

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549**

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**FORM 10-K  
FOR ANNUAL AND TRANSITION REPORTS  
PURSUANT TO SECTION 13 OR 15(d) OF THE  
SECURITIES EXCHANGE ACT OF 1934**

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

For the fiscal year ended December 31, 2004

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No.: 001-15465

**Intelli-Check, Inc.**

(Name of small business issuer as specified in its charter)

<u>Delaware</u> (State or other jurisdiction of incorporation or organization)	<u>11-3234779</u> (I.R.S. Employer Identification No.)
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<u>246 Crossways Park West, Woodbury, New York</u> (address of principal executive offices)	<u>11797</u> (Zip Code)
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Registrant's telephone number, including area code: (516) 992-1900

Securities registered pursuant to Section 12(b) of the Act:

Common Stock, \$.001 par value  
(Title of Class)

Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark 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 if disclosure of delinquent filers pursuant to item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. \_\_\_\_\_

Indicated by check mark whether the registrant is an accelerated filer (as defined in Exchange Act Rule 12b-2).

Yes  No

State the aggregate market value of the voting and non-voting stock held by non-affiliates of the Issuer: \$61,118,303 (based upon the closing price of Issuer's Common Stock, \$.001 par value, as of the last business day of the Issuer's most recently completed second fiscal quarter (June 30, 2004).

Indicate the number of shares outstanding of each of the Registrant's classes of common stock, as of the latest practicable date.

<u>Common Stock, \$.001 Par Value</u> (Title of Class)	<u>10,754,240</u> (No. of Shares Outstanding at March 25, 2005)
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DOCUMENTS INCORPORATED BY REFERENCE: NONE

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## **Item 1. Business**

### **Overview**

We were originally incorporated in the state of New York in 1994. In August 1999, we reincorporated in Delaware. We have developed and are currently marketing an advanced document verification system as part of our identity management solutions to enable a user to detect altered and tampered identification cards and to address problems such as:

- **Commercial Fraud** – which may lead to economic losses to merchants from check cashing, debit and credit card and other types of fraud such as identity theft which principally utilizes fraudulent identification cards as proof of identity;
- **Unauthorized Access** – by verifying identification, our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern;
- **Underage Access to Age Restricted Products and Services** – by verifying identification, our systems and software are designed to determine the customer’s age and validity of the identification card to detect and prevent the use of fraudulent identification for the purchase of alcohol, tobacco and other age-restricted products and services and to reduce the risk to the retailer of substantial monetary fines, criminal penalties and the potential for license revocation for the sale of age-restricted products to minors; and
- **Inefficiencies Associated With Manual Data Entry** – by reading encoded data contained in the bar code and magnetic stripe of an identification card with a quick swipe or scan of the card, where permitted by law, customers are capable of accurately and instantaneously inputting information into forms, applications and the like without the errors associated with manual data entry.

### **Our Products and Services**

#### ID-Check™ technology

Our patented ID-Check™ technology is our advanced document verification software. ID-Check is contained in our software products, and is capable of reading and verifying in one swipe or scan the encoded data contained on U.S. and Canadian driver licenses, state issued identification cards and military IDs that, in most cases, comply with the standards of the American Association of Motor Vehicle Administrators (AAMVA), the American National Standards Institute (ANSI) and the International Standards Organization (ISO).

#### C-Link® software

Our C-Link® software, which is our networkable data management software, works in conjunction with the ID-Check terminal where permitted by law. It allows the user to instantly view data for further verification and archives it into a personal computer. C-Link® can be used on a stand alone personal computer or network environment. It contains features such as alerts, watch lists, and recurring entry.

#### ID-Check SDK

Our software product, ID-Check SDK, formerly called IDN-DLL, is designed for software developers that wish to incorporate ID-Check technology into their applications, contains our proprietary technology, as well as a device controller, and is capable of reading the smart chip contained in the military common access card, or CAC. We currently have six license agreements executed with third parties for integration and sub-licensing of our software applications.

#### IDC-1400

The original product we designed and developed, the IDC-1400, is based on our ID-Check™ technology. Effective as of July 2003, our manufacturer discontinued manufacturing the IDC-1400 terminal. However, we are offering this product for sale until current inventory is sold and we have replaced it with new software solutions compatible with new data collection modules, or DCM’s that are capable of operating on multiple hardware platforms.

## **New Products and Services**

### **ID-Check® PC and ID-Check® PDA**

Two new software solutions, ID-Check® PC and ID-Check® PDA, are designed to replicate the features of ID-Check and to be platform-independent and compatible with stationary and mobile hardware applications. ID-Check® PC is designed to read the smart chip contained in the CAC. The ID-Check® PC solution and the ID-Check® PDA solution were introduced to the market in 2004 and are commercially available today.

### **ID-Traveler**

ID-Traveler is a software solution that can electronically compare two forms of government issued ID's instantaneously and determine whether the common fields match (i.e. name, address, date of birth, etc.). Should the fields match, the information is highlighted in one color. If the fields do not produce a match, the information is highlighted in a different color. Two forms of identification that are frequently used include driver's licenses, state issued ID cards, military ID's, passports, borders crossing cards, visas, etc.

### **ID-Prove**

ID-Prove is a software solution that is intended to add additional layers to IDN's identity management suite of products. ID-Prove, when prompted, will provide an end user of IDN's software with a variable number of "out of wallet" questions about that individual. These questions will ensure that the individual in question is truly who they claim to be. Currently, the ID-Prove product is integrated into our ID-Traveler product as well as available for IDN partners to integrate directly into their product offering.

### **New version of C-Link®**

The newest version of C-Link® contains all of the features of the current C-Link®. It is now capable of functioning with either our IDC-1400 terminals or our data collection module (DCM), and is designed to read the smart chip contained on the military CAC.

### **Data Collection Module**

ID-Check® PC, ID-Check® PDA and the next version of C-Link® are all designed for use with our new data collection module, or DCM, a compact, self-contained two-dimensional bar code and magnetic stripe reader. The DCM enables our new software applications to be used on a variety of commercially available data processing devices, including PDAs, Tablets, Laptops, Desktops and Point-of-Sale Computers. As a result of these new product introductions, we believe that our target markets will enjoy pricing efficiencies and more flexible and versatile technology options, thereby negating the need to replace the IDC-1400 platform.

## **Upgrade Capability**

Our software requires periodic updates as states and provinces that did not previously conform to AAMVA standards begin to store electronically readable information on their driver licenses and as states and provinces adjust or modify the format of their electronically stored information. Our technology, which can be used to instantly upgrade the terminal by simply scanning an encrypted upgrade card through the ID-Check terminal or downloading it from our website through a personal computer, is included in the purchase price of the ID-Check terminal and our ID-Check® PC and ID-Check® PDA software solutions, for the first year after purchase. We sell upgrade packages for the period commencing after the first year of purchase. Each upgrade package is designed to work only with a specific terminal, which is identified by a unique serial number. We have developed a secure way of delivering upgrades through the Internet for our IDC-1400 terminals.

## **Background on Identification Documentation**

### **Driver license**

The driver license is the most widely used form of government issued photo identification. We believe the driver license has become a de facto identification card. The introduction of more comprehensive ID legislation, which has already

been passed by the House of Representatives, and should it become law, would officially designate the driver license as the national ID. In addition to its primary function, the driver license is used to verify identity for social services, firearm sales, check cashing, credit card use and other applications. There are approximately 228 million driver licenses in circulation in the U.S. and Canada. Our technology can read the data encoded on all licenses that in most cases comply with the AAMVA/ANSI/ISO standards, which we believe is over 200 million of those issued at the current time. Currently, forty-nine states, the District of Columbia, and eight Canadian Provinces encode their licenses. We believe that the number of readable licenses will continue to grow as the remaining states and five Canadian Provinces that have not yet encoded their license begin to encode and jurisdictions that have recently begun to encode complete their rotations.

#### Non-driver identification card

Although many people do not have a driver license, many jurisdictions that use AAMVA compliant driver licenses offer other identification cards that may contain encoded information. These identification cards, as well as military ID's, are fundamentally identical to driver licenses. Because driver licenses are the most widely used form of legally acceptable government documentation, we will refer to all these types of legally acceptable governmental identification documents as "driver licenses." Our ID-Check software is equally capable of performing its function with these types of government identification.

#### Regulation of Retailers of Tobacco Products and Alcoholic Beverages

In an effort to combat the problems of underage drinking and smoking, the federal government and many states and Canadian provinces have enacted laws requiring businesses that sell age-restricted products to verify the IDs of potential customers to determine that they are of legal age to purchase these products. These laws impose stringent penalties for violations. For example, new federal regulations have been enacted that place a greater burden on retailers to prevent the sale of tobacco products to minors. Clerks are required to check the photo ID of anyone trying to purchase tobacco products who appear to be under the age of 27, and the retailer of alcoholic products who sell to an underage person could face potential fines, suspension of its license and the potential outright revocation of its license to sell alcoholic beverages. Additionally, in states where enacted, dram shop laws allow a person who is injured by any obviously intoxicated person to file a claim for relief for fault against any person who knowingly sells alcoholic beverages to a person less than 21 years of age. As a result of law enforcement efforts and regulatory penalties, we believe retailers that sell alcohol and tobacco, such as liquor stores, bars and convenience stores, are facing increasing pressure to accurately verify the age of their customers.

#### Current Challenges Associated with Verifying Identification Documents

The high-tech revolution has created a major problem for those who rely on identification documents. In an age where scanners, computers and color printers are commonplace, fake ID's of the highest quality are easily obtainable from a number of locations including college campuses and from thousands of sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices have the ability to easily alter properly issued ID's. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

- committing identity theft;
- improperly boarding airplanes;
- committing credit card, debit card and check cashing fraud;
- unlawfully obtaining welfare or other government benefits;
- committing refund fraud,
- committing pharmacy fraud, including false narcotic prescriptions,
- gaining entrance to high profile buildings and sensitive infrastructures, such as nuclear facilities;
- illegally purchasing firearms;
- purchasing age restricted products such as alcohol and tobacco while under age;
- committing employee fraud, including employee theft and payroll theft; and
- engaging in medical fraud.

Given the ease with which identification can be falsified, simply looking at a driver license may not be sufficient to verify age or identity and determine whether or not it is fraudulent. Since merchants are facing significant economic losses due to these frauds, we believe that a document verification system which can accurately read the electronically stored

information is needed. We possess a patented software application technology that provides an analysis of all the data contained on these documents by reading and comparing the information encoded on the tracks of the magnetic stripe or bar code on the driver license against known standards.

### **ID-Check Solutions and Benefits**

We believe that ID-Check and our family of software solutions contain the most advanced, reliable and effective technology, which provides users with an easy, reliable, and cost-effective method of document and age verification. We have received encoding formats from most jurisdictions that conform to AAMVA standards. This information, combined with our patented technology, enables the ID Check software as well as our ID-Check® PC and ID-Check® PDA software to read, decode, process and verify the information electronically stored on driver licenses. As jurisdictions and AAMVA change their documents and guidelines, we believe our software, together with our programmable terminal, can be adapted to these changes.

ID Check terminals do not require a connection to a central database to operate, thus negating privacy concerns. Our terminals have the ability to operate add-on peripherals such as printers, bar code scanners, fingerprint readers and other devices. Additionally, our terminals and our new software solutions utilizing our DCM can communicate with personal computers, which could enhance the functionality of these products and potentially create the opportunity for sales of other software products by us.

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

- is valid;
- has been altered or tampered with;
- has expired; and
- has a date of birth equal to or greater than the legal age to purchase age restricted products, such as alcohol and tobacco, in the retailer's location.

Then, the terminal will automatically:

- respond to the user by displaying the results in words on the terminal's screen;
- save information that is permissible by law to the terminal's own memory;
- print a record of the transaction including the results on a roll of paper similar to that used in cash registers, if an optional printer has been installed; and
- send the results to a personal computer which has Microsoft Windows 95/98/ME/NT/2000/XP ("PC") for permanent storage when used in conjunction with our software, which simplifies record keeping by downloading comprehensive ID-Check due diligence data into a personal computer, where permitted by law. This provides a merchant with secure back-up files that include individual and cumulative transaction records.

### **Strategy**

Our objective is to be a leading provider of identity management solutions, which include our identity verification technology systems and software in the age verification, commercial fraud protection and access control markets. Key elements of our strategy are as follows:

Expand Marketing Relationships with Trade Associations and Public Interest Groups. We are marketing our systems and software to members of The American Association of Airport Executives (AAAE), the largest professional organization for airports in the world, Credit Union National Association (CUNA), the premier trade association for credit unions, and Mothers Against Drunk Driving (MADD), one of the highest profile public interest groups. We intend to continue to expand our relationships with trade associations and public interest groups that can help expand our customer base.

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances with Bioscrypt Inc., Identix Corporation, Ultra-Scan Inc., Cross-Match Technologies, Si-Vault biometric companies; Lenel Systems International, a provider of integrated security solutions; and Northrop Grumman and Anteon, integrators in the defense industry, to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications. We believe these relationships will broaden our

marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for age and document verification by continuing to market and support our systems and software. Our sales and marketing departments were recently re-organized by target market rather than geographic area to provide focus and create experts in each area.

Enter into Additional Licensing Agreements. We intend to continue to license our software for use with a customer's system. We are currently licensing our IDN-SDK and C-Link® software products for Windows and Windows CE platforms and intend to similarly license our ID-Check® PC and ID-Check® PDA software solutions. Our software is intended to be used with a compatible hardware device. We have entered into thirteen (13) licensing agreements to date.

Protect Intellectual Property. We intend to strongly protect our intellectual property portfolio in order to preserve value and obtain favorable settlements where warranted. For example, in February 2003, we filed suit against CardCom, Inc. d/b/a CardCom Technology, Inc. claiming that CardCom had infringed one of our patents. Subsequently, we entered into a patent licensing agreement with CardCom effective March 2003 which provides for a non-exclusive three year license in connection with the manufacture, use and sale of CardCom's age verification products in the United States and Canada. We also have filed a patent infringement lawsuit against Tricom Card Technologies, Inc. in July 2003, which is currently being litigated.

### **Our Revenue Sources**

We derive our revenue from the following sources:

- Sales of our systems by our own direct sales force and marketing partners;
- Royalties and licensing fees from licensing our patented technology to third parties;
- Revenue sharing and marketing arrangements through strategic alliances and partnerships; and
- Sale of software upgrades and extended maintenance programs.

### **Our Target Markets**

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

#### **Commercial fraud protection**

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

#### **Access control**

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

#### **Age verification market**

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

## **Current Customers**

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

- Certegy Check Services, Inc.
- MGM Grand
- Caesar's Palace
- Foxwoods Resorts and Casino
- Comerica Bank
- The Cooperative Bank
- Mohegan Sun Resort Casino

The following representative customers are using our systems and software for access control:

- JFK Airport in New York, O'Hare International Airport in Chicago and Reagan National Airport in Washington DC
- American Stock Exchange
- Fort Sam Houston and Fort Hood
- New York, Vermont and Delaware Department of Motor Vehicles
- Port Authority of New York and New Jersey
- United States Supreme Court

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

- Integrated Solutions International LLC
- Sunoco
- Exxon/Mobil franchisees
- Darden Restaurants
- Houston's Restaurants
- Anton Airfoods, Inc.

## **Marketing and Distribution**

Our objective has been to become the leading developer and distributor of document and age verification products. To date, our marketing efforts have been through direct sales by our sales and marketing personnel, through resellers and license agreements. We are marketing our age verification products through direct marketing approaches such as targeted mailings, web seminars, a small number of select trade shows and well known public interest and trade associations, such as the Credit Unions of North America (CUNA), the American Association of Airport Executives (AAAE) and Mothers Against Drunk Driving (MADD).

We generate revenues from the sale or lease of ID-Check terminals, the sale of C-Link® software, the sale and licensing of our patented software to third parties, annual jurisdictional upgrades and from our software and hardware warranty programs. We also expect to generate revenues from various new software solutions.

Our patented ID-Check software is Microsoft Gold Certified and can run on a variety of Windows and Windows CE platforms in addition to devices such as credit card terminals. We plan to market our newly introduced ID-Check® PC and ID-Check® PDA solutions to the government, airlines, airports, high profile buildings or infrastructure, mass merchandisers, grocery, convenience and pharmacy chains, casinos and banks. The ID-Check reader known as the DCM (data capture module) has a "bundled with software" suggested retail price of approximately \$1,299. Our self-contained or stand alone offering, the model 1400, has a suggested retail price of approximately \$1,995 which includes our C-Link software and upgrades for the first year after purchase.

We have developed a comprehensive marketing plan to build customer awareness and develop brand recognition in our target markets. We promote the advantages and ease of use of our products through:

- Endorsements by nationally known public interest groups and trade associations;
- Trade publications;
- Trade shows;
- Direct mail;
- Web seminars, as well as our own website;
- Various conventions and industry specific seminars.

As we gain market acceptance for our ID-Check technology, we intend to develop and market other related software applications.

We further intend to add qualified "value added" remarketers that are capable of reaching smaller customers. We believe this represents the most cost-effective way to reach numerous "mom and pop" establishments in North America involved in the sale of age restricted products. Furthermore, in order to broaden our sales "reach" into existing and new markets, we will continue to enter into selective agreements with proven application solution providers, system integrators, resellers and independent sales representatives. Basically, we are in the process of revamping our entire distribution network to provide us with greater effectiveness.

## **Competition**

We compete in a market that is relatively new, intensely competitive, and rapidly changing. Unless a device can read, decode and analyze all of the information legally permitted to be analyzed which is electronically stored on a driver license, the user may not obtain accurate and reliable confirmation that a driver license is valid and has not been altered or tampered with. We are aware of several companies, including Card Com, Tri Com Technologies, Positive Access, ID Logix and Legal Age that are currently offering products that electronically read and calculate age from a driver license. We have tested and compared some of these products to ID-Check and believe that our product is superior in quality and functionality. We believe that units unable to read bar codes are at a significant disadvantage because forty-three (43) states and five (5) Canadian provinces currently utilize bar codes to encode their driver licenses, as well as all U.S. military ID's and uniformed services cards. In addition, some of these other products cannot connect to a personal computer or use a printer.

We have experienced and expect to continue to experience increased competition in the age verification market, and have experienced limited competition from companies in the document verification market. If any of our competitors were to become the industry standard or were to enter into or expand relationships with significantly larger companies through mergers, acquisitions or otherwise, our business and operating results could be seriously harmed. In addition, potential competitors could bundle their products or incorporate functionality into existing products in a manner that discourages users from purchasing our products.

## **Manufacturing**

In January 2004, we entered into a two year product supply agreement for the purchase of input devices. Under the terms, these devices, which were private labeled, are programmed to work in conjunction with our ID-Check™ technology.

## **Intellectual Property**

In January 1999, the U.S. Patent and Trademark Office granted us a patent on our ID-Check software technology. In October 2002, we were granted another patent relating to our document authentication and age verification technology. At present, we have other patent applications pending in the U.S. Patent and Trademark Office. These patents cover commercially important aspects of our capabilities relating to the authentication of a document, such as a driver's license, along with the verification of the age of an individual associated with that document. Upon our acquisition of the assets of IDentiScan, we also received equitable ownership and sole ownership rights to intellectual property, including other patents and patent applications relating to age verification technology. We currently hold four (4) U.S. patents, two (2) Canadian patents and one (1) United Kingdom patent. We have been notified by the U.S. Patent Office of the issuance of another patent.

We have also been granted multiple copyrights in the United States, which are effective in Canada and in other major industrial countries. In addition, the copyright protection covers software source codes and supporting graphics relating to the operation of ID-Check and other software products. We also have several trademarks relating to our company, its product names and logos.

In connection with the sales or licensing of our intellectual property, we have entered into an agreement with Mr. Kevin Messina, our former Senior Executive V.P. and Chief Technology Officer, under which we will pay royalties equal to 0.005% of gross sales from \$2,000,000 to \$52,000,000 and 0.0025% of gross sales, in excess of \$52,000,000. Cumulatively, as of December 31, 2004, total fees payable under this agreement amounted to \$148.

## **Employees**

As of March 1, 2005, we had nineteen full-time employees. Four are engaged in executive management, seven in information technology, six in sales and marketing and two in administration. We believe our relations with our employees are generally good and we have no collective bargaining agreements with any labor unions.

## RISK FACTORS

### Risks Related to Our Business and Industry

**We have incurred losses since inception and losses may continue, which could result in a decline in the value of our securities and a loss of your investment.**

We sustained net losses of \$6,450,943 and \$6,922,931 for the fiscal years ended December 31, 2003 and December 31, 2004, respectively. We expect to incur additional expenditures in line with the sales growth of our business. We cannot assure you that we will achieve operating profits in the near future.

**We may be unable to meet our future capital requirements.**

Our capital requirements have been and will continue to be significant. In the event that we do not generate meaningful revenue, we would need to raise additional capital. If we are unable to raise additional capital, we plan to implement cost saving measures to sustain business activities on a reduced level. Unplanned acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted.

We currently do not have a credit facility or any commitments for additional financing. We cannot be certain that additional financing, should it be needed, will be available when and to the extent required. If adequate funds are not available on acceptable terms, we may be unable to fund our expansion, develop or enhance our products, or respond to competitive pressures. Such limitation could have a material adverse effect on our business, financial condition and results of operations.

**We may not be able to keep up with rapid technological change. Advances in hardware technology before we sell our existing inventory could cause us to take an adjustment against inventory.**

Our market is characterized by frequent new product announcements and rapid advancements in hardware technology. Significant technological change could render our existing technology obsolete. If we are unable to successfully respond to these developments, or do not respond in a cost-effective way, our business, financial condition and results of operations will be materially adversely affected. Furthermore, our inventory consists primarily of ID-Check System terminals that run our patented software on the IDC-1400 hardware platform. We periodically evaluate the current market value of our inventory, taking into account any technological obsolescence that may occur due to advances in hardware technology and the acceptance of the product in the marketplace. We determined that an inventory reserve of \$990,000 was an appropriate adjustment to our results of operations for the year ended December 31, 2003 and an additional reserve of \$357,332 was made for the year ended December 31, 2004. Should we determine in a future period that an adjustment to market value of the inventory is necessary, we would record such adjustment at that time, which would not have a material adverse effect on our results of operations.

**Our proprietary software relies on reference data provided by government and quasi-government agencies. If these governmental and quasi-government agencies were to stop sharing data with us, the utility of our proprietary software would be diminished in those jurisdictions and our business would be damaged.**

Currently, forty-nine (49) states, eight (8) Canadian provinces and the District of Columbia, which conform to the guidelines established by certain organizations responsible for implementing industry standards, cooperate with us by providing sample identification cards so that we may modify the ID-Check System terminal and other software products to read and analyze the encoded information found on such jurisdiction's identification cards. We cannot assure you that each of these jurisdictions will continue to cooperate with us. In the event that one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions.

**Future government regulation restricting the capture of information electronically stored on identification cards could adversely affect our business.**

Our proprietary software products are designed to read and capture information from identification cards. Currently, those customers located in New Hampshire, North Carolina and Texas are legally restricted from using this information for their own use without customer consent. Because issues of personal privacy continue to be a major topic of public policy debate, it is possible that in the future additional customers in these and other jurisdictions may be restricted from capturing

this information. Therefore, the implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise adversely affect our business, financial condition and results of operations.

**Our refocused business strategy exposes us to long sales and implementation cycles for our products.**

Our target customers in the commercial fraud protection, access control and age verification markets include large retailers and government agencies, which typically require longer sales and implementation cycles for our products than do our potential customer base solely interested in age verification, such as restaurant, bar and convenience store operators. The longer sales and implementation cycles for larger retail companies continue to have an adverse impact on the timing of realizing our revenues. In addition, budgetary constraints and economic slowdowns may also continue to delay purchasing decisions by these prospective customers. These initiatives have costs associated with them, and we cannot assure you that they ultimately will prove successful or result in, an increase to, our revenues or profitability.

In addition, the loss or significant reduction in government spending by government entities could materially limit our ability to obtain government contracts. These limitations, if significant, could also have a material adverse effect on our business, financial condition and results of operations. In addition, we will need to develop additional strategic relationships with large government contractors in order to successfully compete for government contracts. Our inability to develop these strategic relationships may limit our ability to implement our business strategy.

**The market for our systems and software is evolving and its growth is uncertain.**

Demand and market acceptance for recently introduced and existing systems and software and sales from such systems and software, are subject to a high level of uncertainty and risk. Our business may suffer if the market develops more slowly than anticipated and does not sustain market acceptance.

**Failure to manage our operations if they expand could impair our future growth.**

If we are able to expand our operations, particularly through multiple sales to large retailers and government agencies in the document verification market, the expansion will place significant strain on our management, financial controls, operating systems, personnel and other resources. Our ability to manage future growth, should it occur, will depend to a large extent upon several factors, including our ability to do the following:

- build and train our sales force;
- establish and maintain relationships with distributors;
- develop customer support systems;
- develop expanded internal management and financial controls adequate to keep pace with growth in personnel and sales, if they occur; and
- manage the use of third-party manufacturers and suppliers.

If we are able to grow our business but do not manage our growth successfully, we may experience increased operating expenses, loss of customers, distributors or suppliers and declining or slowed growth of revenues.

**We are subject to risks associated with product failure and technological flaws.**

Products as complex as those offered by us may contain undetected errors or result in failures when first introduced or when new versions are released. Despite vigorous product testing efforts and testing by current and potential customers, it is possible that errors will be found in a new product or enhancement after commencement of commercial shipments. The occurrence of product defects or errors could result in adverse publicity, delay in product introduction, diversion of resources to remedy defects, loss of, or a delay in market acceptance, claims by customers against us, or could cause us to incur additional costs, any of which could adversely affect our business.

**Our failure to protect our proprietary technology may impair our competitive position.**

We continue to allocate significant resources to develop new and innovative technologies which we utilize in our products and systems. We consider such allocation to be fundamental to our continued success as such success depends, to a significant degree, upon our ability to provide products and systems that provide superior functionality and performance

compared to those of our competitors. Accordingly, we must protect our technology from unauthorized use. This is done by processes aimed at identifying and seeking appropriate protection for newly developed intellectual property, i.e., patents, trade secrets, copyrights and trademarks, as well as policies aimed at identifying unauthorized use of such property in the marketplace. These processes include:

- contractual arrangements providing for non-disclosure of proprietary information;
- maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems;
- protecting our trade secrets;
- protecting our copyrights and trademarks by registration and other appropriate means,
- establishing internal processes for identifying and appropriately protecting new and innovative technologies; and
- establishing practices for identifying unauthorized use of our intellectual property.

While we actively protect our intellectual property, it does not follow that others will not intentionally or innocently use such intellectual property. Accordingly, at times we may be required to bring legal proceedings to preclude such unauthorized use. We are mindful that such measures can be costly and time consuming and undertake such measures only as a last resort.

These policies and practices with respect to our intellectual property rights do not prevent our competitors from independently developing products similar or superior to our products and technologies. It merely protects our property rights created as a result of our allocating significant portions of our technical and monetary resources. Further, an inability or failure to protect this property could have a material adverse effect on our future business and financial condition.

**If our future products incorporate technologies that infringe the proprietary rights of third parties, and we do not secure licenses from them, we could be liable for substantial damages.**

We are not aware that our current products infringe the intellectual property rights of any third parties. We also are not aware of any third party intellectual property rights that may hamper our ability to provide future products and services. However, we recognize that the development of our services or products may require that we acquire intellectual property licenses from third parties so as to avoid infringement of those parties' intellectual property rights. These licenses may not be available at all or may only be available on terms that are not commercially reasonable. We recognize that third parties could make infringement claims against us which, whether or not they are upheld, could have a negative impact on our business and financial condition, by:

- consuming substantial time and financial resources;
- diverting the attention of management from growing our business and managing operations; and
- disrupting product sales and shipments.

If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter into costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product development, sales and shipments, our revenues may decline substantially and we may not be able to achieve the minimum, necessary growth for our continued success.

**Failure to attract and retain management and other personnel may damage our operations and financial results and cause our stock price to decline.**

We depend to a significant degree on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing or additional personnel could disrupt or otherwise harm our operations and financial results. Although we have employment agreements with each of Frank Mandelbaum, our Chairman and Chief Executive Officer, and Edwin Winiarz, our Senior Vice President - Treasurer and Chief Financial Officer, securing their employment until December 31, 2005 and December 31, 2006, respectively, we do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could have a material adverse effect on our business, financial condition, and results of operations.

**Changes in accounting standards or our accounting policy relating to stock-based compensation may negatively affect our operating results.**

We currently are not required to record stock-based compensation charges if the employee's stock option exercise price equals or exceeds the deemed fair value of our common stock at the date of grant and the award has not been modified. However, several companies have recently elected to change their accounting policies and begun to record the fair value of stock options as an expense. However, during December 2004, the Financial Accounting Standards Board ("FASB") issued SFAS No. 123 (revised 2004) requiring that the compensation cost relating to share based payment transactions be recognized in financial statements. This will require a change in our accounting policy and the amount of our operating expenses could increase and our operating results could be adversely affected.

**Our share price may be volatile and could decline substantially**

The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to March 25, 2005, the closing bid price of our common stock has varied from a high of \$19.45 to a low of \$2.10 per share, as reported on the American Stock Exchange. Many factors may cause the market price for our common stock to decline, including:

- shortfalls in revenues, cash flows or continued losses from operations;
- conversions of preferred stock into common stock; delays in development or roll-out of any of our products;
- announcements by one or more competitors of new product acquisitions or technological innovations; and
- unfavorable outcomes from outstanding litigation.

In addition, the stock market experiences extreme fluctuations in price and volume that particularly affect the market price of shares of emerging technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected companies. Because of this volatility, we may fail to meet the expectations of our shareholders or of securities analysts and our stock price could decline as a result. Declines in our stock price for any reason, as well as broad-based market fluctuations or fluctuations related to our financial results or other developments, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de-listing of our common stock.

**Risks Related to Arthur Andersen LLP**

**The absence of Arthur Andersen LLP's consent to the use of its opinion may limit the remedies available to stockholders.**

Our inability to obtain Arthur Andersen LLP's consent to the use of its opinion for our financial statements for the 2001 year and the absence of a signed opinion may limit the remedies available to you since your claims against Arthur Andersen LLP under the Securities Act of 1933, as amended, based on these financial statements may be limited. Moreover, even if claims against Arthur Andersen LLP are permitted, Arthur Andersen LLP may not have the financial resources to satisfy any judgment. In addition, notwithstanding that we have not filed the written consent of Arthur Andersen, LLP, our directors and officers may still be able to establish a due diligence defense to any claim relating to those financial statements on the basis that they were made on the authority of our expert which could limit your ability to assert a claim against them.

**Item 2. Description of Property**

Our executive offices are currently located in Woodbury, New York, where we occupy approximately 9,700 square feet of leased space pursuant to a lease expiring on December 31, 2010. In March 2002, we signed a two year lease in Connecticut to operate our IDentiScan division, which expired on March 1, 2004. Payments under these leases were \$242,083 for 2002, \$252,386 for 2003, \$243,577 for 2004 and will be \$1,594,104 for the remaining years of the leases.

**Item 3. Legal Proceedings**

On August 1, 2003, we filed a summons and complaint against Tricom Card Technologies, Inc. alleging infringement on our patent and seeking injunctive and monetary relief. On October 23, 2003, we amended our complaint to include infringement on an additional patent. On May 18, 2004, we filed a Second Amended Complaint alleging infringement and inducement to infringe against certain principals of Tricom in their personal capacities, as well as alleging in the alternative false advertising claims under the Lanham Act against all the defendants. These principals have moved to dismiss the claims against them, and Tricom has moved to dismiss the false advertising claims. The Company has opposed

the motions. We filed the proposed Joint Pretrial Order on November 19, 2004, which has not yet been executed and a conference is scheduled for April 1, 2005.

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

During the fourth quarter of our fiscal year ended December 31, 2004 there were no matters submitted to a vote of security holders.

### PART III

#### Item 5. Market for Registrant's Common Equity and Related Stockholder Matters

(a) Our common stock is traded on the American Stock Exchange under the symbol "IDN." The following table indicates high and low sales quotations for the periods indicated based upon information supplied by AMEX.

	<u>Low</u>	<u>High</u>
<b><u>2003</u></b>		
First Quarter	\$6.35	\$8.44
Second Quarter	\$5.80	\$7.66
Third Quarter	\$6.70	\$11.85
Fourth Quarter	\$6.30	\$7.32
<b><u>2004</u></b>		
First Quarter	\$3.90	\$8.00
Second Quarter	\$4.40	\$7.50
Third Quarter	\$4.60	\$6.25
Fourth Quarter	\$3.91	\$5.72
<b><u>2005</u></b>		
January 1 – March 25, 2005*	\$4.36	\$6.95

\* Portion of first fiscal quarter of 2005.

(b) Number of Holders of Common Stock. The number of holders of record of our Common Stock on March 25, 2005 was 67, which does not include individual participants in security position listings.

(c) Dividends. There were no cash dividends or other cash distributions made by us during the fiscal year ended December 31, 2004. Future dividend policy will be determined by our Board of Directors based on our earnings, financial condition, capital requirements and other then existing conditions. It is anticipated that cash dividends will not be paid to the holders of our common stock in the foreseeable future.

(d) Recent Sales of Unregistered Securities

On January 21, 2004, we entered into a one year agreement with Alexandros Partners LLC, an accredited investor, to act as consultants in advising us in financial and investor relation matters. We agreed to pay a consulting fee of \$50,000 payable in 12 equal monthly installments. In addition, we issued a warrant granting the right to purchase 100,000 shares of our common stock at a purchase price of \$7.54 per share, which vested ratably over the 12 month period. A principal of Alexandros Partners LLC is currently a member of our Board of Directors. No sales commissions were paid in connection with this transaction. The warrant to purchase shares of the Company's common stock issued to Alexandros Partners was issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 7, 2004, we entered into a one year agreement with a consulting firm, an accredited investor, to help with our investor relations activities. We agreed to pay a consulting fee of \$100,000 payable in 12 monthly installments. In addition, we issued 11,500 restricted shares of our common stock at a market price of \$4.25 per share. No sales commissions were paid in connection with this transaction. The shares of the Company's common stock issued to the consultant were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

On December 8, 2004, we issued 1,500 shares of our common stock to our Chief Financial Officer for 50% of its then market value under the terms of his employment agreement, which expired on December 31, 2004. We received proceeds of \$3,188 and recorded \$3,188 as additional compensation for the period ended December 31, 2004. No sales commissions were paid in connection with this transaction. The shares of the Company's common stock issued to our Chief Financial Officer were issued in reliance upon the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

(e) Repurchases of Equity Securities

In March 2001, our Board of Directors authorized, subject to certain business and market conditions, the purchase of up to \$1,000,000 of our common stock. As of December 31, 2004, we cumulatively purchased 40,200 shares totaling approximately \$222,000 and subsequently retired these shares. None of these shares were purchased during the fourth quarter of 2004. We may purchase additional shares when warranted by certain conditions.

**Item 6. Selected Financial Data**

The following selected financial data presented under the captions "Statement of Operations Data" and "Balance Sheet Data" as of the end of each of the five years ended December 31, 2004, are derived from the financial statements of Intelli-Check, Inc. The financial statements for fiscal years ended December 31, 2000 through December 31, 2001 were audited by Arthur Andersen LLP, independent public accountants; the financial statements for the fiscal years ended December 31, 2002 and 2003 were audited by Grant Thornton, LLP independent certified public accountants and the financial statements for the fiscal year ended December 31, 2004 were audited by Amper, Politziner & Mattia, P.C. The selected financial data should be read in conjunction with the financial statements as of December 31, 2004 and 2003 and for each of the three years in the period ended December 31, 2004, the accompanying notes and the report of independent registered public accounting firms thereon, which are included elsewhere in this Form 10-K.

	<b>Years Ended December 31,</b>				
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(In thousands)</b>				
<b>Statement of Operations Data:</b>					
Revenue	\$ 343	\$ 886	\$ 1,139	\$ 1,236	\$ 1,119
Loss from operations	(3,379)	(4,090)	(5,936)	(5,537)	(7,017)
Net Loss	(3,133)	(3,963)	(5,550)	(6,451)	(6,923)
Net loss per common share - basic and diluted	(0.47)	(0.52)	(0.64)	(0.74)	(0.79)
Common shares used in computing per share amounts - basic and diluted	6,648	7,911	8,686	9,218	10,225
	<b>As of December 31,</b>				
	<b>2000</b>	<b>2001</b>	<b>2002</b>	<b>2003</b>	<b>2004</b>
	<b>(In thousands)</b>				
<b>Balance sheet data:</b>					
Cash and cash equivalents	4,092	4,061	1,911	3,307	1,750
Working capital	5,920	5,303	2,634	8,350	3,629
Total assets	7,940	8,423	5,415	10,732	5,615
Stockholders equity	6,633	7,030	3,873	6,901	868

**Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

**Overview**

Intelli-Check was formed in 1994 to address a growing need for a reliable document and age verification system that could be used to detect fraudulent driver licenses and other widely accepted forms of government-issued identification documents. Since then, our technology has been further developed for application in the commercial fraud protection, access control and governmental security markets. Additionally, it is currently being used to address inefficiencies and inaccuracies associated with manual data entry. The core of Intelli-Check's product offerings is our proprietary software technology that verifies the authenticity of driver licenses, state issued non-driver and military identification cards used as proof of identity. Our patented ID-Check® software technology instantly reads, analyzes, and verifies the encoded data in magnetic stripes and barcodes on government-issue IDs from approximately 60 jurisdictions in the U.S. and Canada to determine if the content and format is valid. We have served as the national testing laboratory for the American Association of Motor Vehicle Administrators (AAMVA) since 1999 and have access to all the currently encoded driver license formats. After the tragic events that occurred on September 11, 2001, we believe there has been a significant increase in awareness of our software technology to help improve security across many industries, including airlines, rail transportation and high profile buildings and infrastructure, which we believe should enhance future demand for our technology. We have also begun to market to various government and state agencies, which have long sales cycles including extended test periods. Since inception, we have incurred significant losses and negative cash flow from operating activities and, as of December 31, 2004, we had an

accumulated deficit of \$35,671,379. We will continue to fund operating and capital expenditures from proceeds that we received from sales of our equity securities. In view of the rapidly evolving nature of our business and our limited operating history, we believe that period-to-period comparisons of revenues and operating results are not necessarily meaningful and should not be relied upon as indications of future performance.

Our ID-Check's unique technology provides the ability to verify the validity of military ID's, driver licenses and state issued non-driver ID cards that contain magnetic stripes, bar codes and SMART chips that conform to AAMVA/ANSI/ISO standards, which enables us to target three distinct markets. The original target market was focused on resellers of age-restricted products, such as alcohol and tobacco, where the proliferation of high-tech fake IDs expose merchants to fines and penalties for the inadvertent sale of these products to underage purchasers. We now also target commercial fraud, which includes identity theft and our technology is designed to help prevent losses from these frauds. We believe that the tragic events that occurred on September 11, 2001 have created increased awareness of our technology in security applications involving access control. As a result of its applicability in these markets, we have sold our products to some of the largest companies in the gaming industry, a state port authority, military establishments, airports, nuclear power plants and high profile buildings and have successfully completed tests of our technology in one of the largest mass merchandisers in the United States. We currently are testing our products with some large public companies. We have entered into strategic alliances with several biometric companies; Lenel Systems International, a provider of integrated security solutions; and Northrop Grumman and Anteon, integrators in the defense industry, to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications. In addition, we have executed agreements with some high profile organizations to promote the use of our technology and our products. We believe these relationships have broadened our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional high profile organizations and providers of security solutions.

We have developed additional software products that utilize our patented software technology. Our latest products include ID-Traveler and ID-Prove. ID Traveler electronically verifies and matches two forms of government issued ID's instantaneously while the ID Prove product offering provides "out of wallet" questions to assist in proving a users claimed identity. Additional software solutions include ID-Check® PC and ID-Check® PDA, which replicate the features of ID-Check. These products are designed to be platform-independent and compatible with both stationary and mobile hardware applications. Another new application is the next version of C-Link®, the company's net workable data management software. Additionally, ID-Check® PC and the next release of C-Link are designed to read the smart chip contained on the military Common Access Card (CAC). These products are all designed for use with Intelli-Check's new DCM, a compact, self-contained two-dimensional bar code and magnetic stripe reader. The DCM enables the new software applications to be used on a variety of commercially available data processing devices, including PDAs, Tablets, Laptops, Desktops and Point-of-Sale Computers, therefore negating the need to replace the IDC-1400 platform. Our C-Link® software product, which runs on a personal computer and was created to work in conjunction with the ID-Check unit allows a user to instantly view the encoded data for further verification, to analyze the data and to generate various reports where permitted by law. To date, we have entered into thirteen (13) licensing agreements and are in discussions with additional companies to license our software to be utilized within other existing systems. The revenue received from such licensing agreements has not been significant through the period ended December 31, 2004.

### **Critical Accounting Policies and the Use of Estimates**

The preparation of our financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the amounts reported in our financial statements and accompanying notes. Actual results could differ materially from those estimates.

We believe that there are several accounting policies that are critical to understanding our historical and future performance, as these policies affect the reported amounts of revenue and the more significant areas involving management's judgments and estimates. These significant accounting policies relate to revenue recognition, valuation of inventory and commitments and contingencies. These policies and our procedures related to these policies are described in detail below.

### **REVENUE RECOGNITION**

We sell our products directly through our sales force and through distributors. Revenue from direct sales of our product is recognized when shipped to the customer and title has passed. Our products require continuing service or post contract customer support and performance by us; accordingly, a portion of the revenue pertaining to the service and support is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one year. Currently, with respect to sales of certain of our products, we do not have enough

experience to identify the fair value of each element and the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

In addition, we recognize sales from licensing of our patented software to customers. Our licensed software requires continuing service or post contract customer support and performance by us; accordingly, a portion of the revenue is deferred based on its fair value and recognized ratably over the period in which the future service, support and performance are provided, which is generally one year.

During the second quarter of fiscal 2003, we began receiving royalties from licensing our technology, which are recognized as revenues in the period they are earned.

#### INVENTORY VALUATION

Our inventory consists primarily of our ID-Check terminals that run our patented software and input devices purchased in 2004. We acquired such inventory in December 1999 and, shortly thereafter; it was returned to the manufacturer for upgrade and became available for sale in the fourth quarter of 2000. We periodically evaluate the current market value of our inventory, taking into account any technological obsolescence that may occur due to changes in hardware technology and the acceptance of the product in the marketplace. Based on ongoing evaluation of our inventory, we recorded an inventory write down of \$990,000 during 2003 and an additional write down of \$357,332 during 2004. Should we determine in a future period that an adjustment to market value of the inventory is necessary, we would record such adjustment at that time, which could have a material adverse effect on our results of operations. The manufacturer discontinued the production of the ID-Check terminals in 2003. The ID-Check terminal is fully capable of running our patented software as it utilizes a high quality imager/scanner and magnetic stripe reader and is currently being marketed for sale.

The above listing is not intended to be a comprehensive list of all of our accounting policies. In many cases, the accounting treatment of a particular transaction is specifically dictated by generally accepted accounting principles, with no need for management's judgment in their application. There are also areas in which management's judgment in selecting any available alternative would not produce a materially different result.

#### STOCK-BASED COMPENSATION

Options, warrants and stock awards issued to non-employees and consultants are recorded at their fair value as determined in accordance with Statement of Financial Accounting Standards No. 123, "Accounting for Stock-Based Compensation," and EITF No. 96-18, "Accounting for Equity Instrument That are Issued to Other Than Employees for Acquiring, or in Conjunction with Selling, Goods or Services" and recognized as expense over the related vesting period.

#### DEFERRED INCOME TAXES

Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. We have recorded a full valuation allowance for our net deferred tax assets as of December 31, 2004, due to the uncertainty of the realizability of those assets.

#### RECENTLY ISSUED ACCOUNTING PRONOUNCEMENTS

See footnote 2 of financial statements attached hereto following beginning on Page F-1

#### Results of Operations

#### COMPARISON OF THE YEAR ENDED DECEMBER 31, 2004 TO THE YEAR ENDED DECEMBER 31, 2003.

REVENUE. Revenue decreased \$116,262 from \$1,235,611 for the year ended December 31, 2003 to \$1,119,349 for the year ended December 31, 2004. Revenues for the period ended December 31, 2004 consisted of revenue from distributors of \$314,166, revenues from direct sales to customers of \$738,070 and royalty income of \$67,113. Sales, which represent shipments of products and contracted services, increased 22.3% from \$1,172,056 for the year ended December 31, 2003 to \$1,433,381 for the year ended December 31, 2004. Sales growth has been limited due to our change in marketing focus from smaller customers to large commercial customers and government agencies which require an extended sales cycle. We believe that the time frame of the sales cycle associated with the refocus of our marketing efforts will continue to

impact our sales. We are optimistic that sales opportunities should increase as a result of certain of our recent marketing tests and agreements, our introduction of additional products this year, as well as legislative efforts to enhance security and deal with the problem of under-age access to alcoholic products.

**GROSS PROFIT.** Gross profit, excluding an inventory write down of \$357,332 for 2004 and \$990,000 for 2003, would have decreased by \$55,814 from \$781,579 for the year ended December 31, 2003 to \$725,765 for the year ended December 31, 2004. Our gross profit excluding the inventory write downs for 2004 and 2003 as a percentage of revenues would have increased to 64.8% in the year ended December 31, 2004 from 63.3% for the year ended December 31, 2003. Our gross profit percentage was positively impacted by an increase in revenues from licensing our patented technology at higher gross margins.

**OPERATING EXPENSES.** Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 38.6% from \$5,328,742 for the year ended December 31, 2003 to \$7,385,394 for the year ended December 31, 2004. Selling expenses, which consist primarily of salaries and related costs for marketing, decreased 13.0% from \$1,352,274 for the year ended December 31, 2003 to \$1,176,911 for the year ended December 31, 2004 primarily due to decreased travel and convention expenses of approximately \$81,000 and a reduction of non-recurring expenses of \$94,000 from the hiring of professional consultants. General and administrative expenses, which consist primarily of salaries and related costs for general corporate functions, including executive, accounting, facilities and fees for legal and professional services, increased 111% from \$2,386,088 for the year ended December 31, 2003 to \$5,032,207 for the year ended December 31, 2004, primarily as a result of an increase in non-cash expenses from the extension of stock options totaling \$1,347,000 and an increase in legal fees of approximately \$1,630,000 primarily relating to patent infringement litigation, which were partially offset by a decrease in depreciation and amortization expense of approximately \$323,000 as a result of the write-off of intangible assets relating to the IDentiScan acquisition in 2003. Research and development expenses, which consist primarily of salaries and related costs for the development of our products, decreased 4.1% from \$1,226,725 for the year ended December 31, 2003 to \$1,176,276 for the year ended December 31, 2004 primarily as a result of a decrease in employee salaries and related expenses of approximately \$75,000. During the fourth quarter of 2003, we determined that as a result of discontinuing the selling of IDentiScan products, certain of our intangible assets with a remaining book value of \$363,655 should be written off. No charges of a similar nature occurred in 2004. We believe that we will require additional investments in development and operating infrastructure as the Company grows. Therefore, we expect that expenses will continue to incrementally increase in line with increases in the growth of the business as we may increase expenditures for advertising, brand promotion, public relations and other marketing activities. Research and development expenses may also increase as we complete and introduce additional products based upon our patented ID-Check technology.

**INTEREST EXPENSE.** We did not incur interest expense for the year ended December 31, 2004 compared to the interest expense of \$43,487 in the year ended December 31, 2003, which resulted primarily from interest accrued in 2003 on an arbitration decision awarding Early Bird Capital settlement on their demand.

**INTEREST INCOME.** Interest income increased from \$51,437 for the year ended December 31, 2003 to \$94,030 for the year ended December 31, 2004, which is a result of a higher average annual balance in our cash and cash equivalents, marketable securities and short term investments available for investment during this period resulting from additional cash received from the successful completion of our secondary offering in October 2003.

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

**NET LOSS.** As a result of the factors noted above, our net loss increased from \$6,450,943 which included \$2,314,627 of non-cash expenses for the year ended December 31, 2003 to \$6,922,931 for the year ended December 31, 2004, which included \$2,231,544 of non-cash expenses.

#### **COMPARISON OF THE YEAR ENDED DECEMBER 31, 2003 TO THE YEAR ENDED DECEMBER 31, 2002.**

**REVENUE.** Revenue increased \$97,024 from \$1,138,587 for the year ended December 31, 2002 to \$1,235,611 for the year ended December 31, 2003. Revenues for the period ended December 31, 2003 consisted of revenue from distributors of \$290,022, revenues from direct sales to customers of \$880,423 and royalty income of \$65,165. Sales, which represent shipments of products and contracted services, decreased 11.7% from \$1,326,829 for the year ended December 31, 2002 to \$1,172,056 for the year ended December 31, 2003. This slow growth is primarily as a result of our change in focus to market to large commercial customers and government agencies which require an extended sales cycle rather than to smaller customers. This refocus of our marketing efforts will continue to impact our sales as a result of the extended time frame associated with these sales cycles. We believe that based upon the results of certain of our recent marketing tests, recent

marketing agreements, the introduction of additional products in 2004 as well as legislative efforts to enhance security, these events should result in increased sales opportunities.

**GROSS PROFIT.** Gross profit, excluding an inventory write down of \$990,000, would have increased by \$144,421 from \$637,158 for the year ended December 31, 2002 to \$781,579 for the year ended December 31, 2003. Our gross profit excluding the inventory write down of \$990,000 as a percentage of revenues would have increased to 63.3% in the year ended December 31, 2003 from 56% for the year ended December 31, 2002. Our gross profit percentage was positively impacted by an increase in revenues from licensing our patented technology at higher gross margins.

**OPERATING EXPENSES.** Operating expenses, which consist of selling, general and administrative and research and development expenses, decreased 18.9% from \$6,573,129 for the year ended December 31, 2002 to \$5,328,742 for the year ended December 31, 2003. Selling expenses, which consist primarily of salaries and related costs for marketing, decreased 5.9% from \$1,437,509 for the year ended December 31, 2002 to \$1,352,274 for the year ended December 31, 2003 primarily due to a reduction of non-recurring expenses of approximately \$123,000 from the hiring of professional consultants to promote our product and a reduction in sales demonstration equipment expenses of approximately \$19,000, which was partially offset by an increase in salaries and employee costs of approximately \$34,000 and marketing expenses of approximately \$13,000. General and administrative expenses, which consist primarily of salaries and related costs for general corporate functions, including executive, accounting, facilities and fees for legal and professional services, decreased 28.9% from \$3,355,549 for the year ended December 31, 2002 to \$2,386,088 for the year ended December 31, 2003, primarily as a result of a reduction of non-recurring fees of approximately \$355,000 incurred in the prior year for the hiring of consultants primarily relating to the recognized non-cash expense of the granting of options to this group in the prior year, a decrease of salaries and related expenses of approximately \$12,000, a decrease in miscellaneous and office related expenses of approximately \$36,000 and a decrease in legal and accounting fees of approximately \$568,000 primarily related to the reversal of legal accruals resulting from the settlement of prior litigation matters, which was partially offset by an increase in insurance costs of approximately \$20,000. Research and development expenses, which consist primarily of salaries and related costs for the development of our products, increased 4% from \$1,180,071 for the year ended December 31, 2002 to \$1,226,725 for the year ended December 31, 2003 primarily as a result of additional expenses incurred in the development of our new products. During the fourth quarter of 2003, we determined that as a result of discontinuing the selling of IDentiScan products, certain of our intangible assets with a remaining book value of \$363,655 should be written off. During the fourth quarter of 2002, we recorded a reserve on inventory deposit of \$600,000, which represents the deposit we paid the manufacturer on an open purchase order, which we subsequently decided to cancel. We believe that we will require additional investments in development and operating infrastructure as the Company grows. Therefore, we expect that expenses will continue to incrementally increase in line with increases in the growth of the business as we may increase expenditures for advertising, brand promotion, public relations and other marketing activities. Research and development expenses may also increase as we complete and introduce additional products based upon our patented ID-Check technology.

**INTEREST EXPENSE.** Interest expense increased from \$4,878 for the year ended December 31, 2002 to \$43,487 for the year ended December 31, 2003 primarily as a result of interest incurred on the Early Bird award granted on April 8, 2003.

**INTEREST INCOME.** Interest income decreased from \$53,871 for the year ended December 31, 2002 to \$51,437 for the year ended December 31, 2003, which primarily resulted from a decrease in our cash and cash equivalents available for investment through the third quarter of 2003 and lower interest rates available on our investments which was partially offset by the additional interest income on the cash received from the successful completion of our secondary offering in October 2003.

**OTHER EXPENSES.** Other expenses for the year ended December 31, 2003 totaling \$921,730 is a result of a non-recurring charge from an arbitration decision in favor of Early Bird Capital as a settlement on their demand.

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

**NET LOSS.** As a result of the factors noted above, our net loss increased from \$5,550,234, which included \$1,773,131 of non-cash expenses for the year ended December 31, 2002 to \$6,450,943 for the year ended December 31, 2003, which included \$2,314,627 of non-cash expenses, accounting for 60.1% of the increase in our net loss.

### **Liquidity and Capital Resources**

Prior to our initial public offering in November 1999, we financed our operations primarily through several private placements of equity and debt securities. We used the net proceeds of these financings for the primary purpose of funding working capital and general corporate purposes and for the purchase of hardware terminals. As a result of our IPO and the

underwriters exercise of their over allotment option, we received approximately \$6,907,000 in net proceeds after deducting underwriters commissions and offering expenses. During 2000, we received \$3,426,374 from the issuance of common stock from the exercise of warrants and stock options. During 2001 and 2002, we received \$3,231,174 and \$1,742,466, respectively, from the issuance of common stock from the exercise of warrants, stock options and rights. During 2003, we received net proceeds before legal expenses of \$2,850,000, from the issuance of convertible preferred stock and we received net proceeds of approximately \$7,906,000 from our secondary public offering of 1,100,000 shares of common stock. We funded the purchase of hardware terminals for resale and working capital primarily from these proceeds. On November 2, 2004, we entered into an exclusive agreement with an investment banking firm for the purpose of investigating the opportunities in raising additional capital for us. There can be no assurances that we will be successful in raising additional capital on acceptable terms.

Cash used in operating activities for the year ended December 31, 2004 of \$3,773,646 was primarily attributable to the net loss of \$6,922,931, a decrease in litigation settlement payable of \$921,700 resulting from the payout of the legal award matter with Early Bird Capital recorded in 2003 and an increase in accounts receivable of \$288,946 resulting from credit sales made towards the end of the year, which was offset primarily by an increase in certificates of deposit, restricted of \$1,283,118 resulting primarily from the payout of the legal award, an increase in accounts payable and accrued expenses of \$667,086 primarily from legal accruals resulting from the patent litigation, an inventory reserve of \$357,332, depreciation and amortization of \$111,743, recognition of non cash stock based compensation expense resulting primarily from the extension of stock options of \$1,350,187 and amortization of deferred compensation of \$363,407 from the granting of stock options to consultants. Cash used in operating activities for the year ended December 31, 2003 of \$4,612,915 was primarily attributable to the net loss of \$6,450,943, an increase in certificates of deposit, restricted of \$1,009,801 resulting from the award in the legal matter with Early Bird Capital, an increase in accounts receivable of \$155,636 resulting from credit sales made towards the end of the year, a decrease in accounts payable and accrued expenses of \$464,354 primarily from the reversal of legal accruals resulting from the settlement of prior litigation matters, which was offset primarily by a decrease of inventory of \$259,130 and an inventory reserve of \$990,000, an increase in litigation settlement payable of \$921,700 resulting from the legal award recorded in the first quarter of 2003, depreciation and amortization of \$436,778, write off of intangible assets of \$363,655 and amortization of deferred compensation of \$357,194 from the granting of stock options to consultants. Cash used in investing activities was \$2,125,151 for the year ended December 31, 2004 and resulted primarily from the net result of the investment in and sales of marketable securities and short term investments of \$2,147,592. Cash used in investing activities was \$4,860,740 for the year ended December 31, 2003 and consisted of purchases of marketable securities and short term investments of \$4,856,388 using cash received from our secondary offering. Cash provided by financing activities was \$91,989 for the year ended December 31, 2004 and was primarily related to proceeds of \$431,167 from the issuance of common stock from the exercise of stock options, which was partially offset by the payment of dividends to preferred stock holders of \$240,000. Cash provided by financing activities was \$10,870,067 for the year ended December 31, 2003 and was primarily related to the issuance of 1,100,000 shares of our common stock in connection with our secondary public offering, the issuance of our Series A 8% Convertible Redeemable Preferred Stock and the exercise of stock options.

During 2004, we received net proceeds of \$427,979 from the exercise of 142,700 options. During 2003, we received net proceeds of \$679,611 from the exercise of 175,209 options. As of December 31, 2004, there remained warrants outstanding to purchase 110,000 and 100,000 shares of the Company's common stock at an exercise price of \$8.80 and \$7.54, respectively.

On March 27, 2003, pursuant to a Securities Purchase Agreement, we sold 30,000 shares of our Series A 8% Convertible Redeemable Preferred Stock, par value \$.01 per share, for \$3,000,000 before expenses to Gryphon Master Fund, L.P. Each share of Preferred Stock entitled the holder to receive dividends of 8% per annum and is currently convertible into 15.1515 shares of our common stock for a total of 454,545 shares of common stock. Additionally, the investors were issued five year warrants to purchase 113,636 shares of common stock at an exercise price of \$6.78. Dividend payments of \$120,000 in cash are due semi-annually beginning September 30, 2003 and, accordingly, we paid \$122,958 on September 30, 2003. In connection with this financing, we paid agent fees of \$150,000 and issued warrants and options to purchase 8,854 shares of common stock at a price of \$6.78. Shares of Preferred Stock are convertible at the option of Gryphon Master Fund, L.P. at any time prior to redemption. We may redeem any or all of the Preferred Stock at any time after one year from the closing date at a cash redemption price of \$100 per share, providing the volume weighted average price of our Common Stock for 20 out of 30 consecutive trading days exceeds \$13.20 per share. We must redeem all of the Preferred Stock outstanding on the fifth anniversary of the closing date at a redemption price, in cash, equal to the purchase price of the Preferred Stock. A registration statement covering the common stock issuable upon conversion of the preferred stock and exercise of the warrants was declared effective in June 2003. On February 25, 2005, Gryphon converted the 30,000 shares of Series A 8% Convertible Redeemable Preferred Stock into 454,545 shares of common stock. We paid dividends through February 25, 2005.

In March 2001, we declared a dividend distribution of one non-transferable right to purchase one share of our common stock for every 10 outstanding shares of common stock continuously held from the record date to the date of exercise, as well as common stock underlying vested stock options and warrants, held of record on March 30, 2001, at an exercise price of \$8.50. The rights were due to expire on October 4, 2002, which was one year after the effective date of the registration statement related to the shares of common stock underlying the rights. We first extended the expiration date until April 4, 2003; we then extended the rights until December 31, 2003; we further extended the expiration date to June 30, 2004; and subsequently extended the expiration date to June 30, 2005. We have the right to redeem the outstanding rights for \$.01 per right under certain conditions, which were not met as of March 25, 2005. We reserved 970,076 shares of common stock for future issuance under this rights offering. Cumulatively, as of December 31, 2004, we received \$2,482,009 before expenses from the exercise of 292,001 of these rights.

In March 2001, our Board of Directors authorized, subject to certain business and market conditions, the purchase of up to \$1,000,000 of our common stock. As of December 31, 2004, we cumulatively purchased 40,200 shares totaling approximately \$222,000 and subsequently retired these shares. None of these shares were purchased during the fourth quarter of 2004. We may purchase additional shares when warranted by certain conditions.

During 2004, the Company's cash expense burn rate, which does not include dividend payments made on our Preferred Stock, was approximately \$430,000 per month and we expect that it will not materially change for 2005. We currently anticipate that our available cash in hand and marketable securities and cash resources from expected revenues from the sale of the units in inventory and the licensing of our technology will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least the next twelve months. These requirements are expected to include the purchase of inventory, product development, sales and marketing, working capital requirements and other general corporate purposes. We may need to raise additional funds, however, to respond to business contingencies which may include the need to fund more rapid expansion, fund additional marketing expenditures, develop new markets for our ID-Check technology, enhance our operating infrastructure, respond to competitive pressures, or acquire complementary businesses or necessary technologies.

We are currently involved in certain legal proceedings as discussed in the "Commitments and Contingencies" note in the Notes to the Financial Statements filed in our form 10-K for the year ended December 31, 2004. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows.

As of December 31, 2004, we had a net operating loss carry forward of approximately \$27 million, which expires beginning in the year 2013. The issuance of equity securities in the future, together with our earlier financings and our IPO, could result in an ownership change and could limit our use of our prior net operating losses. If we achieve profitable operations, any significant limitation on the utilization of our net operating losses would have the effect of increasing our tax liability and reducing net income and available cash reserves. We are unable to determine the availability of these net-operating losses since this availability is dependent upon profitable operations, which we have not achieved in prior periods; therefore we have recorded a full valuation allowance for the benefit from the net-operating losses.

### **Contractual Obligations**

The table below presents our contractual obligations and commitments at December 31, 2004:

<b><u>Contractual Obligations</u></b>	<b>Payments Due by Period</b>				
	<b><u>Total</u></b>	<b><u>Less than One Year</u></b>	<b><u>1-3 years</u></b>	<b><u>4-5 years</u></b>	<b><u>After 5 years</u></b>
Operating Leases	\$1,609,943	\$247,552	\$786,277	\$576,114	--
Consulting contracts	138,000	138,000	--	--	--
Employment contracts	574,172	412,086	162,086	--	--
Total Contractual Cash Obligation	\$2,322,115	\$797,638	\$948,363	\$576,114	--

### **Off-Balance Sheet Arrangements**

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

## **Forward Looking Statements**

The foregoing contains certain forward-looking statements. Due to the fact that our business is characterized by rapidly changing technology, high capital requirements and an influx of new companies trying to respond to enhanced security needs as a result of current events, actual results and outcomes may differ materially from any such forward looking statements and, in general are difficult to forecast.

### **Item 7A. Quantitative and Qualitative Disclosures About Market Risk**

None

### **Item 8. Financial Statements and Supplementary Data**

Financial statements are attached hereto following beginning on Page F-1.

### **Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

On April 21, 2004, the Company dismissed its independent auditors, Grant Thornton LLP ("Grant Thornton"), and engaged Amper, Politziner & Mattia P.C. ("Amper") as its new independent registered public accounting firm. The change in auditors became effective immediately. This determination followed the Company's decision to seek proposals from independent accountants to audit the financial statements of the Company, and was approved by the Company's Board of Directors upon the recommendation and approval of its Audit Committee. The audit reports of Grant Thornton on the Company's financial statements for the years ended December 31, 2003 and 2002 did not contain any adverse opinion or disclaimer of opinion, nor were they qualified or modified as to uncertainty, audit scope or accounting principles. During our fiscal years ended December 31, 2003 and 2002, and through the date of Grant Thornton's dismissal on April 21, 2004, there were no disagreements between the Company and Grant Thornton on any matter of accounting principles or practices, financial statement disclosure, or auditing scope or procedure, which disagreements, if not resolved to Grant Thornton's satisfaction, would have caused Grant Thornton to make reference to the subject matter of the disagreement in connection with its reports.

### **Item 9A. Controls and Procedures**

We maintain disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) that are designed (i) to collect the information we are required to disclose in the reports we file with the SEC, and (ii) to process, summarize and disclose this information within the time periods specified in the rules of the SEC. Under the supervision and with the participation of our management, including our Chief Executive Officer and Chief Financial Officer, we have evaluated the effectiveness of the design and operation of our disclosure controls and procedures. Such evaluation was conducted as of the end of the period covered by this report. Based on such evaluation, our Chief Executive and Chief Financial Officer have concluded that these procedures are effective.

Additionally, there were no significant changes in our internal controls or in other factors that could significantly affect these controls subsequent to the end of the period covered by this report. We have not identified any significant deficiencies or material weaknesses in our internal controls, and therefore there were no corrective actions taken.

### **Compliance with Section 404 of the Sarbanes-Oxley Act of 2002**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 (the Act), beginning with our Annual Report on Form 10-K for the fiscal year ending December 31, 2006, we will be required to furnish a report by our management on our internal control over financial reporting. This report will contain, among other matters, an assessment of the effectiveness of our internal control over financial reporting as of the end of our fiscal year, including a statement as to whether or not our internal control over financial reporting is effective. This assessment must include disclosure of any material weaknesses in our internal control over financial reporting identified by management. If we identify one or more material weaknesses in our internal control over financial reporting, we will be unable to assert our internal control over financial reporting is effective. This report will also contain a statement that our independent registered public accountants have issued an attestation report on management's assessment of such internal controls and conclusion on the operating effectiveness of those controls.

Management acknowledges its responsibility for internal controls over financial reporting and seeks to continually improve those controls. In order to achieve compliance with Section 404 of the Act within the prescribed period, we are currently performing the system and process documentation and evaluation needed to comply with Section 404, which is both costly and challenging. We believe our process, which will begin in 2005 and continue in 2006 for documenting, evaluating and monitoring our internal control over financial reporting is consistent with the objectives of Section 404 of the Act.

### **Item 9B. Other Information**

None

## PART IV

### **Item 10. Directors and Executive Officers of the Company**

As of March 30, 2005, the Company's directors and executive officers were as follows:

<b>Name</b>	<b>Position With the Company And Principal Occupation</b>	<b>Held Office Since</b>
Frank Mandelbaum	Chairman, Chief Executive Officer and Director	1996
Edwin Winiarz	Senior Executive Vice President, Treasurer, Chief Financial Officer and Director	1999
Russell T. Embry	Senior Vice President and Chief Technology Officer	2001
Todd Liebman	Senior Vice President, Marketing and Operations	2004
Ashok Rao	Vice Chairman, Director	2004
John N. Hatsopoulos	Director	2003
Arthur L. Money	Director	2003
Charles McQuinn	Director	1999
Thomas Prendergast	Director	2004
Jeffrey Levy	Director	1999
Evelyn Berezin	Director	1999

**Frank Mandelbaum**, age 71, has served as our Chairman of the Board and Chief Executive Officer since July 1, 1996. He also served as Chief Financial Officer until September 1999. From January 1995 through May 1997, Mr. Mandelbaum served as a consultant providing strategic and financial advice to Pharmerica, Inc. (formerly Capstone Pharmacy Services, Inc.), a publicly held company. Prior to January 1995, Mr. Mandelbaum was Chairman of the Board, Chief Executive Officer and Chief Financial Officer of Pharmerica, Inc. From July 1994 through December 1995, Mr. Mandelbaum served as Director and Chairman of the Audit and Compensation Committees of Medical Technology Systems, Inc., also a publicly held company. From November 1991 through January 1995, Mr. Mandelbaum served as Director of the Council of Nursing Home Suppliers, a Washington, D.C. based lobbying organization. From 1974 to date, Mr. Mandelbaum has been Chairman of the Board and President of J.R.D. Sales, Inc., a privately held financial consulting company. As required by his employment agreement, Mr. Mandelbaum devotes substantially all his business time and attention to our business.

**Edwin Winiarz**, age 47, was elected Senior Executive Vice President in July 2000 and a director in August 1999 and became Executive Vice President, Treasurer and Chief Financial Officer on September 7, 1999. From July 1994 until August 1999, Mr. Winiarz was Treasurer and Chief Financial Officer of Triangle Service Inc., a privately held national service company. From November 1990 through July 1994, Mr. Winiarz served as Vice President Finance/Controller of Pharmerica, Inc. (formerly Capstone Pharmacy Services, Inc.). From March 1986 until November 1990, Mr. Winiarz was a manager with the accounting firm of Laventhal & Horwath. Mr. Winiarz is a certified public accountant and holds an MBA in management information systems from Pace University.

**Russell T. Embry**, age 41, was elected Senior Vice President and Chief Technology Officer in July 2001 and was Vice President, Information Technology, since July 1999. From January 1998 to July 1999, Mr. Embry was Lead Software Engineer with RTS Wireless. From April 1995 to January 1998, he served as Principal Engineer at GEC-Marconi Hazeltine Corporation. From August 1994 through April 1995, he was a staff software engineer at Periphonics Corporation. From September 1989 to August 1994, Mr. Embry served as Senior Software Engineer at MESC/Nav-Com. From July 1985

through September 1989, he was a software engineer at Grumman Aerospace. Mr. Embry holds a B.S. in Computer Science from Stony Brook and an M.S. in Computer Science from Polytechnic University, Farmingdale.

**Todd Liebman**, age 31, joined Intelli-Check, Inc. in December 2004 as its Senior Vice President of Marketing and Operations. Prior to joining Intelli-Check, Mr. Liebman served as President of Quick Kiosk, a Kinetics Company, LLC (QK), a self-service solution provider focused on the quick serve restaurant market industry. In September 2004 Mr. Liebman completed the sale of QK to NCR Corporation (NYSE:NCR). Prior to founding QK, Mr. Liebman served as Director of Business Development of Trex Communications Corporation (TrexCom), a telecommunications start-up focused on satellite communications systems and multi-media interactive response systems, which was sold to L-3 Communications, Inc. in February 2000. TrexCom grew from a complete start-up and losing money in 1997 to \$50 million in revenues and profitable in less than two years. Prior to joining Trex Communications, Mr. Liebman was Associate Director, Business Development for Thermo Electron Corporation (NYSE:TMO), a \$4 billion conglomerate and parent company of Trex Communications. From 1996 to 1997, he worked as a Management Consultant at EMI Strategic Marketing, a strategic consulting firm. Mr. Liebman received his Bachelor's of Science in Management from Tulane University's A.B. Freeman School of Business. Mr. Liebman has also participated in an Executive Education program at the University of Pennsylvania's Wharton School of Business.

**Ashok Rao**, age 55, was appointed a director in December 2004 and Vice Chairman in January 2005. Mr. Rao is currently an angel investor in numerous high-tech start-ups as well as the producer of a major motion picture scheduled for worldwide release in April 2005. Mr. Rao was CEO of Prime Wave Communications, a broadband wireless access technology subsidiary of L3 from 2000 to 2003. Previously, he was the founder and chief executive officer of Trex Communications ("TrexCom"), a Thermo Electron satellite communications business, which reached annual revenues of \$60 million in the second year. He was instrumental in the sale of TrexCom to L3 in 2000. Mr. Rao holds a bachelor's degree in mechanical engineering from the Indian Institute of Technology, New Delhi, a master's degree in systems engineering from Marquette University, and a diploma in Financial Management from the London School of Economics. Mr. Rao is also a trustee of numerous charitable organizations.

**John N. Hatsopoulos**, age 71, was elected a director in December 2003. Mr. Hatsopoulos is currently the chief executive officer of American Distributed Generation Inc. He is the co-founder of Thermo Electron Corporation (NYSE:TMO) and the retired president and vice chairman of its Board of Directors. Mr. Hatsopoulos is also managing partner of Glen Rose Capital LLC, a leverage buyout investment fund, and managing partner of Alexandros Partners LLC, a financial advisory firm. Prior to his role at American Distributed Generation, which provides a range of products and services in support of the emerging market for on-site generation of electricity, heating and cooling at commercial, institutional and light industrial facilities, Mr. Hatsopoulos held a wide variety of positions at Thermo Electron Corporation. Over more than four decades, Mr. Hatsopoulos served, among other positions, as vice president of corporate strategy, handling acquisitions, financial and investor relations and corporate investments, chief financial officer and, at retirement, president and vice chairman of the Board of Directors. Mr. Hatsopoulos graduated from Athens College in Athens, Greece in 1953. He holds a B.S. in history and mathematics from Northeastern University, together with Honorary Doctorates in Business Administration from Boston College and Northeastern University. He served on the Board of Directors of the American Stock Exchange from 1994 through 2000. He is currently a member of the Board of Directors of TEI BioSciences Inc. and a "Member of the Corporation" for Northeastern University.

**Arthur L. Money**, age 65, was elected a director in February 2003. Mr. Money was confirmed by the Senate and served as the Assistant Secretary of Defense for Command, Control, Communications and Intelligence from 1999 to 2001 and was also the Chief Information Officer for the Department of Defense from 1998 until 2001. Prior to that he served as the Senior Civilian Official, Office of the Assistant Secretary of Defense, from 1998 to 1999 and was earlier confirmed by the Senate as Assistant Secretary of the Air Force for Research, Development and Acquisition and served as Chief Information Officer, from 1996 to 1998. Mr. Money currently serves as a member of the advisory board of several corporations including the Boeing Company (NYSE: BA). He also serves on the Board of Directors of numerous companies including Silicon Graphics, Inc. (NYSE: SGI) and CACI International (NYSE: CAI) and has been recognized for his vision, leadership and commitment to excellence in systems and process re-engineering. Mr. Money, who holds a Master of Science Degree in Mechanical Engineering from the University of Santa Clara (Calif.) and a Bachelor of Science Degree in Mechanical Engineering from San Jose (Calif.) State University also currently serves on several U.S. Government Boards and Panels such as NIMA Advisory Board, Defense Science Board, US Air Force AC2ISR Center Advisory Board and the US Navy "DSAP" Special Advisory Panel. Prior to his government service, he had a distinguished business career having served as President of ESL Inc., a subsidiary of TRW, Inc., from 1990 to 1994 prior to its consolidation with its Avionics and Surveillance Group when he became Vice President and Deputy General Manager of the Group.

**Charles McQuinn**, age 64, was elected a director in August 1999. He has been, since 1997, an independent product development/marketing consultant to Internet based companies. Mr. McQuinn has also served as CEO of The McQuinn

Group, Inc., a system integration and institutional marketing company, from November 1998 to the present. From 1995 to 1997, Mr. McQuinn was President of DTN West, a fixed income price quote company with products for banks and governments. From 1990 to 1995, Mr. McQuinn was President of Bonneville Market Information, an equities price quote company with products for traders and brokers. From 1985 to 1990, Mr. McQuinn was President of Bonneville Telecommunications Company, a satellite video and data company. Prior to 1985, he held various product development/marketing/management positions with Burroughs Corporation. Mr. McQuinn holds a BS in marketing from Ball State University and an MBA in management from Central Michigan University.

**Thomas A. Prendergast**, age 71, was elected a director in March 2004. Mr. Prendergast is currently an investment and management consultant. He presently serves as chairman of the board for The Steel Corporation of Texas, Texzona Industries, Inc. and Scot Holding, Inc. and as director for Double Eagle Petroleum, Inc. Throughout his career, Mr. Prendergast has served as a member of the board of directors for more than seventeen publicly traded companies across a broad range of industries. He has worked with companies in special situations, including the initial public offering of Farah Manufacturing, where he was executive vice president for ten years. He has been involved in a number of turnaround situations and various high-profile transactions, including the sale of Market Guide, Inc. to Multex, the global provider of institutional research products, which has since been integrated into Reuters Products & Services. Mr. Prendergast was the founding member and President of the Board of Trustees of El Paso Community College from 1962 to 1982. He is a certified public accountant and holds a Bachelor of Science degree from Fordham University.

**Jeffrey Levy**, age 62, was elected a director in December 1999. He has been, since February 1977, President and Chief Executive Officer of LeaseLinc, Inc., a third-party equipment leasing company and lease brokerage company. Prior to 1977, Mr. Levy served as President and Chief Executive Officer of American Land Cycle, Inc. and Goose Creek Land Cycle, LLC, arboreal waste recycling companies. During that time he also served as Chief Operating Officer of ICC Technologies, Inc. and AWK Consulting Engineers, Inc. Mr. Levy has had a distinguished career as a member of the United States Air Force from which he retired as a colonel in 1988. He serves as a board member of the Northern Virginia Chapter of Mothers Against Drunk Driving, the Washington Regional Alcohol Program, the Zero Tolerance Coalition and the National Drunk and Drugged Driving Prevention Month Coalition and is a member of the Virginia Attorney General's Task Force on Drinking by College Students and MADD's National Commission on Underage Drinking. Mr. Levy holds a BS in International Relations from the United States Air Force Academy, a graduate degree in Economics from the University of Stockholm and an MBA from Marymount University.

**Evelyn Berezin**, age 79, was elected a director in August 1999. She has been, since October 1987, an independent management consultant to technology based companies. From July 1980 to September 1987, Ms. Berezin was President of Greenhouse Management Company, a venture capital fund dedicated to investment in early-phase high-technology companies. Ms. Berezin holds an AB in Physics from New York University and has held an Atomic Energy Commission Fellowship. Ms. Berezin has served on the boards of a number of public companies including Bionova Corp., Cigna Corp., Datapoint Corp., Koppers Company, Inc. and Genetic Systems Inc., as well as more than fourteen private technology-based companies. She also serves on the boards of Sion Energy Inc. and BioPhotonics Corp. Ms. Berezin holds honorary doctorates from Adelphi University and Eastern Michigan University and is on the Board of the Stony Brook Foundation of Stony Brook University and Brookhaven Science Associates, the manager of Brookhaven Laboratories.

#### **Audit Committee of the Board of Directors**

The board of directors has established a separately designated stand alone Audit Committee established in accordance with Section 3(a)(58)(A) of the Exchange Act, which is currently comprised of Mr. Prendergast, chairman, Mr. McQuinn and Ms. Berezin. They are all considered "independent" under Section 121(A) of the listing standards of the American Stock Exchange. The audit committee recommends to the board of directors the annual engagement of a firm of independent accountants and reviews with the independent accountants the scope and results of audits, our internal accounting controls and audit practices and professional services rendered to us by our independent accountants.

The Board of Directors has determined that we have at least one audit committee financial expert serving on our audit committee. Mr. Prendergast, who is a certified public accountant and holds a Bachelor of Science degree from Fordham University, is an "audit committee financial expert" and is an independent member of the board of directors.

#### **Section 16(a) Beneficial Ownership Reporting Compliance**

The Securities and Exchange Commission has adopted rules relating to the filing of ownership reports under Section 16 (a) of the Securities Exchange Act of 1934. One such rule requires disclosure of filings, which under the Commission's rules, are not deemed to be timely. During the review of Forms 3, it was determined that Mr. Prendergast failed to file a timely report concerning the grant of 7,500 stock options on April 1, 2004 due to his not having EDGAR access codes;

however, such failure was remedied by the reporting of this transaction on April 7, 2004. It was also determined that Mr. Rao failed to file a timely report concerning the grant of 75,000 stock options on December 3, 2004 due to his not having EDGAR access codes; however, such failure was remedied by the reporting of this transaction on December 14, 2004. It was further determined that Mr. Liebman failed to file a timely report concerning the grant of 175,000 stock options on December 10, 2004 due to his not having EDGAR access codes; however, such failure was remedied by the reporting of this transaction on December 17, 2004. During the review of Forms 4, it was determined that Mr. Hatsopoulos failed to file a timely report concerning the purchase of 1,000 shares of common stock on January 12, 2004 and the grant of 2,500 stock options on May 10, 2004; however, such failures were remedied by the reporting of these transactions on January 15, 2004 and May 20, 2004, respectively. It was also determined that Mr. Levy failed to file a timely report regarding the purchase of 500 shares on common stock on December 1, 2004; however, such failure was remedied by the reporting of this transaction on December 7, 2004. All other transactions were reported in a timely fashion.

### **Code of Ethics**

On March 22, 2004, we adopted a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer, and other persons who perform similar functions. A copy of our Code of Ethics is incorporated by reference as an exhibit to this Annual Report on Form 10-K. Our Code of Ethics is intended to be a codification of the business and ethical principles which guide us, and to deter wrongdoing, to promote honest and ethical conduct, to avoid conflicts of interest, and to foster full, fair, accurate, timely and understandable disclosures, compliance with applicable governmental laws, rules and regulations, the prompt internal reporting of violations and accountability for adherence to this Code.

### **Item 11. Executive Compensation**

The following table sets forth compensation paid to executive officers whose compensation was in excess of \$100,000 for any of the three fiscal years ended December 31, 2004. No other executive officers received total salary and bonus compensation in excess of \$100,000 during any of such fiscal years.

#### **SUMMARY COMPENSATION TABLE**

<u>Name and Principal Position</u>	<u>Year</u>	<u>Annual Compensation</u>	<u>Long-Term Compensation Securities Underlying Options/SARS (#)</u>
Frank Mandelbaum Chairman and Chief Executive Officer	2004	250,000	75,000
	2003	250,000	100,000
	2002	250,000	350,000
Edwin Winiarz Senior Executive Vice President Chief Financial Officer	2004	151,318	65,000
	2003	141,750	30,000
	2002	135,000	--
Russell T. Embry Senior Vice President Chief Technology Officer	2004	152,063	10,000
	2003	150,000	12,500
	2002	150,000	12,500
Ralph Thomas Former Senior Vice President Sales	2004	103,855	--
	2003	11,060	50,000
W. Robert Holloway Former Senior Vice President Sales	2004	--	--
	2003	108,728	--
	2002	115,000	--

## Option Grants

The following table summarizes options granted during the year ended December 31, 2004 to the named executive officers:

Individual Grants						
Name	Number of Securities Underlying Options Granted	% of Total Options Granted to Employees In 2004 Fiscal Year	Exercise Price	Expiration Date	Potential Realizable Value Assumed Annual Rates of Appreciation for Option <sup>(1)</sup>	
					5%	10%
Russell T. Embry	5,000	1.3%	\$ 4.37	12/03/09	\$6,037	\$13,340
Russell T. Embry	5,000	1.3%	\$ 4.37	06/03/10	\$6,037	\$13,340
Frank Mandelbaum	25,000	6.6%	\$ 4.37	01/01/15	\$30,184	\$66,698
Frank Mandelbaum	25,000	6.6%	\$ 4.37	01/01/16	\$30,184	\$66,698
Frank Mandelbaum	25,000	6.6%	\$ 4.37	01/01/17	\$30,184	\$66,698
Todd Liebman	25,000	6.6%	\$ 4.57	12/10/09	\$31,565	\$69,751
Todd Liebman	25,000	6.6%	\$ 4.57	12/10/10	\$31,565	\$69,751
Todd Liebman	25,000	6.6%	\$ 4.57	12/10/11	\$31,565	\$69,751
Todd Liebman	100,000	26.5%	\$ 4.57	12/10/14	\$126,261	\$279,003
Edwin Winiarz	15,000	4.0%	\$ 5.25	07/08/14	\$21,757	\$48,078
Edwin Winiarz	25,000	6.6%	\$ 4.37	01/01/15	\$30,184	\$66,698
Edwin Winiarz	25,000	6.6%	\$ 4.37	01/01/16	\$30,184	\$66,698

(1) The amounts shown as potential realizable value represent hypothetical gains that could be achieved for the respective options if exercised at the end of the option term. The 5% and 10% assumed annual rates of compounded stock price appreciation are mandated by rules of the Securities and Exchange Commission and do not represent our estimate or projection of our future common stock prices. These amounts represent certain assumed rates of appreciation in the value of our common stock from the fair market value on the date of grant. Actual gains, if any, on stock option exercises are dependent on the future performance of the common stock and overall stock market conditions. The amounts reflected in the table may not necessarily be achieved.

## Aggregated Option Exercises and Fiscal Year-End Option Value Table

The following table summarizes unexercised options granted through the year-end December 31, 2004 to the named executive officers:

Name	No. of Shares Received Upon Exercise	Aggregate Dollar Value Received Upon Exercise	No. of Securities Underlying Unexercised Options / Warrants		Value of Unexercised In-the-Money Options At Fiscal Year End 12/31/04	
			Exercisable	Unexercisable	Exercisable	Unexercisable
Frank Mandelbaum Chairman & CEO	0	0	900,000	75,000	\$675,000	\$9,750
Edwin Winiarz Senior Executive VP & CFO	0	0	165,000	50,000	0	\$6,500
Russell T. Embry Senior VP & CTO	0	0	82,500	5,000	\$9,150	\$650
Todd Liebman, Senior VP Marketing & Operations	0	0	25,000	150,000	0	0

## **Compensation of Directors**

Non-employee directors receive a fee of \$500 for attending board meetings and \$250 for attendance at such meetings telephonically. They also receive a fee of \$300 for each committee meeting held on a date other than that of a board meeting and are reimbursed for expenses incurred in connection with the performance of their respective duties as directors. Through December 2002, non-employee directors received 15,000 options for each full year of service on the Company's board of directors. In July 2003, the board increased the amount of options granted to non-employee directors for each full year of service to 25,000 options. In addition, non-employee directors who are members of a committee are entitled to receive grants of stock options for each year served. The chairperson of the audit committee receives options to purchase 7,500 shares of our common stock and audit committee members receive options to purchase 3,000 shares of our common stock. Of the remaining committees, each chairperson receives options to purchase 2,500 shares of our common stock, while a committee member receives options to purchase 1,500 shares of our common stock. These options are immediately exercisable during the committee members' term and expire ten years from date of grant.

On January 11, 2005, we issued options to purchase 60,000 shares of our common stock, at a price of \$4.55, to our Vice Chairman, Ashok Rao, as compensation for providing us with advice in certain strategic and operational aspects of the business. Of these options, 10,000 vested immediately and the balance vest upon meeting certain goals.

## **Employment Contracts, Termination of Employment and Change-in-Control Arrangements**

On November 9, 2004, we entered into a new one-year employment contract with our Chairman and Chief Executive Officer, Frank Mandelbaum, effective January 1, 2005. The agreement provides for an annual base salary of \$250,000. In addition, we granted to Mr. Mandelbaum an option to purchase 75,000 shares of common stock at an exercise price of \$4.37 per share, of which 25,000 options became exercisable on January 1, 2005; 25,000 options shall become exercisable on January 1, 2006 and the remaining 25,000 options shall become exercisable on January 1, 2007.

If there shall occur a change of control, as defined in the employment agreement, the employee may terminate his employment at any time and be entitled to receive a payment equal to 2.99 times his average annual compensation, including bonuses, during the three years preceding the date of termination, payable in cash to the extent of three months salary and the balance in shares of our common stock based on a valuation of \$2.00 per share.

On November 9, 2004, we entered into a new employment agreement with our Senior Executive Vice President and Chief Financial Officer, Edwin Winiarz, effective January 1, 2005. The agreement, which expires December 31, 2006, provides for a fixed base annual salary of \$162,086. In addition, we granted to Mr. Winiarz an option to purchase 50,000 shares of common stock at an exercise price of \$4.37 per share, of which 25,000 options became exercisable on January 1, 2005 and the remaining 25,000 options shall become exercisable on January 1, 2006.

Each of the employment agreements requires the executive to devote substantially all his time and efforts to our business and contains non-competition and nondisclosure covenants of the officer for the term of his employment and for a period of two years thereafter. Each employment agreement provides that we may terminate the agreement for cause.

## **Compensation Committee Interlocks and Insider Participation**

The board of directors has established a compensation committee which is currently comprised of Mr. Levy, chairman, Mr. Hatsopoulos, Mr. Money and Mr. Rao. No member of the Compensation Committee has a relationship that would constitute an interlocking relationship with Executive Officers or Directors of the Company or another entity.

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

The following table sets forth, as of March 1, 2005 certain information regarding beneficial ownership of Intelli-Check's common stock by each person who is known by us to beneficially own more than 5% of our common stock. The table also identifies the stock ownership of each of our directors, each of our officers, and all directors and officers as a group. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated.

Unless otherwise indicated, the address for each of the named individuals is c/o Intelli-Check, Inc., 246 Crossways Park West, Woodbury, NY 11797-2015.

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

The applicable percentage of ownership is based on 10,290,418 shares outstanding as of March 1, 2005.

<b>Name</b>	<b>Shares Beneficially Owned</b>	<b>Percent</b>
Frank Mandelbaum (1)	1,603,505	14.17
Edwin Winiarz (2)	192,000	1.83
Todd Liebman (3)	25,000	*
Russell T. Embry (4)	86,500	*
Evelyn Berezin (5)	136,400	1.31
Charles McQuinn (6)	145,600	1.40
Jeffrey Levy (7)	113,380	1.09
Arthur L. Money (8)	78,000	*
John Hatsopoulos (9)	72,600	*
Thomas Prendergast (10)	70,000	*
Ashok Rao (11)	38,000	*
Empire State Development formerly New York State Science and Technology Foundation (12)	605,000	5.85
All Executive Officers & Directors as a group (11 persons)	2,560,985	23.41

\* Indicates beneficial ownership of less than one percent of the total outstanding common stock.

- (1) Includes 1,024,928 shares issuable upon exercise of stock options exercisable within 60 days. Does not include 12,100 shares and 1,190 rights held by Mr. Mandelbaum's wife, for which Mr. Mandelbaum disclaims beneficial ownership
- (2) Includes 192,000 shares issuable upon exercise of stock options exercisable within 60 days.
- (3) Includes 25,000 shares issuable upon exercise of stock options exercisable within 60 days.
- (4) Includes 86,500 shares issuable upon exercise of stock options exercisable within 60 days.
- (5) Includes 127,900 shares issuable upon exercise of stock options exercisable within 60 days.
- (6) Includes 130,600 shares issuable upon exercise of stock options exercisable within 60 days.
- (7) Includes 110,980 shares issuable upon exercise of stock options exercisable within 60 days.
- (8) Includes 77,800 shares issuable upon exercise of stock options exercisable within 60 days.
- (9) Includes 56,500 shares issuable upon exercise of stock options exercisable within 60 days.
- (10) Includes 40,000 shares issuable upon exercise of stock options exercisable within 60 days.
- (11) Includes 38,000 shares issuable upon exercise of stock options exercisable within 60 days.
- (12) Frances A. Walton, the Chief Financial Officer exercises voting and dispositive power over the shares. The address is 633 Third Avenue, New York, NY 10017

### **Equity Compensation Plan Information**

<b>Plan Category</b>	<b>Number of Securities to be issued upon exercise of outstanding options, warrants and rights</b> (a)	<b>Weighted average exercise price of outstanding options, warrants and rights</b> (b)	<b>Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column a)</b> (c)
Equity compensation plans approved by security holders	1,953,049	\$7.03	774,842
Equity compensation plans not approved by security holders	824,425	\$7.30	None
Total	2,777,474	\$7.11	774,842

From time to time the Board of Directors of the Company approves the grant of non-plan options to officers and employees of, or consultants to, the Company. The shares of common stock listed under equity compensation plans not approved by stockholders in the above table consist of shares of common stock issuable pursuant to such options. The vesting schedule of the options varies, with some vesting immediately and some vesting upon the completion of certain performance objectives. The non-plan options currently outstanding have been granted to eleven (11) persons. These options have a weighted average exercise price per share equal to \$7.30 and options to purchase 687,500 shares of common stock are currently exercisable.

### **Item 13. Certain Relationships and Related Transactions**

On January 1, 2005, we renewed our agreement with Alexandros Partners LLC to act as consultants in advising us in financial and investor relation matters. We agreed to pay a consulting fee of \$50,000 payable in 12 equal monthly installments. The agreement terminates on December 31, 2005. Mr. John Hatsopoulos, a principal of Alexandros Partners LLC, is currently a member of our Board of Directors. This transaction was approved by all of the independent directors of our Board of Directors.

### **Item 14. Principal Accountant Fees and Services**

During fiscal years ended December 31, 2003 until April 21, 2004, our principal independent auditor was Grant Thornton LLP. Thereafter, our principal independent auditor was Amper, Politziner & Mattia, P.C. The services of each were provided in the following categories and amount:

#### **AUDIT FEES**

The aggregate fees billed by Grant Thornton LLP for professional services rendered for the audit of the Company's annual financial statements for the fiscal years ended December 31, 2003, for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for fiscal year 2003 and for services performed in connection with the Company's Forms S-2 and S-3 registration statements filed in 2003, were \$252,660. We were billed \$10,000 by Grant Thornton LLP for fees relating to the transition to Amper, Politziner and Mattia, P.C. as our auditors during 2004.

The aggregate fees billed by Amper, Politziner and Mattia, P.C. for professional services rendered for the audit of the Company's annual financial statements for the fiscal year ended December 31, 2004 and for the reviews of the financial statements included in the Company's Quarterly Reports on Form 10-Q for fiscal year 2004 amounted to \$78,400.

#### **AUDIT RELATED FEES**

Other than the fees described under the caption "Audit Fees" above, Grant Thornton LLP did not bill any fees for services rendered to us during fiscal year 2003 for assurance and related services in connection with the audit or review of our financial statements. Amper, Politziner and Mattia, P.C. did not bill any fees for services rendered to us during fiscal year 2004 for assurance and related services in connection with the audit or review of our financial statements.

## TAX FEES

There were no tax fees billed by Grant Thornton LLP during fiscal year 2003. Amper, Politziner and Mattia, P.C. has not billed us for tax fees for fiscal 2004, but they did perform tax related services for us which we estimate to be approximately \$3,000.

## ALL OTHER FEES

There were no fees billed by Grant Thornton LLP for other professional services rendered during the fiscal year ended December 31, 2003.

There were no fees billed by Amper, Politziner and Mattia, P.C. for other professional services rendered during the fiscal year ended December 31, 2004.

## PRE-APPROVAL OF SERVICES

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

## **Item 15. Exhibits and Financial Statement Schedules**

(a)(1) Financial Statements

Balance Sheets as of December 31, 2003 and 2004  
Statements of Operations for the years ended December 31, 2002, 2003 and 2004  
Statements of Stockholders' Equity for the years ended December 31, 2002, 2003 and 2004  
Statements of Cash Flows for the years ended December 31, 2002, 2003 and 2004

(2) Schedule II – Valuation and Qualifying Accounts

(b) Exhibits

<u>Exhibit No.</u>	<u>Description</u>
1	Form of Underwriting Agreement (1)
3.1	Certificate of Incorporation of the Company (1)
3.2	By-laws of the Company (1)
3.3	Certificate of Designation of Preferred Stock of Intelli-Check, Inc. (7)
4.1	Specimen Stock Certificate (2)
4.2	Form of Underwriters' Warrant Agreement (1)
4.3	Warrant to Gryphon Master Fund LLP (7)
4.4	Form of Underwriters Warrant Agreement including form of Warrant Certificate(8)
10.1	1998 Stock Option Plan (1) *
10.5	Agreement of Lease between the Company and Industrial and Research Associates, dated as of October 15, 2000 (5)
10.6	1999 Stock Option Plan (1) *
10.7	Development and Supply Agreement between the Company and Welch Allyn Data Collection Inc. dated July 9, 1999 (1)
10.9	Employment Agreement between the Company and W. Robert Holloway, dated October 25, 1999 (1) *
10.10	Agreement between the Company and Kevin Messina, individually and d/b/a K.M. Software Development, dated as of May 3, 1999 (1) *
10.11	Memorandum of Understanding between AAMVAnet, Inc. and Intelli -Check, Inc. effective November 15, 2000 (5)
10.12	2001 Stock Option Plan (4)
10.15	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective January 29, 2002 (5)
10.16	Securities Purchase Agreement between Intelli-Check, Inc. and Gryphon Master Fund dated March 27, 2003. (7)

10.17	Registration Rights Agreement between Intelli-Check, Inc. and Gryphon Master Fund dated March 27, 2003. (7)
10.18	Employment Agreement between Frank Mandelbaum and the Company, dated as of December 15, 2004* (6)
10.19	Employment Agreement between Edwin Winiarz and the Company, dated as of December 15, 2004* (6)
14.1	Code of Business Conduct and Ethics (7)
21	List of Subsidiaries (1)
31.1	Certification of Chief Executive Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
31.2	Certification of Chief Financial Officer pursuant to Section 302 of The Sarbanes-Oxley Act of 2002
32	Certification of Chief Executive Officer and Chief Financial pursuant to Section 906 of The Sarbanes-Oxley Act of 2002

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 \*Denotes a management contract or compensatory plan, contract or arrangement.

- (1) Incorporated by reference to Registration Statement on Form SB-2 (File No. 333-87797) filed September 24, 1999.
- (2) Incorporated by reference to Amendment No. 1 to the Registration Statement filed November 1, 1999.
- (3) Incorporated by reference to Amendment No. 2 to the Registration Statement filed November 15, 1999.
- (4) Incorporated by reference to Registrant's Proxy Statement on Schedule 14A filed May 31, 2001.
- (5) Incorporated by reference to Registrant's Annual Report on Form 10-K filed March 29, 2001.
- (6) Incorporated by reference from the Registrant's Current Report on Form 8-K filed on December 16, 2004.
- (7) Incorporated by reference to Registrant's Annual Report of Form 10-K filed March 31, 2003.
- (8) Incorporated by reference to Registration Statement on Form S-2 (File No. 333-108043) filed September 30, 2003.

## SIGNATURES

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

Date: March 30, 2005 INTELLI-CHECK, INC.  
  
By: /s/ Frank Mandelbaum  
Frank Mandelbaum  
Chairman, Chief Executive Officer  
and Director

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

Date: March 30, 2005 INTELLI-CHECK, INC.  
  
By: /s/ Frank Mandelbaum  
Frank Mandelbaum  
Chairman, Chief Executive Officer  
and Director

Date: March 30, 2005 /s/ Edwin Winiarz  
Edwin Winiarz  
Senior Executive Vice President, Treasurer and  
Chief Financial Officer

Date: March 30, 2005 /s/ Ashok Rao  
Ashok Rao, Vice Chairman and Director

Date: March 30, 2005 /s/ Evelyn Berezin  
Evelyn Berezin, Director

Date: March 30, 2005 /s/ John Hatsopoulos  
John Hatsopoulos, Director

Date: March 30, 2005 /s/ Jeffrey Levy  
Jeffrey Levy, Director

Date: March 30, 2005 /s/ Charles McQuinn  
Charles McQuinn, Director

Date: March 30, 2005 /s/ Arthur L. Money  
Arthur L. Money, Director

Date: March 30, 2005 /s/ Thomas Prendergast  
Thomas Prendergast, Director

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- (8) Incorporated by reference to Registration Statement on Form S-2 (File No. 333-108043) filed September 30, 2003.

**Certification  
Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Frank Mandelbaum, certify that:

1. I have reviewed this Form 10-K of Intelli-Check, 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 annual 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 officers and I am 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 we 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, 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;

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fourth fiscal quarter 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 officers 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 registrant's board of directors (or persons performing the equivalent function):

(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 controls over financial reporting.

Date: March 30, 2005

/s/ Frank Mandelbaum

Name: Frank Mandelbaum

Title: Chief Executive Officer

**Certification**  
**Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002**

I, Edwin Winiarz, certify that:

1. I have reviewed this Form 10-K of Intelli-Check, 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 annual 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 officers and I am 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 we 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;

(c) disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most fourth fiscal quarter 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 officers 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 registrant's board of directors (or persons performing the equivalent function):

(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 controls over financial reporting.

Date: March 30, 2005

/s/ Edwin Winiarz  
Name: Edwin Winiarz  
Title: Chief Financial Officer

