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

Form 10-Q

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

For the quarterly period ended **June 30, 2009**

(Commission File no. 0-24431)

INKSURE TECHNOLOGIES INC.

(Exact name of registrant as specified in its charter)

DELAWARE

State or other jurisdiction of
incorporation or organization

84-1417774

(I.R.S. Employer Identification No.)

P.O. Box 7006, Audubon, Pennsylvania

(Address of principal executive offices)

19407

(Zip Code)

(954) 772-8507

(Registrant's telephone number, including area code)

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes 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).

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 definition of "accelerated filer" "large accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Smaller reporting company

Indicate by checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act)

Yes No

The number of shares of Common Stock outstanding as of August 4, 2009: 16,472,968

INKSURE TECHNOLOGIES INC.

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ITEM 1. FINANCIAL STATEMENTS

**INKSURE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED BALANCE SHEET
(U.S. DOLLARS IN THOUSANDS)**

	<u>JUNE 30, 2009</u>	<u>DEC.31, 2008</u>
	<u>UNAUDITED</u>	<u>AUDITED</u>
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	\$ 1,910	\$ 1,826
Restricted cash	96	365
Trade receivables	91	104
Other accounts receivable and prepaid expenses	89	73
Deferred charges	283	400
Inventories	266	322
TOTAL CURRENT ASSETS	2,735	3,090
PROPERTY AND EQUIPMENT, NET	246	279
LONG TERM DEPOSIT	9	9
TOTAL ASSETS	<u>\$ 2,990</u>	<u>\$ 3,378</u>
LIABILITIES AND STOCKHOLDERS' DEFICIENCY		
CURRENT LIABILITIES:		
Trade payables	\$ 93	\$ 225
Employees and payroll accruals	142	133
Accrued expenses and other payables	592	648
Convertible notes	7,613	7,087
TOTAL CURRENT LIABILITIES	8,440	8,093
Warrants to issue shares	1,397	-
TOTAL LIABILITIES	\$ 9,837	\$ 8,093
STOCKHOLDERS' DEFICIENCY:		
Capital Stock:		
Preferred stock of \$ 0.01 par value - Authorized: 10,000,000 shares; Issued and outstanding: 0 shares as of June 30,2009 and as of December 31, 2008		
Common stock of \$ 0.01 par value - Authorized: 50,000,000; Issued and outstanding: 16,472,968 as of June 30,2009 and as of December 31, 2008		
Additional paid-in capital	164	164
Accumulated other comprehensive income	13,641	16,708
Accumulated deficit	118	118
	(20,770)	(21,705)
TOTAL STOCKHOLDERS' DEFICIENCY	(6,847)	(4,715)
TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIENCY	<u>\$ 2,990</u>	<u>\$ 3,378</u>

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

INKSURE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(U.S. DOLLARS IN THOUSANDS, EXCEPT SHARE AND PER SHARE DATA)

	<u>THREE MONTHS ENDED</u>		<u>SIX MONTHS ENDED</u>	
	<u>JUNE 30,</u>		<u>JUNE 30,</u>	
	<u>2009</u>	<u>2008</u>	<u>2009</u>	<u>2008</u>
	<u>UNAUDITED</u>		<u>UNAUDITED</u>	
Revenues	\$ 584	\$ 281	\$ 1,365	\$ 499
Cost of revenues	<u>43</u>	<u>53</u>	<u>122</u>	<u>176</u>
Gross profit	<u>541</u>	<u>228</u>	<u>1,243</u>	<u>323</u>
Operating expenses:				
Research and development, net	271	468	506	1,070
Selling and marketing	108	242	284	612
General and administrative	<u>125</u>	<u>242</u>	<u>321</u>	<u>521</u>
TOTAL OPERATING EXPENSES	<u>504</u>	<u>952</u>	<u>1,111</u>	<u>2,203</u>
Operating profit (loss)	<u>37</u>	<u>(724)</u>	<u>132</u>	<u>(1,880)</u>
Financial expenses	(137)	(140)	(267)	(215)
Non cash financial expenses related to convertible notes, net	<u>(295)</u>	<u>(702)</u>	<u>(1,161)</u>	<u>(553)</u>
Financial expenses, net	<u>(432)</u>	<u>(842)</u>	<u>(1,428)</u>	<u>(768)</u>
Net loss	<u>\$ (395)</u>	<u>\$ (1,566)</u>	<u>\$ (1,296)</u>	<u>\$ (2,648)</u>
Basic and diluted net loss per share	<u>\$ (0.02)</u>	<u>\$ (0.10)</u>	<u>\$ (0.08)</u>	<u>\$ (0.16)</u>
Weighted average number of Common Stock used in computing basic and diluted net loss per share	<u>16,472,968</u>	<u>16,336,430</u>	<u>16,472,968</u>	<u>16,292,522</u>

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

INKSURE TECHNOLOGIES INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(U.S. DOLLARS IN THOUSANDS)

	SIX MONTHS ENDED	
	JUNE 30,	
	2009	2008
	UNAUDITED	
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	\$ (1,296)	\$ (2,648)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	163	142
Decrease in restricted cash	269	-
Decrease in trade receivables	13	282
Non cash financial expenses related to convertible notes, net	526	458
Non cash financial expenses related to warrants to issue shares	519	-
Increase in other accounts receivable and prepaid expenses	(16)	(513)
Decrease (increase) in inventories	56	(66)
Decrease in trade payables	(132)	(72)
Increase (decrease) in employees and payroll accruals	9	(30)
Non cash financial expenses related to implementation of SFAS No. 123	41	170
Increase (decrease) in other payables	(56)	85
Net cash provided by (used in) operating activities	96	(2,192)
CASH FLOWS FROM INVESTING ACTIVITIES:		
Purchase of property and equipment	(12)	(13)
Proceeds from long-term deposits	-	3
Net cash used in investing activities	(12)	(10)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Issuance of new convertible notes, net of legal fees	-	2,775
Net cash provided by financing activities	-	2,775
Increase in cash and cash equivalents	84	573
Cash and cash equivalents at the beginning of the period	1,826	820
Cash and cash equivalents at the end of the period	\$ 1,910	\$ 1,393

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

NOTE 1:- BASIS OF PRESENTATION

The accompanying condensed unaudited interim consolidated financial statements have been prepared by INKSURE TECHNOLOGIES INC. (the "Company") in accordance with accounting principles generally accepted in the United States of America for interim financial information and the instructions to Form 10-Q and Article 10 of Regulation S-X. These financial statements reflect all adjustments, consisting of normal recurring adjustments and accruals, which are, in the opinion of management, necessary for a fair presentation of the financial position of the Company as of June 30, 2009 and the results of operations and cash flows for the interim periods indicated in conformity with generally accepted accounting principles applicable to interim periods. Accordingly, certain information and footnote disclosures normally included in annual financial statements prepared in accordance with generally accepted accounting principles have been condensed or omitted. These financial statements should be read in conjunction with the audited financial statements and notes thereto of the Company for the year ended December 31, 2008 that are included in the Company's Form 10-K filed with the Securities and Exchange Commission on March 31, 2009, as amended (the "2008 10-K"). The results of operations presented are not necessarily indicative of the results to be expected for future quarters or for the year ending December 31, 2009.

NOTE 2:- GOING CONCERN

As reflected in the accompanying financial statements, the Company's operations for the three months ended June 30, 2009, resulted in a net loss of \$395,000, and the Company's balance sheet reflects a net stockholders' deficiency of \$6,847,000. The Company's ability to continue operating as a "going concern" is dependent on several factors, among them its ability to raise sufficient additional working capital and the note holders not electing to redeem their approximately \$9 million principal notes on or after September 30, 2009. Management's plans in this regard include, among other things, raising additional cash from current and potential stockholders or lenders and negotiating the repayment terms of the existing Notes, but there is no assurance that the management will be successful in these endeavors.

NOTE 3:- LEGAL PROCEEDINGS

On December 12, 1999, Secu-Systems filed a lawsuit with the District Court in Tel Aviv-Jaffa against Supercom Ltd. (the former owner of the company's business) and InkSure Ltd. seeking a permanent injunction and damages. The plaintiff asserted in its suit that the printing method applied to certain products that have been developed by InkSure Ltd. constitutes, inter alia: (a) breach of a confidentiality agreement between the plaintiff and Supercom; (b) unjust enrichment of Supercom (by virtue of the sale of our shares) and InkSure Ltd.; (c) a breach of fiduciary duties owed to the plaintiff by Supercom and InkSure Ltd.; and (d) a tort of misappropriation of trade secret and damage to plaintiff's property. As part of its complaint, Secu-Systems sought, among other things, an injunction and a 50% share of profits from the printing method at issue.

On March 15, 2006, the court rendered a decision (i) denying the claim for breach of contract; (ii) finding that there was a misappropriation of trade secret, but not assessing any damages with respect thereto; (iii) requiring the defendants to cease all activities involving the use of any confidential information; and (iv) awarding the plaintiff reimbursement of the costs of the litigation in the amount of NIS 130,000 (about \$33,000 at the exchange rate as of June 30, 2009), plus interest and VAT, which the defendants intend to split equally. InkSure recorded in its 2006 financial statements a provision of NIS 65,000 (about \$16,500 at the exchange rate as of June 30, 2009).

Both the plaintiff and the defendants appealed the court's decision.

On November 1, 2007, the Supreme Court ruled in favor of Secu-Systems' appeal. This ruling accepts that InkSure and Supercom have breached the confidentiality agreement. Consequently, the appeal that had been filed by InkSure and Supercom was dismissed. The Supreme Court instructed that the case will be returned to the District Court for determining the remedies to which Secu-Systems is entitled.

On February 18, 2008, Secu-Systems filed a petition with the district court to amend the amount for which it has sued to NIS 25,000,000 (Approximately \$ 6,379,000 at the exchange rate as of June 30, 2009).

On March 24, 2008, SuperCom (which changed its name to Vuance Ltd.) provided us with an opinion of an external accounting expert according to which, the following conclusions can be drawn:

- a. In light of the costs analysis, SuperCom had no economic profit from the sale of Inksure's shares.
- b. The consideration received from the sale of Inksure's shares in 2002, incorporates the value of the cash flow of InkSure following the sale. Therefore, a calculation based upon both the sale price and the future cash flow of InkSure is not accurate and does not agree with customary accountant standards, since it calculates the factor of the future cash flow twice.
- c. The examination of the outcome of InkSure's business activity from 2002-2007, as reflected in its financial reports, show that InkSure had not made any profit, and incurred losses during such period. The financial statements also reflect that InkSure had negative cash flow during these years, which was financed by bank loans and fund raising.

In light of the above, provided that the opinion is adopted by the court, we believe that no material amounts will be awarded

to Secu-System in these proceedings.

NOTE 4:- WARRANTS TO ISSUE SHARES

The Company initially applied the provisions of EITF 07-5 *Determining Whether an Instrument (or Embedded Feature) Is Indexed to an Entity's Own Stock* in the interim financial statements for the quarter ended March 31, 2009. The result of the application was that warrants series A, B1 and B2 were determined to be not solely indexed to the Company's shares and have to be classified as liability. The reason for the reclassification was an anti-dilution clause dependent upon future fund raising that may adjust the exercise price of the warrants. The Company evaluated the fair values of the reclassified warrants as of the date of initial application (January 1, 2009). The difference between the fair value and the fair value at issuance of the warrants (classified initially in equity) was recognized in retained earnings. As of January 1, 2009 these warrants are carried at fair values with changes recognized in earnings.

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

In this section, "Management's Discussion and Analysis or Plan of Operation," references to "we," "us," "our," and "ours" refer to InkSure Technologies Inc. and its consolidated subsidiaries.

This Quarterly Report on Form 10-Q contains statements that may constitute "forward-looking statements" within the meaning, and made pursuant to the Safe Harbor provisions, of the Private Securities Litigation Reform Act of 1995. Generally, forward-looking statements include words or phrases such as "anticipates," "believes," "estimates," "expects," "intends," "plans," "projects," "could," "may," "might," "should," "will" and words and phrases of similar import. Such statements are based on management's current expectations and are subject to a number of risks and uncertainties, including, but not limited to, the difficulty inherent in operating an early-stage company in a new and rapidly evolving market, market and economic conditions, the impact of competitive products, product demand and market acceptance risks, changes in product mix, costs and availability of raw materials, fluctuations in operating results, delays in development of highly complex products, risk of customer contract or sales order cancellations and other risks detailed from time to time in our filings with the Securities and Exchange Commission. These risks and uncertainties could cause our actual results to differ materially from those described in the forward-looking statements. Any forward-looking statement represents our expectations or forecasts only as of the date it was made and should not be relied upon as representing its expectations or forecasts as of any subsequent date. Except as required by law, we undertake no obligation to correct or update any forward-looking statement, whether as a result of new information, future events or otherwise, even if our expectations or forecasts change.

The following discussion and analysis should be read in conjunction with the financial statements, related notes and other information included in this Quarterly Report on Form 10-Q and with the Risk Factors included in the 2008 10-K.

OVERVIEW

We specialize in comprehensive security solutions, designed to protect branded products and documents of value from counterfeiting, fraud, and diversion. By creating "Smart Protection" systems from proprietary machine-readable authentication technologies, we help governments, companies and organizations worldwide regain control over their most valuable assets, their products, their reputation and their revenues. We employ a team of experts in the fields of material science, electro-optics and software. We utilize cross-disciplinary technological innovations to implement customized and cost efficient security systems for data and asset integrity within the customer's existing infrastructure and environment.

Our SmartInk™ solutions enable authentication and tracking of documents and products by adding special chemical markers to standard inks and coatings. The combination of markers, inks and materials produce electro-optic "signatures", unique codes that are seamlessly incorporated into the printed media used by the customer. Proprietary computerized readers, available in hand-held, stationary and modular kit configurations, quickly verify these codes by manual or automatic operation. By focusing on customer driven solutions, we are able to offer added value through enhanced reader functionality, including high-speed automatic sorting, one-to-many code matching, first and second level track and trace, code activation at the point of distribution and detrimental authentication for debit applications. The inherent flexibility of our technology also enables overlaying the machine-readable codes onto holograms and other overt features, resulting in multi-layered security that is both effective and economical.

We are currently developing next-generation Radio Frequency Identification ("RFID") technology that is being designed to enable low-cost tagging of items. This RFID technology is being designed to permit "no line of sight" identification and to be suitable for a variety of applications, including authentication, supply chain management, proof of ownership, and life cycle information.

REVENUES

We concentrate on developing and implementing large-scale projects. Such projects involve the use of our generic products or and products developed for such projects. These potential projects are subject to a long sales cycle and the timetable is lengthy for

entering and implementing such projects. We anticipate that these projects would involve high volume sales through multiple-year sales contracts. In the second quarter of 2009, approximately 81% of our revenues were earned from one customer located in Europe.

COSTS AND OPERATING EXPENSES

Costs and operating expenses consist of cost of revenues, research and development expenses, selling and marketing expenses, general and administrative expense and depreciation.

Our cost of revenues consists primarily of materials including taggants and electronic and optical parts, payments to sub-contractors and compensation costs for our operations staff.

Our research and development expenses consist primarily of costs associated with development of new generic products and solutions targeted for existing and new customers and market segments. These expenses may fluctuate as a percentage of revenue depending on the projects undertaken during the reporting period. Since our inception, we have expensed all research and development costs in each of the periods in which they were incurred

Our selling and marketing expenses consist primarily of costs associated with our direct sales force that have been incurred to attract potential business customers, professional advisors and commissions. We anticipate that as we add new customers we will be able to spread these costs over a larger revenue base and accordingly improve our operating margins.

Our general and administrative expenses consist primarily of costs related to compensation and employees benefits of our management (including the costs of directors' and officers' insurance), legal and accounting fees, as well as the expenses associated with being a publicly traded company.

We have not recorded any income tax benefit for net losses and credits incurred for any period from inception to June 30, 2009. The utilization of these losses and credits depends on our ability to generate taxable income in the future. Because of the uncertainty of our generating taxable income, we have recorded a full valuation allowance with respect to these deferred assets.

CRITICAL ACCOUNTING POLICIES

Our financial statements are prepared in accordance with US GAAP. The significant accounting policies followed in the preparation of the financial statements, applied on a consistent basis and which have been prepared in accordance with the historical cost convention, are set forth in Note 2 to the Consolidated Financial Statements as of and for the year ended December 31, 2008 that are included in the 2008 10-K.

Of these significant accounting policies, certain policies may be considered critical because they are most important to the portrayal of our financial condition and results, and they require management's most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effect of matters that are inherently uncertain. We believe the following critical accounting policies affect our more significant judgments and estimates used in the preparation of our consolidated financial statements.

REVENUE RECOGNITION. Revenues from product sales are recognized in accordance with Staff Accounting Bulletin No. 104, "Revenue Recognition in Financial Statements" when delivery has occurred, persuasive evidence of an agreement exists, the vendor's fee is fixed or determinable, no further obligation exists and collectability is probable. Delivery is considered to have occurred upon shipment of products. We do not grant a right of return to our customers. Had we had a right of return we would have deferred revenues until the right of return expired.

Revenues from certain arrangements may include multiple elements within a single contract. Our accounting policy complies with the provisions of Emerging Issues Task Force Issue 00-21, "Revenue Arrangements with Multiple Deliverables" relating to the separation of multiple deliverables into individual accounting units with determinable fair value.

In cases where we have partial delivery at the cut off dates and no fair value exist for the undelivered elements revenues are being deferred and recognized only at the point where the entire arrangement has been delivered.

CONVERTIBLE NOTES AND WARRANTS TO ISSUE SHARES, Financial Accounting Standards No. 157, Fair Value Measurements (FAS 157). FAS 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The Company has applied FAS 157 prospectively as of the beginning of the year. FAS 157 defines 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. FAS 157 also establishes a fair value hierarchy that emphasizes use of observable inputs and minimizes use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used to measure fair value:

Level 1: Quoted prices in active markets for identical assets or liabilities.

Level 2: Observable inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities; quoted prices in markets that are not active; or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.

Level 3: Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities.

Estimating fair values require subjective judgments and are approximate. The Company is required to fair value of it warrants that has been reclassified from equity due to the initial adoption of EITF 07-5. Valuation of options requires the use of assumption among which is volatility, interest rate and the underlying share price. The above estimates of fair value are not necessarily representative of amounts that could be realized in actual market transactions, nor of the underlying value of the Company. Changes in the assumptions could significantly affect the estimated fair value.

INVENTORIES. Inventories are stated at the lower of cost or net realizable value. Cost is determined by calculating raw materials, work in process and finished products using the "first in, first out" method.

OTHER ACCRUED EXPENSES. We also maintain other accrued expenses. These accruals are based on a variety of factors including past experience and various actuarial assumptions and, in many cases, require estimates of events not yet reported to us. If future experience differs from these estimates, operating results in future periods would be impacted.

THREE MONTHS ENDED JUNE 30, 2009 COMPARED WITH THREE MONTHS ENDED JUNE 30, 2008

REVENUES. Revenues consist of gross sales of products less discounts. We concentrate on developing and implementing large-scale projects. In the three months ended June 30, 2009, we had revenue of \$584,000, compared to \$281,000 in the three months ended June 30, 2008. The increase in the revenue is mainly due to new deliveries to customers, primarily for one customer located in Europe.

COST OF REVENUES. Our cost of revenues consists of materials, sub-contractors and compensation costs. Cost of revenues was \$43,000 in the three months ended June 30, 2009, compared to \$53,000 in the three months ended June 30, 2008. Cost of revenues as a percentage of sales was 7% in the three months ended June 30, 2009, compared with 19% in the three months ended June 30, 2008. The decrease in costs of revenue, as a percentage of sales, in the three months ended June 30, 2009 was mainly due to more profitable sales of certain SmartInkTM products in 2009.

RESEARCH AND DEVELOPMENT EXPENSES, NET Research and development expenses consist primarily of compensation costs attributable to employees engaged in ongoing research and development activities, development-related raw materials and sub-contractors, and other related costs. Research and development expenses, net decreased by \$197,000, or 42%, to \$271,000 in the three months ended June 30, 2009 from \$468,000 in the three months ended June 30, 2008. This decrease in research and development expenses is primarily related to the receipt of a governmental R&D grant during the three months ended June 30, 2009 (approximately \$130,000) from the Israeli Office of the Chief Scientist of the Ministry of Industry, Trade and Labor (the "OCS") and reduction in subcontractors (approximately \$70,000).

Research and Development Expenses included non-cash expenses of \$5,000 related to the implementation of SFAS No. 123(R).

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to employees engaged in sales and marketing activities, promotion, advertising, trade shows and exhibitions, sales support, travel, commissions and related expenses. Selling and marketing expenses decreased by \$134,000, or 55%, to \$108,000 in the three months ended June 30, 2009 from \$242,000 in the three months ended June 30, 2008. This decrease in selling and marketing expenses was primarily due to a decrease in our sales force labor and other related expenses.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, insurance, legal, accounting and administrative costs. General and administrative expenses decreased by \$117,000, or 48%, to \$125,000 in the three months ended June 30, 2009 from \$242,000 in the three months ended June 30, 2008. This decrease in general and administrative expenses is mainly due to a decrease in the non-cash expenses related to the implementation of SFAS No. 123(R) and due to a decrease in legal expenses.

FINANCIAL EXPENSES, NET. Financial expenses, net were \$432,000 in the three months ended June 30, 2009. Financial expenses, net were comprised of: (i) Interest (financial) expense, net of \$137,000 and (ii) non cash financial expenses of \$295,000 related to the convertible notes and warrants. Financial expenses, net decreased by \$410,000 or 49% from \$842,000 in the three months ended June 30, 2008. This decrease in financial expenses, net was primarily due to a decrease in the non-financial expenses relating to the convertible notes.

NET LOSS. We had a net loss of \$395,000 in the three months ended June 30, 2009, compared with a net loss of \$1,566,000 in the three months ended June 30, 2008. The 75% decrease in net loss in the three months ended June 30, 2009 compared to the three months ended June 30, 2008 is attributable to the increase in our gross profit of \$313,000 and decrease in our operating expenses of \$448,000 and decrease of \$410,000 in the financial expenses, net.

SIX MONTHS ENDED JUNE 30, 2009 COMPARED WITH SIX MONTHS ENDED JUNE 30, 2008

REVENUES. Revenues consist of gross sales of products less discounts. We concentrate on developing and implementing large-scale projects. In the six months ended June 30, 2009, we had revenue of \$1,365,000, compared to \$499,000 in the six months ended June 30, 2008. The increase in the revenue is mainly due to new deliveries to customers, primarily for one customer located in Europe.

COST OF REVENUES. Our costs of revenues consist of materials, sub-contractors and compensation costs. Cost of revenues was \$122,000 in the six months ended June 30, 2009, compared to \$176,000 in the six months ended June 30, 2008. Cost of revenues as a percentage of sales was 9% in the six months ended June 30, 2009, compared with 35% in the six months ended June 30, 2008. The decrease in costs of revenue, as a percentage of sales, in the six months ended June 30, 2009 was mainly due to more profitable sales of certain SmartInk™ products in 2009.

RESEARCH AND DEVELOPMENT EXPENSES. NET Research and development expenses consist primarily of compensation costs attributable to employees engaged in ongoing research and development activities, development-related raw materials and sub-contractors, and other related costs. Research and development expenses decreased by \$564,000, or 53%, to \$506,000 in the six months ended June 30, 2009 from \$1,070,000 in the six months ended June 30, 2008. This decrease in research and development expenses is primarily related to the receipt of OCS grants and reduction in subcontractors' expenses.

Research and Development Expenses included non-cash expenses of \$10,000 related to the implementation of SFAS No. 123(R).

SELLING AND MARKETING EXPENSES. Selling and marketing expenses consist primarily of costs relating to compensation attributable to employees engaged in sales and marketing activities, promotion, advertising, trade shows and exhibitions, sales support, travel, commissions and related expenses. Selling and marketing expenses decreased by \$328,000, or 54%, to \$284,000 in the six months ended June 30, 2009 from \$612,000 in the six months ended June 30, 2008. This decrease in selling and marketing expenses was primarily due to a decrease in our sales force labor headcount and costs.

GENERAL AND ADMINISTRATIVE EXPENSES. General and administrative expenses consist primarily of compensation costs for administration, finance and general management personnel, insurance, legal, accounting and administrative costs. General and administrative expenses decreased by \$200,000, or 38%, to \$321,000 in the six months ended June 30, 2009 from \$521,000 in the six months ended June 30, 2008. This decrease in General and Administrative expenses was primarily due to the decrease in non-cash expenses related to the implementation of SFAS No. 123(R).

FINANCIAL EXPENSES, NET. Financial expenses, net were \$1,428,000 in the six months ended June 30, 2009. Financial expenses, net was comprised of: (i) Interest (financial) expense, net of \$267,000 and (ii) non cash financial expenses of \$1,161,000 related to the convertible note and the warrants. Financial expenses, net increased by \$660,000 or 86% from \$768,000 in the six months ended June 30, 2008. This increase in financial expenses, net was primarily due to changes in the fair market value of the outstanding convertible notes and the implementation of EITF 07-5.

NET LOSS. We had a net loss of \$1,296,000 in the six months ended June 30, 2008, compared with a net loss of \$2,648,000 in the six months ended June 30, 2009. The 51% decrease in net loss in the six months ended June 30, 2009 compared to the six months ended June 30, 2008 is attributable to the increase in our gross profit of \$920,000 and decrease in our Operating expenses of \$1,092,000, which were partially offset by the increase in the financial expenses, net of \$660,000.

LIQUIDITY AND CAPITAL RESOURCES

We have incurred substantial losses since our inception in April 1997. We had an accumulated deficit of approximately \$20,770,000 as of June 30, 2009, and had a negative working capital (current assets less current liabilities) of approximately \$5,705,000 as of June 30, 2009. Losses are continuing and will continue in the foreseeable future.

Capital expenditures were approximately \$12,000 in the six months ended June 30, 2009 and \$13,000 in the six months ended June 30, 2008. These expenditures were principally for computers and research and development equipment purchases. We do not have any material commitments for capital expenditures as of June 30, 2009.

As of June 30, 2009, we had cash, cash equivalents and short-term deposits of approximately \$1,910,000, compared to \$1,826,000 as of December 31, 2008. This increase is primarily due to the cash received from operating activities during the first half of 2009.

We had positive cash flow from operating activities of approximately \$96,000 during the six months ended June 30, 2009 compared to negative cash flow from operating activities of \$2,192,000 during the six months ended June 30, 2008. The increase in the cash flow from operating activities is primarily due to the decrease in the net loss during the first half of 2009.

We had negative cash flow from investing activities of approximately \$12,000 during the six months ended June 30, 2009 compared to negative cash flow of \$10,000 during the six months ended June 30, 2008. The negative cash flow from investing activities during the six months ended June 30, 2009 was due to purchase of fixed assets.

We believe that our existing cash, together with cash to be collected from customers and governmental grants, will be sufficient to support our operations for the next twelve months. However, we do not have the funds necessary to repay the approximately \$9 million principal amount outstanding under our senior secured convertible notes (the "Convertible Notes") if the holders elect to redeem them on or after September 30, 2009. Continuing product development and enhancement, expected new product launches, corporate operations and marketing expenses will continue to require additional capital. Our current revenues from operations are insufficient to cover our long term business plans.

On September 30, 2005, we completed a private placement of convertible notes, in the aggregate principal amount of \$6,000,000. The notes were interest-only, with interest payments due quarterly at the rate of 4% per annum. The convertible notes were unsecured and will become due on September 30, 2010; the investors have the option to cause us to redeem the notes on September 30, 2009. These notes were exchanged for new notes with the terms as per the new \$3,000,000 notes issued on April 9, 2008.

On April 9, 2008, we completed a private placement of senior secured convertible notes in an aggregate principal amount of \$3,000,000 pursuant to Amendment, Exchange and Purchase Agreements. The private placement resulted in gross proceeds of \$3,000,000, of which \$750,000 was placed in a cash collateral account to secure interest payments under the notes.

Pursuant to those Amendments, Exchange and Purchase Agreements, the investors were issued \$3,000,000 principal amount of new notes and exchanged their \$6,000,000 principal amount of existing notes for the same principal amount of amended and restated senior secured convertible notes (together with the \$3,000,000 principal amount of new notes, referred to as the "new notes") each of which is convertible into shares of common stock at a conversion price of \$0.60, subject to adjustment. The new notes are secured by our assets and the assets of our subsidiaries and are guaranteed by each of our subsidiaries. In addition, all of the shares of each of our subsidiaries are pledged as collateral to secure our obligations under the new notes, the security agreements and related documents. The investors may require us to redeem all or any portion of the outstanding \$9,000,000 principal amount of the new notes in cash plus accrued but unpaid interest on or after September 30, 2009. We may require the investors to convert all or any portion of the new notes into shares of common stock upon the occurrence of certain conditions relating to the trading price of our common stock. Upon any such conversion, the investors will be entitled to receive a pro rata amount of the cash in the collateral account which we have established to secure interest payments under the new notes based on the principal amount of the new notes that we require to be converted. We may also redeem the new notes at any time by paying the buyers a premium of 5%-25% of the outstanding principal amount of the notes (based upon the time of redemption) plus interest and the amounts in the collateral account; at the time of such redemption we will also issue to the buyers warrants to purchase common stock, expiring on September 30, 2010, at an exercise price of \$0.60. If we sell or license all or substantially all of the assets in our ink business, we may be required to redeem the new notes at 100% of their outstanding principal amount up to the net proceeds of such sale or licensing transaction. If we consummate a transaction that results in a change of control or other merger or reorganization or recapitalization, we may be required to redeem the new notes at 125% of their outstanding principal amount. The new notes are due on September 30, 2010, unless they are redeemed or converted earlier. In addition, we issued to the investors warrants to acquire 3,570,337 shares at an exercise price of \$0.60. These warrants have a term of ten years.

RESEARCH AND DEVELOPMENT, PATENTS AND LICENSES

We believe that our future success will depend upon our ability to enhance our existing products and systems and introduce new commercially viable products and systems addressing the demands of the evolving markets for brand and document protection. As part of the product development process, we work closely with current and potential customers, distribution channels and leaders in certain industry segments to identify market needs and define appropriate product specifications. Our employees also participate in industry forums in order to stay informed about the latest industry developments.

Our research and development expenses were approximately \$506,000 during the six months ended June 30, 2009, compared to \$1,070,000 during the six months ended June 30, 2008. To date, all research and development expenses have been charged to operating expense as incurred.

With respect to the RFID technology we are developing, we have filed five patent families related to various aspects of the RFID technology. Two of our patent families have already matured into patents granted in the following jurisdictions: United States (US6,819,244 and US6,997,388), France, Germany, Switzerland and United Kingdom (EP1374156 and EP1599831). Our third patent family has matured into a patent granted in the United States (US6,922,146), while it is still being examined in Europe. Regarding our fourth patent family, we have filed an International Patent Application (PCT). In addition, during the second quarter of 2008, we filed an International Patent Application (PCT) relating to our fifth patent family.

With respect to the product-authentication we are developing, we entered into an assignment agreement by which we have acquired a license for certain of AuthentiForm Technology LLC's intellectual property portfolio regarding authentication methods and enhanced product-authentication technology. During the second quarter of 2009, and due to a change of priorities, the company decided not to pursue the use and the patent prosecution of this intellectual property.

CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our contractual obligations and commitments at June 30, 2009 principally include obligations associated with operating lease obligations and the lease of several automobiles. Our total future obligation is approximately \$171,000 until September, 2011. We expect to finance these contractual commitments from cash on hand and cash generated from operations.

During 2008 and through June 30, 2009, we received a governmental research and development grant of approximately US\$796,000 (of which \$484,000 was received during 2008) from the OCS. This royalties-bearing research and development grant partially covers our innovative research and development project expenses. Royalties would become due to OCS only if the RFID research and development project funded by the grant is successfully commercialized and results in sales revenues based on the know-how developed during the RFID project. The royalty rate is 3%-4% of the sales revenues based on the RFID research and development project funded by the grant, and is capped at the grant amount actually received from the OCS plus interest. We have no assurance that the RFID project or commercialization plan will be successful.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are a smaller reporting company, as defined by Rule 12b-2 of the Exchange Act of 1934, as amended, and are not required to provide information under this item.

ITEM 4. CONTROLS AND PROCEDURES

(a) Evaluation of Disclosure Controls and Procedures. Our principal executive officer and principal financial officer, after evaluating the effectiveness of our disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) as of the end of the period covered by this Quarterly Report on Form 10-Q, have concluded that, based on such evaluation, our disclosure controls and procedures were adequate and effective to ensure that material information relating to us, including our consolidated subsidiaries, was made known to them by others within those entities, particularly during the period in which this Quarterly Report on Form 10-Q was being prepared.

(b) Changes in Internal Controls. There were no changes in our internal control over financial reporting, identified in connection with the evaluation of such internal control that occurred during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 2. EXHIBITS

The following exhibits are being filed with this Report:

<u>EXHIBIT NUMBER</u>	<u>DESCRIPTION</u>
31.1	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Sections 1350.
31.2	Certification of Principal Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.
32.1	Certification of Principal Executive Officer and Principal Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 1350.

SIGNATURES

In accordance with the requirements of the Exchange Act, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

INKSURE TECHNOLOGIES INC.

Dated: August 5, 2009

By: /s/ Tzlil Peker
Tzlil Peker
Chief Financial Officer,
Secretary and Treasurer
(Principal Financial Officer)

Dated: August 5, 2009

By: /s/ Yaron Meerfeld
Yaron Meerfeld
Acting Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION OF PRINCIPAL FINANCIAL OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. SECTION 1350**

I, Tzlil Peker, certify that:

1. I have reviewed this quarterly report of InkSure Technologies Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2009

/s/ Tzlil Peker
Tzlil Peker
Chief Financial Officer,
Secretary and Treasurer
(Principal Financial Officer)

**CERTIFICATION OF PRINCIPAL EXECUTIVE OFFICER
PURSUANT TO SECTION 302 OF THE SARBANES-OXLEY ACT OF 2002,
18 U.S.C. SECTION 1350**

I, Yaron Meerfeld, certify that:

1. I have reviewed this quarterly report of InkSure Technologies Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the small business issuer and have:

a) designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

b) designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

c) evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

d) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

a) all significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

b) any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: August 5, 2009

/s/ Yaron Meerfeld
Yaron Meerfeld
Acting Chief Executive Officer
(Principal Executive Officer)

**CERTIFICATION
PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002
(SUBSECTIONS (A) AND (B) OF SECTION 1350, CHAPTER 63 OF
TITLE 18, UNITED STATES CODE)**

Pursuant to section 906 of the Sarbanes-Oxley Act of 2002 (subsections (a) and (b) of section 1350, chapter 63 of title 18, United States Code), each of the undersigned officers of InkSure Technologies Inc., a Delaware corporation (the "Company"), does hereby certify, to such officer's knowledge, that:

The Form 10-Q for the quarter ended March 31, 2009 (the "Form10-Q") of the Company fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, and the information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: August 5, 2009

/s/ Yaron Meerfeld
Yaron Meerfeld, Acting Chief Executive Officer
(Principal Executive Officer)

Dated: August 5, 2009

/s/Tzlil Peker
Tzlil Peker, Chief Financial Officer
(Principal Financial Officer)

A signed original of this written statement required by Section 906 has been provided to the Company and will be retained by the Company and furnished to the Securities and Exchange Commission or its staff upon request.