Intelli Check Mobilisa, Inc
Form 10-K
March 27, 2008

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

FORM 10-K

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

For the fiscal year ended December 31, 2007

OR

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

For the transition period from _____ to _____

Commission File No.: 001-15465

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

Delaware	11-3234779
(State or Other Jurisdiction of Incorporation or Organization)	(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

246 Crossways Park West, Woodbury, NY 11797

(Former Name, Former Address and Former Fiscal Year, if Changed Since Last Report)

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, $.001 par value
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes o No x

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Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.
Yes o No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 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 o

Indicate by check mark if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. o

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

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

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: $68,478,067 (based upon the closing price of Issuer's Common Stock, $.001 par value, as of the last business day of the Issuer's most recently completed second fiscal quarter (June 30, 2007).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

Common Stock, $.001 Par Value	24,563,378
(Title of Class)	(No. of Shares Outstanding at March 25, 2008)

DOCUMENTS INCORPORATED BY REFERENCE: None

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PART I

Item 1. <u>Business</u>

<u>Overview</u>

We were originally incorporated in the state of New York in 1994. In August 1999, we reincorporated in Delaware. We have developed and are currently marketing an advanced document verification system as part of our identity management solutions to enable a user to detect altered and tampered identification cards. We are a Microsoft® Certified Partner. Our technology addresses problems such as:

· **Commercial Fraud** - which may lead to economic losses to merchants from check cashing, debit and, credit card as well as other types of fraud such as identity theft that principally utilize fraudulent identification cards as proof of identity;

· **Unauthorized Access** - our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern;

· **Underage Access to Age Restricted Products and Services** - our systems and software are designed to determine the customer's age as well as the validity of the encoded format on identification documents, to detect and prevent the use of fraudulent identification for the purchase of alcohol, tobacco and other age-restricted products and services and to reduce the risk to the retailer of substantial monetary fines, criminal penalties and the potential for license revocation for the sale of age-restricted products to under-age purchasers; and

· **Inefficiencies Associated With Manual Data Entry** - by reading encoded data contained in the bar code and magnetic stripe of an identification card with a quick swipe or scan of the card, where permitted by law, customers are capable of accurately and instantaneously inputting information into forms, applications and the like without the errors associated with manual data entry.

<u>Recent Developments</u>

On November 20, 2007, we and Mobilisa, Inc.("Mobilisa"), a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which our wholly-owned subsidiary would merger with and into Mobilisa, resulting in Mobilisa becoming a wholly-owned subsidiary. At a special meeting of stockholders held on March 14, 2008, our stockholders voted to approve the merger, as well as to amend Intelli-Check's certificate of incorporation to increase the authorized shares of common stock and to increase the number of shares issuable under our 2006 Equity Incentive Plan. Our corporation was renamed Intelli-Check-Mobilisa, Inc. The headquarters of Intelli-Check was moved to Mobilisa's offices in Port Townsend, Washington.

The former shareholders of Mobilisa received a number of shares of Intelli-Check common stock such that they own 50% of Intelli-Check's common stock and approximately 50% of the total outstanding derivative securities post-merger. The aggregate value of the purchase consideration is equal to $50,722,000, based on the closing price of our common stock on November 20, 2007.

We intend to account for the transaction under the purchase method of accounting in accordance with the provisions of Statement of Financial Accounting Standards No. 141, "Business Combinations." Under this accounting method, we will record as our cost, the assets of Mobilisa, less the liabilities assumed, with the excess of such cost over the estimated fair value of such net assets reflected as goodwill. Additionally, certain costs directly related to the

transaction will be reflected as additional purchase price in excess of net assets acquired. Our results of operations will include the operations of Mobilisa after March 14, 2008. As of December 31, 2007, we had incurred $208,000 in connection with the acquisition of Mobilisa, reflected on the balance sheet as Deferred Acquisition Costs.

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

· Access Control: Mobilisa's Defense ID® system is designed to increase security at access points manned by law enforcement and military personnel

· Marine Environment Communications: Mobilisa's WOW technology allows for instant communication between multiple points, both on land and at sea, across wide, over-water expanses and optimizes performance by taking into account sea state and Fresnel zones (Fresnel zones result from obstructions in the path of radio waves and impact the signal strength of radio transmissions). Mobilisa is currently developing Floating Area Network ("FAN") and Littoral Sensor Grid technology as the next evolutionary step in marine communications

· Network Design: Mobilisa's AIRchitect™ tool designs optimum wireless networks based on user parameters and location architecture.

Mobilisa also derives its revenue from selling handheld communication devices with patent-pending software which allows users to send various, forms of identification and compare it to information on databases. A key component of Mobilisa's business strategy is its commitment to cutting-edge research and development in both ID systems and advanced applications of wireless technologies.

For purposes of this report, the terms Intelli-Check, Inc. ("Intelli-Check", "we", "our" or "the Company") refers to the business prior to the acquisition of Mobilisa, Including the Financial Statements and Schedule II included in Part IV, Item 15.

INFORMATION ABOUT INTELLI-CHECK

Our Products and Services

ID-Check® technology

Our patented ID-Check® technology is our advanced document verification software. ID-Check® is contained in our software products, and is capable of reading and verifying in one swipe or scan the encoded format contained on U.S. and Canadian driver licenses, state issued non-driver identification cards and military IDs. Our technology has the ability to verify the encoded formats on all currently encoded documents, even those that do not comply with the standards of the American Association of Motor Vehicle Administrators (AAMVA), the American National Standards Institute (ANSI) and the International Standards Organization (ISO).

ID-Check® SDK

Our software product, ID-Check® SDK, is designed for software developers that wish to incorporate our ID-Check® technology into their applications. It contains our proprietary technology, as well as a device controller, which is also capable of reading the smart chip contained in the military CAC. We currently have multiple license agreements with third parties for integration and sub-licensing of our software applications into their core applications. The SDK is available for multiple platforms such as Microsoft® Windows, Windows Mobile, AIX, certain versions of Linux and it can easily be ported to other platforms as the need arises.

ID-Check® POS

ID-Check® POS is a software application that runs on multiple VeriFone devices, such as the Omni 37xx series. Our software uses both the onboard magnetic stripe reader and an optional external 2-D bar code reader that plugs into an open port on the back of the unit. The terminal has an integrated, high-speed thermal printer. The VeriFone devices are multi-application terminals that allow the ID-Check® software to run side by side with credit card processing software as well as other value added software applications certified by VeriFone. We have been designated as a VeriFone value added partner.

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C-Link® software

Our C-Link® software, which is our networkable data management software works in conjunction with our ID-Check® POS application that runs on multiple VeriFone secure electronic payment terminals or with our data capture modules. It may be used only where permitted by law, since certain jurisdictions restrict using this information without customer consent. It allows the user to instantly view data from driver licenses as well as from the smart chip contained on the military common access card (CAC), for further verification and then archives it into a personal computer. C-Link® can be used on a stand alone personal computer or in a network environment. It contains features such as alerts, watch lists, and recurring entry.

ID-Check® PC

ID-Check® PC is a software solution that is designed to replicate the features of ID-Check® for Windows based platforms and is a Microsoft® Gold certified product. ID-Check® PC is designed to read the smart chip contained in the CAC card.

ID-Traveler

ID-Traveler is a software solution that can electronically compare two forms of government issued IDs instantaneously and determine whether the common fields match (e.g. name, address, date of birth). Should the fields match, the information is highlighted in one color. If the fields do not produce a match, the information is highlighted in a different color. Two forms of identification that are frequently used include driver licenses, state issued ID cards, military IDs, passports, border crossing cards and visas. The program also has the ability to store the images of the documents provided for proof of ID and has the ID-Prove module embedded so that with Internet connectivity it can generate a series of questions to test one's claimed identity.

ID-Prove

ID-Prove is a software solution that is intended to add additional layers to IDN's identity management suite of products. ID-Prove, when prompted, will provide an end user a variable number of "out of wallet" questions about that individual. These questions seek to ensure that the individual in question is truly who they claim to be. Currently, the ID-Prove product is not sold separately, but is integrated into our ID-Traveler and ID-Check® Portal products.

ID-Check® Mobile

ID-Check® Mobile is the designation for multiple hand held devices that we offer our customers. The form-factor is a small, lightweight mobile computer with a durable housing design that has 2-D bar code, magnetic stripe and/or Smart card reading capabilities. By allowing the user to move between locations, ID-Check® Mobile products provide the ability to check the encoded format of ID documents at multiple entry points. It additionally has the capability of providing a yes/no response when used for age verification purposes.

ID-Check® BHO

This software product, formerly called the Web Form Filler product, is a Browser Helper Object ("BHO") for Internet Explorer. The BHO allows our customers to seamlessly integrate our core ID-Check® technology into their web based applications. The BHO can be programmed through a series of drop down menus to populate driver license data in the fields of specific web pages based on web page URLs and web page field names. The technology also provides the ability to check the encoded formats of ID documents.

Data Collection Devices

Our software products are designed for use with multiple data collection devices, which are commercially available in various compact forms and may contain either one or both of two-dimensional bar code and magnetic stripe readers. These devices enable our software applications to be used on a variety of commercially available data processing devices, including credit card terminals, PDAs, tablets, laptops, desktops and point-of-sale terminals. Many of these devices contain an electronic serial number (ESN) to prevent unauthorized use of our software.

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ID-Check® Portal

The ID-Check® Portal product is designed to support a variety of industries, including financial, retail and government in their "in-person" proofing process, by verifying the encoded format of government issued IDs as well as performing additional layers of security checks to assist in proving the claimed identity of the individual presenting such documents for identification purposes. The product has the capability of checking over 400 public data bases to match information such as the address, date of birth, telephone numbers and social security number against known information as well as the driver license number, where available. It has an option of providing a series of multiple choice questions for the person being identified to answer, by utilizing the ID-Prove software solution. The questions are of such a nature that it is likely that only the real person would know the proper response.

ID-Check® Technology integrated with 3RD Ring's Genuine Document System (GDS)

In December 2006, we entered into an agreement with 3RD Ring pursuant to which we agreed to integrate and jointly market our combined technologies. The combined system provides users with little or no document examination experience with a simple, secure and cost effective means of verifying the authenticity of government issued identification documents. It is capable of verifying the encoded formats on U.S. and Canadian driver licenses, U.S. and provincial non-driver IDs, military IDs, U.S and international passports, and U.S Resident Alien cards. Additionally, the system is capable of verifying the security and forensic features, including holograms and other optical variable characteristics, for these as well as other government issued documents such as U.S Social Security cards. This powerful enhanced document verification system will be jointly marketed to government agencies, law enforcement agencies and the private sector.

Instant Credit Application Kiosk Software Applications

These are custom software applications that Intelli-Check has developed for a variety of major financial service companies. The software installed on multiple kiosk devices provides the customers of the major financial service companies with the ability to perform in-store instant credit approval on these devices. The hardware platforms on which the software applications run range from stationary devices to handhelds to tablet PCs. The process involves the swiping or scanning of the driver license to verify the encoded format and after verification, the information parsed from the encoded data is populated into the proper fields on the application displayed on the kiosk. The applicant then completes the application by entering the remaining required information that is not encoded on the driver license, such as social security and telephone numbers. The software application then sends the data to the financial service company's backend "decisioning" tool for credit approval. If approved, the applicant is granted instant credit which can then be used to make purchases.

ID-Check® Focus and ID-Cap67™ Handheld Imager

These handheld imager based bar code readers are designed to increase employee productivity while streamlining business processes in multiple business sectors such as retail, healthcare, government and security. These devices have the ability to capture images of ID documents and deliver the document clarity required to streamline recordkeeping, thus replacing paper-based files with electronic filing.

Upgrade Capability

Our software requires periodic updates as states and provinces adjust or modify the format of their electronically stored information. Jurisdictional updates can be distributed in a variety of ways depending on the product in use. Our technology can be upgraded by the installation of a file sent on an SD card, CD and/or e-mail to the customer. One of our products can be upgraded by modem using a dial-up phone connection. Jurisdictional Updates are included in the purchase price of Intelli-Check products for the first year after purchase. We sell upgrade packages for the period

commencing after the first year of purchase.

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ICARUS

We developed an automated remote update system that customers can use to automatically download and install updates. This product is currently being used in instant credit kiosk applications.

Background on Identification Documentation

Driver license

The driver license is the most widely used form of government issued photo identification. The Real ID Act, which became federal law in May 2005, recognizes that the driver license is also a quasi-identification card. In addition to its primary function, the driver license is used to verify identity for social services, firearm sales, check cashing, credit card use and other applications. There are approximately 245 million driver licenses in circulation in the U.S. and Canada. Our technology can read the data on all currently encoded driver licenses (even those that do not comply with the AAMVA/ANSI/ISO standards), which we believe to be over 230 million of those issued at the current time. Currently, the fifty states, the District of Columbia, and ten Canadian Provinces encode their licenses. We believe that the number of readable licenses will continue to grow as the three Canadian Provinces that have either not yet encoded their license or completed a rotation with encoding begin to encode and U.S. jurisdictions that have recently begun to encode complete their rotations.

Non-driver identification card

Since many people do not have a driver license, numerous jurisdictions offer other identification cards that may contain encoded information. These non-driver identification cards, as well as military IDs, are fundamentally identical to driver licenses. Because driver licenses are the most widely used form of legally acceptable government documentation, we refer to all these types of legally acceptable governmental identification documents as "driver licenses." Our ID-Check® software is equally capable of performing its function with these other types of government identification.

Scope of Authentication Capabilities

We believe that we are the only company that can machine read and verify the format contained on the machine readable zone on all of the North American encoded driver licenses and non-driver IDs issued by the U.S. states and Canadian Provinces.

Regulation of Retailers of Tobacco Products and Alcoholic Beverages

In an effort to combat the problems of underage drinking and smoking, the federal government and many states and Canadian provinces have enacted laws requiring businesses that sell age-restricted products to verify the IDs of potential customers to determine that they are of legal age to purchase these products. These laws impose stringent penalties for violations. For example, new federal regulations have been enacted that place a greater burden on retailers to prevent the sale of tobacco products to minors. Clerks are required to check the photo ID of anyone trying to purchase tobacco products that appears to be under the age of 27, and a retailer of alcoholic products who sells to an underage person could face potential fines, suspension of its license or the potential outright revocation of its license to sell alcoholic beverages. Additionally, in states where enacted, dram shop laws allow a person who is injured by any obviously intoxicated person to file a claim for relief for fault against any person who knowingly sells alcoholic beverages to a person less than 21 years of age. As a result of law enforcement efforts and regulatory penalties, we believe retailers that sell alcohol and tobacco, such as liquor stores, bars and convenience stores, are facing increased pressure to accurately verify the age of their customers. There is legislation currently pending or proposed in some U.S. states that would make it mandatory to utilize electronic verification devices by sellers of age-restricted products

such as alcohol and tobacco.

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Current Challenges Associated with Verifying Identification Documents

The high-tech revolution has created a major problem for those who rely on identification documents. In an age where scanners, computers and color printers are commonplace, fake IDs of the highest quality are easily obtainable from a number of locations including college campuses and from multiple sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices have the ability to easily alter properly issued ID's. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

· committing identity theft;

· improperly boarding airplanes;

· committing credit card, debit card and check cashing fraud;

· unlawfully obtaining welfare or other government benefits;

· committing refund fraud,

· committing pharmacy fraud, including false narcotic prescriptions,

· gaining entrance to high profile buildings and sensitive infrastructures, such as nuclear facilities;

· illegally purchasing firearms;

· purchasing age restricted products such as alcohol and tobacco while under age;

· committing employee fraud, including employee theft and payroll theft; and

· engaging in medical fraud.

Given the ease with which identification can be falsified, simply looking at a driver license may not be sufficient to verify age or identity and determine whether or not it is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that a document verification system which can accurately read the electronically stored information is needed. We possess a patented software application technology that provides an analysis of the data contained on the encoded formats of these identification documents by reading and analyzing the encoded format on the magnetic stripe or bar code on the driver license and comparing it against known standards.

ID-Check® Solutions and Benefits

We believe that ID-Check® and our family of software solutions contain the most advanced, reliable and effective technology, providing users with an easy, reliable, and cost-effective method of document and age verification. We have received encoding formats from all of the issuing jurisdictions in North America. This information, combined with our patented technology, enables all of our ID-Check® software products to read, decode, process and verify the encoded formats on driver licenses. Our ID-Check® Portal product can verify the claimed identity of the individual in question as well. As jurisdictions change their documents and guidelines, we believe our software can be adapted to these changes.

ID-Check® software does not require a connection to a central database to operate, thus negating privacy concerns. Many of our products have the ability to operate add-on peripherals such as printers, fingerprint readers and other devices.