INTELLI CHECK INC
Form 10-K/A
May 21, 2002

FORM 10-K/A
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal year ended December 31, 2001

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)

Delaware	11-3234779
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

246 Crossways Park West, Woodbury, New York	11797
(address of principal executive offices)	(Zip Code)
Issuer's Telephone number, including area code:	(516) 992-1900

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

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

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

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

Yes |X| No |_|

Check if disclosure of delinquent filers pursuant to item 405 of Regulation S-B 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-KSB or any amendment to this Form 10-KSB.

State the aggregate market value of the voting stock held by non-affiliates of the Issuer: $ 85,946,332 (based upon the closing price of Issuer's Common Stock, $.001 par value, as of March 25, 2002).

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

Common Stock, $.001 Par Value	8,572,608

(Title of Class) (No. of Shares Outstanding at March 25, 2002)

DOCUMENTS INCORPORATED BY REFERENCE: NONE

PART I

Item (a) Business

(a) General Development of Business. We were originally incorporated in the state of New York in 1994. In August 1999, we reincorporated in Delaware.

During the period from September 1996 until September 1999, we sold our securities in private placements exempt from registration under the Securities Act of 1933, as amended.

In November 1999, we sold, in an initial public offering, 1,000,000 shares of common stock at an initial offering price of $7.50 per share. The net proceeds that we received from the public offering amounted to approximately $5,915,000.

In December 1999, the underwriter of the initial public offering exercised its over-allotment option to purchase 150,000 common shares from us for $7.50 per share. The net proceeds received by us amounted to approximately $992,000.

In fiscal year 2000, options to acquire 66,000 shares of common stock and warrants to acquire 1,115,084 shares were exercised. The net proceeds received by us from these transactions was $3,426,374.

In fiscal year 2001, options to acquire 166,500 shares of common stock, warrants to acquire 388,975 shares of common stock and rights to acquire 180,198 shares of common stock were exercised. The net proceeds received by us from these transactions was $3,231,174.

Recent Developments

In fiscal year 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 held of record on March 30, 2001 and continuously held until exercise at an exercise price of $8.50. The rights will expire on October 4, 2002, which is one year after the date the registration statement relating to the shares of common stock underlying the rights was declared effective. We currently have the right to redeem the outstanding rights for $.01 per right upon 30 days notice to the holder. As of December 31, 2001, 180,198 rights have been exercised and the Company has received $1,531,683 before expenses of $133,834.

(b) Business of Issuer

(1) Principal Products

Our company was formed to develop, manufacture and market an advanced document verification system to enable a user to detect altered, tampered or fake IDs to:

(i) reduce check cashing, credit card and other types of fraud such as identity theft, the fastest growing crime in America, which principally utilizes fake driver licenses as proof of identity;

(ii) increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and other sites where security is a concern;

(iii) determine the customer's age and validity of the ID to detect and prevent the use of fraudulent identification for the purchase of alcohol, tobacco and other age-restricted products and to reduce the risk to the retailer of substantial monetary fines, criminal penalties and license revocation for the sale of age-restricted products to minors.

Our advanced document verification software contained in our ID-Check unit (terminal) reads in one swipe or scan the encoded data contained on U.S. and Canadian driver licenses, state issued identification cards and military IDs

that 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).

Our terminal helps merchants deter the economic loss resulting from identity theft, which is the fastest growing crime in America. The availability of high-tech fake ID's exposes retailers to many forms of fraud utilizing fake ID's, which our unit has the capability of helping to detect.

The terminal is an effective tool to enhance security and deter terrorism at airports and other sites where security is increasing. The terminals have been installed in two major airports to verify the identity of those boarding an aircraft and for employee screening. Since the tragic events of September 11, 2001, there has been increased interest in our technology to control access and to help deter the threat of terrorism.

Additionally, 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 ID of potential customers to determine that they are of legal age to purchase these products. These laws impose stringent penalties for violations. In addition, many states and local governments have set up undercover "sting" operations to detect violations.

The product we have designed and developed is based on our patented ID-Check (TM) technology. ID-Check provides businesses with a reliable, simple and cost-effective way to reduce economic loss supported by fake or altered driver licenses and to verify age and reduce the risk of severe penalties for non-compliance with laws pertaining to age restricted products.

On December 18, 2001, we acquired substantially all the assets of The IDentiScan Company, LLC, a provider of age verification terminals, which has broadened our product line to better penetrate the age-verification market. IDentiScan has been selected to be the exclusive provider of age verification terminals to Sunoco, Inc.

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. 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 228,000,000 driver licenses in circulation in the U.S. and Canada. Our technology can read the data encoded on all licenses that comply with the AAMVA/ANSI/ISO standards, which is approximately 185,000,000 at the current time. Currently, forty States, the District of Columbia, and seven Canadian Provinces encode their licenses. The number of readable licenses will continue to grow as the remaining ten States and five Canadian Provinces that have not yet encoded their license begin to encode.

Non-driver identification card

Although many people do not have a driver license, many jurisdictions that use American Association of Motor Vehicle Administrators (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 all of these types of government identification.

The use of false identification

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 over 5,000 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:

- (i) committing identity theft;
- (ii) improperly boarding airplanes;
- (iii) committing credit card, debit card and check cashing fraud;
- (iv) unlawfully obtaining welfare or other government benefits;
- (v) committing refund fraud,
- (vi) committing pharmacy fraud, including false narcotic prescriptions,
- (vii) gaining entrance to high profile buildings and sensitive infrastructures, such as nuclear facilities;
- (viii) illegally purchasing firearms;
- (ix) purchasing age restricted products such as alcohol and tobacco while under age.
- (x) committing employee fraud, including employee theft and payroll

theft.

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, what is needed is a document verification system which can accurately read the electronically stored information. 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.

Underage Use of Alcohol and Tobacco Products and the Need for Age Verification

Overview

Underage access to age-restricted products, like alcohol and tobacco, remains a major societal problem.

(i) According to Connecticut Clearinghouse, approximately 10.6 million or 51.2% of high school students in the United States drink alcoholic beverages at least once weekly, with 86% purchasing the alcohol themselves;

(ii) The Office of Drug Control Policy reported that approximately 9.5 million drinkers of alcoholic beverages in 1996 were between the ages of 12 and 20, according to the U.S. Department of Justice Office of Juvenile Justice and Delinquency Prevention;

(iii) The Insurance Institute for Highway Safety has said that, in 1997, 26% of 16-20 year-olds fatally injured in motor vehicle crashes had high blood alcohol concentrations;

(iv) According to the Journal of Adolescent Health, approximately 3,000 minors begin smoking regularly every day;

(v) Join Together Online's Fact Finder reports that underage youths can purchase cigarettes successfully 70%-80% of the time over the counter and 90%-100% of the time through vending machines; and

(vi) Join Together also reports that each year merchants illegally sell minors 947 million packs of cigarettes and 26 million containers of chewing tobacco worth $1.26 billion;

(vii) A recent study by the National Center on Addiction and Substance Abuse at Columbia University (CASA) found that 5 million high schoolers binge drink at least once a week. It was also stated in the report that children under 21 drink 25% of the alcohol consumed in the U.S.

-4-

To combat this problem, most states have enacted laws which provide for substantial penalties for businesses that sell tobacco and alcohol to minors.

Regulation of retailers of tobacco products

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 appears to be under the age of 27.

Regulation of retailers of alcoholic beverages

The retailer of alcoholic products who sells 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 under 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.

ID-Check Solution and Benefits

We believe the ID-Check solution is 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 to read, decode and process 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 and other devices. Additionally, our terminals can communicate with personal computers, which could enhance the functionality of the terminals 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:

(i) is valid;

(ii) has been altered or tampered with;

(iii) has expired; and

(iv) 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:

(i) respond to the user by displaying the results in words on the terminal's screen;

(ii) save information that is permissible by law to the terminal's own memory;

(iii) 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

(iv) send the results to a personal computer which has Microsoft Windows 95/98/NT ("PC") for permanent storage when used in conjunction with our Q-Link or C-Link software, which simplifies record keeping by downloading comprehensive ID-Check due diligence data into a PC. This provides a merchant with secure back-up files that include individual and cumulative transaction records, where permitted by law.

(2) Marketing and Distribution

Our objective has been to become the leading developer and distributor of document and age verification products. To date, we have begun our marketing efforts through direct sales by our sales and marketing personnel, participation in trade shows, through resellers and OEM agreements.

We generate revenues from the sale or lease of ID-Check terminals, the sale of software upgrades and from our C-Link software.

Our patented ID-Check software is installed in a self-contained terminal similar to those commonly used as credit card terminals, which we market to the government, airlines, airports, high profile buildings and sensitive infrastructure, mass merchandisers, grocery, convenience store and pharmacy chains, casinos, banks and resellers of age restricted products. The ID-Check unit has a suggested retail price of approximately $2,500, which includes our Q-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 target markets. We promote the advantages and ease of use of the ID-Check terminal through:

(i) trade publications;

(ii) trade shows;

(iii) conventions and seminars;

(iv) direct mail;

(v) our website; and

(vi) national advertising

We also seek endorsements from public interest organizations and trade associations, which we believe have an interest in discouraging illegal purchases of age-restricted products.

As we gain market acceptance of the ID-Check terminal, we intend to develop and market other related software applications.

Distribution strategy

In October 1999, we hired a vice president of sales. In December 2000, we hired a director of corporate sales. In January 2002, we hired a director of sales for the Southern Region of the U.S. We intend to hire additional sales and marketing support staff, to prepare additional marketing materials and continue to develop our marketing strategy.

Our initial target markets

Our initial target markets for the ID-Check terminal are:

(i) airports, airlines, bus, port and rail terminals

(vi) casinos;

(vii) banks;

(ii) credit card issuers;

(iii) mass merchandisers;

(iv) convenience stores;

(v) grocery and pharmacy chains;

(viii) bars and night clubs; and

(ix) resellers of age restricted products.

Some of the reasons why we have targeted these markets are:

(a) The Airlines are required by FAA regulations to verify the identity of passengers over 18 years of age. The form of identification is usually a valid driver license or other form of legally acceptable picture identification in order to board any airliner domestically; and

(b) Credit card issuers, who are facing huge economic losses through the use of fraudulent credit cards, could use our technology to verify that the credit card holder who presents a driver license as proof of identity to support a transaction has presented a valid one prior to processing the transaction.

Distributors and independent sales organizations

Management estimates there are thousands of businesses referred to as distributors or independent sales organizations (ISO's), which specialize in marketing equipment to "mom and pop" establishments. We believe that this is the most cost effective way of reaching the smaller retailers. As such, we will continue to actively enter into sales agreements with distributors and ISO's to distribute our product.

Upgrade Capability

Our software requires periodic updates as states that did not previously conform to AAMVA standards begin to store electronically readable information on their driver licenses and as states adjust or modify the format of their electronically stored information. The technology, which can be used to instantly upgrade the terminal by simply swiping or scanning an upgrade card through the ID-Check terminal or downloading it from our website through a P.C. are included in the purchase price of the ID-Check unit for the first year after purchase. We have begun to sell upgrade packages for the period commencing after the first year of purchase. Because each terminal has a unique serial number, the upgrade will only work with that terminal, making unauthorized copying valueless. We have also developed a secure way of delivering upgrades through the Internet.

C-Link Software

We have developed our C-Link software, which was introduced to the marketplace in 2001. C-Link, when used in conjunction with our ID-check terminal, has the ability to collect the information read and stored by the ID-Check terminal and instantaneously view the transaction in real time for enhanced security purposes and save it to a PC hard drive for permanent storage. Once saved, the information can be utilized to prevent economic loss to the user and can also be searched, analyzed and used to easily generate demographics, statistics and mailing lists to existing customers where permitted by law.

Additional Target Customers

In addition to the target markets prior stated, others that could benefit by using the ID-Check terminal to prevent fraudulent transactions supported by the use of a fake driver license as proof of identity or for access control include:

(i) car rental agencies;

(ii) hotels and motels;

(iii) stadiums and arenas;

(iv) check cashing services;

(v) oil refineries and nuclear facilities;

(vi) court houses; and

(vii) law enforcement agencies.

Products in Development

We have developed prototypes of the following products:

MAVE. In April 1998, we built two prototypes of a hand-held portable version of our ID-Check terminal specifically designed for law enforcement. We have trademarked this product as MAVE for Mobile Age Verification and Enforcement.

P-Link. P-Link is a software application designed to replicate the features of ID-Check using existing hardware (or with minimal additional hardware components) included in Point-Of-Sale (POS) terminals for multi-lane retailers such as grocery and mass-retail stores.

(3) Competition

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 Legal Age, Card Com and ID Logix 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. Some of these products are based on types of equipment which have limited functionality. Those units that cannot read barcodes are at a significant disadvantage because 31 States and two Canadian Provinces currently utilize barcodes to encode their driver licenses in addition to all U.S. military ID's and uniformed services cards. This number is expected to continue to increase within the next year based upon current available information. In addition, some of these other products cannot connect to a PC or use a printer. We also believe that some of these products may infringe on our patent.

There are also products being marketed which are essentially electronic calendars designed to assist the retailer in calculating the age of the person presenting a driver license. These devices, however, cannot determine whether a driver license is valid or has been altered.

A very small number of laminate verifiers are currently used to determine the validity of the laminate on a driver license. However, laminate verifiers are fragile, not reliable and we believe can only be used in New York State.

(4) Supplier

We have engaged a subsidiary of Welch Allyn, Inc., a leading privately-held manufacturer of medical equipment and barcode readers and scanners, to provide a programmable terminal to operate our patented ID-Check software. We have placed orders for 7,000 terminals of which we have received 4,000, which contain a three-track magnetic reader and a scanner/imager, which is an advanced form of barcode scanner. In 2001, we paid $200,000 as a deposit to secure the purchase of the remaining units and will pay an additional $400,000 on April 1, 2002.

(5) Intellectual Property

In January 1999, we were issued a patent on our ID-Check software technology. In January 2002, we received notification from the U.S. Patent Office on the issuance of our continuation patent. We have also been granted multiple copyrights in the United States, which are effective in Canada and other major industrial countries. The patent covers a specific process relating to ID-Check, including age verification from a driver license. In addition, the copyright protection covers software source codes and supporting graphics relating to the operation of ID-Check and other software products. We have also received several trademarks relating to our company, its product names, and logos.

Upon the acquisition of the assets of IDentiScan, we received sole ownership rights to intellectual property relating to age verification technology. Specifically, Intelli-Check acquired ownership of U.S. Patent No. 6,148,091 and its Canadian counterpart, Canadian Patent. No. 2,242,205. These patents are entitled "Apparatus for Controlling the Rental and Sale of Age-Controlled Merchandise and for Controlling Access to Age-Controlled Services." In addition, Intelli-Check also acquired all right, title and interest to any and all patents resulting from pending U.S. and U.K. patent applications relating to the foregoing patented technology as well as sole rights to IDentiScan's trademarks, copyrights and trade secrets.

We also rely on proprietary knowledge and employ various methods, including confidentiality agreements, to protect our software codes, concepts, ideas and documentation of our proprietary technology.

Under an agreement with Mr. Kevin Messina, our former Senior Executive V.P. and Chief Technology Officer, 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.

(6) Employees

As of March 25, 2002, we had twenty-eight full-time employees, including four who are engaged in executive management, fourteen in information technology, six in sales and marketing and four administrative staff. We believe our relations with our employees are generally good and we have no collective bargaining agreements with any labor unions.

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. Our offices were originally located in Huntington, New York under a lease that expired October 31, 2000. Payments under these leases were $80,538 for 2000, $210,882 for 2001 and will be $2,305,731 for the remaining years of the lease.

Item 3. Legal Proceedings

We are presently involved in three lawsuits.

A lawsuit was filed as a class action on October 18, 2001 on behalf of short-sellers of the Company's stock, who suffered losses because of the rise in the price of the Company's stock, in the United States District Court for New Jersey. The class action suit was amended in November 2001 and is now an individual action. The complaint alleges violations of the Securities and Exchange Act of 1934. The Company believes the suit is without merit and will defend itself vigorously.

Additionally, a lawsuit requesting a preliminary injunction was filed on October 18, 2001 in the Supreme Court of the State of New York, Nassau County, on behalf of Kevin Messina, the former Chief Technology Officer of the Company, which sought to force the Company to permit Mr. Messina to sell his restricted shares of the Company's common stock. The complaint also seeks damages of $29,350 for unpaid salary, unused vacation, unreimbursed business expenditures and unpaid director's fees and punitive damages in the amount of $3,000,000. Mr. Messina's motion for a preliminary injunction was denied. The Company filed a counterclaim seeking damages in the amount of $5,000,000 alleging breach of Mr. Messina's obligations to the Company. Although settlement discussions have recently begun, there can be no assurance that such discussions will result in a settlement of the claims and counterclaims.

Additionally, a demand for arbitration was brought by Early Bird Capital Inc. in January 2002, seeking issuance of warrants pursuant to the terms of a Financial Advisory and Investment Banking Agreement dated as of August 20, 2002. The Company believes that Early Bird Capital failed to perform under the agreement and therefore, is not entitled to the warrants.

As a result of the acquisition of The IDentiScan Company, LLC, the patent infringement suit against the Company was withdrawn with prejudice.

We are not aware of any infringement by our products or technology on the proprietary rights of others.

Other than as set forth above, we are not currently involved in any legal or regulatory proceeding, or arbitration, the outcome of which is expected to have a material adverse effect on our business.

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

During the fourth quarter of the Company's fiscal year ended December 31, 2001 there were no matters submitted to a vote of security holders.

PART II

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

(a) The Company's 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.

2000		
First quarter	$9.375	$13.75
Second quarter	$5.875	$11.875
Third quarter	$6.625	$13.625
Fourth quarter	$8.50	$15.125
2001		
First Quarter	$3.70	$11.625
Second Quarter	$4.50	$10.60
Third Quarter	$7.40	$14.75
Fourth Quarter	$10.20	$19.45
2002		
January	$12.12	$18.19
February	$11.30	$15.08
March	$13.25	$15.87

(b) Number of Holders of Common Stock. The number of holders of record of our Common Stock on March 25, 2002 was 70, 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, 2001. Future dividend policy will be determined by the 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. In November 1999, we completed our initial public offering from which we received net proceeds of approximately $5,915,000. In December 1999 the underwriters of our initial public offering exercised the over allotment option to purchase an additional 150,000 shares of our common stock from which we received net proceeds of $992,000. After repayment of the Notes we issued in August and September we invested approximately $5,000,000 in short term financial instruments and used approximately $607,000 to make additional deposits on terminals and for general capital purposes.

In addition, we sold the following unregistered securities in reliance on the exemption provided by Section 4(2) and Regulation 506 of the Securities Act as transactions not involving a public offering:

In September 1996, we sold a total of 87,500 shares of our common stock for $175,000. Paul Cohen and Eric Cohen, the father and uncle of our co-founder, Todd Cohen, purchased 62,500 shares and 15,000 shares, respectively. Gregg Messina, the brother of our co-founder, Kevin Messina, purchased 10,000 shares. In connection with the issuance, (i) each shareholder represented to the Company that, by virtue of his investment acumen, business experience or independent financial and tax advice, he had the capability of evaluating the risks and merits in investing in the shares, (ii) each shareholder represented that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In October 1996, we issued a total of 41,385 shares of our common stock to satisfy loans in the aggregate amount of $82,770. Paul Cohen, the father of our co-founder, Todd Cohen, accepted 28,885 shares in repayment of $57,770 of indebtedness and William Glasgow, who has been, since September 1996, employed with the Company and is currently Vice President of our Product, Management and Operations Department, accepted 12,500 shares in repayment of $25,000 of indebtedness. Also in October 1996, we issued a total of 22,500 shares of our common stock in repayment of $45,000 owed to our former attorneys, Post & Heymann LLP. In connection with the issuance, (i) each shareholder represented to the Company that, by virtue of his investment acumen, business experience or independent financial and tax advice, he had the capability of evaluating the risks and merits in investing in the shares, (ii) each shareholder represented that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the registrant did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In December 1996 and January 1997, Frank Mandelbaum, our chief executive officer, made loans totaling $142,000 with interest at 10% with maturity in 90 days. He subsequently extended the notes on several occasions. In November 1997, as part of the private placement discussed below, we issued to Mr. Mandelbaum 71,000 shares of our common stock and warrants to purchase 71,000 shares of our common stock at an exercise price of $3.00 per share in exchange for Mr. Mandelbaum's forgiveness of his loan to us of $142,000. Mr. Mandelbaum is an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act. The securities issued to Mr. Mandelbaum contain a legend stating that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom. As the chief executive officer, Mr. Mandelbaum had adequate access to sufficient information about the Company to make an informed investment decision. The Company did not engage in any general solicitation or advertisement for the issuance. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In January 1997, we entered into a Note Purchase Agreement with the New York State Science and Technology Foundation, which became The Empire State Development Corporation on February 1, 2000, pursuant to which we issued a Convertible Promissory Note in the amount of $250,000. The Foundation also agreed to invest an additional $250,000 through the purchase of 125,000 shares of Series A convertible preferred stock based upon our raising a certain amount of additional capital. The note bore interest at 8% per annum. In January 1998, we exercised our right to redeem the convertible promissory note held by the Foundation for 125,000 shares of Series A convertible preferred stock. In addition, the Foundation purchased an additional 125,000 shares of Series A convertible stock for $250,000. In July 1999, the Foundation exercised its conversion rights and received 250,000 common stock in exchange for its preferred stock.

The Empire State Development Corporation formerly known as the New York State Science and Technology Foundation subscribed to 100,000 units for $200,000 in the private placement of September 1998, discussed below, which units consisted of one share of common stock and one warrant to acquire an additional share at $3.00 per share. In April 1999, we adjusted the exercise price of warrants issued to the Foundation from $3.00 to $2.00 if exercised within 30 days of the adjustment. In May 1999, the Foundation exercised such warrant and we issued 100,000 shares of our common stock and a new warrant to purchase 100,000 shares of our common stock at an exercise price of $3.00, which was exercised in February 2001.

In connection with the issuance of securities to the New York State Science and Technology Foundation now known as the Empire State Development Corporation, (i) the Foundation represented to the Company that it and/or its officers or employees were experienced in evaluating and investing in newly-organized, high-technology companies such

as the Company, (ii) the Foundation represented that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. Appropriate legends were affixed to the stock certificates issued in such transactions. The Foundation had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In February 1997, we issued 12,000 shares of our common stock to Blanchfield King Kober, our former accountants, in payment of accounting fees totaling $24,000. In June 1999, we issued an additional 9,000 shares of our common stock to Blanchfield King Kober in payment of accounting fees totaling $36,000. The Company believes that these accountants have such knowledge and experience in financial and business matters that they were capable of evaluating the merits and risks of the investment. The shares issued to the shareholders contain a legend stating that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom. Because of their relationship with the Company, the shareholders had adequate access to sufficient information about the Company to make an informed investment decision. The Company did not engage in any general solicitation or advertisement for the issuance. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In May 1997 and June 1997, we sold 315,000 units to 8 purchasers, which units consisted of one share of common stock and one warrant to acquire an additional share at $3.00 per share originally set to expire in June 1999 in a private placement with respect to which Jesup & Lamont Securities Corp. acted as placement agent. The placement agent received a commission of $45,500 and a non-accountable expense allowance of $20,000 in connection with the private placement. Net proceeds to us were $550,849. Of the amount raised, $75,000 represented payment from one of our directors for 37,500 units. Our company also issued to the placement agent non-redeemable warrants to purchase 7,500 units for $2.25 per unit, which includes one share of common stock and an attached warrant to purchase an additional share of common stock at $3.00 per share. In connection with the issuance, (i) each shareholder represented to the Company that he was either an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and/or that he and such other persons as he found it necessary or advisable to consult, have sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) each shareholder represented that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates and warrants issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In November 1997, we sold in a private placement a total of 558,500 units to 15 purchasers, which units consisted of one share of common stock and one warrant to acquire an additional share at $3.00 per share originally set to expire in November 1999. Our company received net proceeds of $1,117,000 from this offering. In connection with the issuance, (i) each shareholder represented to the Company that he was either an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and/or that he and such other persons as he found it necessary or advisable to consult, have sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) each shareholder represented that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates and warrants issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In July 1998, we commenced a private placement of 500,000 units at $6.00 per unit. These units consisted of two shares of common stock at $3.00 per share and one warrant to acquire an additional share at $5.00 per share expiring two years from the date of the closing. In connection with this offering, the Company sold 31,000 units and received

proceeds of $186,000. Due to market conditions prevailing at that time for raising capital, we rescinded the offering and all the subscribers agreed to re-subscribe under the terms of the September 1998 offering.

In September 1998, we commenced a private placement of 1,000,000 units at $2.00 per unit. These units consisted of one share of common stock and one warrant to acquire an additional share at $3.00 per share. The offering was extended to January 17, 1999. We sold 273,000 units to 4 purchasers and received $546,000 as a result of the offering, of which $30,000 was received in January

1999. In connection with the issuance, (i) each shareholder represented to the Company that he was either an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and/or that he and such other persons as he found it necessary or advisable to consult, have sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) each shareholder represented that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates and warrants issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In February 1999, we extended the expiration date for the warrants issued in May 1997, June 1997 and November 1997 until June 30, 2000.

In March 1999, we commenced a private placement and sold 259,600 units to 17 purchasers at $2.00 per unit. These units consisted of one share of common stock and one warrant to acquire an additional share at $3.00 per share. We received $489,200 as a result of the offering prior to June 30, 1999 and $30,000 in August, 1999. In connection with the issuance, (i) each shareholder represented to the Company that he was either an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and/or that he and such other persons as he found it necessary or advisable to consult, have sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) each shareholder represented that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates and warrants issued in such transactions. Each shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In March 1999, we issued warrants to GunnAllen Financial Inc. to purchase 50,000 shares of our common stock at an exercise price of $3.00 per share expiring March 24, 2002. These warrants were issued in payment of the fee under a consulting agreement. The Company believes that this broker dealer had such knowledge and experience in financial and business matters that it was capable of evaluating the merits and risks of the investment. The Company did not engage in any general solicitation or advertisement for the issuance. GunnAllen had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In May 1999, we issued 10,000 shares of our common stock to Allan Binder in exchange for the termination of a royalty agreement. Mr. Binder is an attorney and served as a consultant to the Company. Because of his relationship with the Company, Mr. Binder had adequate access to sufficient information about the Company to make an informed investment decision. The Company believes that Mr. Binder had such knowledge and experience in financial and business matters that he was capable of evaluating the merits and risks of the investment. The shares issued to Mr. Binder contain a legend stating that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom. The Company did not engage in any general solicitation or advertisement for the issuance. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In May 1999, we issued to Frank Mandelbaum 75,000 shares of our common stock and warrants to purchase 75,000 shares at an exercise price of $3.00 per share, which was exercised in October 2001 and we issued to Kevin Messina 5,063 shares of our common stock and warrants to purchase 5,063 shares at an exercise price of $3.00 per share, which expired in October 2001. These issuances reduced Mr. Mandelbaum's deferred compensation by $150,000 and Mr. Messina's deferred compensation by $10,126. In addition, we issued to Mr. Messina 69,937 shares of our common stock and warrants to purchase 69,937 shares of our common stock at an exercise price of $3.00 per share in exchange for the termination of Mr. Messina's reversion rights for certain software. These warrants expired in October 2001. In June 1999, all remaining deferred compensation and interest due to Mr. Mandelbaum, Mr. Messina and Todd Cohen was eliminated by the issuance of options to purchase 375,000, 207,000 and 110,000 shares, respectively, of our common stock. Mr. Mandelbaum's deferred compensation was reduced by approximately $380,000, Mr. Messina's deferred compensation was reduced by approximately $210,000 and Mr. Cohen's deferred compensation was reduced by approximately $110,000. Mr. Mandelbaum is an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act. In addition, the Company believes that each of these members of senior management had such knowledge and experience in financial and business matters that they were capable of evaluating the merits and risks of the investment. The securities issued to the shareholders contain a legend stating that the warrants, options and underlying shares cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom. As members of senior management, Messrs. Mandelbaum, Messina and Cohen had adequate access to sufficient information about the Company to make an informed investment decision. The Company did not engage in any general solicitation or advertisement for the issuance. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In June 1999, we agreed to terminate the supplier agreement we had with Hazeltine (formerly Marconi Aerospace Systems, Inc.), for which we issued 75,000 shares of our common stock to Hazeltine in payment of outstanding invoices totaling $220,000, and we received all units of ID-Check which had been manufactured, all samples, designs, drawings, software, molds and any other item related to ID-Check. In connection with the issuance, (i) the shareholder represented to the Company that it was an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and that it had sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) the shareholder represented that the securities acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The shareholder further represented its intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transaction. The shareholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In August and September 1999 we placed $1,200,000 of secured promissory notes with interest at 10%. These notes have warrants attached to purchase 2,500 shares for each principal amount of $50,000 at $3.00 per share expiring in August 2002 of securities by us and can be redeemed by us at $.01 per warrant at any time that our stock has a public market price of $6.00 per share for 20 consecutive days. The notes mature on the sooner of July 31, 2000 or the date that we receive gross proceeds from a public offering of our securities of $6,000,000. In connection with the issuance, (i) each noteholder represented to the Company that he was either an accredited investor, as that term is defined in Regulation D promulgated under the Securities Act, and/or that he and such other persons as he found it necessary or advisable to consult, have sufficient knowledge and experience in business and financial matters to evaluate the risks of the investment and to make an informed investment decision with respect thereto, (ii) each noteholder represented that the notes, warrants and underlying shares cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The noteholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the notes and warrants issued in such transactions. Each noteholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering.

In December 2000, the Company granted 25,000 stock options to Korey Kay & Partners Inc., our advertising firm, for services to be performed, of which all are exercisable at $10.00. In December 2000 3,599 of these stock options vested for services performed which services were valued at $14,398. During 2001, 210 additional stock options vested

for services performed which services were valued at $842. The stock options were issued pursuant to the Company's 1998 Stock Option Plan in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering. The agreement for the option grant contains restrictions on transfer of the options by the Optionee. The shares underlying the options are registered pursuant to an effective Form S-8 registration statement. The Company believes that Korey Kay, as the Company's advertising firm, had such knowledge and experience, in financial and business matters, that it was capable of evaluating the merits and risks of an investment and adequate access to sufficient information about the Company to make an informed investment decision.

During 2000, the Company received $3,223,874 from the exercise of 1,078,216 warrants previously issued. Except for the underwriter warrants, all of the warrant holders received these warrants from their participation in the Company's private placement of stock and debt financing prior to its initial public offering. In connection with the issuance, (i) each warrantholder represented to the Company that, by virtue of his investment acumen, business experience or independent financial and tax advice, he had the capability of evaluating the risks and merits in investing in the shares, (ii) each warrantholder represented that the shares acquired cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom and (iii) the Company did not engage in any general solicitation or advertisement for the issuance. The warrantholders further represented their intention to acquire the securities for investment only and not with a view to the distribution thereof. Appropriate legends were affixed to the stock certificates issued in such transactions. Each warrantholder had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering. Of these warrants, 71,000 were exercised by an Executive Officer of the Company and 37,500 warrants were exercised by a Director of the Company. Each of the Executive Officer and Director who exercised their warrants is an accredited investor as that term is defined in Regulation D promulgated under the Securities Act. In addition, the Company believes that each of these persons had such knowledge and experience in financial and business matters that they were capable of evaluating the merits and risks of the investment. The securities issued to the shareholders contain a legend stating that the warrants and underlying shares cannot be sold without registration under the Securities Act, except in reliance upon an exemption therefrom. As a member of senior management and a director of the Company, such persons had adequate access to sufficient information about the Company to make an informed investment decision. The Company did not engage in any general solicitation or advertisement for the issuance. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offering. In addition, 90,000 warrants were exercised by the Company's underwriters. The Company believes that the underwriter had such knowledge and experience in financial and business matters that it was capable of evaluating the merits and risks of the investment. The Company did not engage in any general solicitation or advertisement for the issuance. The underwriter had adequate access to sufficient information about the Company to make an informed investment decision. The issuance and sale of these securities were made in reliance on the exemption provided by Section 4(2) of the Securities Act, as a transaction not involving any public offer. As of December 31, 2000, there remained warrants outstanding to purchase 496,475 shares of the Company's common stock at an exercise price of $3.00 and 10,000 underwriter warrants that carry an exercise price of $8.40.

In March 2001, the Company declared a dividend distribution of one non-transferable right to purchase one share of the Company's common stock for every 10 outstanding shares of common stock continuously held from the record date to the date of exercise, as well as common stock underlying vested stock options and warrants, held of record on March 30, 2001, at an exercise price of $8.50. The rights will expire on October 4, 2002, which is one year after the effective date of the registration statement related to the shares of common stock underlying the rights. As a result of certain conditions being met, the Company has the right to redeem the outstanding rights for $.01 per right. The Company reserved 970,076 shares of common stock for future issuance under this rights offering. As of December 31, 2001, 180,198 of these rights were exercised and the Company received $1,531,683 before expenses.

In March 2001, the Company extended the expiration date of its warrants that were due to expire on various dates through June 30, 2001, until September 30, 2001. In September 2001, the Company further extended the expiration of these warrants until October 31, 2001. During 2001, the Company received $1,058,175 from the exercise of 352,725 remaining warrants. Of these warrants, 75,000 were exercised by an Executive Officer of the Company. In addition, 36,250 warrants were converted into 25,329 shares of the Company's common stock utilizing the cashless exercise provision. As of December 31, 2001, there remained warrants outstanding to purchase 7,500 shares of the Company's common stock at an exercise price of $3.00 and 10,000 underwriter warrants that carry an exercise price of $8.40.

In March 2001, the 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, 2001, we purchased 10,000 shares totaling approximately $53,000 and subsequently retired these shares.

During 2001, the Company also received $785,150 from the exercise of 166,500 stock options.

Item 6. Selected Financial Data

The following selected financial data presented under the captions "Statement of Earnings Data" and "Balance Sheet Data" as of the end of each of the years in the five years ended December 31, 2001, are derived from the financial statements of Intelli-Check, Inc. The financial statements of the Company for all fiscal years presented have been audited by Arthur Andersen LLP, independent public accountants. The selected financial data should be read in conjunction with the financial statements as of December 31, 2001, the accompanying notes and the report of independent public accountants thereon, which are included elsewhere in this Form 10-K.

	Years Ended December 31,				
	1997	1998	1999	2000	20
	(In thousand's)				
Statement of Earnings Data:					
Revenue	$ 17	$ 86	$ 29	$ 343	$ 8
Loss from operations	(1,567)	(1,442)	(2,263)	(3,379)	(4,0
Net Loss	(1,604)	(1,504)	(2,299)	(3,133)	(3,9
Net loss per common share - basic and diluted	(0.46)	(0.36)	(0.45)	(0.47)	(0.
Common shares used in computing per share amounts - basic and diluted	3,506	4,208	5,080	6,648	7,9

	As of December 31				
	1997	1998	1999	2000	20
Balance sheet data:					
Cash and cash equivalents	482	160	6,381	4,092	4,0
Working capital (deficit)	(244)	(925)	6,038	5,920	5,3
Total assets	925	451	7,208	7,940	8,4
Stockholders equity (deficit)	(185)	(658)	6,325	6,633	7,0

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

(a) Overview

Our company was formed in 1994 to address a growing need for a reliable document and age verification system to detect fraudulent driver licenses and other widely accepted forms of government-issued identification documents. Our sales through September 30, 2000 had been minimal since through 1998 we had previously produced only a limited pre-production run of our product for testing and market acceptance. In late 1999, we received a limited number of ID-Check terminals, which were then available for sale. Shortly thereafter, these terminals were returned to the manufacturer to be upgraded to contain an advanced imager/scanner, which allows our software to currently read the encoding on over 50 jurisdictions as opposed to 32 jurisdictions on the original scanner. During the fourth quarter of 2000, we experienced a material increase in sales as a result of product availability and establishing marketing and distributor agreements with resellers. During 2001, sales were limited due to the refocus of our marketing efforts towards the larger customers in the retail market, in which the sales cycle normally requires an extended time frame involving multiple meetings, presentations and a test period, which has been further extended by the rapid slowing of the economy, whereby decisions for capital expenditures have been delayed. However, after the tragic events that occurred on September 11, 2001, there has been a significant increase in awareness and demand for our technology to help improve security across many industries, including airlines, rail transportation and high profile buildings and facilities. Since inception, we have incurred significant losses and negative cash flow from operating activities, and as of December 31, 2001 we had an accumulated deficit of approximately $12,065,942. We will continue to fund operating and capital expenditures from proceeds that the company received from its initial public offering ("IPO") as well as the exercise of warrants, options

and rights. 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.

The Company's initial marketing focus was targeted towards retailers of age-restricted products such as alcohol and tobacco. Because of the Company's enhanced ability to verify the validity of military ID's, driver licenses and State issued ID cards, containing either magnetic stripes or bar codes that conform to AAMVA/ANSI/ISO standards, the Company has refocused its marketing efforts to address the market being affected by the cost to industry of "Identity Theft." As a result of the Company's ID-Check product having the ability to verify the encoded formats of the documents described above, it has already sold its ID-Check unit to some of the largest companies in the gaming industry, a State Port Authority, military establishments, high profile buildings and has placed test units in some of the largest military bases, two commercial airports, State Motor Vehicle Bureaus, a major railroad, a major grocery chain, and a large tobacco company. In addition, our ID-Check unit has played a key role in a program organized by Mothers Against Drunk Driving (MADD) to deter the use of fake ID's used for the purchase of alcoholic beverages.

(b) Results of Operations

Comparison of the year ended December 31, 2001 to the year ended December 31, 2000.

The Company sells its product directly through its sales force and through distributors. Revenue from direct sales of the Company's product is recognized upon shipment to the customer. The Company's product requires continuing service or post contract customer support and performance by the Company, and accordingly a portion of the revenue based on its fair value is deferred 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 to distributors, the Company does 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.

Revenues increased by $542,929 from $342,979 recorded for the year ended

December 31, 2000 to $885,908 recorded for the year ended December 31, 2001. Revenues from distributors totaled $721,930 and revenues from direct customers totaled $163,978. Revenues for the year ended December 31, 2000 included initial sales of a limited number of ID-Check terminals prior to the return of our inventory of these terminals to the manufacturer for upgrading. Sales of our enhanced product began in the later part of the third quarter of 2000 and primarily consisted of the initial order under the marketing agreement with Sensormatic Electronics Corporation. Sales of approximately $585,000 for the year ended December 31, 2001 were limited by the recent refocus of our marketing efforts towards the larger customers within the retail market, in which the sales cycle normally requires an extended time frame involving multiple meetings, presentations and a test period, which has been further extended by the rapid slowing of the economy, resulting in decisions for capital expenditures being delayed. In addition, the roll-out of Sensormatic's sales and marketing initiatives, which were to begin in April 2001 never materialized. Since Sensormatic has met all its obligations under the original agreement, which was modified in January 2002, the agreement, which is scheduled to expire on March 31, 2002, will, by mutual consent, not be renewed. We have also begun to market to various government and state agencies, which have long sales cycles including extended test periods.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 27.6% from $3,523,357 for the year ended December 31, 2000 to $4,497,322 for the year ended December 31, 2001. Selling expenses, which consist primarily of salaries and related costs for marketing, increased 6.8% from $890,453 for the year ended December 31, 2000 to $950,774 for the year ended December 31, 2001 primarily due to increases in expenses attributable to the hiring of a Director of Corporate sales totaling approximately $100,000, increased travel expenses of approximately $67,000 and hiring professional consultants to promote our product totaling approximately $229,000 offset by the reduction of advertising expenses totaling $293,000. 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, increased 46.6% from $1,590,896 for the year ended December 31, 2000 to $2,332,150 for the year ended December 31, 2001, primarily as a result of an increase in rent expense of approximately $99,000 as we moved to a larger facility and increased professional fees for accounting and investment relations counsel of approximately $169,000, increased legal fees of approximately $244,000, resulting from the defense of our patent and other law suits, increases in depreciation expenses from additional purchases of equipment

of approximately $28,000, increases in insurance costs of $27,000 and refurbishment costs on inventory of $100,000. Research and development expenses, which consist primarily of salaries and related costs for the development of our products, increased 16.5% from $1,042,008 for the year ended December 31, 2000 to $1,214,398 for the year ended December 31, 2001. This increase is primarily attributable to net increases in salaries and related expenses and hiring additional programmers totaling $188,000. We believe that we will require additional investments in development and operating infrastructure. Therefore, we expect that expenses will continue to increase for the foreseeable future as we may increase expenditures for advertising, brand promotion, public relations and other marketing activities. We expect that we will incur additional general and administrative expenses as we continue to hire personnel and incur incremental costs related to the growth of the business. Research and development expenses will also increase as we complete and introduce additional products based upon our patented ID-Check technology. In addition, as a result of the completion of the acquisition of the assets of IDentiScan, expenses will increase as we expand this division.

Interest expense decreased from $14,863 for the year ended December 31, 2000 to $8,336 for the year ended December 31, 2001 as we have paid down certain capital leases which had higher interest rates than those currently prevailing.

Interest income decreased from $261,181 for the year ended December 31, 2000 to $135,860 for the year ended December 31, 2001, which is a result of a decrease in our cash and cash equivalents available for investment and lower interest rates in effect during this period.

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

As a result of the factors noted above, our net loss increased from $3,132,772 for the year ended December 31, 2000 to $3,962,931 for the year ended December 31, 2001.

Comparison of the year ended December 31, 2000 to the year ended December 31, 1999.

The Company sells its product directly through its sales force and through distributors. Revenue from direct sales of the Company's product is recognized upon shipment to the customer. The Company's product requires continuing service or post contract customer support and performance by the Company, and 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. Currently, with respect to sales to distributors, the Company does 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.

The Company's revenues increased from $29,407 for the year ended December 31, 1999 to $342,979 for the year ended December 31, 2000. Revenues from distributors totaled $185,580 and revenues from direct customers totaled $157,399. Revenues for the year ended December 31, 1999 consisted of sales of a limited number of units from shipment of products received late in 1999 as we did not have any product prior to this time available for sale since we had prior withdrawn from the marketplace so that we could devote our resources to expand the capability of our product by converting our software to operate on programmable terminals. Revenues for the year ended December 31, 2000 included initial sales of a limited number of ID-Check terminals that were available for sale prior to the early return of our inventory of these terminals to the manufacturer for upgrading. Sales of our enhanced product began in the later part of the third quarter of 2000. Revenues of $517,950 from sales in the fourth quarter of 2000, as well as cost of revenues of $299,040, were deferred in accordance with the Securities and Exchange Commission's Staff Accounting Bulletin No. 101, "Revenue Recognition in Financial Statements." The deferred revenue and the related cost of revenue will be recognized ratably over a 12-month period. Total revenues recognized and deferred from the sales of ID-Check terminals for the year ended December 31, 2000 were $860,929.

Operating expenses, which consist of selling, general and administrative and research and development expenses, increased 55% from $2,278,109 for the year ended December 31, 1999, to $3,523,357 for the year ended December 31, 2000. Selling expenses, which consist primarily of salaries and related costs for marketing, increased substantially from $202,888 for the year end December 31, 1999 to $890,453 for the year ended December 31, 2000 primarily due to the hiring of both a senior executive vice president and a director of national sales and their related travel expenses totaling approximately $227,000, as well as increases in advertising and marketing expenses of $461,000 resulting from the initiation of our advertising campaign. 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 33% from $1,194,862 for the year ended December 31, 1999 to $1,590,896 for the year ended December 31, 2000, primarily as a result of an increase in salaries and related benefits because of additional hiring of executive and administrative personnel of approximately $100,000 and increased insurance costs of approximately $54,000 and professional and legal fees of approximately $240,000, resulting from the defense of our patent lawsuit. Research and development expenses, which consist primarily of salaries and related costs for the development of our products, increased 18% from $880,359 for the year ended December 31, 1999 to $1,042,008 for the year ended December 31, 2000. This increase is primarily attributable to increases in salaries and related expenses from hiring additional programmers of $97,000 and the increase in fees paid to software consultants of approximately $47,000 as we accelerated software development. We believe that we will require additional investments in development and operating infrastructure, including the hiring of additional programmers and systems personnel. Therefore, we expect that expenses will increase in 2001 as we increase expenditures for attending additional conventions, brand promotion, and other marketing activities. We also expect that we will incur additional general and administrative expenses as we continue to hire personnel and incur incremental costs related to the growth of the business. Research and development expenses will also increase as we complete and introduce additional products based upon our patented ID-Check technology.

Interest expense decreased from $55,472 for the year ended December 31, 1999 to $14,863 for the year ended December 31, 2000 as a result of lower interest expense from the settlement of deferred compensation liability in 1999.

Interest income amounted to $261,181 for the year ended December 31, 2000 resulting from investing the proceeds received from our IPO, as well as from the exercise of warrants and options, in short term investments.

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

As a result of the factors noted above, our net loss increased from $2,299,425 for the year ended December 31, 1999 to $3,132,772 for the year ended December 31, 2000.

Critical Accounting Policies and the Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. 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. The items in our financial statements requiring significant estimates and judgments are as follows:

We are currently involved in certain legal proceedings as discussed in the "Commitments and Contingencies" note in the Notes to the Financial Statements. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows. However, were an unfavorable ruling to occur in any quarterly period, there exists the possibility of a material impact on the operating results of that period.

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. See our audited financial statements and notes thereto which begin on page F-1 of this Annual Report on Form 10-K which contain accounting policies and other disclosures required by generally accepted accounting principles.

-19-

(c) Quarterly Results and Seasonality

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

	Year Ended December 31, 2000				Year Ended	
	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	First Quarter	Second Quarte
				(Dollars in thousands)		
Income Statement Data:						
Revenues	$ 30	$ 17	$ 110	$ 186	$ 205	$ 27
Gross profit	15	9	46	74	87	12
Loss from operations	(743)	(782)	(769)	(1,085)	(930)	(92
Net loss	(663)	(709)	(716)	(1,045)	(879)	(88
Net loss per share attributable to common shareholders:						
Basic	(0.10)	(0.11)	(0.11)	(0.15)	(0.12)	(0.1
Diluted	(0.10)	(0.11)	(0.11)	(0.15)	(0.12)	(0.1

(1) Basic earnings per share for fiscal 2001 in total exceeds by $0.01 the sum of the applicable amount for each of the quarters of fiscal 2001 due to the impact of stock issuances on the weighted average number of shares outstanding.

The Company has not experienced seasonality in its sales volume or operating expenses.

(d) Liquidity and Capital Resources

Prior to our IPO, which became effective on November 18, 1999, we financed our operations primarily through several private placements of stock and debt financings. 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, we received $3,231,174 from the issuance of common stock from the exercise of warrants, stock options and rights. We funded the purchase of hardware terminals for resale and working capital primarily from these proceeds. We will continue to use these proceeds to fund working capital until we reach profitability.

Cash used in operating activities for the year ended December 31, 2001 of $2,966,437 resulted primarily from the net loss of $3,962,931, a net decrease in deferred revenues of $344,381 which was partially offset by an increase in accounts payable and accrued expenses of $426,651, a decrease in inventory of $367,650, and a net decrease in other current assets of $164,758 primarily consisting of the related deferred costs of revenues and increased by deposits of $200,000 for future purchases of inventory,. The increase in accounts payable and accrued expenses for 2001 was attributable to certain large invoices received toward the end of 2001. Cash used in operating activities for the year ended December 31, 2000 of $5,453,829 was primarily attributable to the net loss of $3,132,772, a decrease in accounts payable and accrued expenses of $137,941, an increase in certificate of deposit of $250,000, an increase in inventory of $2,349,729, and an increase in other current assets of $457,325, which was partially offset by a decrease in a deposit on hardware purchases of $245,800 and an increase of deferred revenue of $545,334. This increase in inventory resulted primarily from the purchase of inventory received at the end of the third quarter. Cash used in investing activities was $193,824 for the year ended December 31, 2001 and $223,511 for the year ended December 31, 2000. Net cash used in investing activities for both periods consisted primarily of capital expenditures for computer equipment and furniture and fixtures. Cash provided by financing activities was $3,129,807 for the year ended December 31, 2001 and $3,388,481 for the year ended December 31, 2000 and was primarily related to the exercise of outstanding warrants and stock options, and rights in 2001.

In March 2001, the Company declared a dividend distribution of one non-transferable right to purchase one share of the Company's common stock for every 10 outstanding shares of common stock continuously held from the record date to the date of exercise, as well as common stock underlying vested stock options and warrants, held of record

-20-

on March 30, 2001, at an exercise price of $8.50. The rights will expire on October 4, 2002, which is one year after the effective date of the registration statement related to the shares of common stock underlying the rights. As a result of certain conditions being met, the Company has the right to redeem the outstanding rights for $.01 per right. The Company reserved 970,076 shares of common stock for future issuance under this rights offering. As of December 31, 2001, 180,198 of these rights were exercised and the Company received $1,531,683 before expenses. In addition, 92,746 rights were also exercised through March 25, 2002 and the Company received proceeds of $788,341.

During the year ended December 31, 2001, the Company received net proceeds of $1,058,175 from the exercise of 352,725 warrants. As of December 31, 2001, there remained warrants outstanding to purchase 7,500 shares of the Company's common stock as an exercise price of $3.00 and 10,000 warrants that carry an exercise price of $8.40. In addition, the Company received net proceeds of $775,150 from the exercise of 166,500 stock options.

In March 2001, the 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, 2001, we purchased 10,000 shares totaling approximately $53,000 and subsequently retired these shares. We do not expect to purchase additional shares unless certain conditions warrant it.

The Company's operating expenses for 2002 is expected to increase to approximately $5,700,000 from $4,500,000 reported for 2001 including the additional expenses resulting from the acquisition of IDentiScan totaling $700,000 of which $250,000 is a non-cash amortization expense and other additional non cash expenses of $200,000. We currently anticipate that our available cash resources from expected revenues from the sale of the units in inventory combined with either the exercise of the expiring rights by our share holders before expiration or the exercise of the rights by our share holders should we redeem them, 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 from Welch Allyn of the balance of the 7,000 terminals to run our patented software, 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.

Below is a table, which presents our contractual obligations and commitments at December 31, 2001:

Payments Due by Period

Contractual Obligations	Total	Less than One Year	1-3 years	4-5 years	Afte
Capital Lease Obligations	$ 48,080	$ 29,665	$ 18,425	--	
Operating Leases	2,379,959	249,812	749,614	519,963	86
Purchase commitments (1)	400,000	400,000	--	--	
Employment contracts	1,440,416	574,583	865,833	--	
Total Contractual Cash Obligation	$4,268,455	$1,254,050	$1,633,872	$519,963	$86

(1) The Company is required to pay the manufacturer $400,000 as an advance deposit towards the open purchase order of approximately 2,850 ID-Check units.

(e) Net Operating Loss Carry Forwards

As of December 31, 2001, we had a net operating loss carry forward of approximately $11,650,000, 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, thus 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.

Forward Looking Statements

The foregoing contains certain forward-looking statements. Due to the fact that the Company faces intense competition in a business characterized by rapidly changing technology and high capital requirements, 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

Financial Statements are attached hereto following page F-1.

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

During fiscal year 2001 there were no changes in or disagreements with the Company's principal independent accountant on accounting or financial disclosure.

PART III

Item 10. Directors and Executive Officers of the Company

As of March 25, 2002, the Company's directors and executive officers were as follows:

Name and Age	Position With the Company And Principal Occupation	Held Of
Frank Mandelbaum, 68	Chairman, Chief Executive Officer and Director	
Edwin Winiarz, 44	Senior Executive Vice President, Treasurer, Chief Financial Officer and Director	
W. Robert Holloway, 62	Senior Executive Vice President, Sales	
Russell T. Embry, 38	Senior Vice President and Chief Technology Officer	
Paul Cohen, 61	Director	
Evelyn Berezin, 76	Director	
Charles McQuinn, 61	Director	
Jeffrey Levy, 60	Director	
Howard Davis, 46	Director	

Business Experience

Frank Mandelbaum 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 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.

W. Robert Holloway was elected Senior Executive Vice President in July 2000 and was Vice President, Sales from October 1999 to July 2000. From April 1999 to October 1999, Mr. Holloway was Director of Sales for The IdentiScan Company LLC. In February and March 1999, Mr. Holloway worked as an independent consultant. From

August 1996 to January 1999, Mr. Holloway was Global Sales Manager for Welch Allyn, Inc. From October 1994 to July 1996, Mr. Holloway was Vice President and Sales Manager of Bowne & Company of New York. Mr. Holloway holds an AB in economics from Columbia University and an MBA in finance from Boston University.

Russell T. Embry 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.

Paul Cohen has served as a director of Intelli-Check since November 1996. From December 1990 to present, Mr. Cohen has been the director of pharmaceuticals for Allou Health and Beauty Care, Inc, a public company. Paul Cohen is the father of Todd Cohen, our former President.

Evelyn Berezin 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 is currently a member of the Board of Directors of Bionova Corp., a publicly held biotechnology company. In addition, she has served on the boards of a number of other public companies including Cigna Corp., Datapoint Corp., Koppers Company, Inc. and Genetic Systems Inc., as well as more than fourteen private technology-based companies.

Charles McQuinn 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 was with Burroughs Corporation in various product development/marketing/management positions. Mr. McQuinn holds a BS in marketing from Ball State University and an MBA in management from Central Michigan University.

Jeffrey Levy 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. 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.

Howard Davis was appointed a non-voting advisor to the Board in December 1999 and elected a director in March 2000. He has been, since 1997, Executive Vice President of GunnAllen Financial Inc., where he is the executive responsible for the investment banking and finance division. From 1990 to 1997 Mr. Davis was President and Chief Executive Officer of Kensington Securities, Inc. In 1997, Kensington and GunnAllen joined together. Mr. Davis has also served as President of Wentworth Securities, Inc. from 1988 to 1990 and prior to that as President of Numero Uno Franchise Corporation. He has attended the University of Southern California, California State University, Northridge and Kent State University where he majored in Finance and Accounting.

Directors serve for staggered terms of either 3 years, 2 years or 1 year and hold office until the next annual meeting, following the conclusion of their term, of stockholders and the election and qualification of their successors. Executive officers are elected by and serve at the discretion of the board of directors.

Board Committees

The board of directors has established a compensation committee which is comprised of Mr. Davis, chairman, Mr. Levy and Mr. Cohen. The compensation committee reviews and determines the compensation for all officers and directors of our company and reviews general policy matters relating to the compensation and benefits of all employees. The compensation committee also administers the stock option plans.

The board of directors has established an audit committee which is comprised of Ms. Berezin, chairman, Mr. McQuinn and Mr. Davis. 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 established a corporate governance committee, which is comprised of Mr. McQuinn, chairman, Ms. Berezin and Mr. Levy. The corporate governance committee reviews our internal policies and procedures and by-laws and acts as our nominating committee for the Board of Directors.

The board of directors has also established a technology oversight committee comprised of Mr. Levy, chairman, Ms. Berezin and Mr. McQuinn. The technology oversight committee will monitor the development of products and services offered by our company and assist management in planning future development of products and services within the framework of consumer, regulatory and competitive environments. This committee will also monitor actions taken to protect our intellectual property and will recommend appropriate actions in furtherance of that protection.

Compliance with Section 16(a) of the Exchange Act

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 its review, the Company discovered that Mr. Mandelbaum failed to file a timely report regarding the sale and gift of 18,600 shares of common stock by his spouse for which he disclaims beneficial ownership. Such report was subsequently filed.

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, 2001. No other executive officers received total salary and bonus compensation in excess of $100,000 during any of such fiscal years.

-25-

SUMMARY COMPENSATION TABLE

		Annual Compensation	Long-Ter Compensa
Name and Principal Position	Year(s)	*Salary ($)	Securiti Underlyi Options/
Frank Mandelbaum	2001	204,808	
Chairman & CEO	2000	150,000	--

	1999	150,000	75,000
	1998	150,000	50,000
Edwin Winiarz	2001	322,971(a)	75,000
Senior Executive Vice President	2000	125,000	25,000
Chief Financial Officer	1999	37,981	50,000
W. Robert Holloway	2001	115,000	
Senior Executive Vice President	2000	115,000	--
Sales	1999	19,904	20,000
Russell T. Embry	2001	133,750	--
Senior Vice President	2000	104,052	25,000
Chief Technology Officer	1999	44,231	30,000
Kevin Messina	2001	764,940(b)	
Former Senior Executive Vice President	2000	150,000	--
Former Chief Technology Officer	1999	150,000	75,000

*Salaries include all deferred salaries paid and accrued.
(a) Includes $194,638 from the exercise of stock options
(b) Includes $712,440 from the exercise of stock options

The options shown above were granted under the 1998 and 1999 Stock Option Plans, are exercisable as follows: (1) for Frank Mandelbaum at $3.00 per share, (2) for Edwin Winiarz 25,000 options at an exercise price of $10.75, 50,000 at an exercise price of $5.00 and 75,000 options at an exercise price of $8.04 exercisable on September 7, 2006 and (3) W. Robert Holloway at an exercise price of $7.50. All options expire five years after the date of vesting.

Messrs. Mandelbaum and Messina had Employment Agreements expiring December 31, 2001, which provided for base annual salaries of $225,000, subject to specified conditions. Because of our limited resources, Messrs. Mandelbaum and Messina had from time to time agreed to defer the receipt of substantial portions of their salaries. In May 1999, Mr. Mandelbaum's deferred salary was reduced by $150,000 by the issuance to him of 75,000 shares of our common stock and warrants entitling him to purchase an additional 75,000 shares of our common stock at a price of $3.00 per share at any time prior to May 3, 2001. In May 1999, Mr. Messina's deferred salary was reduced by $10,126 through the issuance to him of 5,063 shares of our common stock and warrants to purchase 5,063 shares of our common stock at a purchase price of $3.00 per share at any time prior to May 3, 2001. As of June 30, 1999, Mr. Mandelbaum's deferred salary was approximately $375,000 and Mr. Messina's deferred salary was approximately $200,000. In June 1999, Mr. Messina received, in lieu of all deferred salary, options to purchase 207,000 shares of common stock at an exercise price of $3.00 per share. Also in June 1999, Mr. Mandelbaum received, in lieu of all deferred salary, options to purchase 375,000 shares of common stock at an exercise price of $3.00 per share.

Mr. Kevin Messina resigned as Senior Executive Vice President and Chief Technology Officer in May 2001.

All the options granted in exchange for deferred salary expire five years after the date of grant.

The following table summarizes options granted during the year ended December 31, 2001 to the named executive officers:

	Individual Grants				Potential
	Number of Securities Underlying Options	% of Total Options Granted To Employees In	Exercise	Expiration	Assumed Apprecia
		2001			
Name	Granted	Fiscal Year	Price	Date	5%
Edwin Winiarz	75,000	69.6%	$8.04	9/7/2011	$166,59

The following table summarizes unexercised options granted through the year-end December 31, 2001 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 I Opt Yea
			Exercisable	Unexercisable	Exercisa
Frank Mandelbaum Chairman & CEO			475,000	25,000	$5,367,
Ed Winiarz Senior Executive VP & CFO			60,000	75,000	414,
W. Robert Holloway Senior Executive VP Sales			20,000	30,000	136,
Russell T. Embry Senior VP & CTO			55,000		149,
Kevin Messina Former Senior Executive VP & CTO			207,000		2,339,

Pursuant to their employment agreements, Messrs. Mandelbaum and Messina each received a grant in August 1999 of options to purchase 75,000 shares of our common stock at a purchase price of $3.00 per share. Mr. Mandelbaum has options to purchase 50,000 shares of common stock, which are currently exercisable. Options to purchase 25,000 shares of our common stock became exercisable on January 1, 2002. The options expire five years from the date of grant. Kevin Messina exercised 50,000 options on October 5, 2001 and options to purchase 25,000 shares for Mr. Messina expired as a result of his resignation. During the years ended December 31, 2000 and December 31, 2001, we granted employees other than the executive officers named above options to purchase 215,000 shares and 32,750 shares respectively, of common stock under the 1998, 1999 and 2001 Stock

Option Plans.

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.

Compensation of Non-Employee 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. In August 1999, non-employee directors, Messrs. Paul Cohen and McQuinn and Ms. Berezin, each received a grant of a non-qualified stock option to purchase an aggregate of 45,000 shares of our common stock upon their election as a director at an exercise price of $3.00 per share. Of these options, 15,000 were immediately exercisable and an additional 15,000 became exercisable in July 2000 and the remaining 15,000 became exercisable in July 2001. On December 13, 1999, Mr. Levy and Mr. Davis were each granted non-qualified options to purchase 15,000 shares of our common stock at an exercise price of $11.625, the fair market value on the date of grant. These options were immediately exercisable. In addition, in July 2000 they were each granted non-qualified options to purchase an aggregate of 30,000 shares of our common stock for serving as a director at an exercise price of $8.25 per share. Of these options, 15,000 were immediately exercisable and 15,000 were exercisable in July 2001. In July 2001, Mr. Davis was granted non-qualified options to purchase 15,000 shares of our common stock at an exercise price of $10.15 exercisable on the date of our next annual meeting. In addition, Mr. McQuinn was granted non-qualified options to purchase 30,000 shares of our common stock at an exercise price of $10.15. Of these options, 15,000 are exercisable in 2002 and the balance are exercisable in 2003 on the date of our annual meeting during these years.

During 2001, Mr. Davis exercised 15,000 of his options and earned compensation of $138,300, Mr. McQuinn exercised 1,000 of his options and earned compensation of $6,800 and Ms. Berezin exercised 500 of her options and earned compensation of $3,938. Options granted to non-employee directors are exercisable only during the non-employee director's term and automatically expire on the date his or her service terminates. Mr. Paul Cohen had previously been granted options to purchase 30,000 shares of common stock exercisable at $3.00 per share. Mr. Cohen also received an option to purchase 50,000 shares of common stock exercisable at $3.00 per share in connection with a one-year consulting agreement dated November 1, 1997.

In addition, non-employee directors who are members of a committee are entitled to receive grants of stock options for each year served. Each chairperson of a committee 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. In March 2000, July 2000 and July 2001 the following non-qualified options were granted to committee chairpersons:

Name	Committee	Number of Options March 2000	Number of Options July 2000
Ms. Berezin	Audit	2,500	2,500
Mr. McQuinn	Corporate Governance	2,500	2,500
Mr. Levy	Technology Oversight	2,500	2,500
Mr. Davis	Compensation		2,500

The following non-qualified options were granted to committee members:

Name	Committee(s)	Number of Options March 2000	Number of Options July 2000
Mr. Cohen	Compensation, Audit	3,000	1,500
Ms. Berezin	Corporate Governance, Technology Oversight	3,000	3,000
Mr. McQuinn	Audit, Technology Oversight	3,000	3,000
Mr. Levy	Corporate Governance, Compensation		3,000
Mr. Davis	Audit	1,500	1,500

These options are exercisable at $12.125 for options granted in March 2000, $8.75 for options granted in July 2000 and $10.15 for options granted in July 2001, the fair market value on the date of grant, are immediately exercisable during the committee members term and expire five years from date of grant.

-28-

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

Effective January 1, 1999, Mr. Mandelbaum and Mr. Messina each entered into a three-year employment agreement with Intelli-Check. Each of the agreements provides for a base salary of $225,000. However, until such time as we received payment for gross sales of at least $1,000,000, which occurred in April 2001, the salaries were capped at $150,000. The agreements also provide for the payment of a bonus if our sales exceed $2,000,000 in the previous year. The bonus would have been in the amount of $50,000 plus 1% of the amount of sales in excess of $2,000,000 in each year. In addition, for each fiscal year ending during the term of the employment agreements, we were obligated to grant to each of the executives an option to purchase the greater of 25,000 shares of our common stock at fair market value on the date of grant or 10,000 shares of our common stock at fair market value on the date of grant for each full $250,000 by which pre-tax profits for each year exceeds pre-tax profits for the prior fiscal year. However, we were not required to grant options to purchase more than 150,000 shares of our common stock with respect to any one fiscal year. During the terms of their agreements, no bonuses were earned.

On May 7, 2001, The Board of Directors accepted the resignation of Kevin

Messina. Accordingly, all of the obligations under the employment agreement, including the payment of salary and incentives, ceased as of this date.

On February 1, 2002, the Company entered into a new three-year employment contract with its Chairman and Chief Executive Officer, effective January 1, 2002. The agreement provides for an annual base salary of $250,000. In addition, the Company granted to the Chairman and Chief Executive Officer an option to purchase 350,000 shares of common stock, of which 125,000 options are immediately exercisable at $12.10 per share and 225,000 options become exercisable at a rate of 75,000 per year on December 31, 2002, 2003 and 2004.

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. Included within the definition of change of control is the first day on which a majority of the directors of the company do not consist of individuals recommended by Mr. Mandelbaum and one outside director.

We had entered into a two-year employment agreement with Mr. Winiarz, which became effective on September 7, 1999. The agreement provides for a base salary of $125,000. In addition, we granted Mr. Winiarz an option to purchase 50,000 shares of common stock, of which 30,000 options were immediately exercisable at $5.00 per share and 20,000 options became exercisable on September 7, 2000 at $5.00 per share.

On September 7, 2001, the Company renewed the employment agreement with Mr. Winiarz. The agreement, which expires December 31, 2004, provides for a base salary of $135,000 with annual increases of 5% per annum. In addition, the Company granted 75,000 stock options at an exercise price of $8.04 vesting on September 7, 2006 with earlier vesting incentives.

We entered into a two-year employment agreement with Mr. Holloway, which became effective on October 25, 1999. The agreement provides for a base salary of $115,000. In addition, we granted Mr. Holloway an option to purchase 50,000 shares of common stock at $7.50 per share, of which 20,000 shares are immediately exercisable and 5,000 shares become exercisable for each 10,000 sales of ID-Check products sold that exceed 10,000. The maximum options that can be earned in any calendar year may not exceed 100,000. Any options earned above the initial 50,000 options will be at fair market value on the date of grant. Upon the expiration of this agreement, we renewed the agreement for an additional two years under the same terms and conditions.

Under the terms of the agreements, each of the executives has the right to receive his compensation in the form of shares of common stock valued at 50% of the closing bid price of our shares of common stock as of the date of the employee's election, which is to be made at the beginning of each quarter. In addition, 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.

Item 12. Security Ownership of Certain Beneficial Owners and Management

The following table sets forth, as of December 31, 2001 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 8,470,762 shares outstanding as of December 31, 2001.

Name	Shares Beneficially Owned
Frank Mandelbaum	1,382,560
Edwin Winiarz	63,500
W. Robert Holloway	24,200
Paul Cohen	331,823
Evelyn Berezin	65,600
Charles McQuinn	65,600
Jeffrey Levy	63,780
Howard Davis**	60,800
Kevin Messina	1,224,390
Todd Cohen	1,095,930
Empire State Development***, formerly New York State Science and Technology Foundation	605,000
All Executive Officers & Directors as a group (10 persons)	3,282,253

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

** In March 2002, Mr. Davis exercised 200 of the options beneficially owned by him and now holds 200 shares of common stock.

*** The person who exercises the voting power is the CFO who, at the present time, is Frances A. Walton.

The amounts shown for Mr. Mandelbaum do not include 31,400 shares and 3,140 rights held by Mr. Mandelbaum's wife, for which Mr. Mandelbaum disclaims beneficial ownership.

The amounts shown for Mr. Paul Cohen do not include 52,500 shares and 5,000 rights held by Mr. Cohen's wife and daughter, for which Mr. Cohen disclaims beneficial ownership.

Mr. Todd Cohen's address is P.O. Box 20054, Huntington Station, New York 11746.

Due to recent legislation, all assets of the New York State Small Business Technology Investment Fund, which were located in the New York State Science and Technology Foundation, were transferred to The Urban Development Corporation d/b/a Empire State Development. The Commissioner of Empire State Development is Charles A. Gargano. The members of the Board of Directors are Charles A. Gargano, J. Patrick Barrett, Charles E. Dorkey, III, David

Feinberg, Anthony Gioia, Deborah Weight and Elizabeth McCaul. The address for that fund is 633 Third Avenue, New York, NY 10017.

The amounts shown in the table above for the following persons include the right to acquire the number of shares shown pursuant to currently exercisable stock options, and/or warrants and/or rights at the exercise price shown:

Name	Number of Shares	Exercise Price
Frank Mandelbaum	475,000	$3.00
	121,500	$8.50
Edwin Winiarz	50,000	$5.00
	35,000	$8.50
W. Robert Holloway	20,000	$7.50
	2,200	$8.50
Paul Cohen	127,500	$3.00
	3,000	$12.125
	1,500	$8.75
	1,500	$10.15
	28,438	$8.50
Evelyn Berezin	44,500	$3.00
	5,500	$12.125
	5,500	$8.75
	5,500	$10.15
	4,100	$8.50
Charles McQuinn	44,000	$3.00
	5,500	$12.125
	5,500	$8.75
	5,500	$10.15
	4,100	$8.50
Jeffrey Levy	15,000	$11.625
	2,500	$12.125
	1,500	$8.00

	35,500	$8.75
	5,500	$10.15
	3,950	$8.50
Howard Davis	15,000	$11.625
	2,500	$8.000
	1,500	$12.125
	19,000	$8.75
	4,000	$10.15
	3,800	$8.50
Kevin Messina	207,000	$3.00
	92,490	$8.50
Todd Cohen	110,000	$3.00
	99,630	$8.50

Item 13. Certain Relationships and Related Transactions

In October 1994, Messrs. Todd Cohen and Kevin Messina co-founded Intelli-Check and each purchased 975,000 shares of common stock for $975. In April 1998, Mr. Todd Cohen resigned as an officer of our company for personal reasons and in August 1999, he completed his term as a director. In May 2001, Mr. Messina resigned as an officer of our Company to pursue other opportunities and in July 2001, he completed his term as a director.

In June 1996, Mr. Messina's company, K.M. Software, assigned two copyrights covering certain software employed by ID-Check and a patent application covering the ID-Check technology to Intelli-Check for an agreement to pay $98,151 plus interest. The agreement also gave K.M. Software, or its successor, the right to reclaim the rights to the copyrights and the patent under certain specified conditions. In May 1999, the prior agreement was superseded and in exchange Mr. Messina received 69,937 shares of our common stock and warrants to purchase 69,937 shares of our common stock, at $3.00 per share, exercisable at any time prior to May 3, 2001. The May 1999 agreement provides for the payment by Intelli-Check of 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. Also, in May 1999, Mr. Messina's deferred salary was reduced by $10,126 through the issuance to him of 5,063 shares of our common stock and warrants to purchase 5,063 shares of our common stock at a purchase price of $3.00 per share at any time prior to May 3, 2001. In June 1999, the balance of Mr. Messina's deferred salary was reduced to zero by the issuance of options to purchase 207,000 shares of our common stock at a purchase price of $3.00 per share at any time prior to June 30, 2004.

In June 1996, Frank Mandelbaum, Intelli-Check's Chief Executive Officer and Chairman of the Board of Directors, purchased 950,000 shares of common stock for $50,000. From time to time since then, Mr. Mandelbaum loaned money to Intelli-Check totaling $142,000. In November 1997, Mr. Mandelbaum converted his outstanding loans into 71,000 shares of our common stock and warrants to purchase 71,000 shares of our common stock at $3.00 per share, which he exercised on December 31, 2000. In May 1999, Mr. Mandelbaum's deferred salary was reduced by $150,000 through the issuance to him of 75,000 shares of our common stock and warrants to purchase 75,000 shares of our common stock at a purchase price of $3.00 per share, which were exercised in October 2001. In June 1999, Mr. Mandelbaum's deferred salary was reduced to zero by the issuance of options to purchase 375,000 shares of our common stock at an exercise price of

$3.00 per share at any time prior to June 30, 2004.

In March 1997, one of our directors, Paul Cohen purchased 37,500 units consisting of one share of common stock and one warrant to purchase an additional share at $3.00 per share in connection with one of our private placements, for $75,000. He exercised the warrants in December 2000 and the Company received net proceeds of $112,500. In November 1997, Mr. Cohen received an option to purchase 50,000 shares of common stock exercisable at $3.00 per share in connection with a one-year consulting agreement. Also in November 1997, Mr. Cohen's wife purchased 25,000 units consisting of one share of common stock and one warrant to purchase an additional share of common stock for $3.00 in connection with one of our private placements for $50,000. Mrs. Cohen exercised the warrant in December 2000 and the Company received net proceeds of $75,000. In August 1999, Mr. Cohen purchased one unit in connection with our last private placement. The unit consisted of a promissory note having a principal amount of $50,000, which bore interest at the annual rate of 10% and a warrant to purchase 2,500 shares of our common stock for $3.00 per share. The principal was repaid by the Company to Mr. Cohen in November 1999.

In June 1999, all deferred compensation due to Todd Cohen, our former President and director, was eliminated by the issuance of options to purchase 110,000 shares of common stock at an exercise price of $3.00 per share at any time prior to June 30, 2004.

Item 14. Exhibits and Reports on Form 8-K

(a) Exhibits. See index of exhibits annexed hereto.

(b) Reports on Form 8-K. None.

EXHIBIT INDEX

Exhibit No.	Description
1	Form of Underwriting Agreement (1)
3.1	Certificate of Incorporation of the Company (1)
3.2	By-laws of the Company (1)
4.1	Specimen Stock Certificate (2)
4.2	Form of Underwriters' Warrant Agreement (1)
10.1	1998 Stock Option Plan (1) *
10.2	Employment Agreement between Frank Mandelbaum and the Company, dated as of January 1, 1999 (1) *
10.3	Employment Agreement between Kevin Messina and the Company, dated as of January 1, 1999 (1) *
10.4	Employment Agreement between Edwin Winiarz and the Company, dated as of July 21, 1999 (1) *
10.5	Agreement of Lease between the Company and Industrial and Research Associates, dated as of October 15, 2000

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)
10.8	Agreement between the Company and Northern Leasing Systems Inc., dated as of August 13, 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
10.12	2001 Stock Option Plan (4)
10.13	Employment Agreement between Edwin Winiarz and the Company, dated as of September 7, 2001*
10.14	Employment Agreement between Frank Mandelbaum and the Company, dated as of February 1, 2002*
10.15	Memorandum of Understanding between AAMVAnet, Inc. and Intelli-Check, Inc. effective January 29, 2002
21	List of Subsidiaries (1)
23	Consent of Arthur Andersen LLP
99	Letter to Commission Pursuant to Temporary Note 3T

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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.

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 28, 2002

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 28, 2002	/s/ Frank Mandelbaum ------------------------------ Frank Mandelbaum and Director Chairman, Chief Executive Officer
Date: March 28, 2002	/s/ Edwin Winiarz ------------------------------ Edwin Winiarz Senior Executive Vice President, Treasurer and Chief Financial Officer
Date: March 28, 2002	/s/ Paul Cohen ------------------------------ Paul Cohen, Director
Date: March 28, 2002	/s/ Evelyn Berezin ------------------------------ Evelyn Berezin, Director
Date: March 28, 2002	/s/ Charles McQuinn ------------------------------ Charles McQuinn, Director
Date: March 28, 2002	/s/ Jeffrey Levy ------------------------------ Jeffrey Levy, Director
Date: March 28, 2002	/s/ Howard Davis ------------------------------ Howard Davis, Director

INDEX

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To the Stockholders of Intelli-Check, Inc.:

We have audited the accompanying balance sheets of Intelli-Check, Inc. (a Delaware corporation) as of December 31, 2001 and 2000, and the related statements of operations, stockholders' equity and cash flows for each of the three years in the period ended December 31, 2001. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Intelli-Check, Inc. as of December 31, 2001 and 2000, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2001 in conformity with accounting principles generally accepted in the United States.

ARTHUR ANDERSEN LLP

New York, New York
March 6, 2002

INTELLI-CHECK, INC.

BALANCE SHEET
DECEMBER 31, 2000 and 2001

ASSETS

	2001	2000
CURRENT ASSETS:		
Cash and cash equivalents	$ 4,061,235	$ 4,091,689
Accounts receivable	25,536	44,795
Inventory	2,168,688	2,536,338
Other current assets	370,880	511,638
Total current assets	6,626,339	7,184,460
CERTIFICATE OF DEPOSIT, restricted (Note 9)	268,494	250,000

PROPERTY AND EQUIPMENT, net (Note 3)	466,576	438,021
ACQUIRED SOFTWARE, net (Note 8)	426,806	--
GOODWILL (Note 8)	181,447	--
PATENT COSTS, net of accumulated amortization of $46,236 and $38,235 for 2001 and 2000, respectively (Note 8)	289,425	67,426
OTHER INTANGIBLES, net (Notes 4 and 8)	164,132	--
Total assets	$ 8,423,219	$ 7,939,907

LIABILITIES AND STOCKHOLDERS' EQUITY

CURRENT LIABILITIES:		
Accounts payable	$ 254,171	$ 180,792
Accrued expenses (Note 5)	842,501	489,229
Deferred revenue	200,953	545,334
Current portion of capital lease obligations (Note 9)	25,421	48,767
Total current liabilities	1,323,046	1,264,122
CAPITAL LEASE OBLIGATIONS (Note 9)	17,317	42,738
OTHER LIABILITIES	53,324	--
COMMITMENTS AND CONTINGENCIES (Note 9)		
STOCKHOLDERS' EQUITY:		
Series A Convertible Preferred Stock - $.01 par value; 250,000 shares authorized; 0 shares issued and outstanding	--	--
Common stock - $.001 par value; 20,000,000 shares authorized; 8,470,762 and 7,696,236 shares issued and outstanding as of 2001 and 2000, respectively	8,470	7,696
Deferred compensation	(189,000)	--
Additional paid-in capital	19,331,004	13,561,362
Accumulated deficit	(12,120,942)	(6,936,011)
Total stockholders' equity	7,029,532	6,633,047
Total liabilities and stockholders' equity	$ 8,423,219	$ 7,939,907

The accompanying notes are an integral part of this balance sheet.

INTELLI-CHECK, INC.

STATEMENTS OF OPERATIONS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000	2001
REVENUE	$ 29,407	$ 342,979	$ 885
COST OF REVENUE	14,420	198,712	479
Gross profit	14,987	144,267	406
OPERATING EXPENSES:			
Selling	202,888	890,453	950
General and administrative	1,194,862	1,590,896	2,332
Research and development	880,359	1,042,008	1,214
Total operating expenses	2,278,109	3,523,357	4,497
Loss from operations	(2,263,122)	(3,379,090)	(4,090
OTHER INCOME (EXPENSE):			
Interest income	19,169	261,181	135
Interest expense	(55,472)	(14,863)	(8
	(36,303)	246,318	127
Net loss	$(2,299,425)	$(3,132,772)	$(3,962
PER SHARE INFORMATION:			
Net loss per common share-			
Net loss	$(2,299,425)	$(3,132,772)	$(3,962
Dividend on warrant modification	--	--	(140
Net loss attributable to common shareholders	$(2,299,425)	$(3,132,772)	$(4,102
Basic and diluted	$ (0.45)	$ (0.47)	$ (
Common shares used in computing per share amounts-			
Basic and diluted	5,079,807	6,648,191	7,910

The accompanying notes are an integral part of these statements.

F-3

INTELLI-CHECK, INC.

STATEMENTS OF STOCKHOLDERS' EQUITY
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	Common Stock		Ser Preferr
	Shares	Amount	Shares
BALANCE, December 31, 1998	4,402,552	$4,402	250,000
Issuance of common stock in private placements	274,600	275	--
Exercise of warrant	160,000	160	--
Issuance of common stock for note payable and interest	69,937	70	--
Issuance of common stock for deferred salary	80,063	80	--
Issuance of common stock for settlements and accounts payable	128,000	128	--
Issuance of stock options for deferred salary	--	--	--
Conversion of preferred stock	250,000	250	250,000)
Issuance of common stock in IPO, net of expenses	1,150,000	1,150	--
Net loss	--	--	--
BALANCE, December 31, 1999	6,515,152	$6,515	--
Exercise of warrants	1,115,084	1,115	--
Exercise of stock options	66,000	66	--
Issuance of stock options in settlement of accounts payable	--	--	--
Net loss	--	--	--
BALANCE, December 31, 2000	7,696,236	$7,696	--
Exercise of warrants	378,084	379	--
Exercise of options	166,500	165	--
Distributions of Rights Dividends	--	--	--
Effect on extension of expiration of warrants	--	--	--
Issuance of common stock for exercise of rights	180,198	180	--
Purchase and retirement of common stock	(10,000)	(10)	--
Issuance of stock options in settlement of accounts payable	--	--	--
Issuance of common stock for the acquisition of certain assets	59,744	60	--
Recognition of Deferred Compensation	--	--	--
Amortization of Deferred Compensation	--	--	--
Net loss	--	--	--
BALANCE, December 31, 2001	8,470,762	$8,470	--

	Additional Paid-in Capital	Deferred Compensation
BALANCE, December 31, 1998	$ 839,342	$ --

Issuance of common stock in private placements	548,925	--
Exercise of warrant	379,840	--
Issuance of common stock for note payable and interest	139,804	--
Issuance of common stock for deferred salary	160,046	--
Issuance of common stock for settlements and accounts payable	445,588	--
Issuance of stock options for deferred salary	700,000	--
Conversion of preferred stock	2,250	--
Issuance of common stock in IPO, net of expenses	6,905,976	--
Net loss	--	--
BALANCE, December 31, 1999	$ 10,121,771	$ --
Exercise of warrants	3,222,759	--
Exercise of stock options	202,434	--
Issuance of stock options in settlement of accounts payable	14,398	--
Net loss	--	--
BALANCE, December 31, 2000	$ 13,561,362	$ --
Exercise of warrants	1,057,796	--
Exercise of options	774,985	--
Distributions of Rights Dividends	1,082,000	--
Effect on extension of expiration of warrants	140,000	--
Issuance of common stock for exercise of rights	1,397,669	--
Purchase and retirement of common stock	(52,590)	--
Issuance of stock options in settlement of accounts payable	842	--
Issuance of common stock for the acquisition of certain assets	979,940	--
Recognition of Deferred Compensation	389,000	(389,000)
Amortization of Deferred Compensation	--	200,000
Net loss	--	--
BALANCE, December 31, 2001	$ 19,331,004	$(189,000)

The accompanying notes are an integral part of these statements.

INTELLI-CHECK, INC.

STATEMENTS OF CASH FLOWS
FOR THE YEARS ENDED DECEMBER 31, 1999, 2000 AND 2001

	1999	2000
CASH FLOWS FROM OPERATING ACTIVITIES:		
Net loss	$(2,299,425)	$(3,132,772)
Adjustments to reconcile net loss to net cash used in operating activities-		
Depreciation and amortization	104,053	90,115
Noncash expenditure	--	14,398

Amortization of deferred compensation	--	--
Changes in assets and liabilities-		
(Increase) in certificate of deposit, restricted	--	(250,000)
(Increase) decrease in accounts receivable	(14,320)	(30,475)
(Increase) decrease in inventory	(169,916)	(2,349,729)
(Increase) decrease in other current assets	(299,192)	(211,525)
(Increase) Decrease in other assets	(2,586)	8,766
Increase (Decrease) increase in accounts payable & accrued expenses	1,159,805	(137,941)
Increase (decrease) in deferred revenue	--	545,334
Increase in other liabilities	--	--
Net cash used in operating activities	(1,521,581)	(5,453,829)
CASH FLOWS FROM INVESTING activities:		
Purchases of property and equipment	(93,797)	(223,511)
Cash paid for acquisition expenses	--	--
Net cash used in investing activities	(93,797)	(223,511)
CASH FLOWS FROM FINANCING ACTIVITIES:		
Net proceeds from issuance of common stock	7,836,326	3,426,374
Repayment of capital lease obligations	--	(37,893)
Treasury stock purchased	--	--
Proceeds from promissory notes	1,200,000	--
Repayment of promissory notes	(1,200,000)	--
Net cash provided by financing activities	7,836,326	3,388,481
Net decrease in cash and cash equivalents	6,220,948	(2,288,859)
CASH AND CASH EQUIVALENTS, beginning of year	159,600	6,380,548
CASH AND CASH EQUIVALENTS, end of year	$ 6,380,548	$ 4,091,689
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION:		
Cash paid during the period for interest	$ 37,458	$ 14,863
SUPPLEMENTAL DISCLOSURE OF NONCASH FINANCING ACTIVITIES:		
Conversion of preferred stock to common stock	$ 250,000	$ --
Common stock issued to satisfy debt and notes payable	139,874	--
Common stock issued to satisfy deferred salary	160,126	--
Common stock issued for settlements and accounts payable	445,715	--
Stock options issued to satisfy deferred salary	700,000	--
Common stock issued to purchase certain assets in acquisition	--	--
Capital lease obligations incurred	71,519	54,125
Stock options issued in settlement of account payable	--	14,398

The accompanying notes are an integral part of these statements.

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

1. NATURE OF BUSINESS

Intelli-Check, Inc. (the "Company") was originally incorporated in New York in October 1994 and reincorporated in Delaware in December 1999 to develop, manufacture and market an advanced document verification system to enable a retailer to help prevent economic loss through various frauds, such as Identity theft, which utilize fake ID's as support for these transactions, to increase security and deter terrorism at airports, military installations and other sites where security is a concern and to determine whether purchasers of age restricted products meet the minimum age requirements for the sale. This helps reduce the risk to the retailer of substantial monetary fines, criminal penalties and license revocation for the sale of age-restricted products to minors.

The Company has developed and patented the innovative software technology that is included in the advanced document verification system terminal called "ID-Check." The ID-Check terminal, in which the Company's patented software is loaded, was designed to offer convenient and reliable document and age verification. ID-Check reads, analyzes and displays the encoded information contained on driver licenses and other forms of accepted government issued identification where permitted by law. In addition, the ID-Check terminal is capable of being upgraded to accommodate changes made by the governmental issuers of driver licenses and ID cards. The ID-Check terminal requires a quick swipe or scan of the driver license or ID card by the user; displays a "valid", "expired", "tampered" or other customized display; and creates a record where permitted by law of transactions to protect the merchant against fraudulent transactions, unauthorized access and as proof that the retailer has used proper due diligence in the sale of age restricted products.

During 2001, the Company developed additional software products that utilize its patented software technology. C-Link(R) runs on a personal computer and was created to work in conjunction with the ID-Check unit that allows the retailer to instantly view the data for further verification, analyze data and generate various reports where permitted by law. The Company also has developed software that can be integrated onto a Windows platform that will enable a user of the software to perform all the functions of the ID-Check terminal.

2. SIGNIFICANT ACCOUNTING POLICIES

Cash and Cash Equivalents

Cash and cash equivalents include cash and highly liquid investments with original maturities of three months or less when purchased.

Revenue Recognition

The Company sells its product directly through its sales force and through distributors. Revenue from direct sales of the Company's product is recognized upon shipment to the customer. The Company's product requires continuing service or post contract customer support and performance by the Company, and 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. Currently, with respect to sales to distributors, the Company does not have enough experience to identify the fair value of each element. Therefore, the full amount of the revenue and related gross margin is deferred and recognized ratably over the one-year period in which the future service, support and performance are provided.

Inventory

Inventory is stated at the lower of cost or market and cost is determined using the first-in, first-out method. Inventory is primarily comprised of finished goods.

Long-Lived Assets

The Company's policy is to record long-lived assets at cost and amortize these costs over the expected useful life of the related assets, in accordance with Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to Be Disposed Of." These assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amounts of the assets may not be reasonable. Furthermore, these assets are evaluated for continuing value and proper useful lives by comparison to undiscounted expected future cash flow projections. The Company has determined that no impairment exists as of December 31, 2001.

Property and Equipment

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

Patent Costs

Patent costs, primarily consisting of legal costs and allocated costs as a result of certain assets acquired (see note 8), are amortized over a period between 10 and 17 years.

Capitalized Software Development Costs

SFAS No. 86, "Accounting for the Costs of Computer Software to Be Sold, Leased or Otherwise Marketed," specifies that costs incurred internally in creating a computer software product shall be charged to expense when incurred as research and development until technological feasibility has been established for the product. Software production costs for computer software that is to be used as an integral part of a product or process shall not be capitalized until both (a) technological feasibility has been established for the software and (b) all research and development activities for the other components of the product or process have been completed. The Company has not capitalized any software costs for the years ended December 31, 2000 and 2001.

Income Taxes

The Company accounts for income taxes under SFAS No. 109, "Accounting for Income Taxes." Deferred tax assets and liabilities are recognized for the estimated future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and net operating loss carryforwards. Deferred tax assets and liabilities are measured using expected tax rates in effect for the year in which those temporary differences are expected to be recovered or settled. The Company has recorded a full valuation allowance for its deferred tax assets as of December 31, 2001, due to the uncertainty of the realizability of those assets.

Fair Value of Financial Instruments

The Company adheres to the provisions of SFAS No. 107, "Disclosures about Fair Value of Financial Instruments." This pronouncement requires that the Company calculate the fair value of financial instruments and include this additional information in the notes to financial statements when the fair value is different than the book value of those financial instruments. At December 31, 2001, the carrying value of all financial instruments approximated fair value.

Business Concentrations and Credit Risk

Financial instruments, which subject the Company to concentrations of credit risk, consist primarily of cash, cash equivalents and short-term commercial paper. The Company maintains cash between two financial institutions. The Company performs periodic evaluations of the relative credit standing of these institutions. The Company has had limited sales due to the downturn of the economy and the refocus of its marketing efforts to a number of clients which are concentrated in the United States. The Company performs ongoing credit evaluations, generally does not require collateral, and establishes an allowance for doubtful accounts based upon factors surrounding the credit risk of customers, historical trends and other information.

The Company currently has one supplier for the production of its ID-check products (Note 9). The Company does not maintain a manufacturing facility of its own and, accordingly, is dependent on maintaining its existing production relationships. Further, should the Company's relationship with its supplier terminate unexpectedly, it may not be able to find an alternative, comparable supplier on satisfactory terms to the Company, and therefore, there may be an adverse effect on the Company's results of operations.

Net Loss Attributable to Common Shareholders

The Company computes net (loss) per common share in accordance with SFAS No. 128, "Earnings Per Share". Under the provisions of SFAS No. 128, basic net loss per common share ("Basic EPS") is computed by dividing

net loss by the weighted average number of common shares outstanding. Diluted net loss per common share ("Diluted EPS") is computed by dividing net loss by the weighted average number of common shares and dilutive common share equivalents then outstanding. SFAS No. 128 requires the presentation of both Basic EPS and Diluted EPS on the face of the statements of operations. Diluted EPS for the years ended December 31, 2000 and 2001, does not include the impact of stock options and warrants then outstanding, as the effect of their inclusion would be antidilutive.

The following table summarizes the equivalent number of common shares assuming the related securities that were outstanding as of December 31, 1999, 2000 and

2001 had been converted:

	1999	2000	2001
Stock options	1,182,500	1,312,349	1,467,578
Warrants	1,605,475	489,725	17,500
Total dilutive securities assuming the Company was in an income position	2,787,975	1,802,074	1,485,078

Stock-Based Compensation

The Company accounts for stock compensation under the provisions of SFAS No. 123, "Accounting for Stock-Based Compensation," by continuing to apply the provisions of Accounting Principles Board No. 25, "Accounting for Stock Issued to Employees," ("APB No. 25") while providing the necessary pro forma disclosures as if the fair value method had been applied.

Research and Development Costs

Research and development costs are charged to expense as incurred.

Comprehensive Loss

The Company's comprehensive net loss is equal to its net loss for the years ended December 31, 2000 and 2001.

Segment Information

The Company adheres to the provisions of SFAS No. 131, "Disclosures About Segments of an Enterprise and Related Information." This statement establishes standards for the way public business enterprises report information about operating segments in annual financial statements and requires that those enterprises report selected information about operating segments in financial statements issued to shareholders. Management has determined that it does not have any separately reportable business segments.

Costs of Computer Software Developed or Obtained for Internal Use

The Company accounts for certain software costs under Statement of Position 98-1, "Accounting for the Costs of Computer Software Developed or Obtained for Internal Use" ("SOP 98-1"), which provides guidance for determining whether computer software is internal-use software and guidance on accounting for the proceeds of computer software originally developed or obtained for internal use and then subsequently sold to the public. It also provides guidance on capitalization of the costs incurred for computer software developed or obtained for internal use. The adoption of SOP 98-1 in 1999 did not have a material effect on the Company's financial statements.

Critical Accounting Policies and the Use of Estimates

The preparation of our financial statements in conformity with accounting principles generally accepted in the U.S. 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. The items in our financial statements requiring significant estimates and judgments are as follows:

We are currently involved in certain legal proceedings as discussed in the

"Commitments and Contingencies" note. We do not believe these legal proceedings will have a material adverse effect on our financial position, results of operations or cash flows. However, were an unfavorable ruling to occur in any quarterly period, there exists the possibility of a material impact on the operating results of that period.

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

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.

Recently Issued Accounting Standards

In July 2001, the Financial Accounting Standard Board issued Statements of Financial Accounting Standards No. 141, Business Combinations ("SFAS 141") and No. 142, Goodwill and Other Intangible Assets ("SFAS 142"). SFAS 141 requires all business combinations initiated after June 30, 2001 to be accounted for using the purchase method. Under FAS 142, goodwill and intangible assets with indefinite lives are no longer amortized but are reviewed annually (or more frequently if impairment indicators arise) for impairment. Separable intangible assets that are not deemed to have indefinite lives will continue to be amortized over their useful lives (but with no maximum life). The amortization provisions of SFAS 142 apply to goodwill and intangible assets acquired after June 30, 2001. With respect to goodwill and intangible assets acquired prior to July 1, 2001, the Company is required to adopt SFAS 142 effective January 1, 2002. The Company is currently evaluating the effect that adoption of the provisions of SFAS 142 that are effective January 1, 2002 will have on its results of operations and financial position.

In August 2001, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets ("SFAS 144"). This statement addresses financial accounting and reporting for the impairment or disposal of long-lived assets. SFAS 144 will be effective for financial statements of fiscal years beginning after December 15, 2001. We do not anticipate that it will have a material impact on the Company's financial results.

Reclassifications

Certain prior year amounts have been reclassified to conform to the current year presentation.

3. PROPERTY AND EQUIPMENT

Property and equipment are comprised of the following as of December 31, 2001 and 2000:

	2001	2000
Computer equipment	$ 508,044	$ 368,207
Furniture and fixtures	152,251	151,210
Leasehold improvements	143,253	143,253

Office equipment	40,412	40,412
	843,960	703,082
Less- Accumulated amortization	(377,384)	(265,061)
	$ 466,576	$ 438,021

Depreciation expense for the years ended December 31, 1999, 2000 and 2001 amounted to $97,843, $83,908 and $112,044, respectively.

4. OTHER INTANGIBLES

Other intangibles are comprised of the following as of December 31, 2001:

Covenant not to compete	$150,000
Copy Rights	17,500
	167,500
Less- Accumulated depreciation	(3,368)
	$164,132

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

5. ACCRUED EXPENSES

Accrued expenses are comprised of the following as of December 31, 2001 and 2000:

	2001	2000
Professional fees	$474,245	$251,501
Payroll	97,500	71,824
Rent	30,784	34,346
Other	239,972	131,558
	$842,501	$489,229

6. INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Significant components of the Company's deferred tax assets for federal and state income taxes as of December 31, 2001 and 200 are as follows:

	2001	2000
Deferred tax assets, net:		
Net operating loss carryforwards	$ 4,662,652	$ 2,608,000

Depreciation	(20,000)	(20,000)
Accruals	--	(64,000)
Reserves	5,000	--
Other	--	(5,700)
Less- Valuation allowance	(4,647,652)	(2,518,300)
Deferred tax assets, net	$ --	$ --

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

As of December 31, 2001 and 2000, the Company had net operating loss carryforwards (NOL's) for federal income tax purposes of approximately $11,656,000 and $6,521,000, respectively. There can be no assurance that the Company will realize the benefit of the NOL's. The federal NOL's are available to offset future taxable income and expire from 2018 through 2021 if not utilized. Under Section 382 of the Internal Revenue Code, these NOL's may be limited due to ownership changes.

7. STOCKHOLDERS' EQUITY

Series A Convertible Preferred Stock

In January 1997, the Board of Directors authorized the creation of a class of Series A Convertible Preferred Stock with a par value of $.01. The Series A Convertible Preferred Stock is convertible into an equal number of common shares at the holder's option, subject to adjustment for anti-dilution. The holders of Series A Convertible Preferred Stock are entitled to receive dividends as and if declared by the Board of Directors. In the event of liquidation or dissolution of the Company, the holders of Series A Convertible Preferred Stock are entitled to receive all accrued dividends, if applicable, plus the liquidation price of $1.00 per share.

As of December 31, 2001, there were no outstanding shares of Series A Convertible Preferred Stock.

Common Stock, Warrants and Rights

In February 1999, the Company extended the expiration dates for the warrants issued on May 26, 1997 and November 30, 1997 until June 30, 2000 and further extended the warrants to December 31, 2000. The Company did not record a charge for the adjustment to the terms of the warrants, as the amount was immaterial. All of the warrants were exercised prior to their expiration.

In April 1999, the Company adjusted the exercise price of a warrant to purchase common stock of the Company issued to an investor, in a previous common stock private placement, from $3.00 to $2.00. The adjustment was contingent upon the investor exercising the warrants within thirty days of the adjustment. The Company did not record a charge for the adjustment to the terms of the warrants, as the amount was immaterial as the exercise price of the warrant was equal or above the fair market value of the Company's common stock on the date of the adjustment. The investor exercised this warrant in May 1999 at the adjusted exercise price and the Company received total proceeds of $200,000. In addition, the investor received a new warrant to purchase 100,000 shares of the Company's common stock at an exercise price of $3.00 per share, which was exercised in February 2001. The new warrant was been issued with an exercise price that was equal or above the fair market value of the Company's common stock on the date of grant.

In March 2001, the Company declared a dividend distribution of one non-transferable right to purchase one share of the Company's common stock for every 10 outstanding shares of common stock continuous 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 will expire on October 4, 2002, which is one year after the effective date of the registration statement related to the shares of common stock underlying the rights. As a result of certain conditions being met, the Company has the right to redeem the outstanding rights for $.01 per right. The Company reserved 970,076 shares of common stock for future issuance under this rights offering. The Company has recorded the fair value of the rights of $1,082,000 as a dividend during the quarter ended March 31, 2001, which was calculated using the Black-Scholes valuation method and recorded as an increase in additional paid-in capital and a reduction in accumulated deficit. As of December 31, 2001, 180,198 of these rights were exercised and the Company received $1,531,683 before expenses of $133,834.

In March 2001, the Company extended the expiration date of its warrants that were due to expire on various dates through June 30, 2001, until September 30, 2001. During the three months ended March 31, 2001, the Company recorded the $85,000 difference between the fair value of the warrants prior and subsequent to this extension as a dividend. In September 2001, the Company further extended the expiration of these warrants until October 31, 2001 and recorded the $55,000 difference between the fair value of the warrants prior and subsequent to this extension as a dividend during the three months ended September 30, 2001. These dividends were calculated using the Black-Scholes valuation method and are included in net loss attributable to common shareholders.

During the year ended December 31, 2001, the Company received proceeds of $1,058,175 from the exercise of 352,725 warrants. In addition, 36,250 warrants were converted into 24,329 shares of the Company's common stock utilizing the cashless exercise provision. As of December 31, 2001, there remained warrants outstanding to purchase 7,500 shares of the Company's common stock at an exercise price of $3.00 except for 10,000 warrants that carry an exercise price of $8.40.

In March 2001, the 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, 2001, the Company purchased 10,000 shares of the Company's common stock for approximately $53,000 and subsequently retired those shares.

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

Stock Options

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

Pursuant to the 1998 Stock Option Plan, the Company had granted in 1997, 50,000 stock options to each of three members of the Board of Directors, of which all are exercisable at $3.00 per share and all expire within 5 years from the date of grant. One of the directors had declined to stand for re-election to the Board. In connection with this decision in 1999, the Company

extended the date of expiration of the former director's stock options until August 15, 2000. The Company did not record a charge for the adjustment to the terms of the stock options, as the amount was immaterial.

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

In December 2000, the Company granted an option to a third-party to purchase 25,000 shares of common stock at $10.00 per share in lieu of cash payments for advertising services rendered. Options on 3,599 shares are immediately exercisable and 21,401 vest as advertising services are performed. The fair market value of each option has been estimated at $4.00 on the date of grant using the Black-Scholes option pricing model and will be revalued at each measurement date when services are performed. The Company recorded a charge of $14,398 and $842 in the accompanying statement of operations as of December 31, 2000 and 2001, respectively, and will amortize the remaining expense as services are performed.

During the fourth quarter of 2001, the Company granted options to purchase 41,231 shares of common stock at prices ranging from $9.22 to $16.05 per share to consultants under various agreements. The fair market value of each option was estimated on the date of grant using the Black-Scholes option pricing model. Accordingly, we have recorded $389,000 as deferred compensation for these services as of December 31, 2001 of which $200,000 was recognized during 2001.

At the Company's Annual Meeting held on July 11, 2001, the stockholders approved the 2001 Stock Option Plan covering up to 500,000 of the Company's common shares, pursuant to which the officers, directors, key employees and consultants to the Company are eligible to receive incentive stock options and nonqualified stock options. The Compensation Committee of the Board of Directors administers the 2001 Stock Option Plan and determines the terms and conditions of options granted, including the exercise price. The 2001 Stock Option Plan provides that all stock options will expire within ten years of the date of grant. Incentive stock options granted under the 2001 Stock Option Plan must be granted at an exercise price that is not less than the fair market value per share at the date of the grant and the exercise price must not be less than 110% of the fair market value per share at the date of the grant for grants to persons owning more than 15% of the voting stock of the Company. The 2001 Stock Option Plan also entitles non-employee directors to receive grants on non-qualified stock options as approved by the Board of Directors.

During the year ended December 31, 2001, the Company received net proceeds of $775,150 from the exercise of 166,500 stock options.

Had compensation for the 1998, 1999 and 2001 Stock Option Plans been determined consistent with the provisions of SFAS No.123, the effect on the Company's net loss and basic and diluted loss per share would have changed to the following pro forma amounts:

	Year Ended December 31, 1999	Year Ended December 31, 2000	Ye Decem
Net loss, as reported	$(2,299,425)	$(3,132,772)	$(
Net loss, pro forma	(2,582,153)	(4,077,551)	(
Basic and diluted loss per share, as reported	(0.45)	(0.47)	
Basic and diluted loss per share, pro forma	(0.51)	(0.61)	

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

Stock option activity under the 1999 and 2001 Stock Option Plans during the periods indicated is as follows:

	Options Granted	Weighted Average Exercise Price
Outstanding at January 1, 1999	280,000	$3.00
Granted	1,278,000	$3.88
Canceled	(10,000)	$3.00
Outstanding at December 31, 1999	1,548,000	$3.72
Granted	376,560	$9.80
Canceled	(80,000)	3.00

Exercised	(66,000)	3.07
Outstanding at December 31, 2000	1,778,560	4.89
Granted	330,481	0.86
Canceled	(37,500)	5.17
Exercised	(166,500)	4.72
Outstanding at December 31, 2001	1,905,041	$6.11

Included in the option schedule are 792,000 non-plan options.

As of December 31, 1999, 2000 and 2001, the fair market value of each option grant has been estimated on the date of grant using the Black-Scholes option pricing model based upon expected option lives of 2 years; risk free interest rates of 5.00%, 6.00% and 3.34%; expected volatility of 68.11%, 91% and 90% and a dividend yield of 0%, 0% and 0%, respectively.

The weighted-average remaining life of the options outstanding at December 31, 1999, 2000 and 2001 is 4.66 years, 3.87 years and 2 years, respectively, and the weighted-average fair value of the options outstanding at December 31, 1999, 2000 and 2001 is $2.07, $5.14 and $5.14, respectively.

As of December 31, 2001, the Company has 744,828 options exercisable and 554,459 options available for future grant under the 1998, 1999 and 2001 Stock Option Plans.

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

8. ACQUISITION

On December 18, 2001,the Company acquired substantially all of the assets of the IDentiScan Company, LLC, which was accounted for under the purchase method. The aggregate purchase price totaled $1,032,947 which consisted of 59,774 of the Company's restricted common stock valued at $980,000 and transaction costs of $52,947, plus additional incentives upon meeting specific objectives over the next three years. If after one year from closing, the aggregate current market price of the shares issued at closing is less than $750,000, the Company will pay additional cash or additional common stock for the short fall, if any. The allocation of the purchase price was as follows: $430,000 acquired technology, $181,447 to goodwill, $397,500 in other intangible assets, and $24,000 to tangible assets. All Intangible assets are being amortized on a straight-line basis of between 2-10 years, which represents the estimated future period to be benefited.

9. COMMITMENTS AND CONTINGENCIES

Operating Leases

During July 2000, the Company entered into a 10-year lease agreement for its new office. The lease provides for monthly rental payments of $17,458 beginning December 15, 2000 and for immaterial annual increases. In connection with this lease,

INTELLI-CHECK, INC.

NOTES TO FINANCIAL STATEMENTS

the Company provided an irrevocable unconditional letter of credit in the amount of $250,000 as security, which will be reduced after 45 months to $34,916 for the balance of the lease. The Company has invested $250,000 in a restricted interest bearing certificate of deposit collateralizing the letter of credit. As of December 31, 2001 the total amount in this account is $268,494.

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

Year Ending December 31:	
2002	$ 249,812
2003	259,103
2004	244,539
2005	245,972
2006	254,884
Thereafter	1,125,649
	$2,379,959

Capital Lease Obligations

The Company leases computer equipment and office equipment under several capital leases expiring in 2003. The asset and liability are recorded at the lower of the present value of minimum lease payments or the fair market value of the assets.

Future minimum payments under the lease agreements are as follows:

Year Ending December 31:	
2002	$29,655
2003	18,425
Total minimum lease payments	48,080
Less- Amount representing interest	(5,342)
Present value of net minimum lease payments	$42,738

Royalty and License Agreements

The Company entered into an agreement with a former officer of the Company during 1996 to license certain software. The agreement stipulated, among other provisions, that the officer would receive royalties equal to a percentage of the Company's gross sales. This agreement was terminated in May 1999 and superceded by a new agreement which calls for payment of royalties of .005% on gross sales from $2,000,000 to $52,000,000 and .0025% on gross sales in excess of $52,000,000.

Employment Agreements

On January 1, 1999, the Company entered into three-year employment contracts with both its Chairman and Chief Executive Officer and its Senior Executive Vice President and Chief Technology Officer. Each of the agreements provided for a base salary of $225,000 subject to certain conditions and the payment of a bonus if the Company's sales exceed $2,000,000 in the previous year. The bonus would have been in the amount of $50,000 plus 1% of the amount of sales in excess of $2,000,000 in each year. In addition, for each fiscal year ending during the term of the employment agreements, the Company was obligated to grant to each of the executives an option to purchase the greater of 25,000 shares of common stock at fair market value on the date of grant or 10,000 shares of common stock at fair market value on the date of grant for each full $250,000 by which pre-tax profits for each year exceeds pre-tax profits for the prior fiscal year. However, the Company was not required to grant options to purchase more than 150,000 shares of common stock with respect to any one fiscal year. During the terms of their agreements, no bonuses were earned.

On May 7, 2001, the Board of Directors accepted the resignation of its Senior Vice President and Chief Technical Officer. Accordingly, all of the obligations under the employment agreement, including the payment of salaries and incentives, ceased as of this date.

On February 1, 2002 the Company entered into a new three-year employment contract with its chairman and Chief Executive Officer, the agreement provides for an annual base salary of $250,000. In addition, the Company granted the Chairman and

Chief Executive Officer an option to purchase 350,000 shares of common stock exercisable at $12.10 per share of which 125,000 options are immediately exercisable and 225,000 options become exercisable at a rate of 75,000 per year at December 31, 2002, 2003 and 2004.

In June 1999, the Chairman and Chief Executive Officer converted approximately $380,000 in deferred salary and interest into 375,000 options to purchase a share of common stock at an exercise price of $3.00, expiring in June 2004. In addition, the Company's Senior Executive Vice President and Chief Technology Officer converted approximately $210,000 in deferred salary and interest into 207,000 options to purchase a share of common stock at $3.00, expiring in June 2004. Furthermore, the Company's former President converted approximately $110,000 in deferred salary and interest into 110,000 options to purchase a share of common stock at $3.00, expiring in June 2004.

In July 1999, the Company entered into a two-year employment agreement with its Senior Executive Vice President and Chief Financial Officer, which became effective on September 7, 1999. The agreement provided for a base salary of $125,000. In addition, the Company granted the Chief Financial Officer an option to purchase 50,000 shares of common stock, of which 30,000 options were immediately exercisable at $5.00 per share and 20,000 options became exercisable on September 7, 2000 at $5.00 per share.

On September 7, 2001, the Company renewed the employment agreement of its Senior Executive Vice President and Chief Financial Officer. The agreement, which expires December 31, 2004, provides for a base salary of $135,000 with annual increases of 5%. In addition, the Company granted 75,000 stock options at an exercise price of $8.04 vesting on September 7, 2006 with earlier vesting incentives.

Effective October 1999, the Company entered into a two-year employment agreement with its Senior Executive Vice President of Sales. The agreement provides for a base salary of $115,000. In addition, the Company granted the Senior Executive Vice President of Sales an option to purchase 50,000 shares of common stock at $7.50 per share, of which 20,000 shares are immediately exercisable and 5,000 shares become exercisable for each 10,000 sales of ID-Check products sold that exceed 10,000. The maximum options that can be earned in any calendar year may not exceed 100,000. Any options earned above the initial 50,000 options will be at fair market value on the date of grant. This agreement was renewed for an additional 2 years expiring October 2003 under the same terms and conditions.

Supplier Agreements

In July 1999, and amended November 1999 and July 2000, the Company entered into a supplier agreement with Welch Allyn, Inc. The agreement specified that the Company pay approximately $188,000 for the development of the Company's ID-check products. In addition, Welch Allyn Inc. agreed to manufacture these products for an initial period of two years and provides for automatic renewal periods of one year. The Company placed an initial order for a total of 2,000 units of which they had received 500 units as of December 31, 1999. These units were subsequently returned to the manufacturer to exchange the original scanner for a high-tech scanner, which allows the software to read the encoding on 51 jurisdictions as opposed to 32 jurisdictions that could be read on the original scanner. The Company received all of its product on these orders. During July 2000, the Company placed an additional order to purchase 5,000 units and has received a portion of the units prior to December 31, 2000.

During 2001, the Company agreed to provide the manufacturer with advance deposits totaling $600,000 towards the fulfillment of its obligation on its purchase order. The Company paid $200,000 during September 2001 and expects to pay the remaining $400,000 in April 2002.

Legal Proceedings

A lawsuit was filed as a class action on October 18, 2001 on behalf of short-sellers of the Company's stock, who suffered losses because of the rise in the price of the Company's stock, in the United States District Court for New Jersey. The class action suit was amended in November 2001 and is now an individual action. The complaint alleges violations of the Securities and Exchange Act of 1934. The Company believes the suit is without merit and will defend itself vigorously.

A lawsuit requesting a preliminary injunction was filed on October 18, 2001 in the Supreme Court of the State of New York, Nassau County, on behalf of Kevin Messina, the former Chief Technology Officer of the Company, which sought to force the Company to permit Mr. Messina to sell his restricted shares of the Company's common stock. The complaint also seeks damages of $29,350 for unpaid salary, unused vacation, unreimbursed business expenditures, unpaid director's fees and punitive damages in the amount of $3,000,000. Mr. Messina's motion for a preliminary injunction was denied. The Company

has acted properly and will defend itself vigorously. The Company filed a counterclaim seeking damages in the amount of $5,000,000 alleging breach of Mr. Messina's obligations to the Company.

A demand for arbitration was brought by Early Bird Capital Inc. in January 2002, seeking issuance of warrants pursuant to the terms of a Financial Advisory and Investment Banking Agreement dated as of August 20, 2002. The Company believes that Early Bird Capital failed to perform under the agreement and therefore, is not entitled to the warrants. The Company has acted properly and will defend itself vigorously.

As a result of the acquisition of The IDentiScan Company, LLC, the patent infringement suit against the Company was withdrawn with prejudice.

10. SUBSEQUENT EVENTS

Effective January 30, 2002, the Company mutually agreed with Sensormatic Electronics Corporation not to renew its non-exclusive Master Distributor agreement which was due to expire on March 31, 2002. The Company received $412,000 and additionally Sensormatic agreed to return to the Company all units previously purchased and unsold in their inventory as settlement of its obligations under the agreement. The Company will recognize the income, net of refurbishment costs of approximately $75,000, in the first quarter of 2002.