

**Operator:** Good day and welcome to the Intellicheck Mobilisa fourth quarter and fiscal year 2008 financial results conference call.

At this time, all participants are in a listen-only mode. If anyone should require operator assistance during the conference, please press star-zero on your telephone keypad.

As a reminder, this conference is being recorded.

It is now my pleasure to introduce your host, Mr. James Carbonara of the Investor Relations Group. Thank you. You may begin.

**Mr. James Carbonara:** Thank you very much and welcome, everyone.

Thank you for joining us today for our 2008 fourth quarter and end of year conference call to discuss Intellicheck Mobilisa's results for the fiscal quarter ending December 31st, 2008.

In a moment, I will call upon our CEO to lead today's call. Before I do that, I will take a few minutes to read the forward-looking statement.

Certain statements in this conference call constitute forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 as amended. When used in this conference call, words such as, "will," "believe," "expect," "anticipate," "encouraged" and similar expressions, as they relate to the company or its management as well as assumptions made by and information currently available to the company's management, identify forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995.

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.

Additional information concerning forward-looking statements is contained under the heading of "Risk Factors" listed from time to time in the company's filings with the Securities and Exchange Commission.

With that out of the way, I would now like to introduce Dr. Nelson Ludlow, Intellicheck Mobilisa's Chief Executive Officer to preside over today's call. Dr. Ludlow?

**Dr. Nelson Ludlow:** Thank you, James. And welcome, shareholders and potential investors. On the call with me today is Pete Mundy, our Chief Financial Officer.

We issued a press release this morning formally stating our fourth quarter and end of year financial results. And as we said last week, our financial results were solid. We had revenue of approximately 10 million for the year, over 11 million if you include the slightly more than 1 million of Mobilisa revenue from the pre-merger. And we had a positive cash flow from operations for the third quarter in a row.

We've had no burn of cash. We have no debt, and we've increased the cash position to approximately 3.4 million for December 31st.

Now, what is new is that we completed our annual impairment testing of goodwill and other intangible assets. Due to the decrease in the market price of the company's common stock, the company recorded a noncash impairment adjustment or a write-down of goodwill of approximately 32 million for Q4.

Now, let me emphasize this is a noncash expense. So, while it does affect P&L for 2008, it did not change our revenue or that we brought more money in than we spent or that we increased our cash position. Other companies such as Google L1 performed a similar accounting housekeeping of writing down goodwill and/or intangibles in Q4.

So, my personal view is this is a good thing. If it was only a write-down of goodwill, I would view as a neutral event. But, in this case, we are--we also were able to reallocate a mix of the intangible assets and the goodwill associated with the acquisition of Mobilisa and, in turn, write-down goodwill. This will have a direct positive impact, a positive impact on P&L, for future quarters.

So, I'll ask Pete Mundy, our CFO, to briefly discuss the goodwill and intangible adjustments and the SFAS 142 analysis that he and our auditors performed. Go ahead, Pete.

**Mr. Pete Mundy:** Thank you, Nelson.

As Nelson stated, we completed our audit which had been delayed because of the ongoing evaluation of the carrying value of our goodwill, which was precipitated by the decline in the company's stock price towards the end of the year and as well into--as the continued drop in our market price subsequent to year-end.

We performed our analysis of impairment in goodwill in accordance with Statement of Financial Accounting Standards SFAS 142, Goodwill and Other Intangible Assets, which is done annually as of December 31st each year.

The computation of the write-down is based upon a discounted cash flow analysis supported by comparative market multiples to determine the fair values of our business unit versus its book value. The computations are complex and we had help from an

outside evaluation firm who performed evaluation models, and this was in concert with our auditing firm.

At the date of the merger with Mobilisa on March 14th, 2008, we estimated the purchase price allocation based upon the information that was available at that time. The accounting rules allow for us to finalize that purchase price allocation up to one year from the date of the merger.

During the year-end impairment analysis, we were able to refine the initial estimates made based upon better and updated assumptions as well as taking into account the impact of the current market environment. At December 31st, 2008, we finalized our purchase price allocation, resulting in an increase in the carrying value of goodwill and a decrease in the identified intangible assets by \$6,293,000.

The impact of this change will be a reduction in the future noncash merger related charges. In 2009, the impact will reduce these cash charges by approximately 847,000, which will go right to the bottom line on our statement of operations. Over the next five years, the impact is close to \$2.5 million.

After the finalization of the purchase allocation at December 31st, the company had goodwill of \$43,908,000, which represented the aggregate of the excess purchase price for the acquired business of Mobilisa over the fair value of the net assets acquired. The fair value is determined primarily using a discounted cash flow method, although market transactions and multiples are considered also.

Such analysis requires the use of certain future market assumptions and discount factors which are subjective in nature. Estimated values can be affected by many factors

beyond the company's control such as the business and economic trends, government regulation, and technology changes.

The company used a valuation advisor to assist in performing the impairment analysis and valuations. The estimates of fair values were primarily based on these discounted cash flows based upon the company's latest plans and projections. The use of the discounted cash flow method requires significant judgments and assumptions of future events, once again, many of which are outside the control of the company.

In addition, the use of market transaction and multiples requires significant judgment as to whether the observed data is comparable to the reporting units being evaluated and how much weight should be given to such data in the valuation. Management believes that the assumptions used to determine the fair values are appropriate and reasonable. However, changes in circumstances and conditions affecting these assumptions could have a significant impact on the fair value determination.

As of December 31st, the company compared the carrying amounts of the reporting unit to its fair estimated value and determined that the carrying amount exceeded the fair value. The test determined that there was an impairment related to the carrying value of goodwill, and the company recorded an impairment charge of \$32,172,000 in the fourth quarter of 2008.

The goodwill impairment charge was driven by adverse market conditions and the resulting decrease in the market multiples and the company's stock prices as of December 31st, 2008, as well as the deteriorating economic conditions that manifested themselves in the fourth quarter of 2008.

It's important to note again that this goodwill write-down is a noncash charge and does not impact the company's business operations.

Since I already addressed the results of the year prior to the impact of impairment charges in the last conference call, I'll just address a few highlights that were included in the press release we put out this morning.

The full 10-K is expected to be filed with the SEC by Monday. Once again, the information includes the results of Mobilisa for the periods March 15th, 2008 through December 31st, 2008 since the merger was completed on March 14th, 2008.

For the year ending December 31st, 2008, company revenues increased approximately 183 percent to \$9,954,000 from \$3,512,000 reported in the prior year. Revenues from the company's historical business increased 12 percent, to \$3,950,000, and Mobilisa contributed \$6,004,000.

Excluding the impact of the goodwill impairment charges, our net loss decreased 66.7 percent to \$890,000 loss, or a loss of 4 cents per share, for the year ending December 31st, 2008 from \$2,673,000 loss, or a 22 cent loss per share, for the year ending December 31st, 2007. After the goodwill impairment charge, the net loss for the year was \$33,061,000, or \$1.47 per share, in 2008.

Basic and diluted weighted average shares outstanding used in the--computing the per share amounts were 22,453,000 shares outstanding and 12,262,000 shares outstanding in the years ending December 31st, 2008 and 2007 respectively.

As of December 31st, our backlog, which represents non-cancellable sales orders for products not yet shipped or services to be performed, was approximately \$10 million,

compared to \$1.9 million as of December 31st, 2007. This significant increase is principally related to the backlog from Mobilisa.

Going to the fourth quarter, revenues for the quarter ending December 31st, 2008 increased 107 percent to \$2,553,000 compared to \$1,230,000 for the previous year. We had a net loss in the fourth quarter of 2008 of \$378,000, or 2 cents a share, prior to the impact of the impairment charge compared to a net loss of \$385,000, or 3 cents a share, for the fourth quarter of 2007. After the goodwill impairment charge, the net loss for the fourth quarter was \$32,550,000, or \$1.29 loss per share, in 2008.

At December 31st, 2008, we had approximately \$3.4 million in cash and cash equivalents. We have no bank financing, nor do we have any long-term debt.

After the goodwill impairment charge, our total assets are \$24.2 million, and we have shareholders' equity of \$20.6 million.

Back to Nelson.

**Dr. Nelson Ludlow:** Thanks, Pete.

Okay, let's briefly recap just a couple of the business highlights before we take questions.

We brought in more money than we spent in Q4, and we closed the year in that same situation. So, we turned around from a \$2.2 million in cash and operations loss last year to generating positive cash of over \$800K this year. That's about a 3 million swing in just over nine months.

We improved our cash--our position in cash as well. As you know, to me, one of the best indicators of the company is what I call a "health number," our cash and cash equivalents plus the accounts receivable minus accounts payable. This is not a GAAP

number, but it is useful to determine whether business is moving in the right direction. The management team improved the health numbers every quarter the last three quarters in a row, and this was true for Q4 again.

We had no burn of cash. In fact, cash was up and ended the quarter--it ended December 31st at 3.4 million. And just the quarter before, 30 September, it was 2.3 million.

We received the Army-wide certification. We've hired three people in sales to beef up that team. We have engaged an investor relations firm that I have very high confidence in, The Investment Relations Group or IRG, led by Dr. Dian Griesel and her team. And you'll steadily see increased involvement in our investor relations program. I'm very impressed with them, and we're already making progress.

We also were pleased with our recent announcement of our sale of Defense ID to a commercial company called Force Protection, they're on NASDAQ as FRPT, to help protect the critical plants building those military vehicles.

We announced a partnership with Georgia Technology Authority, or GTA, to provide an online tool offered by the state of Georgia. It provides a instant, simple solution to stop anyone from using a fraudulent/fake Georgia driver's license. Businesses can verify that driver's license information against that state database.

We also received a new patent for identity systems from the US Patent and Trademark Office that was just awarded. And we have over 10 other applications in the works for filing of new intellectual property.

So, let me end on a theme that I mentioned on the call last week, because this is the direction we're heading. We've converted the company from the old Intellicheck that

was losing money to a new company that's making money. My view is that we're a solid \$10 to \$12 million a year revenue type of company, and making money without taking into account the noncash expenses. However, my vision is that we--that I want to shift us to the new level, to increase sales to get us to the \$20 to \$25 million a year in revenue.

I received a couple calls and question last time if that was like the end goal. No, this is just obviously the first step. But, let's make that our next short-term goal.

So, we're looking forward. Pete Mundy and I are available to answer any questions that you have.

**Operator:** Thank you.

We will now be conducting the question and answer session. If you would like to ask a question, please press star-one on your telephone keypad. A confirmation tone will indicate that your line is in the question queue. You may press star-two if you would like to remove your question from the queue.

For participants using speaker equipment, it may be necessary to pick up your handset before pressing the star keys.

We will pause while we poll for the questions. Thank you.

Thank you. Our first question comes from Robert Shapiro. Please state your question.

**Mr. Robert Shapiro:** Good afternoon, gentlemen. Would it be safe to say that with the liabilities, I mean, the write-off that you have right now, if the government was ever to get their act together on the TWICs program and you were to secure a contract that would be, oh, let's say \$30, \$40 million in size, that this write-off would shelter that entire contract as far as profitability goes?

**Dr. Nelson Ludlow:** Hi, Robert. This is Nelson, although I'm going to ask Pete to talk about the tax aspect of that.

This is basically a write-down of goodwill. We did readjust some of the intangibles downward over to goodwill. That does help in the P&L for future quarters. That's the part I'm excited about.

Pete, I'll let you talk about the net operating losses, of not having to pay taxes, and how this affects that.

**Mr. Pete Mundy:** Okay.

We still have net operating loss carryovers of about \$36.6 million that are offsetable against future income. As a result of the merger with Mobilisa, those NOLs are limited to how much can be used in a particular year, and there's a computation that is performed relative to that.

We do get to use the full \$36.8 million, but we are probably limited to using them to the tune of about one point--we figured about 1.5 to 1.6 million per year.

So, as much as the \$35 million contract that, Robert, we hope to God we get, that would not put us in a position where we'd be able to utilize the NOL all at once against that and not pay any taxes. We would have to be paying some taxes.

Steady growth along the way is the best way to utilize our NOL. But, I'll be--I'm sure Nelson and I would be more than happy to receive some very large contracts and show that more quickly and pay some taxes and still be able to utilize, down the road, the NOL.

**Operator:** Thank you, sir.

Just another reminder, if you'd like to ask a question at this time, please press star-one on your telephone keypad. To remove yourself from the queue, please press star-two.

We will once again pause for a couple moments to poll for questions. Thank you.

Once again, to ask a question, press star-one.

Our next question comes from Robert McCabe with EWM Investments. Please state your question.

**Mr. Robert McCabe:** Two questions. Since Dr. Ludlow is the key person in the company, do we have a sizeable key man insurance on him in case something would happen to him?

**Dr. Nelson Ludlow:** And Robert, what was your second question?

**Mr. Robert McCabe:** And can you speak at all to how the first quarter is looking, since it's almost over?

**Dr. Nelson Ludlow:** Yes, there is a key man insurance on a couple--more than one person in the company. I'm not the only person that makes things happen. I like to think that I'm key, but I got a lot of other very good key solid people. And as you see, as we're growing, we're going to be transitioning out of this--more depth on the bench, for example.

The second thing is how's Q1 looking. Some good things have happened in Q1. I think the biggest one was getting our award of the Army-wide certification. There's a lot of other Army bases. We're getting more interest.

The other thing I'm excited about is it doesn't matter what party, from my point of view, but we have a new administration in so the government is now moving forward,

taking meetings, looking at issuing new contracts. It's no secret whenever you transition an administration, things kind of come to an end. So, this is good. It means the government is back in business and things are happening with respect to that.

The only guidance I'll give on that is we typically, and if you look at Intellicheck in the past, you look at Mobilisa by itself in the past, and although it didn't hold exactly true this year, generally what's true is that our Q1 is usually our lowest in revenue and Q4 is typically our most. And it grows through that.

I expect to see a similar pattern. But, we're still very optimistic and we're still trying to grow the--you know, grow the company. So, overall, I think we're good.

And we'll have to get back to you on exactly where we are in the key man insurance, because I don't know the exact specifics on that. So, one of the people are giving me a note to say please double check on that. So, Robert, we'll get back to you on the key man insurance part.

**Operator:** Thank you.

An additional question from Robert Shapiro. Please go ahead, sir.

**Mr. Robert Shapiro:** Are you seeing any weakness, or maybe you can add some color about what's going on with the present condition in the marketplace as far as your approach toward financial concerns and selling of the product to help them save some money on receivables?

**Dr. Nelson Ludlow:** I'm sorry. Could you restate the question? I didn't hear it.

**Mr. Robert Shapiro:** I was saying with the current weakness in the marketplace and the problems that a lot of the financial concerns are having, have you had any

benefits in approaching the financial operators and the banks, etc., etc., about using your product to save them money on their receivables?

**Dr. Nelson Ludlow:** Yes, actually, it's--that's my view that it's actually gotten slightly better. Our official position is that, you know, just--the economy is having a downturn, but is that hurting us as a company? And we don't think it is, and let me give you two reasons why.

We have so many opportunities that ID cards can be used in, even if the whole economy is decreasing 10, 20 percent or pick some number, we're just tapping into such an amazingly small amount of it that what we need to do is--you know, we've got four big retailers, Toys 'R Us, Target, Payless Shoes, L.L. Bean. I want to take that four big retailers and take that same model that we did good work for them and do it for 40 to 400, for example.

There's a lot of good retailers out there. We don't--even at the 20 percent less, we're only tapping into, you know, 1 percent of that market, for example. I'm making that 1 percent number up, but we're just--it's a very, very small part of that. So, we can easily grow even if the economy is dropping.

The second is retailers now are looking harder and harder at how to bring in new customers, how to keep their revenue going. And our instant credit card application thing is a very cool system. We found with one of our people that we did it, they were 12 times more likely to follow through with a credit card application by using our software and scanning the ID card at the point of sale than they were the old-fashioned way of filling out a form and a clipboard and somebody trying to get you to do it and give you a little free prize or something.

So, it's definitely something that other retail companies are interested in. I've hired three new people. Two of them are in that commercial new space doing exactly that. And I'm more optimistic about the aspect in that than in the entire last year that I've been with the company.

**Operator:** Thank you.

Ladies and gentlemen, there are no further questions at this time. I will turn the conference back over to management for closing comments. Thank you.

**Dr. Nelson Ludlow:** Well, I'd like to thank the shareholders and potential investors.

I would like to point out to potential investors we are--have added an investor relations firm, IRG, and we would like to speak to you. We're excited about this, and I think we, as a company, have a very interesting technology at a very good time.

Let me just state something I've stated in previous conference calls. This technology, its time now has come. If you looked five years ago, not all driver's licenses had bar codes and magnetic stripes. Only recently has all of the states now have a machine-readable zone and almost everyone that has an ID--driver's license in their wallet has a machine-readable zone on it. That means now the major retailers, these applications can use it.

So, I know some of you guys have been in this for the long haul. We hope you stick it out. I think now is the time it's starting to move.

So, we're looking forward to this. We are proud and happy of the results that we got to, this \$11 million point from the combined companies for the year. But, this isn't

the time to rest. We need to keep growing and we really appreciate the shareholders involvement in this.

Thank you.

**Operator:** Thank you.

Ladies and gentlemen, this concludes today's teleconference. You may disconnect your lines at this time. Thank you all for your participation.