Intellicheck Mobilisa, Inc.
Form 10-K
March 08, 2011

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, 2010

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

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.)

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

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

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 ¨ No x

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 ¨ 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 ¨

Indicate by check mark whether the 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 during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).
Yes ¨ No ¨

Indicate by check mark 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 ¨	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

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: $22,313,982 (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, 2010).

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	27,027,281
(Title of Class)	(No. of Shares Outstanding at March8, 2011)

DOCUMENTS INCORPORATED BY REFERENCE: None

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PART I

Item 1. Business

OVERVIEW

We were originally incorporated in the state of New York in 1994 as Intelli-Check, Inc. In August 1999, we reincorporated in Delaware. On March 14, 2008, our corporation was renamed Intelli-Check - Mobilisa, Inc. after the consummation of the merger with Mobilisa, Inc. ("Mobilisa") (references to "Intelli-Check" in this annual report refer to the Company prior to the merger with Mobilisa). At the closing of the merger, our headquarters were moved to Mobilisa's offices in Port Townsend, Washington, an area designated by the U.S. Small Business Administration as a Historically Underutilized Business Zone ("HUBZone"). On October 27, 2009, we made a further change in our name to Intellicheck Mobilisa, Inc. ("Intellicheck Mobilisa," "we," "our," "us," or "the Company"). On August 31, 2009, t Company acquired 100% of the common stock of Positive Access Corporation, a developer of driver license reading technology. The acquisition of Positive Access expanded the Company's technology portfolio and related product offerings and allowed the Company to reach a larger number of customers through Positive Access's extensive distribution network.

Our primary businesses include Identity Systems including commercial applications of identity card reading and verification and government sales of defense security and identity card applications, and the development of wireless communications applications with an emphasis in Wireless over Water®("WOW"™) applications.

Our technologies address 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 use fraudulent identification cards as proof of identity;

§ Instant Credit Card Approval – retail stores use our technology to scan a Driver's License at a kiosk or at the Point Of Sale (POS) and send the information to a credit card underwriter to get instant approval for a loyalty-branded credit card. This technique protects consumer data and is significantly more likely to result in a completed transaction compared to in-store personnel asking customers to fill out a paper form;

§ 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;

§ 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;

§

Marine Environment Communications – our 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). We are currently developing Floating Area Network® (“FANTM”) and Littoral Sensor Grid technology as the next evolutionary step in marine communications; and

§ Wireless Network Design and Hazard Assessment – ourAIRchitect® tool designs optimum wireless networks based on user parameters and location architecture, and our Radiation Hazard (RADHAZ) tool identifies and assesses radio frequency (RF) exposure.

IDENTITY CARD READING AND VERIFICATION SECTOR

Background on Identification Documentation

Driver license

The driver license is the most widely used form of government issued photo identification in North America. 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. Our technology can read the data on all currently encoded driver licenses (even those that do not comply with the AAMVA/ANSI/ISO standards). 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 jurisdictions currently not encoding begin issuing encoded documents, and the remaining Canadian jurisdictions begin to issue encoded documents to meet the mandates put forth in the Real ID Act and U.S. jurisdictions that have recently begun to encode complete their issuance cycle.

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.

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, 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.

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. 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 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;
- § engaging in medical fraud;
- § obtaining welfare or other government benefits; and
- § committing refund 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 patented 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. We believe that we are the only company able to do this for all U.S. jurisdictions and that no other company could provide a similar service without infringing on our patents.

OUR PRODUCTS AND SERVICES

Our Products and Services can be categorized into two main areas: Identity Systems and Wireless Communications.

Identity Systems Products and Services

Our Identity systems are marketed to the Commercial and Government identification sectors.

Commercial Identification

ID√Check® Family — Solutions and Benefits

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").

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. 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.

The ID√Check process is quick, simple and easy to use. After matching the driver license photograph to the person presenting the document for identification, the user simply swipes the driver license through the data capture device if the card has a magnetic stripe or scans it if it has a bar code. The software quickly determines if:

- the format of the document is valid;
- the document has been altered or is fake, by displaying the parsed, encoded data for comparison with the printed information;
- the document has expired; and
- being used for age verification, the encoded data contains a date of birth equal to or greater than the legal age to purchase age restricted products, such as alcohol and tobacco.

Then, the ID√Check®software applications can:

- respond to the user by displaying the format verification result and the parsed information;
- save information that is permissible by law to memory; and
- print a record of the transaction including the verification results, if a printer is part of the hardware configuration.

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, and certain versions of Linux. It can easily be ported to other platforms as the need arises. While we will continue to support certain partners under existing agreements, we will no longer be pursuing sales of our ID√Check SDK as we move our revenue model towards selling application solutions directly to the end user.

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.

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.

ScanInnTM

ScanInn is a software application that speeds up check-in and ID verification at hotels and motels. This product builds on the BHO and ID Check PC to enhance user productivity by automating data entry thus improving accuracy. ScanInn allows the check in at a hotel in seconds and is incorporated into legacy Property Management Systems.

AssureScanTM

AssureScan is an application that that assists pharmacies with ID verification and tracking drug related purchases. This product focuses on the capturing data from drivers' licenses and tracking the sale of controlled medicines such as pseudoephedrine. Many states are now monitoring the sale of controlled medicines and this product tracks those sales.

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 standalone software solution that is designed to provide the features of ID√Check for Windows based platforms. 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 in the military common access card (CAC), for further verification and then archives it into a personal computer. It contains features such as recurring entry and age verification.

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.

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.

Instant Credit Application Kiosk Software Applications

These are custom software applications that Intellicheck Mobilisa has developed for a variety of major financial service companies and retail stores. 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

All of the ID√Check products may be updated as states and provinces adjust or modify the format of their electronically stored information. We distribute jurisdictional updates 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 Intellicheck Mobilisa products for the first year after purchase. We sell upgrade packages for the period commencing after the first year of purchase. We have also 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.

Defense Security

Defense ID® System

Our Defense ID System offers law enforcement personnel and military security officers additional information for protecting their facilities. The Defense ID System uses rugged, handheld, mobile devices and desktop visitor/vendor approval workstations to read barcodes, magnetic stripes, RFID (radio frequency identification) and OCR (optical character recognition) codes printed on current forms of identification cards. By scanning and comparing the information contained on the ID card to over 100 databases, Defense ID can immediately determine if the card has been reported lost or stolen, the individual's identity information matches watch lists or law enforcement databases, or if they are on an authorized roster of previously-cleared personnel. In 2008, our Defense ID System received a U.S. Navy-wide certification and accreditation referred to as an Authority to Operate ("ATO"), and in 2009, our Defense ID System received U.S. Army-wide, U.S. Marine Corps-wide and U.S. Air Force-wide ATOs. We believe these ATOs will facilitate further deployment of the Defense ID System at military bases and facilities.

Fugitive Finder™

Our Fugitive Finder product builds on our patented ID reading technology deployed nationwide at approximately 80 federal facilities and military bases, which quickly scans various forms of IDs, such as driver's licenses, military IDs or passports, and instantly compares the database made from over 100 "bad guy" lists. Comparing it to our Defense ID product, it has several enhancements and a key distinction is that some of the accessible data is so sensitive, in order to use Fugitive Finder you need to be a member of Law Enforcement (e.g. a police officer or federal agent).

The enhancements and changes include:

- FiPS 201 certification, which is a federal ID certification standard,
- ability to search NCIC, which is a law enforcement only FBI managed gold standard database,
- capability of biometrics validation to the card when applicable,
- adding a Military Credentials Live Check, and
- long-term vetted vendor cards.

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We are adding integration of the TWIC reader application into the system.

For police officers, when they pull over a vehicle, the most dangerous period of interaction is when they take the driver's ID and walk back to their cruiser to run a background check. It gives the driver in question and passengers time to reach for weapons, knowing the officer will be coming back to make an arrest. If instead the officers were able to do that check wirelessly after securing the vehicle, never having to turn return to their cruiser, their exposure would be drastically reduced. Fugitive Finder provides law enforcement agents with open wants and warrants.

TWIC Reader (IM 2700)

One of the first readers on the Department of Homeland Security's Initial Capabilities List of devices, the IM2700 verifies the Character Unique Identifier, Certificates of Authenticity, Biometrics and Personal Indentify Number on the Transportation Worker Identification Credential ("TWIC"). The TWIC reader can also be incorporated into all aspects of the Defense ID System. The Department of Homeland Security ("DHS") regulations required that all workers at ports must have a card by April 15, 2009.

Visitor Center (IM 3000)

The Visitor Center is a component of our Defense ID system. The desktop computer performs a real time background check utilizing over 100 databases to verify the individual is not on a wanted list and also if the individual has been pre-approved to access the facility or building.

Upgrade Capability

Like our ID√Check products, our Defense ID products are constantly updated to stay current with identification formats and new forms of ID. In addition, we continuously update the databases related to lost or stolen cards, watch lists and law enforcement database updates, and authorized rosters of cleared personnel. Our Defense ID Systems are maintained via annual subscriptions that are purchased by our customers.

Wireless Communications Products and Services

Wireless OverWater® Technology ("WOW") ™

WOW technology was first developed to allow passengers of moving vessels, for example passenger ferries, high rates of data transfer through wireless 802.11 networking. WOW technology allows users to access the Internet while in motion on water. WOW was used to develop the Floating Area Network technology.

Floating Area Network® ("FAN") ™

FAN technology was developed for the US Navy. FAN utilizes WOW technology to create a mesh type network for Navy Vessels underway and provides an alternative and less expensive communications methodology for the US Navy. Vessels may dynamically join and depart the network while underway at sea.

Littoral Sensor Grid ("LSG")

LSG is the next evolution of WOW and FAN. Using the technology developed for WOW and FAN, we incorporated the use of buoys to provide both security and environmental monitoring. Varieties of sensors measure/monitor anything above, on, or below the water and provide that information real time to an operations control center. This technology allows for security monitoring of our harbors and waterways both from a terrorist attack or accidental

environmental conditions.

AIRchitect®

AIRchitect is a wireless LAN design expert system that is tailored to military ships, installations and infrastructure. This product uses blueprint drawings in AutoCAD or Visio format and allows a network engineer to optimally design a wireless network including the best location for access points and uses requirements of users, throughput performance, interference, physical structures, and co-channel interference.

STRATEGY

Our objective is to be a leading security company providing world class solutions in the identity and wireless industry sectors. These solutions include our commercial identity systems focusing on work-flow, productivity enhancement, commercial fraud protection, access control and age verification segments; our government identity systems focusing on security access, vendor validation, and suspect identification; and our wireless communications systems, focusing on wireless networking over water, and wireless network planning. Key elements of our strategy are as follows:

Commercial Systems

Productivity Enhancement. We market our technology as a key productivity enhancement tool. Our patented ID√Check software can add functionality to virtually any given software application to automatically populate fields within a given form, when a government-issued photo ID is presented. Our ability to correctly read all US jurisdictions is a key differentiator from our competitors. The automation that results from the intelligence added to the form dramatically increases throughput and data integrity, and it significantly enhances the customer's experience.

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications with multiple biometric companies: Northrop Grumman Corporation, L-3 Communications Holdings, Inc., AMAG Technology, Inc., in the defense industry; Intermec Inc., MaxID Corp., Metrologic (part of Honeywell) , Roper Industries, Inc. (DAP) and Motorola, Inc. hardware manufacturers; and Digimarc Corporation and Viisage, now part of L1 Identity Solutions, Inc., producers of driver licenses for approximately 90% of the jurisdictions in North America. We are also a member and board member of The Federation for Identity and Cross-Credentialing Systems or (FiXs).We believe these relationships will broaden our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for age and document verification and productivity enhancement by continuing to market and support our systems and software. Our sales and marketing departments are organized by target sector rather than geographic area to provide focus and create experts in each area. Our recent focus has been on large enterprise-wide license arrangements in the financial services, retail, and hospitality services industries.

Enter into Additional Licensing Agreements. We intend to continue to license our software for use with a customer's system. We are currently licensing our ID√Check SDK software product for Windows, Windows CE, Windows Mobile and other operating system platforms and intend to similarly continue to license our C-Link, ID√Check PC, and ID√Check PDA software solutions. Our software is intended to be used with a compatible hardware device. We have entered into multiplelicensing agreements to date.

Protect Intellectual Property. We intend to strongly protect our intellectual property portfolio in order to preserve value and obtain favorable settlements where warranted. For example, in February 2003, we filed suit against CardCom, Inc. d/b/a CardCom Technology, Inc., claiming that CardCom had infringed one of our patents. Subsequently, we entered into a patent licensing agreement with CardCom effective March 2003 which provided for a non-exclusive three year license in connection with the manufacture, use and sale of CardCom's age verification products in the United States and Canada. In March 2006, we renewed the licensing agreement with CardCom for an additional five years. In April 2009, the Company and TriCom Card Technologies, Inc. ended long-term patent dispute litigation began in July 2003 by entering into a patent settlement agreement and a license agreement. Pursuant to the settlement agreement, TriCom acknowledged the validity of Intellicheck Mobilisa’s patents, and that sales of TriCom’s age verification products are subject to the terms of a license agreement entered contemporaneously with the

settlement agreement.

Government Identity Systems

Product Enhancement. Due to the success of Defense ID in the military and government industry sectors, we intend to enhance our product line to support other entities such as law enforcement, port security and commercial installations. We continue our ongoing efforts to research and implement the use of new identification cards, additional databases and upgraded equipment form factors in order to increase the efficiency and performance of the system. We will also continue to work with the information technology and privacy units within all branches of the military maintain branch-wide ATOs.

TWIC Program. The TWIC program continues to undergo testing for final rules regarding the reader technology. We were on the first list of ICE readers and will continue to provide our software on additional hardware platforms to address the unique needs of each port. We are also combining our Defense ID and TWIC reader applications to provide customers with the benefits of each product in a single device.

Strengthen Sales and Marketing Efforts. As the need for access control systems continues to grow, our experienced sales and marketing departments is adjusting to target new sectors. Sales and marketing materials are specially designed to clearly outline the capabilities of the system and how it is valuable to each of these specific sectors. We have sales staff and office locations on the West Coast, Midwest and East Coast, which allows a quick response to questions and personalized assistance for each customer based on location.

Additional Access to Multiple Databases. We continue to increase the data source information accessed through our Defense ID system. This is achieved by increasing the capabilities of our internally-developed scraping programs for publicly-available information as well as by negotiating additional data source agreements with various law enforcement and government agencies. In addition to these general databases, we customize databases for each individual customer based on information provided by the customer.

Wireless Communications Systems

Research and Development. Our wireless communications systems program is primarily research and development funded by the federal government. We intend to continue to pursue research and development projects through funding from various government agencies for research and development work in the wireless and security arenas. Jefferson County, Washington, where Port Townsend is located, has been designated as a HUBZone until June 1, 2011. As long as the Company maintains its headquarters in Jefferson County, Washington and one-third of the total number of employees live in the designated HUBZone area, the combined company will maintain its HUBZone status.

The Company enjoys an excellent relationship with its current customers and continues to receive funding for additional research and development work stemming from projects already completed or in process. We will continue to work with these customers to determine how best to continue to create innovative solutions that meet customers' changing technological needs. For example, our current research and development efforts in FAN and in the Littoral Sensor Grid have the potential of revolutionizing ship-to-ship and ship-to-shore communications. The U.S. Navy, as well as other agencies and commercial customers, will greatly benefit from the successful development of these technologies, and we intend to continue to pursue these industry sectors.

Our Revenue Sources

We derive our revenue from the following sources:

- Sales of our systems by our own direct sales force and marketing partners;

- Per transaction or subscription fees from the licensed use of our technology;
- Royalties and licensing fees from licensing our patented technology to third parties;
- Revenue sharing and marketing arrangements through strategic alliances and partnerships;
- Sale of software upgrades and extended maintenance programs; and
- Government grants for research and development projects.

Our Target Industry Sectors

Commercial Identity Systems

The use of false identification cards, primarily driver licenses and non-driver identification cards, to engage in commercial fraud, to gain access to unauthorized areas and to gain entry to critical infrastructure, or to purchase products from, establishments that sell age-restricted items, is common. Given the ease with which identification can be falsified, we believe that simply looking at a driver license may not be sufficient to verify age or identity and determine whether or not such an identification card is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that what they need is a document verification system that can accurately read the electronically stored information. We target the industry sectors that would most benefit from our systems and software.

We also market our products to opportunities where our ID√Check technology can be used to enhance productivity. We have made significant progress in the sectors for the retail issuance of instant credit. We believe there is a financial benefit and a compelling business model for customers in this sector to utilize our technology.

Productivity Enhancement

- § Mass merchandisers and retailers
- § Banks and other financial institutions
- § Credit unions
- § Credit card issuers
- § Check cashing services
- § Auto dealerships and rental car agencies
- § Casinos for enrollment of guests
- § Hospital patient admissions
- § Lodging Industry
- § Airlines

Commercial fraud protection

- § Mass merchandisers and retailers
- § Banks and other financial institutions
- § Credit unions
- § Credit card issuers
- § Check cashing services
- § Auto dealerships and rental car agencies
- § Casino cage operations
- § Hospitals, medical facilities and health plans
- § Lodging Industry
- § Pharmacies

Access control

- § Airports and airlines
- § Departments of Motor Vehicles
- § Prisons
- § Law enforcement agencies
- § Notable buildings
- § Court houses
- § Nuclear facilities
- § Oil refineries and storage facilities
- § Military establishments
- § College campuses
- § Department of Homeland Security
- § Bus, rail and port facilities

Age verification

- § Bars and night clubs
- § Convenience stores
- § Grocery chains
- § Restaurants
- § Stadiums and arenas
- § Casinos and gaming establishments
- § Sellers of sexually explicit material
- § Firearm dealers

Government Identity Systems

Our Defense ID system is tailored to locations that validate identification cards as a means of access. Historically, the military sector has been the primary focus, followed closely by the law enforcement sector. Military bases, for example, are an ideal location for the use of the Defense ID system because individual ID cards are checked prior to allowing base access and, in most cases, bases issue visitor/vendor passes to individuals needing access that do not possess a military ID.

Because Defense ID is customizable, it can be used in many different environments. The information provided via instant access to multiple law enforcement databases proves invaluable to gate officers and law enforcement personnel ensuring the security of a facility. Current targets include:

Military

- § Army
- § Air Force
- § Coast Guard
- § Military and Veterans Hospitals
- § Navy
- § Marines
- § Military Academies

Law Enforcement/Government

- § FBI
- § State Police
- § Bureau of Alcohol, Tobacco and Firearm
- § Customs
- § Department of Homeland Security
- § Drug Enforcement Administration
- § Local Sheriffs
- § CIA
- § Department of Transportation
- § Border Patrol

Wireless Communications Systems

We provide wireless services, including wireless environment analysis, custom wireless network design and application and custom wireless application development, to a range of customers across a variety of industry sectors. Our AIRchitect product enables us to design the ideal wireless network for a variety of different facilities. In addition to designing shipboard networks for the U.S. Navy and the Washington State and British Columbia Ferries, We target metropolitan areas, warehouses, hospitals, public transportation providers and other businesses requiring wireless design and specialty services. Our WOW technology can be adapted for a variety of forms of transportation, including buses and trains, and the Company continues to further explore potential customers in those sectors. Currently, our target customer for both FAN and the Littoral Sensor Network is the U.S. Navy, although there are many additional sectors, such as sea ports, where such technology may be sold in the future.

REPRESENTATIVE CUSTOMERS

Commercial Identity Systems

We have generated revenues from our customers from the sale of systems, licensing of software and sale of software upgrades. The following representative customers are using our systems and software for commercial fraud protection and productivity enhancement:

- § Fidelity Information Services
- § MGM Grand
- § Caesar’s Palace
- § Enterprise
- § Toys R Us
- § Alliance Data
- § Rooms to Go
- § Walmart
- § Foxwoods Resorts and Casino
- § Mohegan Sun Resort Casino
- § Barclaycard USA
- § JPMorgan Chase
- § LL Bean
- § GE Consumer Finance
- § AT&T
- § Winn Dixie

The following representative customers and programs have used or are using our systems and software for access control:

- John F. Kennedy International Airport in New York
- O'Hare International Airport in Chicago
- Reagan National Airport in Washington, DC
- New York Stock Exchange
- Fort Sam Houston
- Fort Hood
- Force Protection Industries
- New York Department of Motor Vehicles
- Vermont Department of Motor Vehicles
- Delaware Department of Motor Vehicles
- Port of Houston

- New Hampshire Department of Motor Vehicles
- Port Authority of New York and New Jersey
- Port of Hawaii
- United States Supreme Court
- Registered Traveler Program

The following representative customers are using our systems and software for age verification:

- Idaho State Liquor Dispensary
- Sunoco
- Exxon/Mobil franchisees
- Drake Petroleum
- Houston's Restaurants

Government Identity Systems

We have generated revenue from our customers from the sale of systems, licensing of software and sale of extended service agreements. The following representative customers have used or are using our systems and software for security and identification purposes.

- The United States Air Force Academy
- Fort Wainwright
- Elmendorf Air Force Base ("AFB")
- Andrews AFB
- Fort Meade
- Fort Belvoir
- Parris Island
- The US Military Academy at West Point
- Bangor Naval Submarine Base
- Fort Jackson
- Fort AP Hill
- Fort Leonard Wood
- Fort Benning
- Fort Richardson
- Bolling AFB
- Fort Polk
- Fort Dix
- Yuma Marine Corps Base
- Walter Reed Army Hospital
- McChord AFB
- Claremont County Sheriff Department
- Quantico
- Fort Sill
- 29 Palms
- Camp Atterbury
- Fort Stewart

Wireless Communications Systems

The following representative customers have used our wireless solutions, including AIRchitect:

- United States Navy
- Sound and Sea Technologies
- British Columbia Ferries
- Port Townsend Paper Company
- Parsons Corporation
- United States Air Force
- Science Application International Corporation
- Washington State Ferries
- Mikros Systems Corporation