

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

Quarterly report pursuant to Sections 13 or 15(d) of the Securities
Exchange Act of 1934

For the quarterly period ended September 30, 2004

Transition report pursuant to Sections 13 or 15(d) of the Securities
Exchange Act of 1934

For the transition period from _____ to _____

Commission File Number: 0-24431

InkSure Technologies Inc.

(Exact Name of Small Business Issuer as Specified in Its Charter)

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

84-1417774
(I.R.S. Employer
Identification No.)

32 Broadway, Suite 1314, New York, NY 10004
(Address of Principal Executive Offices, Including Zip Code)

(212) 269-0370
(Issuer's Telephone Number, Including Area Code)

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

The number of shares outstanding of our Common Stock, \$0.01 par value per share, as of November 11, 2004, was 15,011,579 shares.

Transitional Small Business Disclosure Format (check one):

Yes No

InkSure Technologies Inc.

INDEX TO FORM 10-QSB

	PAGE
PART I. FINANCIAL INFORMATION	3
Item 1. Financial Statements	3
Consolidated Balance Sheet as of September 30, 2004 (unaudited)	3
Statements of Operations (unaudited) for the Nine and Three Months Ended September 30, 2004 and 2003	5
Consolidated Statements of Changes in Stockholders' Equity as of September 30, 2004 (unaudited after December 31, 2003)	6
Consolidated Statements of Cash Flows (unaudited) for the Nine and Three Months Ended September 30, 2004 and 2003	7
Notes to Consolidated Financial Statements	8
Item 2. Management's Discussion and Analysis or Plan of Operation	11
Item 3. Controls and Procedures	16
PART II. OTHER INFORMATION	16
Item 2. Changes in Securities, Use of Proceeds and Small Business Issuer Purchases of Equity Securities	16
Item 4. Submission of Matters to a Vote of Security Holders	16
Item 6. Exhibits and Reports on Form 8-K	17
SIGNATURES	19

Item 1. Financial Statements

CONSOLIDATED BALANCE SHEET

U.S. dollars in thousands

	September 30, 2004
	Unaudited
ASSETS	
CURRENT ASSETS:	
Cash and cash equivalents	\$ 2,073
Short-term bank deposits	20
Trade receivables	193
Other accounts receivable and prepaid expenses	143
Inventories	452
<u>Total current assets</u>	<u>2,881</u>
SEVERANCE PAY FUND	<u>108</u>
PROPERTY AND EQUIPMENT, NET	<u>302</u>
TECHNOLOGY, NET	<u>22</u>
GOODWILL	<u>270</u>
<u>Total assets</u>	<u>\$ 3,583</u>

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

CONSOLIDATED BALANCE SHEET

U.S. dollars in thousands (except share and per share data)

	<u>September 30, 2004</u>
	<u>Unaudited</u>
LIABILITIES AND STOCKHOLDERS' EQUITY	
CURRENT LIABILITIES:	
Trade payables	\$ 201
Employees and payroll accruals	103
Other accounts payable	134
	<hr/>
<u>Total current liabilities</u>	438
	<hr/>
ACCRUED SEVERANCE PAY	124
	<hr/>
STOCKHOLDERS' EQUITY:	
Stock capital:	
Preferred stock of \$ 0.01 par value:	
Authorized: 10,000,000 shares at September 30, 2004; Issued and outstanding: 0 shares at September 30, 2004	-
Common stock of \$ 0.01 par value -	
Authorized: 35,000,000 shares at September 30, 2004; Issued and outstanding: 15,011,578 shares at September 30, 2004	150
Additional paid-in capital	12,038
Accumulated other comprehensive income	118
Accumulated deficit	(9,285)
	<hr/>
<u>Total stockholders' equity</u>	3,021
	<hr/>
<u>Total liabilities and stockholders' equity</u>	<u>\$ 3,583</u>

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

INKSURE TECHNOLOGIES INC. AND ITS SUBSIDIARIES

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	Nine months ended September 30,		Three months ended September 30,	
	2004	2003	2004	2003
	Unaudited			
Revenues	\$ 624	\$ 44	\$ 85	\$ 44
Cost of revenues	283	40	59	40
Gross profit	341	4	26	4
Operating expenses:				
Research and development	573	903	179	295
Selling and marketing, net	879	1,078	324	325
General and administrative	474	545	165	161
<u>Total operating expenses</u>	<u>1,926</u>	<u>2,526</u>	<u>668</u>	<u>781</u>
Operating loss	(1,585)	(2,522)	(642)	(777)
Financial income	13	41	3	4
Net loss	<u>\$ (1,572)</u>	<u>\$ (2,481)</u>	<u>\$ (639)</u>	<u>\$ (773)</u>
Weighted average number of shares of Common stock used in computing basic and diluted net loss per share	<u>13,601,429</u>	<u>11,982,166</u>	<u>14,789,051</u>	<u>11,982,166</u>
Basic and diluted net loss per share	<u>\$ (0.12)</u>	<u>\$ (0.21)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>

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

STATEMENT OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands

	<u>Stock capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income</u>	<u>Accumulated deficit</u>	<u>Total stockholders' equity</u>
Balance as of January 1, 2004	\$ 119	\$ 9,683	\$ 118	\$ (7,713)	\$ 2,207
Issuance of Common stock, net	31	2,355	-	-	2,386
Net loss	-	-	-	(1,572)	(1,572)
Balance as of September 30, 2004 (unaudited)	<u>\$ 150</u>	<u>\$ 12,038</u>	<u>\$ 118</u>	<u>\$ (9,285)</u>	<u>\$ 3,021</u>

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Nine months ended		Three months ended	
	September 30,		September 30,	
	2004	2003	2004	2003
	Unaudited			
<u>Cash flows from operating activities:</u>				
Net loss	\$ (1,572)	\$ (2,481)	\$ (639)	\$ (773)
Adjustments to reconcile net loss to net cash used in operating activities:				
Depreciation and amortization	111	116	38	39
Accrued severance pay, net	(6)	1	-	(6)
Decrease in trade receivables	306	730	162	-
Decrease (increase) in other accounts receivable and prepaid expenses	(6)	(74)	47	69
Decrease (increase) in inventories	(347)	7	(153)	27
Decrease in trade payables	(161)	(293)	(173)	(161)
Increase (decrease) in employees and payroll accruals	(24)	84	(5)	(1)
Increase (decrease) in other accounts payable	10	(147)	17	(6)
Accumulated interest on short-term bank deposits	-	(46)	1	(6)
Net cash used in operating activities	<u>(1,689)</u>	<u>(2,103)</u>	<u>(705)</u>	<u>(818)</u>
<u>Cash flows from investing activities:</u>				
Purchase of property and equipment	(56)	(31)	(2)	(1)
Proceeds from short-term bank deposits	-	2,863	-	1,744
Net cash provided by (used in) investing activities	<u>(56)</u>	<u>2,832</u>	<u>(2)</u>	<u>1,743</u>
<u>Cash flows from financing activities:</u>				
Issuance of Common stock, net	2,386	-	1,119	-
Net cash provided by financing activities	<u>2,386</u>	<u>-</u>	<u>1,119</u>	<u>-</u>
Increase in cash and cash equivalents	641	729	412	925
Cash and cash equivalents at beginning of period	<u>1,432</u>	<u>213</u>	<u>1,661</u>	<u>17</u>
Cash and cash equivalents at end of period	<u>\$ 2,073</u>	<u>\$ 942</u>	<u>\$ 2,073</u>	<u>\$ 942</u>

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1:- GENERAL

InkSure Technologies Inc. (formerly: Lil Marc Inc.) and its subsidiaries (together, "the Company") was incorporated under the laws of the State of Nevada, U.S., on April 22, 1997. On July 8, 2003, InkSure Technologies Inc. effected a reincorporation from Nevada to Delaware, through a merger with and into its wholly-owned subsidiary, InkSure Technologies (Delaware) Inc., which was incorporated as of June 30, 2003. The surviving corporation in the merger was InkSure Technologies (Delaware) Inc., which thereafter renamed itself InkSure Technologies Inc.

The Company specializes in comprehensive security solutions, designed to protect branded products and documents of value from counterfeiting, fraud and diversion.

The Company conducts its operations and business with and through its direct and indirect subsidiaries, InkSure Inc., a Delaware corporation incorporated in March 2000; IST Operating Inc., a Delaware corporation, incorporated in May 2000 (formerly: InkSure Technologies Inc.) (as of September 30, 2004, IST Operating Inc. is inactive); InkSure Ltd., which was incorporated in December 1995 under the laws of Israel and InkSure RF Inc., a Delaware corporation incorporated in March 2000 (as of September 30, 2004, InkSure RF Inc. is inactive).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

- a. The significant accounting policies applied in the annual financial statements of the Company as of December 31, 2003, are applied consistently in these financial statements.

In addition, the following accounting policy is applied:

- b. Accounting for stock-based compensation:

The Company has elected to follow Accounting Principles Board Opinion No. 25, "Accounting for Stock Issued to Employees" ("APB No. 25") and FASB Interpretation No. 44, "Accounting for Certain Transactions Involving Stock Compensation" ("FIN No. 44") in accounting for its employee stock option plans. Under APB No. 25, when the exercise price of the Company's stock options is less than the market price of the underlying shares on the date of grant, compensation expense is recognized.

Under Statement of Financial Accounting Standard No. 123, "Accounting for Stock Based Compensation" ("SFAS No. 123"), pro forma information regarding net loss and loss per share is required, and has been determined as if the Company had accounted for its employee stock options under the fair value method of that statement. The fair value for these options was estimated at the date of grant using a

INKSURE TECHNOLOGIES INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Black-Scholes Option Valuation model with the following weighted-average assumptions for nine months ended September 30, 2004 and 2003: weighted-risk-free interest rate of 1.5% and 2% for each period respectively, with dividend yields of 0% for each period, volatility factors of the expected market price of the Company's Common stock of 1.04 and 0.99, and a weighted-average expected life of the options of two and five years. Stock compensation, for pro forma purposes, is amortized over the vesting period.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (cont.)

The following table illustrates the effect on net loss and loss per share as if the fair value method had been applied to all outstanding and unvested awards in each period:

	<u>Nine months ended</u>		<u>Three months ended</u>	
	<u>September 30,</u>		<u>September 30,</u>	
	<u>2004</u>	<u>2003</u>	<u>2004</u>	<u>2003</u>
	<u>Unaudited</u>			
Net loss, as reported	\$ (1,572)	\$ (2,481)	\$ (639)	\$ (773)
Deduct: Total stock-based compensation expense determined under fair value method for all awards	<u>(172)</u>	<u>(114)</u>	<u>(64)</u>	<u>(25)</u>
Pro forma net loss	<u>\$ (1,744)</u>	<u>\$ (2,595)</u>	<u>\$ (703)</u>	<u>\$ (798)</u>
Basic and diluted net loss per share, as reported	<u>\$ (0.12)</u>	<u>\$ (0.21)</u>	<u>\$ (0.04)</u>	<u>\$ (0.06)</u>
Basic and diluted net loss per share, pro forma	<u>\$ (0.13)</u>	<u>\$ (0.22)</u>	<u>\$ (0.05)</u>	<u>\$ (0.07)</u>

NOTE 3:- UNAUDITED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with accounting principles generally accepted in the United States for interim financial information. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States for complete financial statements. In the opinion of management, all adjustments (consisting of normal recurring accruals) considered necessary for a fair presentation have been included. Operating results for the nine-month period ended September 30, 2004 are not necessarily indicative of the results that may be expected for the year ended December 31, 2004.

NOTE 4:- INVESTMENT AGREEMENT

INKSURE TECHNOLOGIES INC. AND ITS SUBSIDIARIES

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

- a. In April 2004, the Company entered into an investment agreement with certain accredited investors. Under the agreement, the Company issued in a private placement 1,904,412 units with each unit consisting of a share of Common stock and a five-year warrant to purchase a share of Common stock at an exercise price of \$ 1 per share. The price per unit was \$0.68 with net proceeds to the Company of \$ 1,267 (net of issuance expenses).
- b. In July 2004, the Company entered into an additional investment agreement with certain accredited investors. According to the agreement the Company issued in a private placement an aggregate of 1,125,000 of shares of Common stock, at a price per share equal to \$ 1 with gross proceeds to the Company of \$ 1,125.

Item 2. Management's Discussion and Analysis or Plan of Operation

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-QSB 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. 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-QSB.

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 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' 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.

Factors Affecting Future Results

Industry and Economic Factors: Our operations and earnings are affected by local, regional and global events or conditions that affect supply and demand for products and services. These events or conditions are generally not predictable and include, among other things, general economic growth rates and the occurrence of economic recessions; the development of new supply sources; supply disruptions; technological advances, including advances in security technology and advances in technology relating to security usage; changes in demographics, including population growth rates and consumer preferences; and the competitiveness of alternative security sources or product substitutes. Currently, the economy in general is suffering. As a result, raising capital has become extremely difficult, and there is pressure on the pricing of our products and services.

Competitive Factors: The brand and document protection industry is competitive. There is competition with the traditional document protection suppliers (mainly protection for bank notes) and also with other emergent "next generation" technology providers. We compete with other firms in the sale and purchase of various products

and services in many national and international markets and employ all methods of competition, which are lawful and appropriate for such purposes. We believe that a key component of our competitive position is our technology.

Political Factors: Our operations and earnings have been, and may in the future be, affected from time to time in varying degree by political instability and by other political developments and laws and regulations, such as forced divestiture of assets; restrictions on production; imports and exports; war or other international conflicts; civil unrest and local security concerns that threaten the safe operation of our facilities, particularly those that are located in Israel; price controls; expropriation of property; and the cancellation of contract rights. Both the likelihood of such occurrences and their overall effect upon us vary greatly from country to country and are not predictable.

Project Factors: In addition to the factors cited above, the advancement, cost and results of particular projects depend on the outcome of negotiations with potential partners, governments, suppliers, customers or other third parties; changes in operating conditions or costs; and the occurrence of unforeseen technical difficulties.

Revenues

We are currently concentrating on entering and implementing large-scale projects. These potential contracts are subject to a long sales cycle and the timetable is lengthy for entering and implementing such projects. These projects involve high volume sales through multiple-year sales contracts. We have completed several successful field trials during the last year related to these projects. Our revenues in the third quarter of 2004 consisted of revenues from our new sales agreements for brand protection with North American customers.

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 the development of new products related to customer projects. 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 September 30, 2004. 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 December 31, 2003.

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", or SAB No. 104, 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. When a right of return exists, we defer revenues until the right of return expires. We do not grant a right of return to our customers.

In November 2002, the Emerging Issues Task Force, or EITF, reached a consensus on Issue No. 00-21, "Revenue Arrangements with Multiple Deliverables". EITF Issue No. 00-21 provides guidance on how to account for arrangements that involve the delivery or performance of multiple products, services and/or rights to use assets. The provisions of EITF Issue No. 00-21 applied to revenue arrangements entered into in fiscal periods beginning after June 15, 2003. Additionally, companies will be permitted to apply the consensus guidance in this issue to all existing arrangements as the cumulative effect of a change in accounting principle in accordance with APB Opinion No. 20, "Accounting Changes". The adoption of EITF Issue No. 00-21 did not have a material impact upon our financial position, cash flows or results of operations in 2003.

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 September 30, 2004 Compared with Three Months Ended September 30, 2003

Revenues. Revenues consist of gross sales of products less discounts. We are currently concentrating on entering and implementing large-scale projects. These potential contracts are subject to a long sales cycle and fluctuated timetable for entering and implementing such projects. This affected our results for the three months ended September 30, 2004 and September 30, 2003. Our Revenues increased by \$41,000, or 93.2%, to \$85,000 in the three months ended September 30, 2004 from \$44,000 in the three months ended September 30, 2003.

Cost of Revenues. Our cost of revenues consists of materials, sub-contractors and compensation costs. Cost of revenues in the three months ended September 30, 2004 increased by \$19,000, or 47.5%, to \$59,000, compared to \$40,000 in the three months ended September 30, 2003. This increase was primarily due to the increase in revenues discussed above.

Research and Development Expenses. 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 \$116,000, or 39.3%, to \$179,000 in the three months ended September 30, 2004 from \$295,000 in the three months ended September 30, 2003. This decrease in research and development expenses is primarily related to lower payments to subcontractors in connection with the development of new products and new generations of our existing products in the three months ended September 30, 2004.

Selling and Marketing Expenses, Net. Selling and marketing expenses, net 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, net decreased by \$1,000 to \$324,000 in the three months ended September 30, 2004 from \$325,000 in the

three months ended September 30, 2003. We believe that the significant investment in pre-sales and marketing activities will contribute to our short-term and long-term sales levels.

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 increased by \$4,000, or 2.5 %, to \$165,000 in the three months ended September 30, 2004 from \$161,000 in the three months ended September 30, 2003. This increase was primarily related to higher legal expenses.

Financial Income, Net. Financial income, net was \$4,000 in the three months ended September 30, 2004 and \$4,000 in the three months ended September 30, 2003.

Net loss. We had a net loss of \$638,000 in the three months ended September 30, 2004, compared with a net loss of \$773,000 in the three months ended September 30, 2003. The 17.5 % decrease in net loss in the three months ended September 30, 2004 in comparison with the three months ended September 30, 2003 is attributable mainly to the increase in gross profit and to the decrease in research and development expenses described above.

Nine Months Ended September 30, 2004 Compared with Nine Months Ended September 30, 2003

Revenues. Revenues consist of gross sales of products less discounts. We are currently concentrating on entering and implementing large-scale projects. These potential contracts are subject to a long sales cycle and fluctuated timetable for entering and implementing such projects. This affected our results for the nine months ended September 30, 2004 where we had revenues of \$624,000, compared to \$44 in the nine months ended September 30, 2003. The increase in revenues by \$580,000, or 1,318.2%, is mainly related to our new sales agreements for brand protection with North American customers.

Cost of Revenues. Our cost of revenues consists of materials, sub-contractors and compensation costs. Our cost of revenues in the nine months ended September 30, 2004 increased by \$243,000, or 607.5%, to \$283,000 compared to \$40,000 in the nine months ended September 30, 2003. This increase was primarily due to the increase in revenues discussed above.

Research and Development Expenses. 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 \$330,000, or 36.5%, to \$573,000 in the nine months ended September 30, 2004 from \$903,000 in the nine months ended September 30, 2003. This decrease in research and development expenses is primarily related to lower payments to subcontractors in connection with the development of new products and new generations of our existing products in the nine months ended September 30, 2004.

Selling and Marketing Expenses, Net. Selling and marketing expenses, net 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, net decreased by \$199,000, or 18.5%, to \$879,000 in the nine months ended September 30, 2004 from \$1,078,000 in the nine months ended September 30, 2003. This decrease in selling and marketing expenses, net was primarily due to higher marketing expenses in 2003 related to several marketing agreements we had entered into. We believe that the significant investment in pre-sales and marketing activities will contribute to our short-term and long-term sales levels.

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 \$71,000, or 13.0%, to \$474,000 in the nine months ended September 30, 2004 from \$545,000 in the nine months ended September 30, 2003. This decrease was primarily related to lower legal expenses.

Financial Income, Net. Financial income, net decreased by \$28,000, to \$13,000 in the nine months ended September 30, 2004 from \$41,000 in the nine months ended September 30, 2003. This decrease was due to the lower interest earned on our short-term deposits.

Net loss. We had a net loss of \$1,572,000 in the nine months ended September 30, 2004, compared with a net loss of \$2,481,000 in the nine months ended September 30, 2003. The 36.6 % decrease in net loss in the nine months ended September 30, 2004 in comparison with the nine months ended September 30, 2003 is attributable to the various influences described above.

B. LIQUIDITY AND CAPITAL RESOURCES

We have incurred substantial losses since our inception in May 2000. We had an accumulated deficit of approximately \$9,285,000 at September 30, 2004, and had a working capital (current assets less current liabilities) of approximately \$2,443,000 at September 30, 2004.

Capital expenditures were approximately \$2,000 in the three months ended September 30, 2004 and \$1,000 in the three months ended September 30, 2003. Capital expenditures were approximately \$56,000 in the nine months ended September 30, 2004 and \$31,000 in the nine months ended September 30, 2003. We do not have any material commitments for capital expenditures for the year ending December 31, 2004.

At September 30, 2004, we had cash, cash equivalents and short-term deposits of approximately \$2,093,000 (\$2,188,000 in September 2003). The differences from September 30, 2004 to September 30, 2003 are due to the negative cash flow from operating activities during the last fiscal year.

We generated negative cash flow from operating activities of approximately \$705,000 in the three months ended September 30, 2004 compared to \$818,000 in the three months ended September 30, 2003. We generated negative cash flow from operating activities of approximately \$1,689,000 in the nine months ended September 30, 2004 compared to \$2,103,000 in the nine months ended September 30, 2003.

In July 2004, we completed private placement to accredited investors of an aggregate of 1,125,000 of shares of our common stock, par value \$0.01 per share, at a price per share of \$1.00, with gross proceeds to us of \$1,125,000.

We believe that cash generated from operations and cash from the private placement will provide sufficient cash resources to finance our operations and the projected expansion of our marketing and research and development activities for the next twelve months. However, if our operations do not generate cash to the extent currently anticipated, or we grow more rapidly than currently anticipated, it is possible that we would require more funds than presently anticipated.

C. 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 research and development expenses were approximately \$179,000 in the three months ended September 30, 2004, compared to \$295,000 in the three months ended September 30, 2003. Our research and development expenses were approximately \$573,000 in the nine months ended September 30, 2004, compared to \$903,000 in the nine months ended September 30, 2003. To date, all research and development expenses have been charged to operating expense as incurred.

We currently hold six pending patents on our technologies.

D. CONTRACTUAL OBLIGATIONS AND COMMITMENTS

Our contractual obligations and commitments at September 30, 2004 principally include obligations associated with our future-operating lease obligations and the lease of several automobiles. Our total future obligation is approximately \$232,000 until 2007. We expect to finance these contractual commitments from cash on hand and cash generated from operations.

Item 3. 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-QSB, 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-QSB 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. Changes in Securities, Use of Proceeds and Issuer Purchases of Equity Securities

On July 19, 2004 the Company closed a private placement offering in which the Company sold an aggregate of 1,125,000 of shares (the "Shares") of its common stock, par value \$0.01 per share, at a purchase price of \$1.00 per share for aggregate gross proceeds to the Company of \$1,125,000. The Shares were issued in a transaction intended to qualify for the exemption from registration afforded by Rule 506 of Regulation D of the Securities Act of 1933, as amended. All of the proceeds from such offering were added to the Company's working capital for general corporate purposes.

Item 4. Submission of Matters to a Vote of Security Holders.

The Company held its Annual Meeting of Stockholders on July 7, 2004.

The following matters were voted on at the Annual Meeting of Stockholders:

Proposal 1: Election of a Board of Directors.

	NUMBER OF SHARES VOTED	
	FOR	AGAINST
Elie Housman	7,821,057	484,014
Yaron Meerfeld	8,305,071	0
James Lineberger	8,305,071	0
Philip Getter	8,305,071	0
Michael Acks	8,305,071	0
Albert Attias	8,305,071	0
David Sass	8,305,071	0

Proposal 2: Ratification of the appointment of Kost Forer, Gabbay and Kasierer, a member of Ernst & Young Global as the independent auditors and accountants for the Company for the year ending December 31, 2004.

NUMBER OF SHARES		
FOR	AGAINST	ABSTAIN

8,305,071	0	5,581,507

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

The following exhibits are being filed with this Report:

<u>Exhibit Number</u>	<u>Description</u>
2.1	Agreement and Plan of Merger, dated July 5, 2002, among the Company, LILM Acquisition and InkSure Delaware. (Incorporated by reference to the Company's Information Statement on Schedule 14C, filed with the Commission on October 8, 2002.)
2.2	Agreement and Plan of Merger, dated July 3, 2003 among the Company and InkSure Technologies (Delaware) Inc. (Incorporated by reference to the Company's report filed on Form 8-K, filed with the Commission on July 22, 2003.)
3.1	Certificate of Incorporation of the Company. (Incorporated by reference to the Company's report filed on Form 8-K, filed with the Commission on July 22, 2003.)
3.2	By-Laws of the Company. (Incorporated by reference to the Company's report filed on Form 8-K, filed with the Commission on July 22, 2003.)
10.1	2002 Employee, Director and Consultant Stock Option Plan. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB, filed with the Commission on November 14, 2002.)
10.2	Employment Agreement, dated as of February 6, 2002, by and between the Company and Elie Housman. (Incorporated by reference to the Company's Quarterly Report on Form 10-QSB, filed with the Commission on November 14, 2002.)
10.3	Exclusive Distribution Agreement by and between InkSure Inc. and ISBAK A.S. (Istanbul Belediyeler Bakim Ulasim San Vetic A.S.) (Incorporated by reference to the Amendment No. 1 to the Registration Statement on Form SB-2, filed with the Commission on June 26, 2003.)
31.1*	Certification of Principal Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002, 18 U.S.C. Section 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.

* Filed herewith

(b) Reports on Form 8-K:

During the three months ended September 30, 2004, we filed one report on Form 8-K with the SEC on July 21, 2004 in connection with the private placement that was completed in July 2004.

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: As of November 10, 2004

By: /s/ Eyal Bigon
Eyal Bigon
Chief Financial Officer,
Secretary, and Treasurer
(Principal Financial and
Accounting Officer)

Dated: As of November 10, 2004

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

Exhibit 31.1

CERTIFICATION

I, Eyal Bigon, 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)) for the registrant 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) 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
 - c) 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: November 10, 2004

/s/ Eyal Bigon

Eyal Bigon

Chief Financial Officer, Secretary and Treasurer

Exhibit 31.2

CERTIFICATION

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)) for the registrant 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) 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
 - c) 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: November 10, 2004

/s/ Yaron Meerfeld
Yaron Meerfeld
Chief Executive Officer

Exhibit 32.1

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-QSB for the quarter ended September 30, 2004 (the "Form 10-QSB") 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-QSB fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: November 10, 2004

/s/ Yaron Meerfeld

Yaron Meerfeld, Chief Executive Officer

Dated: November 10, 2004

/s/ Eyal Bigon

Eyal Bigon, Chief 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.