decrease (increase) in cash and cash equivalents	(2,418,858)	3,699,249

CASH AND CASH EQUIVALENTS, beginning of period	5,953,257	2,966,350
CASH AND CASH EQUIVALENTS, end of period	$3,534,399	$6,665,599
Supplemental disclosure of noncash investing and financing activities:		
Issuance of notes receivable related to sale of wireless division	$-	$200,000
Financing of property and equipment	$-	$31,078

See accompanying notes to consolidated financial statements

INTELLICHECK MOBILISA, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. NATURE OF BUSINESS

Business

Intellicheck Mobilisa, Inc. (the “Company” or “Intellicheck”) is a leading technology company that is engaged in developing, integrating and marketing threat identification and identity authentication solutions to address challenges that include retail fraud prevention, law enforcement threat identification, and mobile and handheld access control and security for the government, military and commercial markets. Intellicheck’s products include Retail ID™, the industry leading solution for preventing fraud in the retail industry; Age ID™, a smartphone or tablet-based solution for preventing sale of age-restricted products to minors; Law ID™, a smartphone-based solution used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities.

Intellicheck continues to develop and release innovative products based upon its rich patent portfolio consisting of over 25 patents.

Liquidity

For the nine months ended September 30, 2016, the Company incurred a net loss of $4,645,529 and used cash in operations of $3,470,783. As of September 30, 2016, the Company had cash and cash equivalents of $3,534,399 and an accumulated deficit of $103,279,274. Based on our business plan and, cash resources, we expect our existing and future resources and revenues generated from operations to satisfy our working capital requirements for at least the next 12 months.

However, if performance expectations fall short or expenses exceed expectations, the Company may need to secure additional financing or reduce expenses to continue operations. Failure to do so would have a material adverse impact on its financial condition. There can be no assurance that any contemplated additional financing will be available on terms acceptable, if at all. If required, the Company believes it would be able to reduce expenses to a sufficient level to continue as a going concern.

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, 2016 and the results of its operations for the three and nine months ended September 30, 2016 and 2015, stockholders’ equity for the nine months ended September 30, 2016 and cash flows for the nine months ended September 30, 2016 and 2015. 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, 2016, are not necessarily indicative of the operating results that may be expected for the year ending December 31, 2016.

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The balance sheet as of December 31, 2015 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, 2015.

Recent Accounting Pronouncements

In May 2014, the FASB issued Accounting Standards Update (“ASU”) 2014-09, *Revenue from Contracts with Customers (Topic 606)*. ASU 2014-09 completes the joint effort by the FASB and International Accounting Standards Board (“IASB”) to improve financial reporting by creating common revenue recognition guidance for U.S. GAAP and International Financial Reporting Standards (“IFRS”). ASU 2014-09 applies to all companies that enter into contracts with customers to transfer goods or services. ASU 2014-09 is effective for public entities for interim and annual reporting periods beginning in the first quarter of 2018. Early adoption is permitted beginning in the first quarter of 2017 for public companies. The Company is currently evaluating the requirements of ASU 2014-09 and have not yet determined its impact on our consolidated financial statements and expects to be completed by December 31, 2016.

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 the evaluation of goodwill for impairment, 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, 2016 and December 31, 2015.

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. As of September 30, 2016 and December 31, 2015, the majority of inventory is related to Government and Commercial Identity products for intended near-term sales.

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. Under guidance, the Company first assessed qualitative factors to determine whether it was necessary to perform the two-step quantitative goodwill impairment test. An entity is not required to calculate the fair value of a reporting unit unless the entity determines, based on a qualitative assessment, that it is more likely than not that its fair value is less than its carrying amount. 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.

Intangible Assets

Intangible assets include trade names, patents developed technology non-contractual customer relationships. 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. There were no impairment charges recognized during the nine months ended September 30, 2016 and 2015.

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, 2016 and December 31, 2015, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of ASC Topic 820, “Fair Value Measurements and Disclosures”. This pronouncement requires that the Company 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, note receivable, accounts payable and accrued expenses. At September 30, 2016 and December 31, 2015, 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.

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

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

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

Business Concentrations and Credit Risk

During the three and nine month periods ended September 30, 2016, the Company made sales to three customers that accounted for approximately 35% and 26% of total revenues, respectively. The revenue was associated with two commercial identity sales customers and one Defense ID customer. These customers represented 32% of total accounts receivable at September 30, 2016. During the three and nine month periods ended September 30, 2015, the Company made sales to two customers that accounted for approximately 51% and 40% of total revenues, respectively. The revenue was associated with one commercial identity customer and one Defense ID customer. These customers represented 51% of total accounts receivable at September 30, 2015.

Net Loss Per Share

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Numerator:				

Net loss	$(726,922)	$(1,267,797)	$(4,645,529)	$(3,783,883)
Denominator:				
Weighted average common shares – Basic/Diluted	10,246,629	9,851,764	9,680,010	9,584,582
Net loss per share – Basic/Diluted	$(0.07)	$(0.13)	$(0.48)	$(0.39)

The following table summarizes the 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,	
	2016	2015	2016	2015
Stock options	1,651,920	1,905,362	1,651,920	1,905,362
Warrants	688,301	64,981	688,301	64,981
Restricted Stock	43,466	68,743	43,466	68,743
	2,383,687	2,039,086	2,383,687	2,039,086

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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 AND GOODWILL

The changes in the carrying amount of intangible assets for nine months ended September 30, 2016 were as follows:

Balance at December 31, 2015	$2,470,127
Deduction: Amortization expense	(236,673)
Balance at September 30, 2016	$2,233,454

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Cost of sales	$59,162	$59,163	$177,488	$288,898
General and administrative	19,730	138,090	59,185	412,562
	$78,892	$197,253	$236,673	$701,460

4. NOTE RECEIVABLE

On August 31, 2015, the Company sold the wireless enterprise assets to the Jamestown S'Klallam Tribe (the "Buyer") for total consideration of $350,000 which consists of an upfront cash payment of $30,000, the issuance of a promissory note totaling $200,000 and contingent consideration up to a maximum of $120,000 based on future earnings. Under the terms of the promissory note, monthly payments of $3,683 including principal and interest at 4%, are to be made over a 60-month term expiring in August 2020. At September 30, 2016, the total note receivable is $159,990, of which $38,513 and $121,477 is included in Other Current Assets and Notes Receivable, net of current portion, respectively, on the Consolidated Balance Sheets. At December 31, 2015, the total note receivable is $187,861, of which $37,365 and $150,496 is included in other current assets and Notes Receivable, net of current portion, respectively on the Consolidated Balance Sheets.

5. DEBT

Revolving Line of Credit

The Company has a revolving credit facility with Silicon Valley Bank that allows for maximum borrowings of $2,000,000. The borrowings are secured by certain collateralized accounts totaling $2,000,000. The facility bears interest at a rate of U.S. prime (3.50% at September 30, 2016). Interest is payable monthly and the principal is due upon maturity on October 5, 2017. As of September 30, 2016, there were no amounts outstanding under this facility and unused availability under this facility was $2,000,000.

6. ACCRUED EXPENSES

Accrued expenses are comprised of the following:

	September 30, 2016	December 31, 2015
Professional fees	$ 134,537	$ 172,766
Payroll and related	322,492	313,003
Severance payments to former officer	150,350	-
Other	78,477	50,547
	$ 685,856	$ 536,316

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7. INCOME TAXES

As of December 31, 2015, the Company had net operating loss carryforwards (NOL's) for federal and New York state income tax purposes of approximately $47.4 million. In March 2016, the Company completed an Internal Revenue Code Section 382 study which determined that a cumulative three-year ownership change in excess of 50% had occurred in March 2016 due to a share repurchase. As a result, the Company's available NOLs were reduced from $47.4 million at December 31, 2015 to $2.2 million during the first quarter of 2016. 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 2016 through 2036 if not utilized. The Company has a full valuation allowance on its deferred tax assets since management continues to believe that it is more likely than not that these assets will not be realized.

8. 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,	
	2016	2015	2016	2015
Compensation cost recognized				
Selling, general and administrative	$125,581	$396,654	$763,938	$642,169
Research and development	9,348	21,830	38,685	43,723
	$134,929	$418,484	$802,623	$685,892

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

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

	Nine Months Ended September 30, 2016	
Valuation assumptions:		
Stock price	\$1.01 - \$1.93	
Exercise price	\$1.01 - \$1.93	
Expected dividend yield	0	%
Expected volatility	96.77% - 97.32	%
Expected life (in years)	5	
Risk-free interest rate	0.94% - 1.35	%

Stock option activity under the 1998, 1999, 2001, 2003, 2006 and 2015 Stock Option Plans (collectively, the "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, 2015	1,901,298	$ 1.46	4.51 years	$ -
				-
Granted	253,543	1.22		-
Forfeited or expired	(157,794)	2.59		-
Exercised	(345,127)	1.13		-
Outstanding at September 30, 2016	1,651,920	$ 1.38	3.86 years	$ 835,849
Exercisable at September 30, 2016	1,023,796	$ 1.31	3.85 years	$ 540,134

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, 2016. This amount changes based upon the fair market value of the Company's stock.

As of September 30, 2016, the Company had 921,831 shares available for future grants under the Plans.

Restricted Stock Units

The Company issues Restricted Stock Units ("RSUs") which are equity-based instruments that may be settled in shares of common stock of the Company. During the nine months ended September 30, 2016, the Company issued RSUs to certain directors and officers as compensation. RSU agreements can vest immediately or with the passage of time. The vesting of all RSUs is contingent on continued board and employment services.

The compensation expense incurred by the Company for RSUs is based on the closing market price of the Company's common stock on the date of grant and is amortized ratably on a straight-line basis over the requisite service period and charged to general and administrative expense with a corresponding increase to additional paid-in capital.

	Number of Shares	Weighted Average Grant Date Fair Value	Aggregate Intrinsic Value
Outstanding at December 31, 2015	67,077	$ 1.56	$ -
Granted	80,453	1.69	-
Vested and settled in Shares	(104,064)	1.58	-
Outstanding at September 30, 2016	43,466	$ 1.76	$ 1,691

As of September 30, 2016, there was $592,435 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options and restricted stock units, which is expected to be recognized over a weighted average period of approximately 2.1 years.

Warrants

All previously granted warrants were issued with an exercise price that was equal to or above the fair market value of the Company's common stock on the date of grant. As of September 30, 2016, the Company had 688,301 remaining warrants outstanding and exercisable through 2021. No warrants were exercised during the nine months ended September 30, 2016.

9. COMMON STOCK

On January 14, 2015, the Company announced the closing of an underwritten public offering of 4,857,143 shares of its common stock, offered to the public at $1.75 per share. Net proceeds to the Company from this offering were approximately $7,845,000 after deducting underwriting discounts and commissions paid by the Company. Direct offering costs totaling approximately $214,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

On February 24, 2016, the Company entered into a stock repurchase agreement with two former directors, who were also members of management (the "Former Executives") for the repurchase of all 979,114 shares owned by the Former Executives of the Company's common stock for $1,096,608. The transaction was finalized on March 4, 2016.

On June 15, 2016, the Company announced the closing of an underwritten public offering of 1,200,000 shares of its common stock and 600,000 five year warrants to purchase shares with an exercise price of $2.20 per share, at a combined public offering of $1.75 per share and half-warrant. Net proceeds to the Company from this offering were approximately $1,902,000 after deducting underwriting discounts and commissions paid by the Company. As part of the offering, there was an overallotment option for the underwriters to purchase up to 180,000 shares of common stock at a purchase price of $1.63 per share and/or up to 90,000 additional warrants at a purchase price of $0.0001 per warrant. On June 20, 2016, the underwriters exercised their right to purchase 23,320 warrants. Direct offering costs totaling approximately $122,000 were recorded as a reduction to the net proceeds on the consolidated statement of stockholders' equity.

10. 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.

11. COMMITMENTS AND CONTINGENCIES

The Company leases an office in the state of New York and storage space in the state of Washington which expire in March 2018 and December 2016, respectively. The landlord ("Landlord") of the Washington space is owned by the Former Executives as discussed in Note 9.

On February 24, 2016, the Company terminated the Washington lease and paid a $100,000 termination fee to the Landlord in full satisfaction the Company's remaining obligations under its original lease.

On May 19, 2016, Mr. Robert Williamsen, the Company's Vice President and Chief Revenue Officer departed the Company, via mutual consent, to pursue other interests. Pursuant to Mr. Williamsen's employment agreement with the Company, Mr. Williamsen will receive a payment of his monthly salary, subject to all applicable withholdings, for a period of 12 months following May 19, 2016, which the first payment commenced on July 7, 2016, and partial reimbursement for continued health, dental, and vision coverage through August 2016. Pursuant to the terms of Mr. Williamsen's stock option agreements, Mr. Williamsen exercised his vested stock option awards.

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 period ended September 30, 2016. 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, 2015. 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

We are a leading technology solutions company that is engaged in developing, integrating and marketing threat identification, identity authentication, verification and validation technology solutions making it possible for customers to enhance the safety and awareness of their facilities and people, improve customer service, and achieve increased operational efficiencies to address a variety of challenges that include retail fraud prevention, age-restricted product sales compliance, law enforcement increased situational awareness and threat identification and prevention, and mobile and handheld access control and security for the government, military and commercial markets. Among Intellicheck’s products are Retail ID™ and Retail ID Mobile,™ the industry leading solution for preventing fraud in the retail industry that provides added value in increasing customer loyalty program and credit card application conversions; while delivering enhanced customer service; Age ID,™ a smartphone or tablet-based solution that can also be integrated in point of sale systems which provides instant identification verification and authentication solutions for applications that include the prevention of the sale of age-restricted products to minors; Law ID,™ a flexible solution for mobile devices including smartphones and tablets that is used by law enforcement officers to identify and mitigate threats; and Defense ID®, a mobile and fixed infrastructure solution for threat identification, identity authentication and access control to military bases and other government facilities, and Guest ID,™ which makes hotel check-in faster, easier and more accurate by instantly authenticating an individual’s ID, and automatically populating registration forms.

We continue to develop and release innovative products based upon our rich patent portfolio consisting of over 25 patents.

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. We had goodwill of $8,101,661 at September 30, 2016. This goodwill resulted from the acquisition of Mobilisa, Inc. and Positive Access Corporation.

For the year ended December 31, 2015, we performed our annual impairment test of goodwill in the fourth quarter. Under authoritative guidance, we 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. As a result of the qualitative factors in 2015, specifically as a result of the decline in the stock price and the decrease in market multiples, we performed the first step of the goodwill impairment test in order to identify potential impairment by comparing our fair value of the Company to our carrying amount, including goodwill. The fair value was determined using the weighting of certain valuation techniques, including both income and market approaches which include a discounted cash flow analysis, an estimation of an implied control premium, in addition to our market capitalization on the measurement date. The implied control premium selected was developed based on certain observable market data of comparable companies. The market capitalization is sensitive to the volatility of our stock price. Although we believe that the factors considered in the impairment analysis are reasonable, changes in any one of the assumptions used could have produced a different result which may have led to an impairment charge. Any future impairment loss could have a material adverse effect on our long-term assets and operating expenses in the period in which impairment is determined to exist.