GNC HOLDINGS, INC.
Form 10-Q
August 01, 2013
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Form 10-Q

(Mark one)

[**X**] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended **June 30, 2013**

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

For the transition period from__________ to __________.

Commission File Number: **001-35113**

GNC Holdings, Inc.

(Exact name of registrant as specified in its charter)

Delaware (State or other jurisdiction of Incorporation or organization)	**20-8536244** (I.R.S. Employer Identification No.)
300 Sixth Avenue **Pittsburgh, Pennsylvania** (Address of principal executive offices)	**15222** (Zip Code)

Registrant s telephone number, including area code: **(412) 288-4600**

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. [**X**] Yes [ ] 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 (§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). [**X**] Yes [ ] No

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

Large accelerated filer [**X**] Accelerated filer [ ] Non-accelerated filer [ ] 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 [**X**] No

As of July 26, 2013, there were 95,296,359 outstanding shares of Class A common stock, par value $0.001 per share (the Class A common stock), of GNC Holdings, Inc.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Balance Sheets

(in thousands, including share data)

	June 30, 2013 (unaudited)	December 31, 2012
Current assets:		
Cash and cash equivalents	$ 64,025	$ 158,541
Receivables, net	142,104	129,641
Inventories (Note 3)	544,299	491,599
Prepaids and other current assets	40,989	39,016
Total current assets	791,417	818,797
Long-term assets:		
Goodwill (Note 4)	641,024	639,915
Brands (Note 4)	720,000	720,000
Other intangible assets, net (Note 4)	137,748	141,717
Property, plant and equipment, net	199,683	199,487
Other long-term assets	32,787	32,124
Total long-term assets	1,731,242	1,733,243
Total assets	$ 2,522,659	$ 2,552,040
Current liabilities:		
Accounts payable	$ 157,867	$ 125,165
Current portion, long-term debt (Note 5)	3,557	3,817
Deferred revenue and other current liabilities	103,346	116,337
Total current liabilities	264,770	245,319
Long-term liabilities:		
Long-term debt (Note 5)	1,093,366	1,094,745
Deferred tax liabilities, net	283,886	283,203
Other long-term liabilities	49,580	46,734
Total long-term liabilities	1,426,832	1,424,682
Total liabilities	1,691,602	1,670,001
Stockholders equity:		
Common stock, $0.001 par value, 300,000 shares authorized:		
Class A, 112,339 shares issued and 95,678 shares outstanding and 16,661 shares held in treasury at June 30, 2013 and 111,725 shares issued and 99,244 shares outstanding and 12,481 shares held in treasury at December 31, 2012	112	111
Paid-in-capital	826,535	810,094
Retained earnings	607,878	492,687
Treasury stock, at cost	(605,210)	(423,900)
Accumulated other comprehensive income	1,742	3,047
Total stockholders equity	831,057	882,039

Total liabilities and stockholders equity	$ 2,522,659	$ 2,552,040

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Income

(unaudited)

(in thousands, except per share data)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Revenue	$ 676,276	$ 619,081	$ 1,340,966	$ 1,243,354
Cost of sales, including cost of warehousing, distribution and occupancy	420,384	379,644	828,937	763,208
Gross profit	255,892	239,437	512,029	480,146
Compensation and related benefits	81,104	78,376	160,649	158,419
Advertising and promotion	16,282	13,411	36,722	29,630
Other selling, general and administrative	34,917	30,573	66,582	62,358
Foreign currency gain	(82)	17	(115)	(76)
Transaction related costs	-	-	-	686
Operating income	123,671	117,060	248,191	229,129
Interest expense, net (Note 5)	11,101	10,495	22,116	20,878
Income before income taxes	112,570	106,565	226,075	208,251
Income tax expense (Note 10)	40,882	39,894	81,744	77,723
Net income	$ 71,688	$ 66,671	$ 144,331	$ 130,528
Income per share - Basic and Diluted:				
Earnings per share:				
Basic	$ 0.74	$ 0.63	$ 1.47	$ 1.23
Diluted	$ 0.73	$ 0.62	$ 1.46	$ 1.21
Weighted average common shares outstanding:				
Basic	97,428	106,517	98,208	106,161
Diluted	98,333	107,927	99,106	107,917
Dividends declared per share:	$ 0.15	$ 0.11	$ 0.30	$ 0.22

Consolidated Statements of Comprehensive Income

(unaudited)

(in thousands)

	Three months ended June 30, 2013	Three months ended June 30, 2012	Six months ended June 30, 2013	Six months ended June 30, 2012
Net income	$ 71,688	$ 66,671	$ 144,331	$ 130,528
Other comprehensive loss:				
Foreign currency translation adjustments	(708)	(580)	(1,305)	(226)
Other comprehensive loss	(708)	(580)	(1,305)	(226)
Comprehensive income	$ 70,980	$ 66,091	$ 143,026	$ 130,302

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Stockholders Equity

(unaudited)

(in thousands, including per share data)

	Common Stock Class A Shares	Common Stock Class A Dollars	Common Stock Class B Shares	Common Stock Class B Dollars	Treasury Stock	Paid-in-Capital	Retained Earnings	Accumulated Other Comprehensive Income/(Loss)	Total Stockholders Equity
Balance at December 31, 2012	**99,244**	**$ 111**	**-**	**$ -**	**$ (423,900)**	**$ 810,094**	**$ 492,687**	**$ 3,047**	**$ 882,039**
Comprehensive income	-	-	-	-	-	-	144,331	(1,305)	143,026
Repurchase of treasury stock	(4,180)	-	-	-	(181,310)	-	-	-	(181,310)
Common stock dividends	-	-	-	-	-	-	(29,140)	-	(29,140)
Conversions to common stock	614	1	-	-	-	12,567	-	-	12,568
Non-cash stock-based compensation	-	-	-	-	-	3,874	-	-	3,874
Balance at June 30, 2013 (unaudited)	**95,678**	**$ 112**	**-**	**$ -**	**$ (605,210)**	**$ 826,535**	**$ 607,878**	**$ 1,742**	**$ 831,057**
Balance at December 31, 2011	**102,985**	**$ 105**	**2,060**	**$ 2**	**$ (65,048)**	**$ 741,848**	**$ 298,831**	**$ 2,724**	**$ 978,462**
Comprehensive income	-	-	-	-	-	-	130,528	(226)	130,302
Conversion of Class B stock to Class A stock	2,060	2	(2,060)	(2)	-	-	-	-	-
Repurchase of treasury stock	(1,665)	-	-	-	(58,822)	-	-	-	(58,822)
Common stock dividends	-	-	-	-	-	-	(23,409)	-	(23,409)
Conversions to common stock	2,938	3	-	-	-	47,100	-	-	47,103
Non-cash stock-based compensation	-	-	-	-	-	2,320	-	-	2,320
Other	-	-	-	-	-	-	(1,051)	-	(1,051)
Balance at June 30, 2012 (unaudited)	**106,318**	**$ 110**	**-**	**$ -**	**$ (123,870)**	**$ 791,268**	**$ 404,899**	**$ 2,498**	**$ 1,074,905**

The accompanying notes are an integral part of the consolidated financial statements.

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GNC HOLDINGS, INC. AND SUBSIDIARIES

Consolidated Statements of Cash Flows

(unaudited)

(in thousands)

	Six months ended June 30, 2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net income	$ 144,331	$ 130,528
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation and amortization expense	25,131	24,329
Amortization of debt costs	1,258	1,166
Increase in provision for inventory losses	8,990	6,554
Increase in receivables	(13,948)	(15,049)
Increase in inventory	(61,874)	(90,642)
(Increase) decrease in prepaids and other current assets	(1,997)	1,699
Increase in accounts payable	32,449	34,475
(Decrease) increase in deferred revenue and other current liabilities	(13,250)	1,384
Other operating activities	5,742	(1,578)
Net cash provided by operating activities	126,832	92,866
CASH FLOWS FROM INVESTING ACTIVITIES:		
Capital expenditures	(21,475)	(20,838)
Other investing activities	(1,194)	(1,895)
Net cash used in investing activities	(22,669)	(22,733)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Dividends paid to shareholders	(29,078)	(23,409)
Payments on long-term debt	(1,893)	(833)
Proceeds from exercised stock options	6,280	19,540
Tax benefit from exercise of stock options	6,970	28,903
Repurchase of treasury stock	(181,310)	(59,960)
Other financing activities	-	(2,500)
Net cash used in financing activities	(199,031)	(38,259)
Effect of exchange rate on cash and cash equivalents	352	(145)
Net (decrease) increase in cash and cash equivalents	(94,516)	31,729
Beginning balance, cash and cash equivalents	158,541	128,438
Ending balance, cash and cash equivalents	$ 64,025	$ 160,167

The accompanying notes are an integral part of the consolidated financial statements.

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NOTE 1. NATURE OF BUSINESS

General Nature of Business. GNC Holdings, Inc., a Delaware corporation (Holdings, and collectively with its subsidiaries and, unless the context requires otherwise, its and their respective predecessors, the Company), is a global specialty retailer of health and wellness products, which include: vitamins, minerals and herbal supplements, sports nutrition products, diet products and other wellness products.

The Company is vertically integrated, as its operations consist of purchasing raw materials, formulating and manufacturing products and selling the finished products through its three segments: Retail, Franchising and Manufacturing/Wholesale. Corporate retail store operations are located in the United States, Canada and Puerto Rico, and in addition, the Company offers products domestically through GNC.com, LuckyVitamin.com and www.drugstore.com. Franchise stores are located in the United States and over 50 international countries (including distribution centers where retail sales are made). The Company operates its primary manufacturing facilities in South Carolina and distribution centers in Arizona, Pennsylvania and South Carolina. The Company manufactures the majority of its branded products, but also merchandises various third-party products. Additionally, the Company licenses the use of its trademarks and trade names.

The processing, formulation, packaging, labeling and advertising of the Company s products are subject to regulation by one or more federal agencies, including the Food and Drug Administration (the FDA), the Federal Trade Commission, the Consumer Product Safety Commission, the United States Department of Agriculture and the Environmental Protection Agency. These activities are also regulated by various agencies of the states and localities in which the Company s products are sold.

Recent Significant Transactions. In April 2011, Holdings consummated an initial public offering (the IPO) of 25.9 million shares of its Class A common stock, par value $0.001 per share (the Class A common stock), at an IPO price of $16.00 per share. Prior to the IPO, Holdings outstanding common stock was principally owned by Ontario Teachers Pension Plan Board (OTPP) and Ares Corporate Opportunities Fund II L.P. (Ares , and together with OTPP, collectively referred to as the Sponsors). In March 2012, OTPP converted all of its shares of Class B common stock into an equal number of shares of Class A common stock. Subsequent to the IPO, certain of Holdings stockholders, including the Sponsors, completed the following registered offerings of Class A common stock:

- in October 2011, 23.0 million shares at $24.75 per share;
- in March 2012, 19.6 million shares at $33.50 per share;
- in August 2012,10.0 million shares at $38.42 per share; and,
- in November 2012, 11.7 million shares at $35.20 per share.

In conjunction with the August 2012 offering, the Company repurchased an additional six million shares of Class A common stock from Ares as part of a share repurchase program. As of December 31, 2012, Ares no longer owns any shares of our capital stock and OTPP owns less than 10,000 shares of our Class A common stock.

As of June 30, 2013, the Company had completed $181.3 million of its February 2013 approved $250.0 million share repurchase program of Class A common stock.

In March 2011, GNC Corporation and General Nutrition Centers, Inc., each a wholly owned subsidiary of Holdings, entered into a Credit Agreement (the Credit Agreement), that provided for a $1.2 billion term loan (the Term Loan Facility) and an $80.0 million revolving credit facility (the Revolving Credit Facility and together with the Term Loan Facility, the Senior Credit Facility). In August 2012, the Credit Agreement was amended to increase the outstanding borrowings by $200.0 million. In October 2012, the Credit Agreement was amended to adjust the per annum interest rate to the greater of LIBOR and 1.00%, plus an applicable margin of 2.75%.

NOTE 2. BASIS OF PRESENTATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying unaudited consolidated financial statements have been prepared in accordance with the rules and regulations of the Securities and Exchange Commission. The year-end consolidated balance sheet was derived from audited financial statements, but does not include all disclosures required by accounting principles generally accepted in the United States of America (U.S. GAAP). These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and notes included in the Company s audited financial statements in Holdings Annual Report on Form 10-K filed for the year ended December 31, 2012. There have been no material changes to the application of significant accounting policies and significant judgments and estimates since December 31, 2012.

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The accompanying unaudited consolidated financial statements include all adjustments (consisting of a normal and recurring nature) that management considers necessary for a fair statement of financial information for the interim periods. Interim results are not necessarily indicative of the results that may be expected for the remainder of the year ending December 31, 2013.

Principles of Consolidation. The consolidated financial statements include the accounts of Holdings and all of its subsidiaries. All material intercompany transactions have been eliminated in consolidation.

The Company has no relationships with unconsolidated entities or financial partnerships, such as entities often referred to as structured finance or special purpose entities, which would have been established for the purpose of facilitating off balance sheet arrangements or other contractually narrow or limited purposes.

Use of Estimates. The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions. Accordingly, these estimates and assumptions affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the financial statements, and the reported amounts of revenues and expenses during the reporting periods. Some of the most significant estimates pertaining to the Company include the valuation of inventories, the allowance for doubtful accounts and income taxes. On a regular basis, management reviews its estimates utilizing currently available information, changes in facts and circumstances, historical experience and reasonable assumptions. After such reviews and if deemed appropriate, those estimates are adjusted accordingly. Actual results could differ from those estimates.

Transaction Related Costs. The Company recognizes transaction related costs as expenses in the period incurred. For the six months ended June 30, 2013, the Company incurred no transaction related costs. For the six months ended June 30, 2012, the Company incurred $0.7 million of expenses related to the March 2012 offering.

Recent Accounting Pronouncements

In February 2013, the Financial Accounting Standards Board (the FASB) issued an accounting standard regarding the reclassification of amounts out of accumulated other comprehensive income (AOCI). This standard does not change the current requirements for reporting net income or other comprehensive income. However, the standard requires disclosure of amounts reclassified out of AOCI in its entirety, by component, on the face of the statement of operations or in the footnotes to the financial statements. Amounts that are not required to be reclassified in their entirety to net income must be cross-referenced to other disclosures that provide additional detail. This guidance is effective for fiscal years beginning after December 15, 2012. The Company adopted this guidance during the first quarter of 2013. The adoption of this guidance had no material impact on the Company s consolidated financial statements.

NOTE 3. INVENTORIES

The net carrying value of inventories consisted of the following:

	June 30, 2013 (unaudited)	December 31, 2012
	(in thousands)	
Finished product ready for sale	$ 455,539	$ 415,096
Work-in-process, bulk product and raw materials	81,314	70,022
Packaging supplies	7,446	6,481
Total	$ 544,299	$ 491,599

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NOTE 4. GOODWILL AND INTANGIBLE ASSETS, NET

For the six months ended June 30, 2013 and 2012, the Company acquired 11 and 17 franchise stores, respectively. These acquisitions were accounted for using the purchase method of accounting and the Company recorded the acquired inventory, fixed assets, franchise rights and goodwill, with an applicable reduction to receivables and cash. For the six months ended June 30, 2013 and 2012, the total purchase price associated with these acquisitions was $2.0 million and $3.4 million, respectively, of which $1.2 million and $1.6 million, respectively, was paid in cash.

The following table summarizes the Company s goodwill activity:

	Retail	Franchising	Manufacturing/ Wholesale	Total
		(in thousands)		
Balance at December 31, 2012	$ 319,771	$ 117,303	$ 202,841	$ 639,915
Acquired franchise stores	1,109	-	-	1,109
Balance at June 30, 2013 (unaudited)	$ 320,880	$ 117,303	$ 202,841	$ 641,024

Intangible assets other than goodwill consisted of the following:

	Retail Brand	Franchise Brand	Operating Agreements	Other Intangibles	Total
			(in thousands)		
Balance at December 31, 2012	$ 500,000	$ 220,000	$ 132,317	$ 9,400	$ 861,717
Acquired franchise stores	-	-	-	202	202
Amortization expense	-	-	(3,326)	(845)	(4,171)
Balance at June 30, 2013 (unaudited)	$ 500,000	$ 220,000	$ 128,991	$ 8,757	$ 857,748

The following table reflects the gross carrying amount and accumulated amortization for each major intangible asset:

	Weighted - Average Life	June 30, 2013 Cost	June 30, 2013 Accumulated Amortization (unaudited)	June 30, 2013 Carrying Amount	December 31, 2012 Cost	December 31, 2012 Accumulated Amortization	December 31, 2012 Carrying Amount
				(in thousands)			
Brands - retail	-	$ 500,000	$ -	$ 500,000	$ 500,000	$ -	$ 500,000
Brands - franchise	-	220,000	-	220,000	220,000	-	220,000
Retail agreements	30.2	31,000	(6,775)	24,225	31,000	(6,249)	24,751

Franchise agreements	25.0	70,000	(17,617)	52,383	70,000	(16,217)	53,783
Manufacturing agreements	25.0	70,000	(17,617)	52,383	70,000	(16,217)	53,783
Other intangibles	11.4	10,600	(2,757)	7,843	10,600	(2,151)	8,449
Franchise rights	3.7	5,335	(4,421)	914	5,134	(4,183)	951
Total	24.5	$ 906,935	$ (49,187)	$ 857,748	$ 906,734	$ (45,017)	$ 861,717

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The following table represents future estimated amortization expense of intangible assets with finite lives at June 30, 2013:

Years ending December 31,	**Estimated amortization expense (unaudited) (in thousands)**
2013	$ 4,336
2014	8,155
2015	8,003
2016	7,934
2017.	7,885
Thereafter	101,435
Total	$ 137,748

NOTE 5. LONG-TERM DEBT / INTEREST EXPENSE

Long-term debt consisted of the following:

	June 30, 2013 (unaudited)	**December 31, 2012**
	(in thousands)	
Senior Credit Facility	$ 1,095,366	$ 1,096,112
Mortgage	1,554	2,444
Capital leases	3	6
Total debt	1,096,923	1,098,562
Less: current maturities	(3,557)	(3,817)
Long-term debt	$ 1,093,366	$ 1,094,745

For the six months ended June 30, 2013 and 2012, interest expense was $22.1 million and $20.9 million, respectively, and consisted primarily of interest on outstanding borrowings under the Term Loan Facility. Interest under both the Term Loan Facility and the Revolving Credit Facility is based on variable rates. At both June 30, 2013 and December 31, 2012, the interest rate under the Term Loan Facility was 3.75% and the interest rate under the Revolving Credit Facility was 3.00%. The Revolving Credit Facility was undrawn and had outstanding letters of credit of $1.1 million at both June 30, 2013 and December 31, 2012.

As of June 30, 2013, the Company believes that it is in compliance with all covenants under the Senior Credit Facility.

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NOTE 6. FINANCIAL INSTRUMENTS

At June 30, 2013 and December 31, 2012, the Company s financial instruments consisted of cash and cash equivalents, receivables, franchise notes receivable, accounts payable, certain accrued liabilities and long-term debt. The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued liabilities approximates their respective fair values because of the short maturities of these instruments. Based on the interest rates currently available and their underlying risk, the carrying value of the franchise notes receivable approximates their respective fair values. These fair values are reflected net of reserves for uncollectible amounts. As considerable judgment is required to determine these estimates and assumptions, changes in the assumptions or methodologies may have an effect on these estimates. The Company determined the estimated fair values of its debt by using currently available market information. The fair value of debt is classified as a Level 2 category on the fair value hierarchy, as defined in the Company s Annual Report on Form 10-K for the year ended December 31, 2012. The actual and estimated fair values of the Company s financial instruments are as follows:

	June 30, 2013		**December 31, 2012**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	(unaudited)			
		(in thousands)		
Cash and cash equivalents	$ 64,025	$ 64,025	$ 158,541	$

INTEREST INCOME. Interest income decreased from $222,874 for the year ended December 31, 2006 to $161,633 for the year ended December 31, 2007, which is a result of a decrease in our cash and cash equivalents, marketable securities and short term investments, partially offset by higher interest rates received on investments during 2007.

INCOME TAXES. We have incurred net losses to date; therefore, we have paid nominal income taxes.

NET LOSS. As a result of the factors noted above, our net loss decreased 7.2% from $2,879,970 for the year ended December 31, 2006 to $2,673,218 for the year ended December 31, 2007.

COMPARISON OF THE YEAR ENDED DECEMBER 31, 2006 TO THE YEAR ENDED DECEMBER 31, 2005

REVENUE. Revenues increased by 32.7%, or $778,322, from $2,383,532 for the year ended December 31, 2005 to $3,161,854 for the year ended December 31, 2006. Revenues for the period ended December 31, 2006 consisted of revenues from distributors of $1,058,426, revenues from direct sales to customers of $2,074,925 and royalty payments of $28,503. Revenue increases are due to Intelli-Check's ongoing success in penetrating certain key markets. However, period to period comparisons may not be indicative of future operating results, since we still face long sales cycles, particularly in the government sector, and, therefore, we cannot predict with certainty at this time in which period the opportunities currently in the pipeline will develop into sales or if they will develop at all. As of December 31, 2006 we had a backlog, which represents non-cancelable sales orders for products and services not yet shipped or performed, as the case may be, of approximately $1,052,000, an increase of 96.2% as compared to our backlog of approximately $536,000 at December 31, 2005.

GROSS PROFIT. Gross profits increased by $485,596 or 29.6% from $1,638,917 for the year ended December 31, 2005 to $2,124,513 for the year ended December 31, 2006. Our gross profit, as a percentage of revenues, decreased 1.6% to 67.2% in the year ended December 31, 2006 compared to the 68.8% reported for the year ended December 31, 2005 due to a higher percentage of bundled sales which include hardware and software in 2006.

OPERATING EXPENSES. Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 4% from $5,023,724 for the year ended December 31, 2005 to $5,227,357 for the year ended December 31, 2006. Selling expenses, which consist primarily of salaries and related costs for marketing, increased 24.4% from $1,257,810 for the year ended December 31, 2005 to $1,564,843 for the year ended December 31, 2006, primarily due to an increase in salaries, commissions, advertising and website costs of approximately $153,000 and an increase in non-cash expenses from the granting of stock options totaling approximately $148,000. General and administrative expenses, which consist primarily of salaries and related costs for general corporate functions, including executive, accounting, facilities and fees for legal and professional services, decreased 5.6% from $2,824,384 for the year ended December 31, 2005 to $2,664,950 for the year ended December 31, 2006, primarily as a result of a decrease in expenses relating to investor relations fees of approximately $71,000, a decrease in legal fees of approximately $242,000, primarily relating to decreased activity on our patent infringement litigation, a decrease in accounting fees of approximately $35,000, a decrease of certain non-recurring costs relating to equity raising activities totaling approximately $180,000, and a decrease in rent expense of approximately $40,000 due to the reduction in rented space, which were partially offset by increases in employee costs and related expenses and travel of approximately $75,000, an increase in non-cash expenses from the granting of stock options totaling approximately $372,000 and an increase in board of directors fees and expenses of approximately $30,000. Research and development expenses, which consist primarily of salaries and related costs for the development of our products, increased 6% from $941,530 for the year ended December 31, 2005 to $997,564 for the year ended December 31, 2006, primarily as a result of increases in employee salaries and related expenses of approximately $65,000 and an increase in non-cash expenses from the granting of stock options totaling approximately $8,000, which were partially offset by a decrease in consulting expenses for product development of approximately $26,000.

INTEREST INCOME. Interest income increased from $145,848 for the year ended December 31, 2005 to $222,874 for the year ended December 31, 2006, which is a result of an increase in our cash and cash equivalents, marketable securities and short term investments available for investment from the completion of our private placement in August 2005, as well as higher interest rates received on investments during 2006.

INCOME TAXES. We have incurred net losses to date; therefore, we have paid nominal income taxes.

NET LOSS. As a result of the factors noted above, our net loss decreased 11% from $3,238,959 for the year ended December 31, 2005, which included $431,336 of non-cash expenses, to $2,879,970 for the year ended December 31, 2006, which included $939,555 of non-cash expenses.

Liquidity and Capital Resources

To date, we have financed our operations through several private and public placements of equity and debt securities, as well as from the proceeds received from the exercise of warrants, stock options and rights. We used the net proceeds of the financings for the primary purpose of funding working capital and general corporate purposes as well as for the purchase of hardware terminals.

As of December 31, 2007, the Company had cash and cash equivalents, marketable securities and short term investments of $2,042,983, working capital (defined as current assets minus current liabilities) of $1,763,493, total assets of $4,074,411 and stockholders’ equity of $2,020,153. The Company currently has no bank financing or long term debt. Cash used in operating activities for the year ended December 31, 2007 was $2,239,438, an increase of $233,263 over the cash used in operating activities for the year ended December 31, 2006. The increase was primarily a result of cash used to fund the increase in accounts receivable and a reduction in non-cash adjustments for stock-based expenses, partially offset by a lower net loss. Cash provided by investing activities for the year ended December 31, 2007 of $1,873,145 resulted primarily from net redemptions of marketable securities and short term investments, which were the principal means used to fund the operating cash deficit and deferred merger costs. Cash provided by financing activities was $232,359 for the year ended December 31, 2007 and resulted from the proceeds from the issuance of common stock from the exercise of stock options and warrants.

During the year ended December 31, 2007, the Company used net cash of approximately $2.2 million or approximately $187,000 per month. During the fourth quarter of 2007, the level of accounts receivable increased by $171,000 resulting from a delay in payment from some of our larger customers. We anticipate full collection from these accounts in the first quarter of 2008. Also, as a result of the decrease in the market price of our common stock in the second half of the year, there were no stock option exercises in the last six months of 2007 compared to cash proceeds of $232,000 in the first six months of 2007. Not taking into account our transaction with Mobilisa (as described below), we currently anticipate that our available cash on hand and marketable securities and cash resources from expected revenues from the sale of the units in inventory and the licensing of our technology, as well as from the significant amount of deferred revenues and backlog, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. These requirements are expected to include the purchase of inventory, product development, sales and marketing, working capital requirements and other general corporate purposes. In addition, Mobilisa generated positive cash flows from its operations in 2007 and has a substantial backlog of orders as of March 14, 2008, the date the transaction with Mobilisa was consumated. We anticipate that these will provide us with additional sources of liquidity and capital resources beginning in the second quarter of 2008. We may need to raise additional funds, however, to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our ID-Check® technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies. There can be no assurance that the Company will be able to secure the additional funds when needed or obtain such on terms satisfactory to the Company, if at all.

We are currently involved in certain legal proceedings as discussed in Item 3 above. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

On November 20, 2007, we and Mobilisa, Inc., 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 our common stock such that they will own 50% of the common stock of the combined company. Mobilisa option holders will also exchange their options for our options. 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, based on our preliminary assessment, 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 (including identifiable intangibles) 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 from the closing date of the transaction. As of December 31, 2007, we had incurred $208,000 reflected on the balance sheet as Deferred Acquisition Costs.

In March 2001, the Company declared a dividend distribution of one non-transferable right to purchase one share of its common stock for every 10 outstanding shares of common stock continuously held from the record date to the date of exercise, as well as common stock underlying vested stock options and warrants, held of record on March 30, 2001, at an exercise price of $8.50. On May 10, 2007, the Board of Directors authorized extending these rights, which were due to expire on June 30, 2007 to June 30, 2008. We have the right to redeem the outstanding rights for $.01 per right under certain conditions, which were not met as of August 10, 2007. We reserved 970,076 shares of common stock for future issuance under this rights offering. To date, we have received $2,482,009 before expenses from the exercise of 292,001 of these rights, which has reduced the amount of shares available for future issuance. None of these rights were exercised in the years ended December 31, 2007, 2006 and 2005.

On August 9, 2005, we successfully completed our secondary offering of 1,250,000 shares of common stock at $4.00 per share and received net proceeds of approximately $4,440,000. In connection with the offering, investors received five year warrants to purchase 500,000 shares of common stock at an exercise price of $5.40 per share. In addition, we granted to our placement agent a warrant to purchase 125,000 shares of our common stock at a price of $5.40 per share which expires on August 8, 2010. During December 2005, we purchased and retired 110,000 of the five year warrants originally issued in connection with the offering for $25,000.

On March 27, 2003, pursuant to a Securities Purchase Agreement, we sold 30,000 shares of our Series A 8% Convertible Redeemable Preferred Stock, par value $.01 per share, for $3,000,000 before expenses to Gryphon Master Fund, L.P. Each share of Preferred Stock entitled the holder to receive dividends of 8% per annum and was convertible into 15.1515 shares of our common stock for a total of 454,545 shares of common stock. On February 25, 2005, Gryphon Master Fund, L.P. converted their Preferred Stock into 454,545 shares of our common stock at a conversion price of $6.60 per share. A final dividend payment of $97,315 was paid in 2005 for the period up to the date of conversion. As a result of this conversion, the period we used in estimating the accretion of all of the costs associated with the issuance of the Preferred Stock changed from five (5) years to 1.9166 years. Accordingly, the accretion was increased in the first quarter of 2005 by $119,956 and amounted to $160,722 for the quarter ended March 31, 2005. Additionally, as a result of this conversion, we retired the 30,000 shares of preferred stock, issued 454,545 shares of our common stock and recorded $3,000,000 as an increase to equity. Gryphon Master Fund was also issued five year warrants to purchase 113,636 shares of common stock at an exercise price of $6.78, which will expire on October 3, 2008.

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As of December 31, 2007, the Company had total warrants outstanding for 922,636 shares of common stock at a weighted average exercise price of $6.12 that expire between March 26, 2008 and August 21, 2011.

Net Operating Loss Carry Forwards

As of December 31, 2007, the Company had net operating loss carry forwards (NOL's) for federal and state income tax purposes of approximately $36.1 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal NOL's are available to offset future taxable income which expires beginning in the year 2018 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to the acquisition of Mobilisa.

Contractual Obligations

Below is a table, which presents our contractual obligations and commitments at December 31, 2007:

Payments Due by Period

	Total	Less than One Year	1-3 years	4-5 years	After 5 years
Operating Leases	$ 670,172	$ 218,864	$ 451,308	$ -	$ -
Consulting Contracts	54,000	54,000	-	-	-
Purchase Commitment	143,550	143,550	-	-	-
Total Contractual Cash Obligation	$ 867,722	$ 416,414	$ 451,308	$ -	$ -

Recently Issued Accounting Pronouncements

Except as discussed below, the Company does not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on the Company's financial statements.

On December 4, 2007, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations. SFAS 141R replaces SFAS 141, Business Combinations and applies to all transactions or other events in which an entity obtains control of one or more businesses. SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 141R will have on its consolidated results of operations and financial condition.

On December 4, 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements and eliminates the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, “The Fair Value Option for Financial Assets and Financials Liabilities — Including an Amendment of FASB Statement No. 115”. This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2007. The Company is currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, the adoption will have on the Company’s financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which is effective for calendar year companies on January 1, 2008. The Statement defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In December 2007, the FASB issued proposed FSP FAS No. 157-2 which would delay the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective January 1, 2008, we will adopt SFAS No. 157 except as it applies to those non-financial assets and non-financial liabilities as noted in proposed FSP FAS No.157-2. We are currently evaluating the impact that SFAS No. 157 will have on our financial statements.

In June 2007, the FASB issued EITF Issue No. 07-3, "Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities," which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The Company is currently assessing the potential impact of implementing this standard.

Off-Balance Sheet Arrangements

We have never entered into any off-balance sheet financing arrangements and have never established any special purpose entities. We have not guaranteed any debt or commitments of other entities or entered into any options on non-financial assets.

Forward Looking Statements

This document contains "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995, particularly statements anticipating future growth in revenues, loss from operations and cash flow. Words such as "anticipates," "estimates," "expects," "projects," "intends," "plans," "believes" and words and terms of similar substan in connection with any discussion of future operating or financial performance identify forward-looking statements. These forward-looking statements are based on management's current expectations and beliefs about future events. As with any projection or forecast, they are inherently susceptible to uncertainty and changes in circumstances, and the Company is under no obligation to, and expressly disclaims any obligation to, update or alter its forward-looking statements whether as a result of such changes, new information, subsequent events or otherwise.

Item 7A. Quantitative and Qualitative Disclosures About Market Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and marketable securities. The Company maintains cash between two financial institutions. The marketable securities consist primarily of highly liquid Municipal Rate Auction Securities. The Company performs periodic evaluations of the relative credit standing of these institutions.

Item 8. Financial Statements and Supplementary Data

Our financial statements and supplementary data are attached hereto beginning on Page F-1.

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Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosures

There have been no changes in or disagreements with the Company's principal independent registered public accounting firm for the two-year period ended December 31, 2007.

Item 9A. Controls and Procedures

Internal Controls

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed (i) to collect the information we are required to disclose in the reports we file with the SEC; (ii) to record, process, summarize and disclose this information within the time periods specified in the rules of the SEC; and (iii) to ensure that information is accumulated and communicated to our management, including our Interim Chief Executive Officer and Chief Financial Officer, as appropriate to allow timely decisions regarding required disclosure.

Changes in Internal Control Over Financial Reporting

There was no change in the Company's internal control over financial reporting that occurred during our most recently completed fiscal quarter that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Annual Report of Management on Internal Control over Financial Reporting

Management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 15d-15(f) under the Exchange Act) for the Company. Management, with the participation of our principal executive officer and our principal financial officer, evaluated the effectiveness of our internal control over financial reporting as of December 31, 2007 (the end of our fiscal year), based on the framework and criteria established in Internal Control — Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on this evaluation, management concluded that our internal control over financial reporting was effective as of December 31, 2007. This evaluation did not include an evaluation of Mobilisa's internal controls over financial reporting.

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Item 9B. Other Information

None.

PART III

Item 10. Directors and Executive Officers of the Company and Corporate Governance

As of March 25, 2008, the Company's directors and executive officers were as follows:

Name	Age	Position
Dr. Nelson Ludlow	46	Chief Executive Officer and Director
Russell T. Embry	44	Senior Vice President and Chief Technology Officer
Peter J. Mundy	51	Vice President Finance, Chief Financial Officer, Treasurer & Secretary
Jeffrey Levy	66	Chairman and Director
John W. Paxton	71	Vice Chairman and Director
Lt. General Emil R. Bedard	64	Director
Bonnie L. Ludlow	52	Director
John E. Maxwell	53	Director
Arthur L. Money	68	Director
Guy L. Smith	58	Director

Nelson Ludlow, PhD was named the Chief Executive Officer and Director of the Company on March 14, 2008. He was a co-founder of Mobilisa, Inc. and was its Chief Executive Officer and a director since its inception in March 2001. Dr. Ludlow has over 20 years experience in software development for the military and corporate sectors. From 1982 to 1988, while in the Air Force, Dr. Ludlow served as a mathematician, a pilot, an intelligence officer at the National Air Intelligence Center, Technical Director for Artificial Intelligence at USAF Rome Laboratory, Assistant Professor of Computer Science at the Naval Postgraduate School, and the Director of Technology and Services for Radar Evaluation Squadron. In the corporate sector, Dr. Ludlow served as the Director of C2 Modeling for SAIC, Chief Scientist for the ORINCON Corporation and Chief Technology Officer for Ameranth Wireless--all in San Diego. He holds a PhD in Artificial Intelligence from the University of Edinburgh, Scotland and completed Post-Doctoral work in Computer Science at the University of Cambridge, England. Additional degrees include a Bachelors of Science Degree from Washington State University in Math and Physical Sciences, as well as a Masters of Science degree in Computer Science from Wright State University in Dayton, Ohio.

Russell T. Embry was appointed Senior Vice President and Chief Technology Officer in July 2001 and has been Vice President, Information Technology, since July 1999. From January 1998 to July 1999, Mr. Embry was Lead Software Engineer with RTS Wireless. From April 1995 to January 1998, he served as Principal Engineer at GEC-Marconi Hazeltine Corporation. From August 1994 through April 1995, he was a staff software engineer at Periphonics Corporation. From September 1989 to August 1994, Mr. Embry served as Senior Software Engineer at MESC/Nav-Com. From July 1985 through September 1989, he was a software engineer at Grumman Aerospace. Mr. Embry holds a B.S. in Computer Science from Stony Brook and an M.S. in Computer Science from Polytechnic University, Farmingdale.

Peter J. Mundy joined Intelli-Check, Inc. on March 26, 2007 as its Vice President of Finance, Chief Financial Officer, Secretary and Treasurer. Prior to joining Intelli-Check, Mr. Mundy spent over 24 years at Sentry Technology Corporation, a publicly held company in the electronic security industry, and its predecessors. From February 2001 until December 2006, Mr. Mundy was Vice President of Finance, Chief Financial Officer, Secretary and Treasurer of Sentry Technology Corporation. From December 1994 through February 2001, Mr. Mundy was Vice President of Finance, Chief Financial Officer, Secretary and Treasurer of Knogo North America Inc. Prior thereto, Mr. Mundy served as an officer of Knogo Corporation where he was Vice President - Corporate Controller from May 1994 and, prior to such time, Corporate Controller and Controller since 1982. Mr. Mundy was a supervisor with the accounting firm of Ernst & Whinney (predecessor to Ernst & Young). Mr. Mundy received his BBA in accounting from Adelphi University and is a certified public accountant.

Jeffrey Levy was named Chairman on March 14, 2008. He was the Interim Chairman and CEO of Intelli-Check from June 2007 until March 14, 2008. Mr. Levy was appointed a member of Intelli-Check's Board of Directors in December 1999 and has served as Chairman of the Governance and Nominating, Compensation and Technology Oversight Committees. He has been, since January 1997, President and Chief Executive Officer of LeaseLinc, Inc., a third-party equipment leasing company and lease brokerage. Prior to 1997, Mr. Levy served as President and Chief Executive Officer of American Land Cycle, Inc. and Goose Creek Land Cycle, LLC, arboreal waste recycling companies and before that as Chief Operating Officer of ICC Technologies, Inc. and AWK Consulting Engineers, Inc. Mr. Levy has had a distinguished career as a fighter pilot in the United States Air Force from which he retired as a colonel in 1988. He also serves as President and CEO of Virginia College Parents, Inc. and is a board member or appointee in several other non-profit organizations and commissions including Mothers Against Drunk Driving, the International Institute on Alcohol Awareness, the Washington Regional Alcohol Program, Security on Campus, Inc., Virginia Attorney General's Task Force on Drinking by College Students and Virginia Crime Commission Task Force on Campus Security. Mr. Levy holds a BS degree in International Relations from the United States Air Force Academy, a graduate degree in Economics from the University of Stockholm and an MBA from Marymount University.

John W. Paxton was appointed a member of the Board of Directors on March 14, 2008. He was a director and Chairman of the Board of Mobilisa in September 2005. Mr. Paxton brings 30 years of experience in the wireless networking field to Mobilisa's board. Mr. Paxton was the President of Zebra Technologies' Bar Code Business Unit in 2003. Prior to 2000, Mr. Paxton served as Chairman and Chief Executive Officer of Telxon Corporation, President and Chief Executive Officer of Monarch Marking Systems, Executive Vice President of Paxar Corporation and President of Paxar's Printing Solutions Group. Mr. Paxton joined Litton Industries as a corporate Vice President in 1991, when the company acquired Intermec Corporation. Between 1986 and 1991, he led Intermec, joining as President and Chief Operating Officer, and becoming Chairman and Chief Executive Officer in 1988. In addition to Mr. Paxton's corporate experience, he brings venture capital experience as the Chairman of Odyssey Industrial Technologies, LLC, a joint venture partnership with Odyssey Investment Partners, as well as consulting experience as the head of Paxton Associates LLC, a business consulting firm. Mr. Paxton has a Bachelor of Science degree and a Master of Science degree in Business Management from LaSalle University, is a registered Professional Engineer and is a fellow of Seattle Pacific University. He has served on the board of the National Association of Manufacturers, and has been the Chairman and Vice Chairman of the Automatic Identification Manufacturers (AIM), a leading industry association.

Lieutenant General Emil R. "Buck" Bedard was appointed a member of the Board of Directors on March 14, 2008, General Bedard was appointed a director of Mobilisa in September 2004. He retired from the US Marine Corps with over 37 years of active duty service in 2003. General Bedard's military career included two combat tours in Vietnam, as well as commanding the 7th Marine Regiment in Somalia and the 1st Marine Expeditionary Force during Operation Desert Storm. General Bedard's final active duty tour was as the Deputy Commandant for Plans, Policies and Operations for the US Marine Corps Headquarters in Washington, D.C., where he served until his retirement in 2003. He has continued to serve with the Marine Corps in Afghanistan and Iraq since his retirement. General Bedard's many military awards include a Distinguished Service Medal, Legion of Merit, and Bronze Star (with Combat V). General Bedard graduated from the University of North Dakota in 1967 with a Masters in Science.

Bonnie L. Ludlow was appointed a member of the Board of Directors on March 14, 2008. Ms. Ludlow was a co-founder of Mobilisa, Inc. and was its Sr. Vice President, Finance and a director since its inception in March 2001. As a Senior Vice President of Finance, Ms. Ludlow was responsible for all financial transactions, including contracting and purchasing agreements, invoicing, and payroll as well as managing human resources for recruiting, hiring, and benefits administration. Ms. Ludlow has fifteen years of experience working with the Federal Government, six of which were active duty in the United States Air Force (March 1980 to February 1986), and nine as a Department of Defense civilian (February 1986 to October 1995). While on active duty, she was assigned to the Defense Security Agency (DSA) as a Czech linguist (September 1981 to September 1983). As a civil servant, Ms. Ludlow worked as a geodetic surveyor and engineering assistant, in which she positioned navigational aids on military runways. Additional duties in this position included the generation of technical drawings, maps and reports.

John E. (Jay) Maxwell was appointed a member of Intelli-Check's Board of Directors in September 2005. Mr. Maxwell has been the President & CEO of Clerus Solutions LLC, a firm dedicated to assisting the states and federal government with implementing secure identification as called for in the 9/11 Commission Report, since January 2006. From May 2002 to August 2005, he was the Senior Vice President of Technology and the Chief Information Officer (CIO) of the American Association of Motor Vehicle Administrators (AAMVA). At AAMVA, he was responsible for all of the information systems developed, implemented and operated by the association. Mr. Maxwell also had the responsibility to direct AAMVA's development of Driver License and ID Card Specifications intended to fight driver license and ID fraud and abuse. Prior to that, from 1997 to May 2002, he was the President and Chief Operating Officer of AAMVAnet, Inc., a subsidiary of AAMVA. Before joining AAMVA in July 1989, Mr. Maxwell spent 11 years with the U.S. Department of Transportation, working for the Federal Highway Administration and the National Highway Traffic Safety Administration developing information systems to improve highway safety.

Arthur L. Money was appointed a member of Intelli-Check's Board of Directors in February 2003. The Honorable Arthur L. Money was sworn in as Assistant Secretary of Defense for Command, Control, Communications and Intelligence by the Senate in 1999 and served in that position until 2001 and was also the Chief Information Officer for the Department of Defense from 1998 until 2001. Prior to that he served as the Senior Civilian Official, Office of the Assistant Secretary of Defense, from 1998 to 1999 and was earlier confirmed by the Senate as Assistant Secretary of the Air Force for Research, Development and Acquisition and served as Chief Information Officer, from 1996 to 1998. Mr. Money currently serves as a member of the Board of Directors of Terremark Worldwide, Inc. (NASDAQ: TMRK) an international company specializing in network and telecommunications services. He also serves on the advisory board of several corporations including the Boeing Company (NYSE: BA) and Northrop Grumman (NYSE: NOC) and has been recognized for his vision, leadership and commitment to excellence in systems and process re-engineering. Mr. Money holds a Master of Science Degree in Mechanical Engineering from the University of Santa Clara (Calif.) and a Bachelor of Science Degree in Mechanical Engineering from San Jose (Calif.) State University. He also currently serves on several U.S. Government Boards and Panels such as the FBI Science & Technology Advisory Board (Chairman), the NSA Advisory Board (Chairman), the Defense Science Board and the US Navy "DSAP" Special Advisory Panel. Prior to his government service, he had a distinguished business career having served as President of ESL Inc., a subsidiary of TRW, Inc., from 1990 to 1994 prior to its consolidation with TRW's Avionics and Surveillance Group where he served as Vice President and Deputy General Manager of the Group from 1995 to 1996.

Guy L. Smith was appointed a member of Intelli-Check's Board of Directors in June 2005. Mr. Smith has been the Executive Vice President of Diageo, the world's leading premium drinks company, since 2000 and is responsible for Corporate Relations and Marketing Public Relations. At Diageo, Mr. Smith's responsibilities include overseeing the corporation's civic and social responsibility efforts in North America, including the Diageo Marketing Code. The Code governs the company's social responsibility activities with regard to the marketing and sale of alcoholic beverages and the company's undertakings to reduce underage access and abuse of alcohol. From 1998 - 1999, prior to joining Diageo, Mr. Smith was Special Advisor to President Clinton on The White House staff, where he served on the impeachment defense team. Mr. Smith also served as an informal strategic communications advisor to President Clinton from the beginning of the Clinton Administration. From 1999 to 2000, Mr. Smith was associated with The Hawthorn Group, a Washington-based public affairs firm, as well as with his own firm, Smith Worldwide Inc., from 1994 to 1996, which focused on reputation and crisis management. He was Chief Operating Officer of Hill & Knowlton International Public Relations, from 1992 to 1993, where he consulted with the firm's largest consumer product, technology, and legal clients. Prior to that Mr. Smith was Vice President-Corporate Affairs, the senior public affairs and public relations officer, for Philip Morris Companies Inc. from 1975 to 1992. During his 17 years with Philip Morris, Mr. Smith led the Corporate Affairs departments of the Miller Brewing Company and The Seven-Up Company, both then Philip Morris operating companies. Mr. Smith began his career as a reporter and assistant city editor for The Knoxville Journal. He is currently chairman of the Barrier Island Trust, an environmental protection organization and sits on the Board of Advisors of Mount Vernon, George Washington's home outside Washington, D.C. Mr. Smith also serves as an Honorary Battalion Chief of the Fire Department of New York.

On March 14, 2008, in connection with the acquisition of Mobilisa, Inc. Edwin Winiarz and Robert J. Blackwell resigned from the Company's Board of Directors. Their resignation was not the result of any disagreement on any matter relating to the registrant's operations, policies or practices.

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There have been no material changes to the procedures by which security holders may recommend nominees to our Board of Directors.

Audit Committee of the Board of Directors

The Board of Directors has a separately designated Audit Committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, which is currently comprised of Mr. Paxton, chairperson, General Bedard and Mr. Money. Mr. Paxton was appointed as a director and chairperson of Audit Committee in March 2007 upon the acquisition of Mobilisa and after the resignation of Mr. Blackwell.. The members of the Audit Committee are independent as defined in Section 121(A) of the American Stock Exchange's listing standards. The Audit Committee recommends to the Board of Directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, the Company's internal accounting controls and audit practices and professional services rendered to Intelli-Check by the independent accountants. The Audit Committee has adopted a written charter, which sets forth the responsibilities, authority and specific duties of the Audit Committee.

The Board of Directors has determined that it has at least one audit committee financial expert serving on the audit committee. John W. Paxton has vast corporate experience including his positions as Chairman, CEO and President of several publicly traded companies. He brings venture capital experience as the Chairman of Odyssey Industrial Technologies, LLC, a joint venture partnership with Odyssey Investment Partners, as well as consulting experience as the head of Paxton Associates LLC, a business consulting firm. Mr. Paxton has a Master of Science degree in Business Management from LaSalle University. Mr. Paxton is an "audit committee financial expert" and is an independent member of the Board of Directors.

Section 16(a) Beneficial Ownership Reporting Compliance

The Securities and Exchange Commission has adopted rules relating to the filing of ownership reports under Section 16(a) of the Securities Exchange Act of 1934. One such rule requires disclosure of filings, which under the Commission's rules, are not deemed to be timely. Based on a review of the filings received, Intelli-Check is not aware of any non-timely filings for fiscal year 2007.

Code of Ethics

We maintain a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer, and other persons who perform similar functions. A copy of our Code of Ethics is incorporated by reference as an exhibit to this Annual Report on Form 10-K. Our Code of Ethics is intended to be a codification of the business and ethical principles which guide us, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to this Code. The Code of Ethics is also available on our website at www.intellicheck.com.

Item 11. Executive Compensation

INTELLI-CHECK EXECUTIVE COMPENSATION

COMPENSATION DISCUSSION AND ANALYSIS

Overview

This compensation discussion describes the material elements of compensation awarded to, earned by, or paid to each of Intelli-Check's executive officers who served as named executive officers during the last completed fiscal year. This compensation discussion focuses on the information contained in the following tables and related footnotes and narrative for primarily the last completed fiscal year, but also describes compensation actions taken before or after the last completed fiscal year to the extent it enhances the understanding of Intelli-Check's executive compensation disclosure.

The Compensation Committee currently oversees the design and administration of Intelli-Check's executive compensation program and compensation for the Board of Directors.

The principal elements of Intelli-Check's executive compensation program are base salary, annual cash incentives, long-term equity incentives in the form of stock options and other benefits. Intelli-Check's other benefits consist of reimbursed business travel and entertainment expenses, a vehicle allowance, health insurance benefits, vacation and sick pay and a qualified 401(k) savings plan. Intelli-Check's philosophy is to position the aggregate of these elements at a level that is commensurate with Intelli-Check's size and performance.

Compensation Program Objectives and Philosophy

In General. The objectives of Intelli-Check's compensation programs are to:

- attract, motivate and retain talented and dedicated executive officers;
- provide Intelli-Check's executive officers with both cash and equity incentives to further Intelli-Check's interests and those of Intelli-Check's stockholders, and
- provide employees with long-term incentives so Intelli-Check can retain them and provide stability during Intelli-Check's growth stage.

Generally, the compensation of Intelli-Check's executive officers is composed of a base salary, an annual incentive compensation award and equity awards in the form of stock options. In setting base salaries, the Compensation Committee generally reviewed the individual contributions of the particular executive. The annual incentive compensation awards for 2007 and 2008 are and will be discretionary awards determined by the Compensation Committee based on expected Company performance. No annual incentive compensation has been paid to executive officers in the last three years. In addition, stock options are granted to provide the opportunity for long-term compensation based upon the performance of Intelli-Check's common stock over time.

Intelli-Check generally intends to qualify executive compensation for deductibility without limitation under Section 162(m) of the Internal Revenue Code. Section 162(m) provides that, for purposes of the regular income tax and the alternative minimum tax, the otherwise allowable deduction for compensation paid or accrued with respect to a covered employee of a publicly-held corporation (other than certain exempt performance-based compensation) is limited to no more than $1.0 million per year. The non-exempt compensation paid to any of our executive officers for fiscal 2007 as calculated for purposes of Section 162(m) did not exceed the $1.0 million limit.

Competitive Market . Intelli-Check defines its competitive market for executive talent and investment capital to be the technology and business services industries. To date, Intelli-Check has not engaged in the benchmarking of executive compensation but Intelli-Check may choose to do so in the future.

Compensation Process. For each of Intelli-Check's named executive officers, the Compensation Committee reviews and approves all elements of compensation, taking into consideration recommendations from Intelli-Check's CEO (for compensation other than his own), as well as competitive market guidance. Based upon its review, the Compensation Committee approves salaries for executive officers. The Compensation Committee sets the salary level of each executive officer on a case by case basis, taking into account the individual's level of responsibilities and performance. All executive officer salaries are reviewed on an annual basis. Salary changes for executives are based primarily on their performance in supporting the strategic initiatives of the Chief Executive Officer, economic and competitive factors, meeting individual goals and objectives set by the Chief Executive Officer, and improving the operating efficiency of the company. Also, where applicable, changes in the duties and responsibilities of each other executive officer may be considered in deciding on changes in annual salary. For 2007, the aggregate of the compensation paid to Intelli-Check's Chief Executive Officer and other executive officers was 61% cash and 39% non-cash option awards.

Executive Officer Bonuses. The Compensation Committee has made a significant portion of executive officer compensation contingent upon Intelli-Check's performance and each individual's contribution to Intelli-Check's success. For 2007, the Board of Directors approved a bonus plan for executives and employees which consisted of a bonus pool of up to $200,000 if the Company's results of operations exceeded the approved 2007 budget by that amount. Intelli-Check did not meet this threshold during 2007, and therefore, the Compensation Committee did not authorize the payment of bonuses for 2007.

Stock Option Grants. The Compensation Committee currently administers Intelli-Check's stock option and equity incentive plans for executive officers, employees, consultants and outside directors. Under the plans, the Compensation Committee grants options to purchase Common Stock with an exercise price equal to the fair market value of the Common Stock on the date of grant. The Compensation Committee believes that providing stock options to the executive officers, who are responsible for Intelli-Check's management and growth, gives them an opportunity to own Intelli-Check stock and better aligns their interests with the interests of the stockholders. It also promotes retention of the officers because of the vesting provisions of the option grants and the potential for stock price appreciation.

For these reasons, the Compensation Committee considers stock options as an important element of compensation when it reviews executive officer compensation. At its discretion, the Compensation Committee also grants options based on individual and corporate achievements.

Normally, the Chief Executive Officer makes a recommendation to the Committee for awards to be made to executive officers other than the Chief Executive Officer. The Committee approves grants made to the Chief Executive Officer and other executive officers and, in certain cases, recommends grants for approval by the entire Board. The Compensation Committee determines the number of shares underlying each stock option grant based upon the executive officer's and Intelli-Check's performance, the executive officer's role and responsibilities at Intelli-Check and the executive officer's base salary. Effective November 7, 2006, the Board enacted a new policy regarding all future stock option grants. Such policy requires that all future stock option issuances will be granted on the third Thursday of each month after they have been approved and that each such issuance will have a strike price per share equal to the closing price of the Corporation's common stock on such day.

Chief Executive Officer Compensation. On March 14, 2008, the Company entered into an employment agreement with Dr. Ludlow, pursuant to which Dr. Ludlow was appointed the Company's Chief Executive Officer. The Compensation Committee determined that it was in the best interest of the Company to enter into this two year agreement to provide assurance to the Company of the continued availability of Dr. Ludlow's services after the transaction with Mobilisa. Dr. Ludlow will receive a salary of $220,000 per year, be granted options to purchase 25,000 shares of the Company's common stock on March 20, 2008 that will be immediately exercisable at a price per share equal to the fair market value of the Company's common stock on the date of grant, and an annual bonus based on reasonable objectives established by the Company's Board of Directors. Dr. Ludlow will be entitled to receive benefits in accordance with the Company's existing benefit policies and will be reimbursed for Company expenses in accordance with the Company's expense reimbursement policies. The employment agreement has a term of two years. Dr. Ludlow may terminate the agreement at any time on 60 days prior written notice to the Company. In addition, the Company or Dr. Ludlow may terminate the employment agreement immediately for cause, as described in the employment agreement. If the Company terminates the agreement without cause, Dr. Ludlow will be entitled to severance equal to one year of his base salary, in addition to salary already earned. If Dr. Ludlow terminates the agreement for cause, Dr. Ludlow will be entitled to receive a payment equal to $50,000, in addition to salary already earned.

The determination of the base salary to be paid to the Chief Executive Officer was based on a number of factors including the historical compensation of Dr. Ludlow and the relative compensation in comparison to the other existing senior executives in the Company. In deciding on future changes in the base salary of the Chief Executive Officer, the Compensation Committee will consider several performance factors. Among these are operating and administrative efficiency and the maintenance of an appropriately experienced management team. The Compensation Committee also evaluates the Chief Executive Officer's performance in the area of finding and evaluating new business opportunities to establish the most productive strategic direction for Intelli-Check.

INTELLI-CHECK SUMMARY COMPENSATION TABLE

The following table sets forth compensation paid to executive officers whose compensation was in excess of $100,000 for any of the three fiscal years ended December 31, 2007. No other executive officers received total salary and bonus compensation in excess of $100,000 during any of such fiscal years.

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($) (1)	All Other Compensation ($) (2) (3)	Total ($)
Jeffrey Levy (4)	2007	99,167	50,000	80,140	-	229,405
Former Interim Chairman &	2006	-	-	-	-	-
Chief Executive Officer	2005	-	-	-	-	-
Russell T. Embry	2007	170,652	-	33,706	2,040	206,398
Senior Vice President	2006	166,480	-	-	2,040	168,520
& Chief Technology Officer	2005	162,766	-	10,089	2,040	174,895
Lou Gryga (5)	2007	50,739	-	80,446	4,175	135,360
Former Senior Vice President of Marketing,	2006	-	-	-	-	-
Sales and Operations	2005	-	-	-	-	-
Peter J. Mundy (6)	2007	105,961	-	98,317	-	204,278
Vice President Finance	2006	-	-	-	-	-
& Chief Financial Officer	2005	-	-	-	-	-
Frank Mandelbaum (7)	2007	124,569	-	-	7,500	132,069
Former Chairman &	2006	254,763	-	104,571	18,000	377,334
Chief Executive Officer	2005	250,000	-	64,902	18,000	332,902
Todd Liebman (8)	2007	124,678	-	-	5,450	130,128
Former Senior Vice President Marketing	2006	171,536	-	307,391	9,000	487,927
& Chief Operating Officer	2005	135,128	-	-	9,000	144,128
Edwin Winiarz (9)	2007	33,157	-	-	-	33,157
Former Senior Executive Vice President	2006	172,087	-	104,571	15,000	291,658
& Chief Financial Officer	2005	161,343	-	116,740	15,000	293,083

(1) The amounts reported in the “Option Awards” column reflect the dollar amount of expense recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007 and 2006, in accordance with SFAS 123R. Assumptions used in the calculation of these amounts are included in Note 3 to the Company’s unaudited financial statements for the quarter ended September 30, 2007 and in Note 8 to the audited financial statements for the fiscal year ended December 31, 2006, included in the Company’s Annual Report on Form 10-K filed with the Securities and Exchange Commission on November 13, 2007 and March 26, 2007, respectively.

(2) Amount represents car allowances.

(3) No other compensation in excess of $10,000 , including perquisites, was paid to any of Intelli-Check's named executive officers.

(4) Mr. Levy was named Interim CEO as of June 8, 2007. Amount listed under salary is the consulting fee paid and options granted to Mr. Levy for his services as Interim Chairman & CEO. The payment of Mr. Levy's bonus of $50,000 was deferred until the merger with Mobilisa was completed. Effective upon the consummation of the acquisition of Mobilisa, Mr. Levy is no longer our Interim CEO

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(5) Mr. Gryga started with Intelli-Check as of August 16, 2007 and resigned as of January 4, 2008.

(6) Mr. Mundy started with Intelli-Check as of March 26, 2007.

(7) Mr. Mandelbaum passed away on June 7, 2007. Amount excludes the death benefit of $132,000 paid to his surviving spouse in 2007.

(8) Mr. Liebman resigned on August 8, 2007.

(9) Mr. Winiarz resigned on January 21, 2007. Salary includes accrued vacation of $16,827.

Employment Agreement

On March 14, 2008, the Company entered into an employment agreement with Dr. Ludlow, pursuant to which Dr. Ludlow was appointed the Company's Chief Executive Officer. Dr. Ludlow will receive a salary of $220,000 per year, be granted options to purchase 25,000 shares of the Company's common stock on March 20, 2008 that will be immediately exercisable at a price per share equal to the fair market value of the Company's common stock on the date of grant, and an annual bonus based on reasonable objectives established by the Company's Board of Directors. Dr. Ludlow will be entitled to receive benefits in accordance with the Company's existing benefit policies and will be reimbursed for company expenses in accordance with the Company's expense reimbursement policies. The employment agreement has a term of two years. Dr. Ludlow may terminate the agreement at any time on 60 days prior written notice to the Company. In addition, the Company or Dr. Ludlow may terminate the employment agreement immediately for cause, as described in the employment agreement. If the Company terminates the agreement without cause, Dr. Ludlow will be entitled to severance equal to one year of his base salary, in addition to salary already earned. If Dr. Ludlow terminates the agreement for cause, Dr. Ludlow will be entitled to receive a payment equal to $50,000, in addition to salary already earned.

Severance Arrangements

Mr. Peter Mundy, Intelli-Check's Chief Financial Officer, has a severance arrangement with Intelli-Check, which provides that if Intelli-Check acquires a company and retains and appoints an employee from the acquired company in the role of Chief Financial Officer and Mr. Mundy chooses not to accept a lesser role in the combined company he would be entitled to a severance payment of $72,500 (equal to six months salary).

Stock Option and Equity Incentive Plans

The principal purpose of the Stock Option and Equity Incentive Plans is to attract, motivate, reward and retain selected employees, consultants and directors through the granting of stock-based compensation awards. The Plans provide for a variety of awards, including non-qualified stock options, incentive stock options (within the meaning of Section 422 of the Code), stock appreciation rights, restricted stock awards, performance-based awards and other stock-based awards. Effective November 7, 2006, the Board enacted a new policy regarding all future stock option grants. Such policy requires that all future stock option issuances are set to be granted on the third Thursday of each month and that each such issuance will have a strike price per share equal to the closing price of the company's Common Stock on such day.

Intelli-Check adopted a Stock Option Plan (the "1998 Stock Option Plan") covering up to 400,000 of the Company's Common Stock, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors currently administers the 1998 Stock Option Plan and determines the terms and conditions of options granted, including the exercise price. The 1998 Stock Option Plan provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the 1998 Stock Option Plan must be granted at an exercise price that is not less than the fair market value per share at the date of grant and the exercise price must not be less than 110% of the fair market value per share at the date of grant for grants to persons owning more than 10% of the voting stock of Intelli-Check . The 1998 Stock Option Plan also entitles non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

In August 1999, Intelli-Check adopted the 1999 Stock Option Plan covering up to 1,000,000 of the Company's Common Stock, pursuant to which officers, directors, key employees and consultants to Intelli-Check are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors currently administers the 1999 Stock Option Plan and determines the terms and conditions of options granted, including the exercise price. The 1999 Stock Option Plan provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the 1999 Stock Option Plan must be granted at an exercise price that is not less than the fair market value per share at the date of grant and the exercise price must not be less than 110% of the fair market value per share at the date of grant for grants to persons owning more than 10% of the voting stock of the company. The 1999 Stock Option Plan also entitles non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors.

At the Company's Annual Meeting held on July 11, 2001, the stockholders approved the 2001 Stock Option Plan covering up to 500,000 of the Company's Common Stock, pursuant to which the officers, directors, key employees and consultants to Intelli-Check are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors currently administers the 2001 Stock Option Plan and determines the terms and conditions of options granted, including the exercise price. The 2001 Stock Option Plan provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the 2001 Stock Option Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the company. The 2001 Stock Option Plan also entitles non-employee directors to receive grants on non-qualified stock options as approved by the Board of Directors.

At the Company's Annual Meeting held on July 10, 2003, the stockholders approved the 2003 Stock Option Plan covering up to 500,000 of the Company's Common Stock, pursuant to which the officers, directors, key employees and consultants to Intelli-Check are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors currently administers the 2003 Stock Option Plan and determines the terms and conditions of options granted, including the exercise price. The 2003 Stock Option Plan provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the 2003 Stock Option Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the company. The 2003 Stock Option Plan also entitles non-employee directors to receive grants on non-qualified stock options as approved by the Board of Directors.

At the Company's Annual Meeting held on June 16, 2006, the stockholders approved the 2006 Equity Incentive Plan, which amends and restates the Company's 2004 Stock Option Plan (the "2006 Plan") covering up to 850,000 of the Company's Common Stock, pursuant to which the officers, directors, key employees and consultants to the company are eligible to receive incentive stock options, nonqualified stock options and restricted stock awards. The Compensation Committee of the Board of Directors currently administers the 2006 Plan and determines the terms and conditions of options or restricted stock awards granted, including the option exercise price. The 2006 Plan provides that all stock options or restricted stock awards will expire within ten years of the date of grant. Incentive stock options granted under the 2006 Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the company. The 2006 Plan also entitles non-employee directors to receive grants on non-qualified stock options as approved by the Board of Directors. At the Company's special meeting of Stockholders held on March 14, 2008, the stockholders voted to amend the 2006 Equity Incentive Plan (the "Plan") to increase the number of shares of Common Stock authorized to be issued by 3,000,000.

Administration. The Stock Option and Equity Incentive Plans are currently administered by the Compensation Committee as designated by the Board of Directors. The Compensation Committee has the power to interpret the Stock Option and Equity Incentive Plans and to adopt rules for the administration, interpretation and application according to terms of the plans.

Grant of Awards; Shares Available for Awards. Certain employees, consultants and directors are eligible to be granted awards under the Plans. The Compensation Committee will determine who will receive awards under the Plans, as well as the form of the awards, the number of shares underlying the awards, and the terms and conditions of the awards consistent with the terms of the Plans.

A total of 1,149,679 shares of Intelli-Check's Common Stock are available for issuance or delivery under the existing Stock Option and Equity Incentive Plans. The number of shares of the Company's Common Stock issued or reserved pursuant to the Plans will be adjusted at the discretion of the Board of Directors or the Compensation Committee as a result of stock splits, stock dividends and similar changes in the Company's Common Stock.

Stock Options. The Stock Option and Equity Incentive Plans permit the Compensation Committee to grant participants incentive stock options, which qualify for special tax treatment in the United States, as well as non-qualified stock options. The Compensation Committee will establish the duration of each option at the time it is granted, with maximum ten-year duration for incentive stock options, and may also establish vesting and performance requirements that must be met prior to the exercise of options. Stock option grants (other than incentive stock option grants) also may have exercise prices that are less than, equal to or greater than the fair market value of the Company's Common Stock on the date of grant. Incentive stock options must have an exercise price that is at least equal to the fair market value of the Company's Common Stock on the date of grant. Stock option grants may include provisions that permit the option holder to exercise all or part of the holder's vested options, or to satisfy withholding tax liabilities, by tendering shares of the Company's Common Stock already owned by the option holder for at least six months (or another period consistent with the applicable accounting rules) with a fair market value equal to the exercise price.

Other Equity-Based Awards . In addition to stock options, the Compensation Committee may also grant certain employees, consultants and directors shares of restricted stock, with terms and conditions as the Compensation Committee may, pursuant to the terms of the 2006 Plan, establish. The 2006 Plan does not allow awards to be made under terms and conditions which would cause such awards to be treated as deferred compensation subject to the rules of Section 409A of the Code.

Change-in-Control Provisions. In connection with the grant of an award, the Compensation Committee may provide that, in the event of a change in control, any outstanding awards that are unexercisable or otherwise unvested will become fully vested and immediately exercisable.

Amendment and Termination. The Compensation Committee may adopt, amend and rescind rules relating to the administration of the Plans, and amend, suspend or terminate the Plans, but no amendment will be made that adversely affects in a material manner any rights of the holder of any award without the holder's consent, other than amendments that are necessary to permit the granting of awards in compliance with applicable laws. Intelli-Check attempted to structure the Plans so that remuneration attributable to stock options and other awards will not be subject to a deduction limitation contained in Section 162(m) of the Code.

GRANTS OF PLAN-BASED AWARDS TABLE

The following table summarizes options granted during the year ended December 31, 2007 to the named executive officers:

Name	Grant Date	Approval Date	Number of Securities Underlying Options Granted	Exercise or Base Price of Option Awards ($/Sh)	Fair Value at Grant Date ($) (1)	Expiration Date
Jeffrey Levy (2)	6/21/07	6/19/07	25,000	$ 6.30	80,140(3)	6/21/12
Russell T. Embry	5/17/07	5/10/07	10,000	$ 6.65	33,706(4)	11/17/07
Lou Gryga	8/16/07	8/8/07	50,000	$ 3.05	80,446(5)	8/16/12
Peter J. Mundy	4/19/07	3/27/07	25,000	$ 7.00	98,317(6)	4/19/13

(1) The amounts reported in the "Option Awards" column reflect the dollar amount of expense recognized for financial statement reporting purposes for the fiscal year ended December 31, 2007, in accordance with SFAS 123R. Assumptions used in the calculation of these amounts are included in Note 8 to the company's audited financial statements for the quarter ended September 30, 2007, included in the company's Quarterly Report on Form 10-Q filed with the Securities and Exchange Commission on November 13, 2007.

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(2) Excludes options issued for services as a director.

(3) Vest ratably over a 12 month period.

(4) Vest 50% immediately and 50% on 11/17/07

(5) Vest at a rate of 5,000 options for each $500,000 in booked sales.

(6) Vest 50% immediately, 25% on 10/19/07 and 25% on 4/19/08.

The following table summarizes unexercised options as of year-end December 31, 2007 for the named executive officers:

OUTSTANDING EQUITY AWARDS AT FISCAL YEAR END TABLE

	No. of Securities Underlying Unexercised Options / Warrants			**Option** Exercise	**Option** Expiration
Name	**Exercisable**	**Unexercisable**		**Price**	**Date**
Jeffrey Levy	12,500	-	$	6.30	6/21/12
	-	12,500(1)	$	6.30	6/21/12
Russell T. Embry	6,250	-	$	3.82	4/30/08
	6,250	-	$	7.44	11/05/08
	6,250	-	$	7.44	5/05/09
	5,000	-	$	4.37	12/03/09
	5,000	-	$	4.37	6/03/10
	5,000	-	$	3.18	11/17/10
	5,000	-	$	6.65	5/17/12
	5,000	-	$	6.65	11/17/12
Lou Gryga	5,000	-	$	3.05	8/16/12
	5,000	-	$	3.05	8/16/12
	5,000	-	$	3.05	8/16/12
	-	35,000(2)	$	3.05	8/16/12
Peter J. Mundy	12,500	-	$	7.00	4/19/12
	7,250	-	$	7.00	10/19/12
	-	7,250(3)	$	7.00	4/19/13

(1) These shares vest ratably over a six month period beginning January 2008.

(2) These shares vest ratably upon the achievement of certain sales targets.

(3) These shares vest on 4/19/08.

The following table summarizes options exercised and stock awards vested during the year-ended December 31, 2007 for the named executive officers:

OPTION EXERCISES AND STOCK VESTED TABLE

	Stock Options			Stock Awards	
Name	No. of Shares Acquired Upon Exercise (#)		Value Received Upon Exercise ($)	No. of Shares Acquired Upon Vesting (#)	Value Received Upon Vesting ($)
Frank Mandelbaum	25,000	$	92,250(1)	-	-
Jeffrey Levy	8,000		5,880(2)	-	-
Russell T. Embry	6,250		20,813(3)	-	-
Todd Liebman	5,000		10,150(4)	-	-

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(1) Mr. Mandelbaum exercised 25,000 shares at an exercise price of $3.00 per share on January 3, 2007, when the closing price of the company's Common Stock was $6.69.

(2) Mr. Levy exercised 8,000 shares at an exercise price of $2.80 per share on June 25, 2007, when the closing price of the company's Common Stock was $4.76.

(3) Mr. Embry exercised 6,250 shares at an exercise price of $3.82 per share on June 4, 2007, when the closing price of the company's Common Stock was $7.15.

(4) Mr. Liebman exercised 5,000 shares at an exercise price of $4.57 per share on June 19, 2007, when the closing price of the company's Common Stock was $6.60.

Pension Benefits

The company does not sponsor any qualified or non-qualified defined benefit plans.

Nonqualified Deferred Compensation

Intelli-Check does not maintain any non-qualified defined contribution or deferred compensation plans. The Compensation Committee, which is comprised solely of "outside directors" as defined for purposes of Section 162(m) of the Code, may elect to provide Intelli-Check's officers and other employees with non-qualified defined contribution or deferred compensation benefits if the Compensation Committee determines that doing so is in the company's best interests. Intelli-Check sponsors a tax qualified defined contribution 401(k) plan in which Mr. Winiarz, Mr. Embry and Mr. Liebman participate. Intelli-Check does not make any matching contributions to the plan.

Compensation of Directors

The table below sets forth certain information concerning compensation of Intelli-Check's non-employee directors who served in 2007.

Name and Principal Position	Fees Paid in Cash ($)	Option Awards ($)	Stock Awards ($)	All Other Compensation ($) (8)	Total ($)
Jeffrey Levy	6,500	-	6,000(3)	-	12,500
Robert J. Blackwell	3,500 (1)	-	-	-	3,500
John E. (Jay) Maxwell	12,500	-	52,000(4)	-	64,500
Arthur L. Money	12,500	-	20,000(5)	-	32,500
Guy L. Smith	9,500	13,983(2)	-	-	23,483
Edwin Winiarz	12,000	-	-(6)	-	12,000
Ashok Rao	6,500	-	48,000(7)	-	54,500

(1) As a result of the acquisition of Mobilisa, Mr. Blackwell resigned from the Board of Directors on March 14, 2008.

(2) Fair value of 4,362 options granted 6/21/07 at exercise price of $6.30 per share. As of December 31, 2007, including the awards listed above, Mr. Smith had aggregate outstanding options to purchase 81,850 shares of Common Stock.

(3) Fair value of 952 restricted shares granted 6/21/07 at market price of $6.30 per share. As of December 31, 2007, Mr. Levy had aggregate outstanding options to purchase 95,350 shares of Common Stock and holds 952 shares of

restricted Common Stock.

(4) Fair value of 8,254 restricted shares granted 6/21/07 at market price of $6.30 per share. As of December 31, 2007, Mr. Maxwell had aggregate outstanding options to purchase 49,150 shares of Common Stock and holds 8,254 shares of restricted Common Stock.

(5) Fair value of 3,175 restricted shares granted 6/21/07at market price of $6.30 per share. As of December 31, 2007, Mr. Money had aggregate outstanding options to purchase 148,300 shares of Common Stock and holds 10,175 shares of restricted Common Stock.

(6) As of December 31, 2007, Mr. Winiarz had aggregate outstanding options to purchase 198,000 shares of Common Stock. As a result of the acquisition of Mobilisa, Mr. Blackwell resigned from the Board of Directors on March 14, 2008.

(7) Fair value of 7,619 restricted shares granted 6/21/07 at market price of $6.30 per share. As of December 31, 2007, Mr. Rao holds 16,621 shares of restricted Common Stock. Mr. Rao resigned from the Board of Directors on August 9, 2007.

(8) No other compensation, including perquisites in excess of $10,000, was paid to any of the directors.

During 2007, non-employee directors received fees of $3,000 for in-person attendance at board meetings and $500 for attendance at such meetings telephonically. Each non-employee director also received a fee of $250 for participation, either in-person or telephonically, at each separately convened committee meeting not held in conjunction with a board meeting. The Board recommended that beginning in 2006 non-employee directors should be granted the choice of restricted shares of Intelli-Check's Common Stock in lieu of stock options or a number of stock options equal to that of the stock grant at the director's option. In addition, the Board further recommended that non-employee directors, who are members of a committee, should be granted the choice of restricted shares of Intelli-Check's Common Stock in lieu of stock options or a number of stock options equal to that of the stock grant at the director's option. The number of restricted shares as proposed would be determined by the Board at each annual board meeting. This plan was included in Intelli-Check's proxy statement for a vote by Intelli-Check's stockholders at the 2006 Annual Meeting of Shareholders.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters

BENEFICIAL OWNERSHIP OF SECURITIES

The following table sets forth information with respect to the beneficial ownership of the combined company's Common Stock as of March 20, 2008, after the consummation of the acquisition of Mobilisa, by each person who is known by Intelli-Check to beneficially own more than 5% of Intelli-Check's Common Stock, each officer, each director and all officers and directors as a group.

Shares of Common Stock which an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, warrants or other similar convertible or derivative securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

The applicable percentage of ownership is based on 24,563,456 shares outstanding after the merger was completed.

Name	Shares Beneficially Owned	Percent
Dr. Nelson Ludlow (1)	4,180,952	17.0
Bonnie Ludlow (2)	8,018,236	32.6
John W. Paxton (3)	327,302	1.3
L. Gen. Emil R. Bedard (4)	436,402	1.8
Jeffrey Levy (5)	187,280	*
Russell T. Embry (6)	43,750	*
Peter J. Mundy (7)	35,800	*
John E. Maxwell (8)	57,604	*

Arthur L. Money (9)	202,850	*
Guy L. Smith (10)	93,669	*
All Executive Officers & Directors as a group (13 persons) (11)	13,577,620	52.3

* Indicates beneficial ownership of less than one percent of the total outstanding Common Stock.

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(1) Includes 21,820 shares issuable upon exercise of stock options and rights exercisable within 60 days.

(2) Includes 21,820 shares issuable upon exercise of stock options exercisable within 60 days.

(3) Includes 327,302 shares issuable upon exercise of stock options exercisable within 60 days.

(4) Includes 436,402 shares issuable upon exercise of stock options exercisable within 60 days.

(5) Includes 160,928 shares issuable upon exercise of stock options and rights exercisable within 60 days.

(6) Includes 43,750 shares issuable upon exercise of stock options exercisable within 60 days.

(7) Includes 35,000 shares issuable upon exercise of stock options exercisable within 60 days.

(8) Includes 49,150 shares issuable upon exercise of stock options exercisable within 60 days.

(9) Includes 202,850 shares issuable upon exercise of stock options exercisable within 60 days.

(10) Includes 75,350 shares issuable upon exercise of stock options exercisable within 60 days.

(11) Includes 1,374,372 shares issuable upon exercise of stock options and rights exercisable within 60 days.

Equity Compensation Plan Information

The following table sets forth information regarding Intelli-Check's Equity Compensation Plans as of December 31, 2007:

Plan Category	**Number of Securities to be issued upon exercise of outstanding options, warrants and rights**	**Weighted average exercise price of outstanding options, warrants and rights**	**Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected**

				in column a)
	(a)	(b)		(c)
Equity compensation plans approved by security holders	990,792	$	6.35	1,457,415
Equity compensation plans not approved by security holders	469,425	$	3.69	None
Total	1,460,217	$	5.47	1,457,415

From time to time the Board of Directors of the Company approves the grant of non-plan options to officers and employees of, or consultants to, the Company, which are included in this table. The shares of common stock listed under equity compensation plans not approved by stockholders in the above table consist of shares of common stock issuable pursuant to such options. The vesting schedule of the options varies, with some vesting immediately and some vesting upon the completion of certain performance objectives. The non-plan options currently outstanding have been granted to five (5) persons. These options have a weighted average exercise price per share equal to $3.69 and options to purchase 469,425 shares of common stock are currently exercisable.

Item 13. **Certain Relationships, Related Transactions and Director Independence**

Intelli-Check

Since the beginning of 2007, Intelli-Check did not have any transactions with related persons as described under Item 404(a) of Regulation S-K. The Governance Committee reviews transactions with firms associated with directors and nominees for director. Intelli-Check's management also monitors such transactions on an ongoing basis. Executive officers and directors are governed by Intelli-Check's Code of Business Conduct and Ethics which provides that waivers may only be granted by the Board of Directors and must be promptly disclosed to shareholders. No such waivers were granted nor applied for in 2007. Intelli-Check's Corporate Governance Guidelines require that all directors recuse themselves from any discussion or decision affecting their personal, business or professional interests.

Mobilisa

The majority owners, who are members of management, lent money to Mobilisa from time to time. The loans bore no interest and are payable upon demand. As of December 31, 2007, 2006, and 2005, amounts owed to related parties were $0, $27,403 and $0, respectively.

Mobilisa leases office space from Eagle Coast, LLC, an entity that is wholly-owned by Dr. Ludlow and Mrs. Ludlow, our Chief Executive Officer and director and one of our directors, respectively. For the years ended December 31, 2007, 2006, and 2005, total rental payments for this office space was $63,546, $55,375 and, $48,957. Mobilisa entered into a 10-year lease for the office space ending in 2017.

The majority owners, who are members of management, have guaranteed all Mobilisa credit lines.

The Board of Directors has determined that Messrs. Bedard, Levy, Maxwell, Money, Paxton and Smith are each independent directors as defined in Section 121(A) of the American Stock Exchange's listing standards.

The board of directors has established a compensation committee which is currently comprised of Mr. Smith, chairperson, Mr. Maxwell and Mr. Paxton, each of whom is independent as defined in Section 121(A) of the American Stock Exchange's listing standards. The compensation committee reviews and recommends to the board the compensation for all officers and directors of our company and reviews general policy matters relating to the compensation and benefits of all employees. The compensation committee also administers the stock option plans.

The board of directors has established a corporate governance and nominating committee, which is comprised of Mr. Maxwell, chairperson, Mr. Bedard and Mr. Money, each of whom is independent as defined in Section 121(A) of the American Stock Exchange's listing standards. The corporate governance and nominating committee reviews our internal policies and procedures and by-laws. With respect to nominating director candidates, this committee identifies and evaluates potential director candidates and recommends candidates for appointment or election to the Board.

The board of directors has a separately designated audit committee established in accordance with Section 3(a)(58)(A) of the Securities Exchange Act of 1934, which is currently comprised of Mr. Paxton, chairperson, Mr. Bedard and Mr. Money. The members of the Audit Committee are independent as defined in Section 121(A) of the American Stock Exchange's listing standards. The audit committee recommends to the board of directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants.

Item 14. <u>Principal Accountant Fees and Services</u>

For the fiscal years ended December 31, 2007 and December 31, 2006, Intelli-Check's principal independent auditor was Amper, Politziner & Mattia, P.C., the services of which were provided in the following categories and amount:

<u>Audit Fees</u>

The aggregate fees billed by Amper, Politziner and Mattia, P.C. for professional services rendered for the audit of Intelli-Check's annual financial statements for the fiscal years ended December 31, 2007 and 2006 and for the reviews of the financial statements included in the company's Quarterly Reports on Form 10-Q for such fiscal years amounted to $105,000 and $104,500, respectively.

Audit Related Fees

Other than the fees described under the caption “Audit Fees” above, Amper, Politziner and Mattia, P.C. did not bill any fees for services rendered to Intelli-Check during fiscal year 2007 or 2006 for assurance and related services in connection with the audit or review of the company’s financial statements.

Tax Fees

Amper, Politziner and Mattia, P.C. billed Intelli-Check for tax related services for the fiscal year 2007 totaling $5,000, and for the fiscal year 2006 totaling $4,000.

All Other Fees

The aggregate fees billed by Amper, Politziner and Mattia, P.C. for professional services rendered in connection with the Company’s Registration Statement on Form S-8 to register certain shares under the Company’s 2003 and 2006 Stock Option Plan amounted to $3,700 in 2007.

No other fees were billed by Amper, Politziner & Mattia, PC for 2006.

Pre-approval of Services

The Audit Committee pre-approves all services, including both audit and non-audit services, provided by Intelli-Check’s independent registered public accounting firm. For audit services, each year the independent auditor provides the Audit Committee with an engagement letter outlining the scope of proposed audit services to be performed during the year, which must be formally accepted by the Committee before the audit commences. The independent auditor also submits an audit services fee proposal, which also must be approved by the Committee before the audit commences.

PART IV

Item 15. Exhibits and Financial Statement Schedules

(a)(1) Financial Statements

Balance Sheets as of December 31, 2007 and 2006
Statements of Operations for the years ended December 31, 2007, 2006 and 2005
Statements of Stockholders' Equity for the years ended December 31, 2007, 2006 and 2005
Statements of Cash Flows for the years ended December 31, 2007, 2006 and 2005

(2) Schedule II - Valuation and Qualifying Accounts

(b) Exhibits

Exhibit No.	Description
1	Form of Underwriting Agreement (1)
3.1	Certificate of Incorporation of the Company (1)
3.2	By-laws of the Company (1)
3.3	Amendment to the By-laws of the Company (9)
3.4	Certificate of Designation of Preferred Stock of Intelli-Check, Inc. (7)
4.1	Specimen Stock Certificate (2)
4.2	Form of Underwriters' Warrant Agreement (1)
4.3	Warrant to Gryphon Master Fund LLP (7)
4.4	Form of Underwriters Warrant Agreement including form of Warrant Certificate (8)
4.5	Warrant to JMP Securities, LLC
10.1	Agreement of Lease between the Company and Industrial and Research Associates, dated as of October 15, 2000 (5)
10.2	1998 Stock Option Plan (1) *
10.3	1998 Stock Option Plan (1) *
10.4	1999 Stock Option Plan (1) *
10.5	2001 Stock Option Plan (3) *
10.6	2003 Stock Option Plan (4) *

10.7	2006 Equity Incentive Plan (5) *
10.8	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective November 15, 2000 (6)
10.9	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective January 29, 2002 (6)
10.10	Securities Purchase Agreement between Intelli-Check, Inc. and Gryphon Master Fund dated March 27, 2003. (8)
10.11	Registration Rights Agreement between Intelli-Check, Inc. and Gryphon Master Fund dated March 27, 2003. (8)
10.12	Merger Agreement dated November 20, 2007 by and among Intelli-Check Inc., Intelli-Check Merger Sub, Inc., Mobilisa, Inc., and the Principal Shareholders of Mobilisa, Inc. (11)
10.13	Employment Agreement between Intelli-Check - Mobilisa, Inc and Nelson Ludlow dated March 15, 2008. (12)*
10.14	Director Agreement between Intelli-Check - Mobilisa, Inc. and its Directors dated March 14, 2008. (12)
10.15	Stockholder Agreement between Intelli-Check - Mobilisa, Inc. and Nelson Ludlow and Bonnie Ludlow dated March 14, 2008. (12)
14.1	Code of Business Conduct and Ethics (8)
21**	List of Subsidiaries
23.1**	Consent of Amper, Politziner and Mattia, P.C.
31.1**	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
31.2**	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
32**	Certification of Chief Executive Officer and Chief Financial pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

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* Denotesa management contract or compensatory plan, contract or arrangement.

** Filed herewith.

(1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September24, 1999.

(2) Incorporated by reference to Amendment No. 1 to the Registration Statement filed November 1, 1999.

(3) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.

(4) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed June 13, 2003.

(5) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 19, 2006.

(6) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 29, 2001.

(7) Incorporated by reference from the Registrant's Current Report on Form 8-K filed on December 16, 2004.

(8) Incorporated by reference to Registrant's Annual Report of Form 10-K filed March 31, 2003.

(9) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.

(10) Incorporated by reference to Registrant's Current Report on Form 8-K filed August 14, 2007.

(11) Incorporated by reference to Registrant's Current Report on Form 8-K filed November 30, 2007.

(12) Incorporated by reference to Registrant's Current Report on Form 8-K filed March 20, 2008.

SIGNATURES

Pursuant to the requirements of Section 13 or 15 (d) of the Securities Exchange Act of 1934, the Registrant had duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INTELLI-CHECK, INC.

Date: March 25, 2008 By: /s/ Nelson Ludlow
Dr. Nelson Ludlow
Chief Executive Officer and Director

Pursuant to the requirements of the Securities Exchange Act of 1934, this report has been signed below by the following persons on behalf of the Registrant and in the capacities and on the dates indicated.

INTELLI-CHECK, INC.

Date: March 25, 2008 By: /s/ Nelson Ludlow
Dr. Nelson Ludlow
Chief Executive Officer and Director
(Principal Executive Officer)

Date: March 25, 2008 /s/ Peter J. Mundy
Peter J. Mundy,
Vice President of Finance and Chief Financial Officer
(Principal Financial and Accounting Officer)

Date: March 25, 2008 /s/ Jeffrey Levy
Jeffrey Levy, Chairman and Director

Date: March 25 , 2008
John W. Paxton, Vice Chairman & Director

Date: March 25 , 2008
L. Gen. Emil R. Bedard, Director

Date: March 25, 2008
Bonnie Ludlow, Director

Date: March 25, 2008 /s/ John E. Maxwell
John E. Maxwell, Director

Date: March 25, 2008 /s/ Arthur L. Money
Arthur L. Money, Director

Date: March 25, 2008 /s/ Guy L. Smith
Guy L. Smith, Director

EXHIBIT INDEX

Exhibit No.	Description
21	Listing of Subsidiaries
23.1	Consent of Amper, Politziner and Mattia, P.C.
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
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32	Certification of Chief Executive Officer and Chief Financial pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

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Report of Independent Registered Public Accounting Firm

To the Board of Directors and Stockholders of
Intelli-Check, Inc.

We have audited the accompanying balance sheets of Intelli-Check, Inc. (the “Company”) as of December 31, 2007 and 2006, and the related statements of operations, stockholders’ equity, and cash flows for each of the three years in the period ended December 31, 2007. These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company’s internal control over financial reporting. Accordingly we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intelli-Check, Inc. as of December 31, 2007 and 2006, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2007 in conformity with accounting principles generally accepted in the United States of America.

As discussed in Note 6 to the financial statements, effective January 1, 2007 the Company adopted FASB Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an Interpretation of FASB No. 109.” As discussed in Note 2 to the financial statements, effective January 1, 2006 the Company adopted Statement of Financial Accounting Standards No. 123(R), “Share-Based Payment.”

We have also audited the financial statement schedule listed in the index at item 15(a)(2), schedule II for each of the three years ended December 31, 2007. In our opinion, such financial statement schedule, when considered in relation to the basic financial statements taken as a whole, presents fairly in all material respects the information set forth therein.

/s/ Amper, Politziner & Mattia, P.C.

New York, New York
March 25, 2008

INTELLI-CHECK, INC.

BALANCE SHEETS
DECEMBER 31, 2007 and 2006

		2007		2006
ASSETS				
CURRENT ASSETS:				
Cash and cash equivalents	$	392,983	$	526,917
Marketable securities and short-term investments, at fair value		1,650,000		3,759,133
Accounts receivable, net of allowance of $10,000 and $10,000 for 2007 and 2006, respectively		1,076,732		591,976
Inventory		62,784		115,193
Other current assets		543,571		512,112
Total current assets		3,726,070		5,505,331
PROPERTY AND EQUIPMENT, net (Note 3)		81,464		85,603
PATENT COSTS, net (Note 4)		23,961		30,170
DEFERRED ACQUISITION COSTS		208,000		-
OTHER ASSETS		34,916		34,916
Total assets	$	4,074,411	$	5,656,020
LIABILITIES AND STOCKHOLDERS' EQUITY				
CURRENT LIABILITIES:				
Accounts payable	$	150,099	$	155,066
Accrued expenses (Note 5)		533,609		378,028
Deferred revenue		1,278,869		1,037,366
Other current liabilities		-		75,000
Total current liabilities		1,962,577		1,645,460
OTHER LIABILITIES		91,681		73,475
Total liabilities		2,054,258		1,718,935
COMMITMENTS AND CONTINGENCIES (Note 9)				
STOCKHOLDERS' EQUITY:				
Common stock - $.001 par value; 20,000,000 shares authorized; 12,281,728 and 12,202,778 shares issued and outstanding as of 2007 and 2006, respectively		12,282		12,203
Additional paid-in capital		46,668,941		45,912,734
Accumulated deficit		(44,661,070)		(41,987,852)
Total stockholders' equity		2,020,153		3,937,085
Total liabilities and stockholders' equity	$	4,074,411	$	5,656,020

The accompanying notes are an integral part of these statements.

INTELLI-CHECK, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
REVENUES	$ 3,511,908	$ 3,161,854	$ 2,383,532
COST OF REVENUES	(1,390,941)	(1,037,341)	(744,615)
Gross profit	2,120,967	2,124,513	1,638,917
OPERATING EXPENSES			
Selling	1,534,660	1,564,843	1,257,810
General and administrative	2,333,154	2,664,950	2,824,384
Research and development	1,088,004	997,564	941,530
Total operating expenses	4,955,818	5,227,357	5,023,724
Loss from operations	(2,834,851)	(3,102,844)	(3,384,807)
OTHER INCOME:			
Interest income	161,633	222,874	145,848
	161,633	222,874	145,848
Net loss	(2,673,218)	(2,879,970)	(3,238,959)
Accretion of convertible redeemable preferred stock costs	-	-	(160,722)
Dividend on convertible redeemable preferred stock	-	-	(36,822)
Net loss attributable to common stockholders	$ (2,673,218)	$ (2,879,970)	$ (3,436,503)
PER SHARE INFORMATION:			
Net loss per common share -			
Basic and diluted	$ (0.22)	$ (0.24)	$ (0.31)
Weighted average common shares used in computing per share amounts -			
Basic and diluted	12,262,958	12,145,866	11,201,404

The accompanying notes are an integral part of these statements.

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INTELLI-CHECK, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 2005, 2006 AND 2007

	Common Stock		Additional			
	Shares	Amount	Paid-in Capital	Deferred Compensation	Accumulated Deficit	Total
BALANCE, December 31, 2004	10,290,418	$ 10,290	$ 36,655,882	$ (126,469)	(35,671,379)	$ 868,324
Effect on extension of expiring options	-	-	184,200	-	-	184,200
Exercise of stock options	54,000	54	168,846	-	-	168,900
Issuance of common stock in connection with secondary offering	1,250,000	1,250	4,438,343	-	-	4,439,593
Conversion of Convertible Redeemable Preferred Stock	454,545	455	2,999,545	-	-	3,000,000
Issuance of stock from cashless exercise of stock options	9,277	9	44,241	-	-	44,250
Purchase and retirement of outstanding warrants	-	-	(25,000)	-	-	(25,000)
Issuance of stock options for services rendered	-	-	2,163	-	-	2,163
Amortization of deferred compensation	-	-	-	143,758	-	143,758
Dividend on convertible redeemable preferred stock	-	-	-	-	(36,822)	(36,822)
Recognition of deferred compensation	-	-	402,995	(402,995)	-	-
Accretion of convertible redeemable preferred stock	-	-	-	-	(160,722)	(160,722)
Valuation adjustment of deferred compensation	-	-	(122,246)	122,246	-	-
Net loss	-	-	-	-	(3,238,959)	(3,238,959)
BALANCE, December 31, 2005	12,058,240	12,058	44,748,969	(263,460)	(39,107,882)	5,389,685
Surrender of stock options previously granted and recorded as deferred compensation	-	-	(82,812)	82,812	-	-

Stock based compensation expense (employees and directors)	-	-	590,031	-	-	590,031
Stock based compensation expense (consultants)	-	-	185,969	-	-	185,969
Exercise of stock options	135,450	136	524,439	-	-	524,575
Issuance of common stock from cashless exercise of stock options	6,204	6	(6)	-	-	-
Issuance of stock as director's compensation	2,884	3	16,003	-	-	16,006
Extension of options	-	-	34,350	-	-	34,350
Recovery of amortization of deferred compensation on surrender of stock options	-	-	(53,317)	-	-	(53,317)
Warrants issued to consultants for services rendered	-	-	129,756	-	-	129,756
Reclassification of deferred stock compensation upon adoption of SFAS 123(R)	-	-	(180,648)	180,648	-	-
Net loss	-	-	-	-	(2,879,970)	(2,879,970)
BALANCE, December 31, 2006	12,202,778	12,203	45,912,734	-	(41,987,852)	3,937,085
Stock based compensation expense (employees and directors)	-	-	397,927	-	-	397,927
Exercise of stock options	42,950	43	145,916	-	-	145,959
Exercise of warrants	16,000	16	86,384	-	-	86,400
Issuance of stock as director's compensation	20,000	20	125,980	-	-	126,000
Net loss	-	-	-	-	(2,673,218)	(2,673,218)
BALANCE, December 31, 2007	12,281,728	$ 12,282	$ 46,668,941	$ -	$ (44,661,070)	$ 2,020,153

The accompanying notes are an integral part of these statements.

INTELLI-CHECK, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 2007, 2006 AND 2005

	2007	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net loss	$ (2,673,218)	$ (2,879,970)	$ (3,238,959)
Adjustments to reconcile net loss to net cash used in operating activities-			
Depreciation and amortization	38,336	36,760	52,265
Non cash stock based compensation expense	523,927	826,356	228,450
Issuance of stock options for services rendered	-	-	2,163
Recovery of amortization of deferred compensation	-	(53,317)	-
Amortization of deferred compensation	-	129,756	143,758
Loss on sale of property and equipment	-	-	4,700
Changes in assets and liabilities:			
(Increase) decrease in accounts receivable, net	(484,756)	(183,434)	45,570
Decrease in inventory	57,139	10,788	85,182
(Increase) in other current assets	(36,190)	(92,832)	(139,729)
Increase (decrease) in accounts payable and accrued expenses	150,615	(228,170)	(511,505)
Increase in deferred revenue	241,503	342,408	184,300
(Decrease) increase in other current liabilities	(75,000)	75,000	-
Increase in other liabilities	18,206	10,480	-
Net cash used in operating activities	(2,239,438)	(2,006,175)	(3,143,805)
CASH FLOWS FROM INVESTING ACTIVITIES:			
Purchases of property and equipment	(27,988)	(23,908)	(12,096)
Proceeds from sale of property and equipment	-	-	2,000
Investment in marketable securities and short-term investments	(3,237,000)	(6,384,957)	(8,037,905)
Sales of marketable securities and short-term investments	5,346,133	7,889,132	6,866,581
Deferred acquisition costs	(208,000)	-	-
Net cash provided by (used in) investing activities	1,873,145	1,480,267	(1,181,420)
CASH FLOWS FROM FINANCING ACTIVITIES:			
Net proceeds from issuance of common stock	232,359	524,575	168,900
Net proceeds from issuance of common stock from secondary offering	-	-	4,439,593
Payment of dividend to preferred stockholders	-	-	(97,315)
Purchase of outstanding warrants	-	-	(25,000)
Net cash provided by financing activities	232,359	524,575	4,486,178
Net (decrease) increase in cash and cash equivalents	(133,934)	(1,333)	160,953
CASH AND CASH EQUIVALENTS, beginning of year	526,917	528,250	367,297

CASH AND CASH EQUIVALENTS, end of year	$	392,983	$	526,917	$	528,250
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:						
Stock options issued for services rendered	$	-	$	-	$	402,995
Conversion of convertible redeemable preferred stock into Common Stock	$	-	$	-	$	3,000,000
Accretion of convertible redeemable preferred stock cost	$	-	$	-	$	160,722

The accompanying notes are an integral part of these statements.

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INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS AND LIQUIDITY

Business

Intelli-Check ("the Company" or "we") was formed in 1994 to address a growing need for a reliable document and age verification system that could be used to detect fraudulent driver licenses and other widely accepted forms of government-issued identification documents. Since then, our technology has been further developed for application in the commercial fraud protection, access control and governmental security markets. Additionally, it is currently being used to increase productivity by addressing inefficiencies and inaccuracies associated with manual data entry. The core of Intelli-Check's product offerings is our proprietary software technology that verifies the authenticity of driver licenses, state issued non-driver and military identification cards used as proof of identity. Our patented ID-Check® software technology instantly reads, analyzes, and verifies the encoded format in magnetic stripes and barcodes on government-issue IDs from over 60 jurisdictions in the U.S. and Canada by determining if the format conforms to the known jurisdictional format. We have served as the national testing laboratory for the American Association of Motor Vehicle Administrators (AAMVA) since 1999 and have received encoding formats from all of the issuing jurisdictions in North America.

Liquidity

Since inception, the Company has incurred significant losses and negative cash flow from operating activities, and as of December 31, 2007 we had an accumulated deficit of $44,661,070. The Company anticipates that its current available cash on hand and marketable securities and cash resources from expected revenues from the sale of our products and the licensing of its technology will be sufficient to meet its anticipated working capital and capital expenditure requirements for at least the next twelve months. These requirements are expected to include the purchase of inventory, product development, sales and marketing expenses, working capital requirements and other general corporate purposes. The Company may need to raise additional funds to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for its ID-Check® technology, enhance its operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased. As of December 31, 2007 and 2006, cash equivalents included money market funds, commercial paper and other liquid short-term debt instruments (with maturities at date of purchase of three months or less) of $356,803 and $155,851, respectively.

Marketable Securities

Effective in the third quarter of 2007, the Company changed its classification of investments in marketable securities as available-for-sale securities and currently accounts for them in accordance with Statement of Financial Accounting Standards ("SFAS") No. 115, "Accounting for Certain Investments in Debt and Equity Securities" ("SFAS No. 115"). Under SFAS No. 115, securities purchased to be held for indefinite periods of time and not intended at the time of purchase to be held until maturity are classified as available-for-sale securities. The Company continually evaluates whether any marketable investments have been impaired and, if so, whether such impairment is temporary or other than temporary. All of the Company’s marketable securities have maturities of less than one year with a weighted average interest rate of 6.2%. The carrying value of the marketable securities as of December 31, 2007 approximated their fair market value. Marketable Securities and Short Term Investments are invested in Municipal Auction Rate Securities. Realized gains and losses on available-for-sale securities are calculated using the specific identification method. During the year ended December 31, 2007, realized gains and losses on available-for-sale securities were insignificant. Previously, the Company classified its marketable securities as held-to-maturity as the Company had the intent and ability to hold these securities to maturity. The securities were carried at amortized cost using the specific identification method. Interest income was recorded using an effective interest rate, with the associated premium or discount amortized to interest income.

Doubtful Accounts and Allowances

The Company records its doubtful accounts and allowances 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.

Long-Lived Assets and Impairment of Long-Lived Assets

The Company's long-lived assets include property and equipment and patents.

Under the provision of SFAS No. 144, "Accounting for the Impairment or Disposal of Long-lived Assets" which supersedes SFAS No. 121, "Accounting for the Impairment or Disposal of Long-lived Assets to be Disposed Of," SFAS No. 144 requires that identifiable intangible assets that are not deemed to have indefinite lives will be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may be impaired. Furthermore, these assets are evaluated for continuing value and proper useful lives by comparison to undiscounted expected future cash flow projections. We did not recognize an impairment on our long-lived assets during the years ended December 31, 2007, 2006 or 2005.

Property and Equipment

Property and equipment are recorded at cost and are depreciated over their estimated useful lives ranging from two to ten-years using the straight-line basis. Leasehold improvements are amortized utilizing the straight-line method over the lesser of the term of the lease or estimated useful life of the asset.

Intangible Assets

Patent costs, primarily consisting of legal costs and allocated costs are being amortized over a period of 17 years using the straight-line method.

Costs of Computer Software Developed or Obtained for Internal Use

The Company accounts for certain software costs under Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which provides guidance for determining whether computer software is internal-use software and guidance on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use.

Capitalized Software Development Costs

SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," specifies that costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Software production costs for computer software that is to be used as an integral part of a product or process shall not be capitalized until both (a) technological feasibility has been established for the software and (b) all research and development activities for the other components of the product or process have been completed. The Company has not capitalized any software costs for the years ended December 31, 2007, 2006 and 2005.

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

Deferred Acquisition Costs

The Company has deferred certain legal and proxy related charges related to the business combination with Mobilisa, Inc. (See note 11). These costs will be capitalized as part of the purchase price once the transaction has been completed.

Revenue Recognition

The Company sells its products directly through its sales force and through distributors. Revenue from direct sales of its product is recognized when shipped to the customer and title has passed. The Company's products require continuing service or post contract customer support and performance by the Company; accordingly, a portion of the revenue pertaining to the service and support 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 year. Currently, with respect to sales of certain of the Company's products, the Company does not have enough experience to identify the fair value of each element, therefore, the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

In addition, the Company recognizes sales from licensing of its patented software to customers. The Company's licensed software requires continuing service or post contract customer support and performance by the Company; 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 year.

The Company receives royalties from the licensing of its technology, which are recognized as revenues in the period they are earned. For the years ended December 31, 2007, 2006 and 2005, the Company received $21,878, $28,503, and $58,480 respectively, in royalty fees.

Under the provisions of EITF 00-21, "Revenue Arrangements with Multiple Deliverables," revenue arrangements were allocated to the separate units of accounting based on their relative fair values and revenue is recognized in accordance with its policy as stated above.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Shipping Costs

The Company's shipping and handling costs are included in cost of sales for all periods presented.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "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 December 31, 2007 and 2006, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of SFAS No. 107, “Disclosures about Fair Value of Financial Instruments.” 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, certificate of deposits, marketable securities, accounts receivable and accounts payable. At December 31, 2007 and 2006, the carrying value of the Company’s financial instruments approximated fair value, due to their short-term nature.

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

Business Concentrations and Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and marketable securities. The Company maintains cash between two financial institutions. The marketable securities consist of Municipal Auction Rate Securities. The Company performs periodic evaluations of the relative credit standing of these institutions.

The Company's sales to date have been limited due to the refocus of its marketing efforts and introduction of new products to a number of clients which are concentrated in the United States of America and the long sales cycle to government entities. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

During the year ended December 31, 2007, the Company made sales to two customers that accounted for approximately 33.6% of total revenues. During the year ended December 31, 2006, the Company made sales to two different customers that accounted for approximately 31.3% of total revenues. These customers represented 36.1% and 8.5% of total accounts receivable in 2007 and 2006, respectively.

As of December 31, 2007, the Company had two suppliers for the production of its input devices. The Company has modified its software to operate in windows based systems and can integrate with different hardware platforms that are readily available in the marketplace. The Company does not maintain a manufacturing facility of its own and is not dependent on maintaining its production relationships due to the flexibility of its software to run on multiple existing platforms.

Net Loss Attributable to Common Shareholders

The Company computes net loss per common share in accordance with SFAS No. 128, "Earnings Per Share." Under the provisions of SFAS No. 128, basic net loss per common share ("Basic EPS") is computed by dividing net loss by the weighted average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss by the weighted average number of common shares and dilutive common share equivalents then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the statements of operations.

Diluted EPS for the years ended December 31, 2007, 2006 and 2005, does not include the impact of stock options and warrants then outstanding, as the effect of their inclusion would be antidilutive.

The following table summarizes the equivalent number of common shares assuming the related securities that were outstanding as of December 31, 2007, 2006 and 2005 had been converted:

	2007	2006	2005
Stock options	1,460,217	2,470,055	2,764,955
Warrants	922,636	938,636	938,636
Total	2,382,853	3,408,691	3,703,591

Stock-Based Compensation

The Company has stockholder approved stock incentive plans for employees, directors, officers and consultants. Prior to January 1, 2006, the Company accounted for the employee, director and officer plans using the intrinsic value method under the recognition and measurement provisions of Accounting Principles Board ("APB") Opinion No. 25, "Accounting for Stock Issued to Employees" and related interpretations, as permitted by Statement of Financial Accounting Standards ("SFAS" or "Statement") No. 123, "Accounting for Stock-Based Compensation."

Effective January 1, 2006, the Company adopted SFAS No. 123(R), "Share-Based Payment," ("Statement 123(R)") for employee options using the modified prospective transition method. Statement 123(R) revised Statement 123 to eliminate the option to use the intrinsic value method and required the Company to expense the fair value of all employee options over the vesting period. Under the modified prospective transition method, the Company recognized compensation cost for the year ended December 31, 2006 which includes a) period compensation cost related to share-based payments granted prior to, but not yet vested, as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of Statement 123; and b) period compensation cost related to share-based payments granted on or after January 1, 2006, based on the grant date fair value estimated in accordance with Statement 123(R). In accordance with the modified prospective method, the Company has not restated prior period results.

INTELLI-CHECK, INC.

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The Company recognizes compensation expense related to stock option grants on a straight-line basis over the vesting period.

Options granted to consultants and other non-employees are accounted for in accordance with EITF No. 96-18 "Accounting for Equity Instruments That Are Issued to Other than Employees for Acquiring, or in Conjunction with Selling, Goods or Services." Accordingly, such options are recorded at fair value at the date of grant and subsequently adjusted to fair value at the end of each reporting period until such options vest, and the fair value of the options, as adjusted, is amortized to consulting expense over the related vesting period.

The following table illustrates the effect on 2005 net loss and loss per share as if the Company had applied the fair value recognition provision of SFAS No. 123, as amended by SFAS No. 148 “Accounting for Stock Based Compensation-Transition and disclosure.” This standard preceded SFAS 123(R) and required different measurement criteria:

		Year Ended December 31, 2005
Net loss attributable to common stockholders, as reported	$	(3,436,503)
Add:		
Total stock based employee compensation expense determined under fair value based method for all awards		(2,878,820)
Net loss, pro forma	$	(6,315,323)
Basic and diluted loss per share, as reported	$	(0.31)
Basic and diluted loss per share, pro forma	$	(0.56)

Comprehensive Loss

The Company’s comprehensive net loss is equal to its net loss for the years ended December 31, 2007, 2006 and 2005.

Segment Information

The Company adheres to the provisions of SFAS No. 131, “Disclosures about Segments of an Enterprise and Related Information.” This statement establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial statements issued to shareholders. Management has determined that it only has one reporting segment.

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 inventory reserves, deferred tax valuation allowances, allowances for doubtful accounts and stock-based compensation. Due to the inherent uncertainties involved in making estimates, actual results reported in future periods may be different from those estimates.

INTELLI-CHECK, INC.

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Recently Issued Accounting Pronouncements

Except as discussed below, the Company does not expect the impact of the future adoption of recently issued accounting pronouncements to have a material impact on the Company's financial statements.

On December 4, 2007, Financial Accounting Standards Board ("FASB") issued Statement of Financial Accounting Standards ("SFAS") No. 141(R), Business Combinations. SFAS 141R replaces SFAS 141, Business Combinations and applies to all transactions or other events in which an entity obtains control of one or more businesses. SFAS 141R requires the acquiring entity in a business combination to recognize all (and only) the assets acquired and liabilities assumed in the transaction; establishes the acquisition-date fair value as the measurement objective for all assets acquired and liabilities assumed; and requires the acquirer to disclose additional information needed to evaluate and understand the nature and financial effect of the business combination. SFAS 141R is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 141R will have on its consolidated results of operations and financial condition.

On December 4, 2007, the FASB also issued SFAS No. 160, Noncontrolling Interests in Consolidated Financial Statements. SFAS 160 amends ARB 51 to establish accounting and reporting standards for the noncontrolling interest (or minority interests) in a subsidiary and for the deconsolidation of a subsidiary by requiring all noncontrolling interests in subsidiaries be reported in the same way, as equity in the consolidated financial statements and eliminates the diversity in accounting for transactions between an entity and noncontrolling interests by requiring they be treated as equity transactions. SFAS 160 is effective prospectively for fiscal years beginning after December 15, 2008 and may not be applied before that date. The Company is currently evaluating the impact, if any, that the adoption of SFAS 160 will have on its consolidated results of operations and financial condition.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financials Liabilities — Including an Amendment of FASB Statement No. 115". This standard permits measurement of certain financial assets and financial liabilities at fair value. If the fair value option is elected, the unrealized gains and losses are reported in earnings at each reporting date. Generally, the fair value option may be elected on an instrument-by-instrument basis, as long as it is applied to the instrument in its entirety. The fair value option election is irrevocable, unless a new election date occurs. SFAS No. 159 requires prospective application and also establishes certain additional presentation and disclosure requirements. The standard is effective as of the beginning of the fiscal year that begins after November 15, 2007. The Company is currently evaluating the provisions of SFAS No. 159 to determine the potential impact, if any, the adoption will have on the Company's financial statements.

In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements," which is effective for calendar year companies on January 1, 2008. The Statement defines fair value, establishes a framework for measuring fair value in accordance with Generally Accepted Accounting Principles, and expands disclosures about fair value measurements. The Statement codifies the definition of fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing the asset or liability and establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. In December 2007, the FASB issued proposed FSP FAS No. 157-2 which would delay the effective date of SFAS No. 157 for all non-financial assets and non-financial liabilities, except those that are recognized or disclosed at fair value in the financial statements on a recurring basis (at least annually). This proposed FSP partially defers the effective date of Statement 157 to fiscal years beginning after November 15, 2008, and interim periods within those fiscal years for items within the scope of this FSP. Effective January 1, 2008, we will adopt SFAS No. 157 except as it applies to those non-financial assets and non-financial liabilities as noted in proposed FSP FAS No.157-2. We are currently evaluating the impact that SFAS No. 157 will have on our consolidated financial statements.

In June 2007, the FASB issued EITF Issue No. 07-3, “Accounting for Nonrefundable Advance Payments for Goods or Services Received for Use in Future Research and Development Activities,” which is effective for calendar year companies on January 1, 2008. The Task Force concluded that nonrefundable advance payments for goods or services that will be used or rendered for future research and development activities should be deferred and capitalized. Such amounts should be recognized as an expense as the related goods are delivered or the services are performed, or when the goods or services are no longer expected to be provided. The Company is currently assessing the potential impact of implementing this standard.

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NOTES TO FINANCIAL STATEMENTS

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of December 31, 2007 and 2006:

	2007	2006
Computer equipment	$ 575,977	$ 550,279
Furniture and fixtures	138,298	136,008
Leasehold improvements	143,253	143,253
Office equipment	46,287	46,287
	903,815	875,827
Less - Accumulated depreciation and amortization	(822,351)	(790,224)
	$ 81,464	$ 85,603

Depreciation expense for the years ended December 31, 2007, 2006 and 2005 amounted to $32,127, $30,551 and $46,055, respectively.

4. INTANGIBLE ASSETS

The following summarize the carrying amounts of intangible assets and related amortization:

	As of December 31, 2007		As of December 31, 2006	
	Gross Carrying Amount	Accumulated Amortization	Gross Carrying Amount	Accumulated Amortization
Amortized intangible assets				
Patents	105,661	81,700	105,661	75,491
Copyrights	17,500	17,500	17,500	17,500
Total	$ 123,161	$ 99,200	$ 123,161	$ 92,991

Amortization expense for years ended December 31, 2007, 2006, and 2005 were $6,209, $6,209 and $6,210, respectively.

As of December 31, 2007, estimated annual amortization expense for each of the next four years is $6,209, $6,209, $6,209 and $5,334.

5. ACCRUED EXPENSES

Accrued expenses are comprised of the following as of December 31, 2007 and 2006:

	2007	2006
Professional fees	$ 250,515	$ 71,401
Payroll and related	226,642	237,303
Rent	10,261	13,682
Other	46,191	55,642
	$ 533,609	$ 378,028

6. INCOME TAXES

In July 2006, the FASB issued Interpretation No. 48, “Accounting for Uncertainty in Income Taxes - an interpretation of FASB No. 109” (“FIN 48”), effective for fiscal years beginning after December 15, 2006. FIN 48 requires a two-step approach to determine how to recognize tax benefits in the financial statements where recognition and measurement of a tax benefit must be evaluated separately. A tax benefit will be recognized only if it meets a “more-likely-than-not” recognition threshold. For tax positions that meet this threshold, the tax benefit recognized is based on the largest amount of tax benefit that is greater than 50 percent likely of being realized upon ultimate settlement with the taxing authority. On May 2, 2007 the FASB issued Interpretation No. 48-1, “Definition of Settlement in FASB Interpretation 48” (“FIN 48-1”). FIN 48-1 amends FIN 48 to provide guidance on how an enterprise should determine whether a tax position is effectively settled for the purpose of recognizing previously unrecognized tax benefits. The guidance in FIN 48-1 shall be applied upon the initial adoption of FIN 48. We adopted FIN 48 and FIN 48-1 as of January 1, 2007. The adoption of FIN 48 did not have an impact on our results of operations or financial position. As a result of our continuing losses for tax purposes, we have historically not paid income taxes and have recorded a full valuation allowance against our net deferred tax asset. Therefore, we have not recorded a liability for unrecognized tax benefits prior to adoption of FIN 48 and there was no adjustment from the implementation. There continues to be no liability related to unrecognized tax benefits at December 31, 2007. We recognize interest and penalties related to unrecognized tax benefits in income tax expense. There was no accrued interest related to unrecognized tax benefits at December 31, 2007. The tax years 2004-2007 remain open to examination by the major taxing jurisdictions to which we are subject.

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NOTES TO FINANCIAL STATEMENTS

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2007 and 2006 are as follows:

	2007	2006
Deferred tax assets, net:		
Net operating loss carryforwards	$ 14,456,000	$ 13,296,000
Depreciation	(15,000)	(15,000)
Reserves	30,000	307,000
Research & development tax credits	81,000	26,000
Gross deferred tax assets	14,552,000	13,614,000
Less: Valuation allowance	14,552,000	13,614,000
Deferred tax assets, net	$ -	$ -

Realization of deferred tax assets is dependent upon future earnings, if any. The Company has recorded a full valuation allowance against its deferred tax assets since management believes that it is more likely than not that these assets will not be realized.

As of December 31, 2007 the Company had net operating loss carryforwards (NOL's) for federal and New York State income tax purposes of approximately $36.1 million. There can be no assurance that the Company will realize the benefit of the NOL's. The federal and state NOL's are available to offset future taxable income and expire from 2018 through 2025 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes.

The effective tax rate for the years ended December 31, 2007, 2006 and 2005 is different from the tax benefit that would result from applying the statutory tax rates primarily due to the recognition of valuation allowances.

7. <u>SERIES A 8% CONVERTIBLE REDEEMABLE PREFERRED STOCK</u>

On March 27, 2003, pursuant to a Securities Purchase Agreement, we sold 30,000 shares of our Series A 8% Convertible Redeemable Preferred Stock, par value $.01 per share, for $3,000,000 before expenses to Gryphon Master Fund, L.P. Each share of Preferred Stock entitled the holder to receive dividends of 8% per annum and was convertible into 15.1515 shares of our common stock. Additionally, each investor received one (1) five year warrant to purchase 3.787875 shares of common stock at an exercise price of $6.78 with each share of Preferred Stock purchased. The total amount of shares that were issuable upon conversion of the Preferred Stock and exercise of the warrants are 454,545 and 113,636, respectively. Dividend payments of $120,000 in cash were due semi-annually beginning September 30, 2003. In connection with this financing, we paid agent fees of $150,000 and issued warrants and options to purchase 8,854 shares of our common stock at a price of $6.78. We also paid professional fees of approximately $136,000. We recorded the relative fair value of all the warrants issued in connection with this transaction of $497,700 against the amount of the Convertible Redeemable Preferred Stock as of March 27, 2003, which was calculated using the Black-Scholes valuation method, as well as $540,000 of beneficial conversion feature in accordance with EITF 00-27 and such amounts were being accreted along with issuance cost of $285,900 over the five year period until the mandatory redemption date of the Preferred Stock, the fifth anniversary of closing. We recorded accretion of dividends of $36,822 in 2005. On February 25, 2005, Gryphon Master Fund, L.P. converted the Company's Preferred Stock into 454,545 shares of the Company's common stock at a conversion price of $6.60 per share. The Company retired the 30,000 shares of preferred stock, issued 454,545 shares of its common stock and recorded $3,000,000 as an increase to stockholders equity.

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8. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

In January 1997, the Board of Directors authorized the creation of a class of Series A Convertible Preferred Stock with a par value of $.01. The Series A Convertible Preferred Stock is convertible into an equal number of common shares at the holder's option, subject to adjustment for anti-dilution. The holders of Series A Convertible Preferred Stock are entitled to receive dividends as and if declared by the Board of Directors. In the event of liquidation or dissolution of the Company, the holders of Series A Convertible Preferred Stock are entitled to receive all accrued dividends, if applicable, plus the liquidation price of $1.00 per share. As of December 31, 2007 and 2006, there were no outstanding shares of Series A Convertible Preferred Stock.

Secondary Offerings

On August 9, 2005, the Company successfully completed its private offering of 1,250,000 shares of common stock at $4.00 per share and received net proceeds of approximately $4,440,000. In connection with the offering, investors received five year warrants to purchase 500,000 shares of common stock at an exercise price of $5.40 per share. The Company purchased 110,000 of these warrants in December 2005 for $25,000 and retired them, leaving 390,000 currently outstanding. In addition, the Company granted to its placement agent a warrant to purchase 125,000 shares of our common stock at a price of $ 5.40 per share which expires on August 8, 2010. On October 7, 2005, the Registration Statement on Form S-3, which included the shares issued in the Company's secondary offering, was declared effective by the Securities and Exchange Commission.

Common Stock, Warrants and Rights

In March 2001, the Company declared a dividend distribution of one non-transferable right to purchase one share of the Company's common stock for every 10 outstanding shares of common stock continuously held from the record date to the date of exercise, as well as common stock underlying vested stock options and warrants, held of record on March 30, 2001, at an exercise price of $8.50. The rights were due to expire on October 4, 2002, which was one year after the effective date of the registration statement related to the shares of common stock underlying the rights. The Company has extended the expiration date for these rights through June 30, 2008. Under certain conditions, the Company has the right to redeem the outstanding rights for $.01 per right. Such conditions were not met as of March 2008. The Company reserved 659,653 shares of common stock for future issuance under this rights offering. There was no expense recorded in 2007, 2006 and 2005 for the extension of these rights. As of December 31, 2007, 292,001 of these rights had been exercised and the Company received cumulatively $2,482,009 before expenses of $133,834.

All warrants have been issued with an exercise price that is equal to or above the fair market value of the Company's common stock on the date of grant. As of December 31, 2007, the Company had warrants outstanding for 922,636 shares of common stock at a weighted average exercise price of $6.12, which expire between March 26, 2008 and August 21, 2011.

Stock Options and Stock Based Compensation

In order to retain and attract qualified personnel necessary for the success of the Company, the Company adopted several Stock Option Plans from 1998 through 2004 (and an amendment to the 2004 plan in 2006 pursuant to which the plan was renamed the "2006 Equity Incentive Plan" and amended to provide for the issuance of other types of equity incentives such as restricted stock grants) (collectively, the “Plans”) covering up to 3,250,000 of the Company’s common shares, pursuant to which officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers these Plans and determines the terms and conditions of options granted, including the exercise price. These Plans generally provide that all stock options will expire within ten years of the date of grant. Incentive stock options granted under these Plans must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 10% of the voting stock of the Company. These Plans also entitle non-employee directors to receive grants of non-qualified stock options as approved by the Board of Directors. At the Company’s special meeting of Stockholders held on March 14, 2008, the stockholders voted to amend the 2006 Equity Incentive Plan (the “Plan”) to increase the number of shares of Common Stock authorized to be issued by 3,000,000.

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During 2005, the Company granted warrants and options to purchase 150,000 shares of common stock at exercise prices ranging from $5.10 to $5.40 per share to consultants under various agreements. The fair market value of each option was estimated on the date of grant using the Black-Scholes option pricing model. Accordingly, we recorded $402,995 as deferred compensation for these services as of December 31, 2005. As a result of some of the granted options having varying vesting periods, the Company revalued certain options and warrants either as of the vesting date or as of the balance sheet date for those options unvested using the Black Scholes option pricing model. Accordingly, the Company recorded a reduction of the fair value of $122,246 for the year ended December 31, 2005. During December 31, 2006 and 2005, the Company recognized amortization of deferred compensation of $129,756 and $143,758, respectively. In March, 2006, our consultant returned and cancelled a stock option agreement which the Company issued in February 2002 that granted options to purchase 50,000 shares of common stock at an exercise price of $12.10. The remaining unamortized balance in deferred compensation of $82,812 was reduced and offset against additional paid in capital and amortization expense of $53,317 recorded through December 31, 2005 and was recognized as income in the first quarter of 2006. No warrants were issued in 2007 or 2006. In accordance with SFAS No. 123(R), during the year ended December 31, 2006, all remaining deferred compensation expense of $180,648 was reduced and offset against additional paid in capital.

Stock option activity under the 1998, 1999, 2001, 2003 and 2006 Stock Option Plans during the periods indicated below is as follows:

	Number of Shares Subject to Issuance	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Outstanding at December 31, 2004	2,777,474	7.11	4.42 years	
Granted	476,980	5.02		
Forfeited or expired	(410,499)	7.78		
Exercised	(79,000)	3.09		
Outstanding at December 31, 2005	2,764,955	6.77	3.94 years	
Granted	197,050	5.99		
Forfeited or expired	(331,500)	9.43		
Exercised	(160,450)	3.74		
Outstanding at December 31, 2006	2,470,055	6.55	3.66 years	
Granted	186,362	5.60		
Forfeited or expired	(1,153,250)	7.87		
Exercised	(42,950)	3.40		$ 137,515
Outstanding at December 31, 2007	1,460,217	$ 5.47	3.20 years	$ 74,325
Exercisable at December 31, 2007	1,320,154	$ 5.47	2.74 years	$ 69,450

Included in the above schedule are 469,425 non-plan options, all of which are fully vested.

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The assumptions used for the specified reporting periods and resulting estimates of weighted average fair value per share of options granted during those periods were as follows:

	Years Ended December 31,		
	2007	2006	2005
Risk-free interest rate	4.6%	4.7%	4.3%
Expected dividend yield	0%	0%	0%
Expected lives	4.6 years	5.9 years	5 years
Expected volatility	59%	74%	74%
Forfeiture rate	5%	5%	0%

Expected volatility was calculated using the historical volatility of the Company's stock price over the last five years. The expected term of the options is estimated based on the Company's historical exercise rate and forfeiture rates are estimated based on employment termination experience. The risk free interest rate is based on U.S. Treasury yields for securities in effect at the time of grants with terms approximating the term of the grants. The assumptions used in the Black-Scholes option valuation model are highly subjective, and can materially affect the resulting valuation.

The following is a summary of stock options as of December 31, 2007:

	Options Outstanding				Options Exercisable		
Range of Exercise Prices	Number of Options	Weighted- average Remaining Life		Weighted-average Exercise Price	Number of Options		Weighted-average Exercise Price
$3.00 to $5.00	568,780	2.33	$	3.31	529,780	$	3.32
$5.01 to $7.00	598,337	4.94		6.04	497,274		5.98
$7.15 to $15.05	293,100	1.40		8.48	293,100		8.48
	1,460,217	3.20	$	5.47	1,320,154	$	6.61

The weighted-average fair value of the options granted during the years ended December 31, 2007, 2006 and 2005 is $3.20, $3.99 and $4.03, respectively.

As of December 31, 2007, the Company had 1,457,415 options available for future grant under the 1998, 1999, 2001, 2003 and 2006 Stock Option Plans.

As of December 31, 2007, there was $247,384 of total unrecognized compensation cost, net of estimated forfeitures, related to all unvested stock options, which is expected to be recognized over a weighted average period of approximately 1.7 years.

Stock based compensation expense for the years ended December 31, 2007 and 2006 is as follows:

	Years ended December 31.			
		2007		2006
Compensation cost recognized:				
Stock options	$	397,927	$	886,789
Restricted stock		126,000		16,006

	$	523,927	$	902,795

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We included stock based compensation in operating expenses as follows:

	Years ended December 31.	
	2007	2006
Selling	$ 178,342	$ 294,322
General and administrative	290,277	601,164
Research and development	55,308	7,309
	$ 523,927	$ 902,795

The Company did not capitalize any share-based compensation cost in 2007 or 2006.

The Company has a net operating loss carry-forward as of December 31, 2007, and no excess tax benefits for the tax deductions related to share based awards were recognized in the statements of operations. Additionally, no incremental tax benefits were recognized from stock options exercised in 2007 that would have resulted in a reclassification to reduce net cash provided by operating activities with an offsetting increase in net cash provided by financing activities.

During January 2006 and 2005, the Company's Board of Directors approved the cashless exercise of 25,000 options each year which were converted into 6,204 and 9,277 shares, respectively of its common stock for the Company's former Chairman and CEO. As a result, the Company recorded the fair value of the shares issued as a non-cash expense totaling $0 and $44,250, respectively which was calculated using the Black-Scholes valuation method.

During 2006 and 2005, the Company's Board of Directors extended the expiration date of 56,500 and 270,500 stock options for one and three of the Company's directors who resigned from the Board for an additional 12 and 9 months, respectively. As a result, the Company recorded the fair value of the extension of $34,350 and $184,200 as a non cash expense during the year ended December 31, 2006 and 2005, respectively. These amounts were calculated in accordance with SFAS 123R in 2006 and Financial Interpretation No. 44 "Accounting for Certain Transactions involving Stock Compensation" in 2005.

On September 9, 2005, the Board of Directors agreed to accelerate the vesting of all employee, officer and director unvested stock options outstanding under our stock option plans with exercise prices that were "out of the money" prior to December 31, 2005. The total number of options that were earlier vested amount to 347,500 and had a range of exercise prices of $4.37 to $6.30 and a weighted average exercise price of $5.03. The high and low of the closing price of our common stock between September 9, 2005 and December 31, 2005 was $4.37 and $6.30. The purpose of the accelerated vesting was to enable us to avoid recognizing compensation expense associated with these options upon adoption of SFAS No. 123(R). The fair value associated with the accelerated options that would have been reflected in our financial statements amounted to $926,189 using the Black-Scholes valuation method, which is included in pro forma stock-based employee compensation expense for 2005. Effective November 7, 2006, the Board enacted a new policy regarding all future stock option grants. Such policy requires that all future stock option issuances are set to be granted on the third Thursday of each month and that each such issuance will have a strike price per share equal to the closing price of the Corporation's common stock on such day.

All stock options have been issued with an exercise price that is equal or above the fair market value of the Company's Common Stock on the date of grant.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

During July 2000, the Company entered into a 10-year lease agreement for its new office. The lease provided for monthly rental payments of $17,458 beginning December 15, 2000 with small annual increases. In connection with this lease, the Company provided a cash security payment of $34,916 for the remaining lease term. Effective October 16, 2005, the Company amended its office lease that provided for a reduction in office space from approximately 9,700 square feet to approximately 7,100 square feet for the remainder of the lease term which expires December 31, 2010. In addition, payments under the amended lease were reduced to $16,244 per month and such reduction will increase by approximately 4% per year.

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In addition, the Company has entered into various leases for office equipment and office space expiring through December 2010. Future minimum lease payments under these lease agreements are as follows:

Year Ending December 31:		
2008	$	218,864
2009		220,932
2010		230,376
	$	670,172

Rent expense for the years ended December 31, 2007, 2006 and 2005 amounted to $217,792, $211,825 and $243,731, respectively.

Royalty and License Agreements

The Company entered into an agreement with a former officer of the Company during 1996 to license certain software. The agreement stipulated, among other provisions, that the officer would receive royalties equal to a percentage of the Company's gross sales. This agreement was terminated in May 1999 and was superseded by a new agreement which calls for payment of royalties of .005% on gross sales from $2,000,000 to $52,000,000 and .0025% on gross sales in excess of $52,000,000 pertaining to those patents on which Mr. Messina was identified as an inventor. As of December 31, 2007, total fees payable under this agreement amounted to less than $1,000.

On February 19, 2003, the Company filed a summons and complaint upon CardCom Technology, Inc. alleging infringement on its patent. During September 2003, as a result of a settlement of a patent infringement suit, the Company granted CardCom Technology, Inc. a three year royalty license to use certain of the Company's patents in connection with the manufacture, use and sale of CardCom's age verification products in the United States and Canada. It also provides that CardCom will pay royalties of approximately 10% on its net sales. For the years ended December 31, 2007, 2006 and 2005, the Company received $21,878, $28,503 and $58,480, respectively, in royalty fees pursuant to this agreement. Effective March 12, 2006, the Company renewed the licensing agreement with CardCom for an additional five years. We also filed a patent infringement lawsuit against Tricom Card Technologies, Inc. in July 2003, which is currently being litigated.

Employment Agreements

The Company has no employment agreements with any of its employees.

Severance Arrangements

Mr. Peter Mundy, Intelli-Check's Chief Financial Officer, has a severance arrangement with Intelli-Check, which provides that if Intelli-Check acquires a company and retains and appoints an employee from the acquired company in the role of Chief Financial Officer and Mr. Mundy chooses not to accept a lesser role in the combined company he would be entitled to a severance payment of $72,500 (equal to six months salary).

Supplier Agreements

We currently have a product supply agreement with a vendor for the purchase of input devices. Under the terms of the agreement, these devices, which are private labeled, are programmed to work in conjunction with our ID-Check®

technology. The agreement automatically renews for successive one year terms on December 31 of each year pursuant to the terms of the Agreement. As of December 31, 2007, the Company had a commitment of $143,550 under this agreement. On March 14, 2006, we signed a product supply agreement with another manufacturer for the purchase of alternate input devices that are also programmed to work in conjunction with our ID-Check® technology.

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NOTES TO FINANCIAL STATEMENTS

Investment Firm Relationships

On December 7, 2004, the Company entered into a one year agreement with a consulting firm to help with its investor relations activities. The Company paid a consulting fee of $100,000 in 12 monthly installments. In addition, the Company issued 11,500 restricted shares of its common stock. On August 6, 2005, the Company terminated the agreement and ceased payment under the agreement.

On September 21, 2005, the Company entered into a two (2) year agreement with a consulting firm to help with our public and investor relations activities. The Company agreed to pay $6,000 per month for the first 12 months of the agreement and $9,000 per month for the following 12 months. In addition, the Company issued a warrant granting the right to purchase 100,000 shares of our common stock at a purchase price of $4.62 per share, which vested ratably over the twelve month period after signing. All warrants are currently vested. The fair value of this warrant amounted to $318,221 using the Black-Scholes valuation method and was recorded in Deferred Compensation during the third quarter of 2005. For the years ended December 31, 2006 and 2005, the Company recorded an expense of approximately $186,000 and $71,000, respectively. No underwriting discounts or commissions were paid with respect to such securities. The Company renegotiated the terms of the agreement on September 30, 2006 extending the agreement by two additional years and currently pays $6,000 per month for the services. As of December 31, 2007, we had a commitment of $54,000 under this agreement.

Legal Proceedings

On August 1, 2003, Intelli-Check filed a summons and complaint against Tricom Card Technologies, Inc. alleging infringement on its patent and seeking injunctive and monetary relief. On October 23, 2003, Intelli-Check amended its complaint to include infringement on an additional patent. On May 18, 2004, Intelli-Check filed a Second Amended Complaint alleging infringement and inducement to infringe against certain principals of Tricom in their personal capacities, as well as alleging in the alternative, false advertising claims under the Lanham Act against all the defendants. The principals moved to dismiss the claims against them, and Tricom moved to dismiss the false advertising claims, which motions have been administratively terminated by the Court. On August 1, 2005, defendants filed an Answer and Affirmative Defenses to the Second Amended Complaint and Tricom filed a declaratory counterclaim. On November 2, 2005, the Court allowed Tricom to plead two additional defenses and declaratory counterclaims in the case, and on January 3, 2006, the parties filed a Stipulation of Dismissal of the Estoppel and Unenforceability Counterclaims and Affirmative Defenses. On February 28, 2006, the parties filed a Supplemental Proposed Joint Pretrial Order, and on March 1, 2006, the Court certified that fact discovery in this action was complete. On June 29, 2006, the Court held a pre-motion conference at Intelli-Check’s request to discuss a proposed motion to disqualify defendants' counsel for a conflict of interest. Pursuant to the Court's order, Intelli-Check served moving papers upon defendants on July 14, 2006 and defendants served opposition to the motion on or about July 28, 2006. Intelli-Check served a reply to the opposition on August 11, 2006 and filed the motion with the Court. Also, on or about July 21, 2006, defendants filed with the Court a motion for claim construction together with Intelli-Check’s opposition to defendants' motion and defendants’ reply to the opposition. As of March 2008, the Court has not scheduled a hearing date for either motion and there is no trial date pending.

Intelli-Check is not aware of any infringement by its products or technology on the proprietary rights of others.

Other than as set forth above, Intelli-Check 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.

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

10. QUARTERLY FINANCIAL DATA (UNAUDITED)

The following table sets forth unaudited financial data for each of Intelli-Check's last eight fiscal quarters.

	Year Ended December 31, 2007				Year Ended December 31, 2006			
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarter	Third Quarter	Fourth Quarter
	(Dollars in thousands)							
Income Statement Data:								
Revenues	$ 685	$ 739	$ 857	$ 1,231	$ 536	$ 718	$ 772	$ 1,136
Gross profit	448	490	468	715	355	496	463	810
Loss from operations	(678)	(1,101)	(645)	(411)	(1,001)	(994)	(709)	(399)
Net loss	(622)	(1,058)	(608)	(385)	(945)	(938)	(651)	(346)
Net loss per common share								
Basic and diluted	(0.05)	(0.09)	(0.05)	(0.03)	(0.08)	(0.08)	(0.05)	(0.03)

Historically, we have experienced lower sales volume in the first quarter of the year.

11. SUBSEQUENT EVENT - BUSINESS COMBINATION

On November 20, 2007, the Company and Mobilisa, Inc., a private company that is a leader in identity systems and mobile and wireless technologies, entered into a merger agreement pursuant to which a wholly-owned subsidiary of Intelli-Check 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, the Company's 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 by 3,000,000. The Company 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 will own 50% of the common stock of the combined company. Mobilisa option holders will also exchange their options for Intelli-Check options. The combination is anticipated to be structured as a "tax-free reorganization" under Section 368 of the Internal Revenue Code of 1986, as amended. 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.

The Company intends 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, based on its preliminary assessment, the Company will record as its cost, the assets of Mobilisa, less the liabilities assumed, with the excess of such cost over the estimated fair value of such net assets (including identifiable intangibles) reflected as goodwill. Additionally, certain costs directly related to the transaction will be reflected as additional purchase price in excess of net assets acquired. The Company's results of operations will include the operations of Mobilisa from the closing date of the transaction. As of December 31, 2007, the Company had incurred $208,000 reflected on the balance sheet as Deferred Acquisition Costs.

In addition, on March 14, 2008, the Company entered into an employment agreement with Dr. Ludlow, pursuant to which Dr. Ludlow was appointed the Company's Chief Executive Officer. Dr. Ludlow will receive a salary of $220,000 per year, be granted options to purchase 25,000 shares of the Company's common stock on March 20, 2008 that will be immediately exercisable at a price per share equal to the fair market value of the Company's common stock on the date of grant, and an annual bonus based on reasonable objectives established by the Company's Board of Directors. Dr. Ludlow will be entitled to receive benefits in accordance with the Company's existing benefit policies and will be reimbursed for company expenses in accordance with the Company's expense reimbursement policies. The employment agreement has a term of two years. Dr. Ludlow may terminate the agreement at any time on 60 days prior written notice to the Company. In addition, the Company or Dr. Ludlow may terminate the employment agreement immediately for cause, as described in the employment agreement. If the Company terminates the agreement without cause, Dr. Ludlow will be entitled to severance equal to one year of his base salary, in addition to salary already earned. If Dr. Ludlow terminates the agreement for cause, Dr. Ludlow will be entitled to receive a payment equal to $50,000, in addition to salary already earned.

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Schedule II - Valuation and Qualifying Accounts

Year Ended December 31, 2007, 2006 and 2005

Year ended December 31, 2007	**Balance at Beginning of Period**	**Additions**	**Net Deductions and Other**	**Balance at End of Period**
Doubtful accounts and allowances	$ 10,000	-	-	$ 10,000
Deferred tax assets valuation allowance	$ 13,614,000	938,000	-	14,552,000

Year ended December 31, 2006	**Balance at Beginning of Period**	**Additions**	**Net Deductionsand Other**	**Balance at End of Period**
Doubtful accounts and allowances	$ 28,467	$ 10,000	$ (28,467)	$ 10,000
Deferred tax assets valuation allowance	$ 12,759,000	$ 855,000	-	$ 13,614,000

Year ended December 31, 2005	**Balance at Beginning of Period**	**Additions**	**Net Deductionsand Other**	**Balance at End of Period**
Doubtful accounts and allowances	$ 20,000	$ 8,467	-	$ 28,467
Deferred tax assets valuation allowance	$ 11,441,000	$ 1,318,000	-	$ 12,759,000