

INTELLI CHECK INC
 Form 424B1
 October 03, 2003

PROSPECTUS

[LOGO]INTELLI-CHECK(R), INC.

1,100,000 Shares of Common Stock
 \$8.00 per share

We are offering 1,100,000 shares of our common stock. Our common stock trades on the American Stock Exchange under the symbol "IDN". On October 2, 2003 the last reported sale price of our common stock was \$8.72 per share.

The net proceeds from this offering are estimated to be \$7,740,000 based upon a public offering price of \$8.00 per share and after deducting the underwriting discounts and commissions and estimated offering expenses payable by us. We plan to use the net proceeds for general corporate purposes, including purchase of equipment, product development, sales and marketing, consultant fees and working capital.

Please see "Risk Factors" beginning on page 4 to read about certain factors you should consider before buying shares of our common stock.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per Share	Total
Public offering price:	\$8.00	\$ 8,800,000
Underwriting discounts and commissions:	\$.64	\$ 704,000
Proceeds to Intelli-Check before estimated expenses	\$7.36	\$ 8,096,000

Proceeds to Intelli-Check of \$ 8,096,000 is calculated before estimated offering expenses of \$ 356,000 which would result in net proceeds to Intelli-Check of approximately \$ 7,740,000. We have granted the underwriter a 45-day option to purchase up to an additional 165,000 shares of common stock to cover over-allotments. The underwriter is offering the shares on a firm commitment basis. The underwriter expects to deliver the shares of common stock to purchasers on October 8, 2003.

We have agreed to sell to the underwriter warrants to purchase up to an

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additional 110,000 shares of our common stock.

The Shemano Group [LOGO]
This prospectus is dated October 2, 2003

TABLE OF CONTENTS

	Page

PROSPECTUS SUMMARY.....	2
RISK FACTORS.....	4
FORWARD-LOOKING STATEMENTS.....	10
THE COMPANY.....	12
USE OF PROCEEDS.....	18
PRICE RANGE OF COMMON STOCK.....	19
DILUTION	19
DESCRIPTION OF CAPITAL STOCK.....	20
UNDERWRITING.....	21
LEGAL MATTERS.....	24
EXPERTS.....	24
ADDITIONAL INFORMATION AND INFORMATION INCORPORATED BY REFERENCE.....	25
RECENT DEVELOPMENTS.....	26
APPENDIX I- FORM 10-K/A FOR THE YEAR ENDED DECEMBER 31, 2002.....	27
APPENDIX II- FORM 10-Q FOR THE PERIOD ENDED JUNE 30, 2003.....	87

You should rely only on information contained in or incorporated by reference into this prospectus. We have not authorized anyone to provide you with information different from that contained in or incorporated by reference into this prospectus. We are offering to sell, and seeking offers to buy, shares of our common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock. Updated information can be obtained as described under "Additional Information and Information Incorporated by Reference."

All references to "we," "us," "our," "Intelli-Check" or "the Company" in this prospectus mean Intelli-Check, Inc.

Intelli-Check and the names of our systems and software are tradenames or trademarks of Intelli-Check. This prospectus also contains trademarks and tradenames of other companies.

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PROSPECTUS SUMMARY

You should read the following summary, together with the more detailed information regarding our company and the common stock being sold in this offering, including "Risk Factors" and our financial statements and notes to those statements appearing in this prospectus and incorporated by reference in this prospectus.

Our Company

We have developed and are currently marketing systems and software which incorporate document verification technologies to assist federal, state and local governments, law enforcement agencies, merchants and others in detecting and thus assisting in the prevention of, the use of fraudulent driver licenses and state issued non-driver and military identification cards, all three referred to in this prospectus as identification cards. Our systems and software enable the reading, analyzing and validation of encoded information contained on a majority of identification cards.

The Offering

Common stock offered by us	1,100,000 shares
Common stock to be outstanding after this offering	10,057,739 shares. Our outstanding shares do not include:
	<ul style="list-style-type: none">o 110,000 shares reserved for issuance upon exercise of the underwriter's warrants;o 128,061 shares reserved for conversion of warrants outstanding;o 1,694,866 shares reserved for issuance upon exercise of options granted under our stock option plans, of which 1,273,131 are currently exercisable;o 313,509 shares reserved for issuance upon exercise of options available for future grants under our stock option plans;o 1,064,425 shares reserved for issuance upon exercise of non-plan options granted, of which 741,925 are currently exercisable;o 454,545 shares issuable upon conversion of outstanding preferred stock (subject to adjustment for anti-dilution protection);o 682,470 shares reserved for issuance under a rights offering commenced in March 2001; ando 165,000 shares reserved for issuance in this offering to cover over-allotments, if any, by the underwriters.

Use of proceeds	We intend to use the net proceeds of this offering for general corporate purposes, including purchase of equipment, product development, sales and marketing, consultant fees and working capital.
Risk factors	Investing in our common stock involves a high degree of risk . You should carefully review and consider the disclosure under "Risk Factors" beginning on page 4.
AMEX symbol	IDN

Other Information

We were originally incorporated in New York in October 1994. In August 1999, we changed our state of incorporation to Delaware. Our principal executive offices are located at 246 Crossways Park West, Woodbury, New York 11797. Our telephone number is (516) 992-1900. Our website address is www.intellicheck.com. The information contained in our website is not part of this prospectus.

RISK FACTORS

You should carefully consider the factors described below and other information contained in, or incorporated by reference in, this prospectus before making an investment in our common stock. The risks and uncertainties described below are not the only ones we face. Additional risks and uncertainties not presently known to us, may also impair our business operations. If any of the following risks actually occurs, our business, financial condition or results of operations could be materially and adversely affected. In such case, the trading price of our common stock could decline, and you may lose all or part of your investment. You should also refer to other information set forth in this prospectus, or incorporated by reference herein, including our financial statements and the related notes.

Risks Related to Our Business and Industry

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

We sustained net losses of \$5,550,234 and \$4,070,239 for the fiscal year ended December 31, 2002 and six months ended June 30, 2003, respectively. We expect to incur additional expenditures in line with the sales growth of our business. We cannot assure you that we will achieve operating profits in the future.

We may be unable to meet our future capital requirements.

Our capital requirements have been and will continue to be significant. We anticipate that the proceeds from this offering, together with our currently

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available cash, will be sufficient to meet our anticipated working capital and capital expenditure requirements for at least 18 months following the date of this prospectus. Should we be unsuccessful in completing this offering, we would be required to raise additional capital within 12 months. In the event we are unable to raise additional capital, we plan to implement cost saving measures to sustain business activities on a reduced level. Unplanned acquisition and development opportunities and other contingencies may arise, which could require us to raise additional capital. If we raise additional capital through the sale of equity, including preferred stock, or convertible debt securities, the percentage ownership of our then existing stockholders will be diluted.

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

For those markets which require hardware platforms, we rely on third party equipment manufacturers to provide hardware platforms, and we are currently lacking a relationship with a manufacturer for our next generation hardware platform.

4

We are substantially dependent on the ability of a manufacturer to provide an adequate supply of our IDC-1400 and next generation hardware platforms on a timely basis and on favorable terms. The current supplier of our IDC-1400 hardware platform for our ID-Check(R) System is Hand Held Products Inc., or HHP, formerly known as Welch Allyn, Inc. In the event that we do not purchase the remaining units under our current open purchase order, HHP has advised us that they will cease production of the IDC-1400 in August 2003. However, we are currently in further discussions with HHP to extend this. We are currently in discussions with HHP and other hardware manufacturers regarding the production of the next generation hardware platform, which we will use as our new ID-Check platform. Any disruption in establishing our arrangements with a manufacturer or unsatisfactory performance by a manufacturer could have an adverse effect on our operations.

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

Our market is characterized by frequent new product announcements and rapid advancements in hardware technology. Significant technological change could render our existing technology obsolete. If we are unable to successfully respond to these developments or do not respond in a cost-effective way, our business, financial condition and results of operations will be materially adversely affected. Furthermore, our inventory consists primarily of ID-Check System terminals that run our patented software on the IDC-1400 hardware platform. We periodically evaluate the current market value of our inventory, taking into account any technological obsolescence that may occur due to advances in hardware technology and the acceptance of the product in the marketplace. We determined that an inventory reserve of \$800,000 was an appropriate adjustment to our results of operations for the period ended June 30, 2003. Should we determine in a future period that an adjustment to market value of the inventory is necessary, we would record such adjustment at that

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time, which could have a material adverse effect on our results of operations.

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

Currently, 46 states, 7 Canadian provinces and the District of Columbia which conform to the guidelines established by certain organizations responsible for implementing industry standards cooperate with us by providing sample identification cards so that we may modify the ID-Check System terminal and other software products to read and analyze the encoded information found on identification cards. We cannot assure you that each of these jurisdictions will continue to cooperate with us. In the event that one or more of these jurisdictions do not continue to provide this reference data, the utility of our proprietary software may be diminished in those jurisdictions.

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

5

Our proprietary software products are designed to read and capture information from identification cards. Currently, those customers located in New Hampshire, North Carolina and Texas are legally restricted from using this information for their own use without customer consent. Because issues of personal privacy continue to be a major topic of public policy debate, it is possible that in the future additional customers in these and other jurisdictions may be restricted from capturing this information. Therefore, the implementation of unfavorable regulations or unfavorable interpretations of existing regulations by courts or regulatory bodies could require us to incur significant compliance costs, cause the development of the affected markets to become impractical and otherwise adversely affect our business, financial condition and results of operations.

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

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

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

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

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

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

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

6

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

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

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

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

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

We continue to allocate significant resources to develop new and innovative technologies which we utilize in our products and systems. We consider such allocation to be fundamental to our continued success as such success depends, to a significant degree, upon our ability to provide products and systems that provide superior functionality and performance compared to those of our competitors. Accordingly, we must protect our technology from unauthorized use. This is done by processes aimed at identifying and seeking appropriate protection for newly developed intellectual property, i.e., patents, trade secrets, copyrights and trademarks, as well as policies aimed at identifying unauthorized use of such property in the marketplace. These processes include:

- o contractual arrangements providing for non-disclosure of proprietary

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information;

- o maintaining and enforcing issued patents and filing patent applications on innovative solutions to commercially important problems;
- o protecting our trade secrets;
- o protecting our copyrights and trademarks by registration and other appropriate means;
- o establishing internal processes for identifying and appropriately protecting new and innovative technologies; and

7

- o establishing practices for identifying unauthorized use of our intellectual property.

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

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

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

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

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

If any third party prevails in an action against us for infringement of its proprietary rights, we could be required to pay damages and either enter into costly licensing arrangements or redesign our products so as to exclude any infringing use. As a result, we would incur substantial costs, delays in product

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development, sales and shipments, our revenues may decline substantially and we may not be able to achieve the minimum, necessary growth for our continued success.

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

We depend to a significant degree on the skills, experience and efforts of our executive officers and other key management, technical, finance, sales and other personnel. Our failure to attract, integrate, motivate and retain existing

8

or additional personnel could disrupt or otherwise harm our operations and financial results. Although we have employment agreements with each of Frank Mandelbaum, our Chairman and Chief Executive Officer, and Edwin Winiarz, our Senior Vice President - Treasurer and Chief Financial Officer, securing their employment until December 31, 2004, we do not carry key man life insurance policies covering any employees. The loss of services of certain of our key employees, an inability to attract or retain qualified personnel in the future, or delays in hiring additional personnel could delay the development of our business and could have a material adverse effect on our business, financial condition and results of operations.

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

We currently are not required to record stock-based compensation charges if the employee's stock option exercise price equals or exceeds the deemed fair value of our common stock at the date of grant and the award has not been modified. However, several companies have recently elected to change their accounting policies and begun to record the fair value of stock options as an expense. In addition, we understand that discussions of potential changes to applicable accounting standards are ongoing. If the standards for accounting for stock-based compensation change, or if we elect to change our accounting policy, then the amount of our operating expenses could increase and our operating results could be adversely affected.

Risks Related to the Offering

Our share price may be volatile and could decline substantially

The market price of our common stock, like the price of shares of technology companies generally, has been and may continue to be volatile. From January 1, 2002 to July 31, 2003, the closing bid price of our common stock has varied from a high of \$19.45 to a low of \$2.10 per share, as reported on the American Stock Exchange. Many factors may cause the market price for our common stock to decline following this offering, including:

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

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In addition, the stock market experiences extreme fluctuations in price and volume that particularly affect the market prices of shares of emerging technology companies, such as ours. These price and volume fluctuations are often unrelated or disproportionate to the operating performance of the affected

9

companies. Because of this volatility, we may fail to meet the expectations of our shareholders or of securities analysts, and our stock price could decline as a result. Declines in our stock price for any reason, as well as broad-based market fluctuations or fluctuations related to our financial results or other developments, may adversely affect your ability to sell your shares at a price equal to or above the price at which you purchased them. Decreases in the price of our common stock may also lead to de-listing of our common stock.

Future sales of a large number of shares of our common stock may cause our stock price to decline.

At August 5, 2003, 8,957,739 shares of our common stock were issued and outstanding. Upon completion of this offering and assuming the conversion of all of the shares of our Series A Preferred Stock and exercise of all outstanding warrants and exercisable options but not including the exercise of any rights outstanding that were declared as dividends to stockholders in March 2001, there would be 12,655,401 shares issued and outstanding. Of these shares, 7,465,571 shares are presently eligible for resale without restriction, and all 1,100,000 shares being registered under this prospectus will be transferable without restriction under the Securities Act of 1933, as amended, after the effective date of the registration statement of which this prospectus is a part. Another 1,492,168 shares are eligible for resale subject to the restrictions on volume, manner of sale and other conditions of Rule 144 promulgated under the Securities Act of 1933, as amended. Sales of large amounts of these shares in the public market could depress the market price of our common stock and impair our ability to raise capital through offerings of our equity securities.

Risks Related to Arthur Andersen LLP

The absence of Arthur Andersen LLP's consent to the use of its opinion may limit the remedies available to purchasers of securities pursuant to this prospectus.

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

FORWARD-LOOKING STATEMENTS

This prospectus contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. We intend the forward-looking statements to be covered by the safe harbor provisions for forward-looking statements in these sections. All statements regarding our expected financial

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position and operating results, our business strategy and our plans are

10

forward-looking statements. These statements can sometimes be identified by our use of words such as "may," "anticipate," "expect," "intend," "estimate" or similar expressions. Our expectations in any forward-looking statements may not turn out to be correct. Our actual results could be materially different from those discussed in or implied by these statements, and you may consider these differences important to your investment decision. Important factors that could cause our actual results to be materially different include those discussed under "Risk Factors." You should not place undue reliance on the forward-looking statements, which speak only as of the date the statements were made.

We believe it is important to communicate our expectations to our investors. However, there may be events in the future that we are not able to predict accurately or over which we have no control. The risk factors described in the preceding pages, as well as any cautionary language in this prospectus, provide examples of risks, uncertainties and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements. Before you invest in our common stock, you should be aware that the occurrence of the events described in these risk factors and elsewhere in this prospectus could materially and adversely affect our business, operating results and financial condition.

11

THE COMPANY

General

We have developed and are currently marketing an advanced document verification system to enable a user to detect altered and tampered identification cards and to address problems such as:

Commercial Fraud - which may lead to economic losses to merchants from check cashing, debit and credit card and other types of fraud such as identity theft which principally utilizes fraudulent identification cards as proof of identity;

Unauthorized Access - by verifying identification, our systems and software are designed to increase security and deter terrorism at airports, shipping ports, rail and bus terminals, military installations, high profile buildings and infrastructure where security is a concern; and

Underage Access to Age Restricted Products and Services - by verifying identification, our systems and software are designed to determine the customer's age and validity of the identification card to detect and prevent the use of fraudulent identification for the purchase of alcohol, tobacco and other age-restricted products and services and to reduce the risk to the retailer of substantial monetary fines, criminal penalties and the potential for license revocation for the sale of age-restricted products to minors.

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Our Products and Services

Our advanced document verification technology contained in our ID-Check unit reads in one swipe or scan the encoded data contained on U.S. and Canadian identification cards that, in most instances, 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).

The product we have designed and developed, the IDC-1400, is based on our patented ID-Check (TM) technology. Our recently introduced product, IDN-DLL, is a software only application which can be used with a customer's 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. Currently, we have entered into six (6) license agreements executed with third parties for integration and sub-licensing of this application.

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 our ID-Check software to read, decode and process the information electronically stored on

12

identification cards. As jurisdictions make changes to their identification cards, we believe our software, together with our programmable terminal, can be adapted to these changes.

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

ID-Check terminals do not require a connection to a central database to operate, thus negating privacy concerns. Our terminals have the ability to operate add-on peripherals such as printers, bar code scanners, fingerprint readers and other devices. Additionally, our terminals 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 photograph on the identification card to the person presenting the document for identification, the user simply swipes the identification card 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:

- o is valid;
- o has been altered or tampered with;
- o has expired; or
- o 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.

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Then, the terminal will automatically:

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

13

Strategy

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

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

Develop Additional Strategic Alliances with Providers of Security Solutions. We have entered into strategic alliances with Bioscrypt Inc., Identix Corporation, Ultra-Scan Inc., biometric companies; E-Certify, an information security company; Lenel Systems International, a provider of integrated security solutions; and Northrop Grumman Mission Systems, an integrator in the defense industry, to utilize our systems and software as the proposed or potential enrollment application for their technologies and to jointly market these security applications. We believe these relationships have broadened our marketing reach through their sales efforts and we intend to develop additional strategic alliances with additional providers of security solutions.

Strengthen Sales and Marketing Efforts. We intend to capitalize on the growth in demand for age and document verification by continuing to market and support our systems and software. We have recently re-organized our sales and marketing staff to better reach our targeted markets by dividing the United States territory into three regions covered by a regional sales manager and by appointing a director of strategic business development to concentrate on developing partnerships and licensing arrangements, and a director of corporate and government sales to concentrate on major commercial and government accounts.

Enter into Additional Licensing Agreements. We intend to continue to

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license our software for use with a customer's system. We are currently licensing our IDN-DLL and C-Link software products for Windows and Windows CE platforms. Our software is intended to be used with a compatible hardware input device. We have entered into six (6) licensing agreements to date.

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

14

Our Revenue Sources

We derive our revenue from the following sources:

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

Our Target Markets

The target markets of our systems and software include those for Commercial Fraud Protection, Access Control and Age Verification:

- o Commercial fraud protection
 - Banks and other financial institutions
 - Credit unions
 - Credit card issuers
 - Check cashing services
 - Pharmacies
 - Auto dealerships and rental car agencies
 - Casino cage operations
 - Mass merchandisers and retailers
 - Hospitals and health plans
 - Lodging Industry
- o Access control
 - Airports and airlines
 - Departments of Motor Vehicles
 - Prisons
 - Law enforcement agencies
 - Notable buildings
 - Court houses
 - Nuclear facilities
 - Oil refineries and storage facilities

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- Military establishments
- U.S. Post Office
- Department of Homeland Security
- Bus, rail and port facilities

- o Age verification market

- Bars and night clubs
- Convenience stores

15

- Grocery chains
- Restaurants
- Stadiums and arenas
- Casinos and gaming establishments
- Sellers of sexually explicit material
- Firearm dealers

Current Customers

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

- o MGM Grand
- o Caesar's Palace
- o Foxwoods Resorts and Casino
- o Comerica Bank
- o The Cooperative Bank

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

- o JFK Airport in New York, O'Hare International Airport in Chicago and Reagan National Airport in Washington D.C.
- o American Stock Exchange
- o Fort Sam Houston and Fort Hood
- o New York, Vermont and Delaware Department of Motor Vehicles
- o Port Authority of New York and New Jersey

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

- o U.S. Smokeless Tobacco, Co.
- o Sunoco
- o Darden Restaurants
- o Houston's Restaurants
- o Anton Airfoods, Inc.

Intellectual Property

In January 1999, the U.S. Patent and Trademark Office granted us a patent on our ID-Check software technology. In October 2002, we were granted another patent relating to our document authentication and age verification technology. At present, we have another patent application pending in the U.S. Patent and Trademark Office. These patents cover commercially important aspects of our capabilities relating to the authentication of a document, such as a driver's license, along with the verification of the age of an individual associated with

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that document. Upon our acquisition of the assets of IdentiScan, we also received equitable ownership and sole ownership rights to intellectual property,

16

including other patents and patent applications relating to age verification technology.

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

In connection with the sales or licensing of our intellectual property, we have entered into an agreement with Mr. Kevin Messina, our former Senior Executive President and Chief Technology Officer, under which we will pay royalties equal to 0.005% of gross sales from \$2,000,000 to \$52,000,000 and 0.0025% of gross sales, in excess of \$52,000,000.

17

USE OF PROCEEDS

We estimate that we will receive net proceeds from the sale of 1,100,000 shares of our common stock in this offering of approximately \$7,740,000, based upon a public offering price of \$8.00 per share and after deducting the underwriting discount and estimated offering expenses payable by us. If the underwriter's over-allotment option is exercised in full we estimate that net proceeds will be \$8,881,400.

We expect to use the net proceeds from this offering for general corporate purposes, including purchase of equipment, product development, sales and marketing, consultant fees and working capital. We intend to purchase equipment for transactions in which we receive a transaction fee for purchasing hardware and bundling it with our software to provide an identity verification product. A portion of the proceeds will be used for product development, which encompasses both hardware and software development. We anticipate using some of the proceeds for sales and marketing and a portion of the proceeds will also be used for consultant fees for government lobbyists. Pending our use of the net proceeds of this offering, we intend to invest the net proceeds in short-term, investment-grade, investment-bearing securities.

The allocation of the net proceeds from this offering set forth above represents our best estimate based upon our currently proposed plans and assumptions relating to our operations and certain assumptions regarding general economic conditions. If any of these factors change, we may find it necessary or advisable to reallocate some of the proceeds within the above-described categories or to use portions for other purposes.

We anticipate that the net proceeds of this offering, together with projected revenues from our operations, will be sufficient to fund our

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operations and capital requirements for at least 18 months following this offering. We cannot assure you, however, that such funds will not be expended earlier due to unanticipated changes in economic conditions or other circumstances that we cannot foresee. In the event our plans change or our assumptions change or prove to be inaccurate, we could be required to seek additional financing sooner than currently anticipated. We also expect that, when the opportunity arises, we may acquire or invest in complementary businesses, products or technologies. We have no present understandings, commitments or agreements with respect to any material acquisition or investment.

18

DILUTION

Dilution represents the difference between the amount per share paid by purchasers of common stock in the offering and the net tangible book value per share of common stock immediately after the offering. Our tangible book value was approximately \$592,777 at June 30, 2003, or \$.07 per share. After adjusting for the receipt of the net proceeds of the sale of 1,100,000 shares of common stock in the offering at \$8.00 per share, the pro forma book value at June 30, 2003 would be approximately \$8,332,777, or \$.83 per share. As the table below shows, this would represent an immediate dilution of \$7.17 per share to investors in the offering, based on the difference between pro forma book value and the offering price.

Offering price per share	\$ 8.00
Net tangible book value per share before the offering	\$.07
Increase in net tangible book value per share attributable to the offering	\$.76
Pro forma net tangible book value per share after the offering	\$.83

Dilution to investors in the offering, per share	\$ 7.17
	=====

The foregoing table excludes 2,579,662 shares of common stock issuable pursuant to currently exercisable outstanding options and warrants and issuable upon conversion of outstanding preferred stock which are expected to be outstanding after the consummation of this offering. If all options, warrants and preferred Stock outstanding as of June 30, 2003, were included above, the pro forma net tangible book value per share at June 30, 2003, after giving effect to this offering, would have been \$.66 and the dilution to new investors would have been \$7.34.

19

DESCRIPTION OF CAPITAL STOCK

Our authorized capital stock consists of 20,000,000 shares of common stock, par value \$0.001 per share, and 1,000,000 shares of preferred stock, par value \$0.01 per share, of which 30,000 shares are designated as Series A 8%

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Convertible Redeemable Preferred Stock. As of August 5, 2003, there were 8,957,739 outstanding shares of common stock, and 30,000 outstanding shares of Series A 8% Convertible Preferred Stock. Below is a summary description of the material provisions of our capital stock.

Common Stock

We are authorized to issue 20,000,000 shares of common stock. All the issued and outstanding shares of common stock are validly issued, fully paid and non-assessable. Each outstanding share of common stock has one vote on all matters requiring a vote of the shareholders. There is no right to cumulative voting. In the event of a voluntary or involuntary liquidation, all shareholders are entitled to a pro rata distribution after payment of liabilities and after provision has been made for each class of stock, having preference over the common stock. The holders of the common stock have no preemptive rights with respect to our offerings of shares of our common stock. Holders of common stock are entitled to dividends if, as and when declared by the Board out of the funds legally available therefor. It is our present intention to retain earnings, if any, for use in our business. Dividends are, therefore, unlikely in the foreseeable future.

Series A 8% Convertible Redeemable Preferred Stock

In March 2003, the Board of Directors adopted a resolution issuing a series of preferred stock, par value \$0.01 per share, consisting of 30,000 shares designated as Series A 8% Convertible Redeemable Preferred Stock, convertible, at the option of the holder, into 454,545 shares of common stock based on a conversion price of \$6.60 per share. Each holder of Series A 8% Convertible Redeemable Preferred Stock is entitled to the number of votes equal to the number of shares of common stock into which such shares could be converted. The holders of Series A 8% Convertible Redeemable Preferred Stock are entitled to receive dividends at a rate of \$8.00 per share per annum, which are fully cumulative, senior and prior to common stock, pari-passu with any additional series of preferred stock which may in the future be issued and designated as ranking equal with the Series A 8% Convertible Redeemable Preferred Stock and junior to any additional series of preferred stock which may in the future be issued and designated as ranking senior to the Series A 8% Convertible Redeemable Preferred Stock. The dividends on the Series A 8% Convertible Redeemable Preferred Stock accrue from the date of issuance of each share and are payable on September 30 and March 31 of each year commencing on September 30, 2003. In addition, holders of the Series A 8% Convertible Redeemable Preferred Stock are entitled to a liquidation value of \$100 per share plus an amount equal to the cash value \$100 per share of the dividends accrued and unpaid thereon in the event of a liquidation, dissolution or winding up. The company must redeem all of the Convertible Redeemable Preferred Stock outstanding on March 27, 2008 at a redemption price of \$100 per share.

20

UNDERWRITING

Subject to the terms and conditions of the underwriting agreement between us and The Shemano Group, Inc., the underwriter of this offering, a form of which agreement is filed as an exhibit to the registration statement of which this prospectus forms a part, we have agreed to sell to the underwriter, and the underwriter has agreed to purchase all of the 1,100,000 shares of our common stock offered in this offering.

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The underwriting agreement is subject to a number of terms and conditions and provides that the underwriter must buy all of the shares if it buys any of them.

The underwriter has advised us that it proposes to offer the shares as set forth on the cover page of this prospectus, which includes the underwriting discounts and commissions indicated there, and that it will initially allow concessions not in excess of \$.38 per share, of which not in excess of \$.15 per share may be reallocated to other dealers who are members of the NASD. After the public offering, concessions to dealer terms may be changed by the underwriter.

The underwriter has advised us that it does not intend to confirm sales of the shares to any account over which it exercises discretionary authority in an aggregate amount in excess of five (5%) percent of the total securities offered hereby.

We have granted to the underwriter an option which expires 45 days after the date of this prospectus, exercisable as provided in the underwriting agreement, to purchase up to an additional 165,000 shares of our common stock at the public offering price set forth on the cover page of this prospectus, less underwriting discounts and commissions which option may be exercised only for the purpose of covering over-allotments, if any. If the underwriter exercises its over-allotment in full, the total price to the public would be \$1,320,000, the total underwriting discounts and commissions would be \$105,600, and the total proceeds (before payment of the expenses of this offering) to our company would be \$1,214,400.

The underwriting agreement provides that we will reimburse the underwriter for its expenses on a non-accountable basis in the amount equal to 2.5% of the gross proceeds of this offering, of which \$30,000 has been paid to date, and the balance of which shall be paid on the closing of this offering. We have also agreed to pay all expenses in connection with qualifying the shares offered under the laws of such states as the underwriter may designate, including expenses of counsel retained for such purposes by the underwriter. We estimate the expenses of this offering to be \$356,000, or \$429,000 if the underwriter's over-allotment option is completely exercised.

The underwriting agreement provides for reciprocal indemnification between us and the underwriter against certain liabilities in connection with the registration statement, including liabilities under the Securities Act of 1933, as amended.

At the closing of this offering, we will sell to the underwriter or its designees at an aggregate purchase price of \$110, warrants to purchase up to an aggregate of 110,000 shares of our common stock. Each warrant represents the right to purchase one share of common stock for a period of four years commencing one year from the effective date of this offering. The exercise price of the warrants is 120% of the price at which our shares of common stock are sold pursuant to this offering. The warrants contain a cashless exercise provision and provisions that protect their holders against dilution by adjustment of the exercise price and number of shares issuable upon exercise on the occurrence of specific events, including stock dividends or other changes in the number of our outstanding shares. No holder of these warrants will possess any rights as a stockholder unless the warrant is exercised. The warrants may not be sold, transferred, assigned or hypothecated for a period of one year from the effective date of this offering, except to officers or partners (but not directors) of the underwriter and members of the selling group and/or their officers or partners. During the exercise period, the holders of the underwriter's warrants will have the opportunity to profit from a rise in the market price of the common stock, which will dilute the interests of our stockholders. We expect that the underwriter's warrants will be exercised when

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we would, in all likelihood, be able to obtain any capital needed on terms more favorable than those provided by the underwriter's warrants. Any profit realized by the underwriter on the sale of the underwriter's warrants or the underlying shares of common stock may be deemed additional underwriting compensation.

21

We have agreed to include the underwriter's warrants and the shares of common stock underlying the underwriter's warrants in any appropriate registration statement which is filed by us under the Securities Act of 1933, as amended, during the seven years following the date of this prospectus.

The exercise of the underwriter's over-allotment option will not result in an increase in the number of shares of common stock underlying the underwriter's warrants or in the granting of any additional warrants to the underwriter.

The underwriter may engage in over-allotment, stabilizing transactions, syndicate covering transactions, penalty bids and "passive" market making in accordance with Regulation M under the Securities Exchange Act of 1934, as amended. Over-allotment involves syndicate sales in excess of the offering size, which creates a syndicate short position. Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum. Syndicate covering transactions involve purchases of the shares of common stock or warrants in the open market after the distribution has been completed in order to cover syndicate short positions. Penalty bids permit the underwriter to reclaim a selling concession from a syndicate member when the shares of common stock or warrants originally sold by such syndicate member are purchased in a syndicate covering transaction to cover syndicate short positions. In "passive" market making, market makers in the securities who are underwriters or prospective underwriters may, subject to certain limitations, make bids for or purchases of the securities until the time, if any, at which a stabilizing bid is made. These stabilizing transactions, syndicate covering transactions and penalty bids may cause the price of the common stock to be higher than they would otherwise be in the absence of these transactions. These transactions may be effected on the AMEX or otherwise and, if commenced, may be discontinued at any time.

In connection with the offering, the underwriter may make short sales of our shares and may purchase our shares on the open market to cover positions created by short sales. Short sales involve the sale by the underwriter of a greater number of shares than they are required to purchase in the offering. "Covered" short sales are sales made in an amount not greater than the underwriter's over-allotment option to purchase additional shares in the offering. The underwriter may close out any covered short position by either exercising its over-allotment option or purchasing shares in the open market. In determining the source of shares to close out the covered short position, the underwriter will consider, among other things, the price of shares available for purchase in the open market as compared to the price at which it may purchase shares through the over-allotment option. "Naked" short sales are sales in excess of the over-allotment option. The underwriter must close out any naked short position by purchasing shares in the open market. A naked short position is more likely to be created if the underwriter is concerned that there might be downward pressure on the price of the shares in the open market after pricing that could adversely affect investors who purchase in the offering. Similar to other purchase transactions, the underwriter's purchases to cover the short sales may have the effect of raising or maintaining the market price of our common stock or preventing or retarding a decline in the market price of our

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common stock. As a result, the price of our common stock may be higher than the price that might otherwise exist in the open market.

Our common stock is listed on the American Stock Exchange under the symbol "IDN". We plan to file an application to have the shares of common stock that we are selling in this public offering listed on the American Stock Exchange.

22

Howard Davis, Senior Vice President of The Shemano Group, Inc., is a director and securityholder of our company. Mr. Davis beneficially owns approximately 1% of our outstanding common stock on a fully-diluted basis, assuming he exercises all of his outstanding stock options. The Shemano Group, Inc. and its affiliates may provide us with investment banking, financial advisory, or commercial banking services in the future, for which they each may receive customary compensation. There are currently no arrangements or understandings with respect to any investment banking, financial advisory, or commercial banking services to be provided by the underwriter and its affiliates in the future. If any arrangements or understandings are entered into in the future, the details of such would be subject to the mutual agreement of the parties at that time.

23

LEGAL MATTERS

The validity of the issuance of the securities offered hereby will be passed upon for us by Loeb & Loeb LLP, New York, New York. Certain legal matters in connection with the offering will be passed upon by the underwriter by Blank Rome LLP, New York, New York.

EXPERTS

The financial statements of Intelli-Check, Inc. at December 31, 2002, and for the year then ended, have been audited by Grant Thornton LLP, independent certified public accountants, and at December 31, 2001 and for the years ended December 31, 2001 and December 31, 2000, by Arthur Andersen LLP, independent auditors; as indicated in their reports thereon. These financial statements are incorporated by reference herein and in the Registration Statement, and are included in reliance upon such reports given on the authority of such firms as experts in accounting and auditing. After reasonable efforts, we have been unable to obtain the consent of Arthur Andersen LLP to the incorporation by reference in the Registration Statement of which this prospectus is a part of Arthur Andersen LLP's reports of its audits of our financial statements at December 31, 2001 and for the two years in the period ended December 31, 2001. Under these circumstances, under Rule 437(a) under the Securities Act of 1933, as amended, we may file the Registration Statement without Arthur Andersen LLP's consent. In the absence of Arthur Andersen LLP's consent, persons acquiring shares of our common stock pursuant to this prospectus will be unable to assert a claim against Arthur Andersen LLP under Section 11(a) of the Securities Act of 1933, as amended, in the event of any untrue statement of material fact or any

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material omission in the financial statements audited by Arthur Andersen LLP or in its reports with respect thereto.

24

ADDITIONAL INFORMATION AND INFORMATION INCORPORATED BY REFERENCE

We are subject to the informational reporting requirements of the Securities Exchange Act of 1934, as amended, and file reports, proxy statements and other information with the SEC. Our SEC filings are available to the public over the Internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document we file with the SEC at the SEC's Public Reference Room at 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of its Public Reference Room. We incorporate by reference into this prospectus the information contained in the documents listed below that we have filed with the SEC and which is considered to be a part of this prospectus:

-Our annual report on Form 10-K and amended annual report on Form 10-K/A for the year ended December 31, 2002, which contains audited financial statements for the most recent fiscal year for which we have filed audited financial statements;

-Our quarterly reports on Form 10-Q for the quarters ended March 31 and June 30, 2003, as filed with the SEC; and

-Our current reports on Form 8-K dated and filed on the following dates: April 8, 2003, July 2, 2003, August 19, 2003, and August 28, 2003.

This prospectus is accompanied by a copy of our latest annual report on Form 10-K, as amended and latest quarterly report on Form 10-Q. The information in this prospectus should be read together with the information and financial statements (including notes thereto) that appear in the Form 10-K, as amended and the documents delivered with this prospectus. This prospectus incorporates documents by reference that are not delivered with this prospectus. These documents are available without charge, upon written or oral request by any person to whom this prospectus has been delivered, from the Secretary, Intelli-Check, Inc., 246 Crossways Park West, Woodbury, NY 11797, (516) 992-1900 or by e-mail at our website, www.intellicheck.com.

Any statement contained in a document incorporated by reference herein is modified or superceded for all purposes to the extent that a statement contained in this prospectus modifies or replaces such statement.

25

RECENT DEVELOPMENTS

Certain material developments with respect to us have occurred since the end of the latest fiscal year for which certified financial statements were included in the latest Form 10-K, as amended, Forms 10-Q, and Forms 8-K filed with the SEC on EDGAR and incorporated by reference. A list of such Forms 8-K

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are set forth above under Additional Information and Information Incorporated by Reference.

26

APPENDIX I

FORM 10-K/A
Amendment No. 2
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

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

For the fiscal year ended December 31, 2002

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
(State or other jurisdiction of
incorporation or organization)

11-3234779
(I.R.S. Employer
Identification No.)

246 Crossways Park West, Woodbury, New York
(address of principal executive offices)
Issuer's Telephone number, including area code:

11797
(Zip 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

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is not contained herein, and will not be contained, to the best of the Registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of this form 10-K or any amendment to this Form 10-K.

State the aggregate market value of the voting stock held by non-affiliates of the Issuer: \$ 31,509,073 (based upon the closing price of Issuer's Common Stock, \$.001 par value, as of June 30, 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	8,875,302
-----	-----
(Title of Class)	(No. of Shares Outstanding at March 26, 2003)

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 378,084 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.

In fiscal year 2002, options to acquire 273,700 shares of common stock, warrants to acquire 1,250 shares of common stock and rights to acquire 107,396 shares of common stock were exercised. The net proceeds received by us from these transactions was \$1,742,466.

Recent Developments

In March 2001, we declared a dividend distribution of one non-transferable right to purchase one share of our common stock for every ten outstanding shares of common stock continuously held from the record date to the date of exercise. The rights were also distributed to holders of vested stock options and warrants and were originally due to expire on October 4, 2002. At that time, we extended the expiration date until April 4, 2003 and we further extended the expiration

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date until December 31, 2003.

On March 27, 2003, pursuant to a Securities Purchase Agreement, we sold 30,000 shares of our Series A 8% Convertible Preferred Stock, par value \$.01 per share for \$3,000,000 before expenses to Gryphon Master Fund, L.P. Each preferred share entitles the holder to receive dividends of 8% per annum and is convertible into 15.1515 shares of our common stock. Additionally, each share of Preferred Stock will receive one (1) 5 year warrant to purchase 3.787875 shares of common stock at a price of \$6.78. The total amount of shares that may be issued upon conversion and the exercising of the warrants are 454,545 and 113,636 shares, respectively. Dividend payments of \$120,000 are due semi-annually in cash beginning September 30, 2003. In connection with this financing, we paid agent fees of \$150,000, plus legal fees estimated to be approximately \$55,000. Shares of Preferred Stock will be convertible at the option of Gryphon Master Fund, L.P at any time prior to redemption. We may redeem any or all of the Preferred Shares at any time after one year from the closing date at a cash redemption price of \$100 per share, providing the volume weighted average price of our Common Stock for any 20 out of 30 consecutive trading days exceeds \$13.20 per share. We must redeem all of the Preferred Stock outstanding on the fifth anniversary of the closing date at a redemption price, in cash, equal to the purchase price of the Preferred Stock.

In addition, we entered into a Registration Rights Agreement with respect to the common stock underlying the Preferred Shares and the warrants pursuant to which we will file a registration statement for the common stock no later than 30 days from the closing date of the sale of the preferred shares.

(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:

2

(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, which we have licensed to third parties and is 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 or licensed software helps merchants prevent 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

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utilizing fake ID's, which our unit has the capability of helping to detect.

The terminal or the licensed software are effective tools to enhance security and deter terrorism at airports and other sites where security is increasing. The terminals have been installed in over a dozen major airports to verify the identity of employees and prevent access to secure areas. One major airport recently reordered terminals. 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, the IDC-1400 is based on our patented ID-Check 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. Effective July 9, 2003, our manufacturer will discontinue manufacturing the IDC-1400 terminal and has introduced a new model to replace the existing IDC-1400. We are in discussions with our manufacturer as well as other manufacturers to select a new platform to run our patented software.

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

Our new product, IDN-DLL, is a software application designed to supplement our existing products by replicating the features of ID-Check using a customer's 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. Currently, we have five (5) license agreements executed with third parties for integration and sub-licensing of this application.

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 we believe is over 175,000,000 of those issued at the current time. Currently, forty-six States, the District of Columbia, and seven Canadian Provinces encode their licenses. The number of readable licenses will continue to grow as the remaining four States and six Canadian Provinces that have not yet encoded their license begin to encode and jurisdictions that have recently begun to encode complete their rotations.

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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 thousands of sites on the Internet. These fakes appear so real, even law enforcement agencies have encountered difficulty distinguishing them from legally issued documents. Additionally, these high-tech devices have the ability to easily alter properly issued ID's. Therefore, anyone can gain access to a false identity that gives them the ability, in a commercial transaction, to present fake and stolen credit cards or checks that are supported by false identification. Additionally, starting with only a fraudulent driver license, an individual may be able to create multiple identities, commit fraud, buy age restricted products such as alcohol and tobacco while underage, evade law enforcement and engage in other criminal activities, such as:

- (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;
- (xi) engaging in medical fraud.

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

4

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 of America 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 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.

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

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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.

5

ID-Check terminals do not require a connection to a central database to operate thus negating privacy concerns. Our terminals have the ability to operate add-on peripherals such as printers, bar code scanners, fingerprint readers and other devices. Additionally, our terminals 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/ME/NT/2000/XP ("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

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Our objective has been to become the leading developer and distributor of document and age verification products. To date, our marketing efforts have been through direct sales by our sales and marketing personnel, participation in trade shows, through resellers and OEM agreements. We had formulated our initial marketing plan with the intention of having distributors sell sufficient terminals per month to generate enough revenue to keep us at break even or slightly profitable while its direct sales force concentrated on large accounts where we knew the sales cycle was quite long and extended. We have recently signed agreements to market our products through well known public interest and trade associations in an effort to upgrade our distributor network. We have entered into a marketing agreement with Mothers Against Drunk Driving (MADD) to market our products for age-verification to sellers of alcoholic beverages. We also signed an agreement with the American Association of Airport Executives (AAAE), the most prominent aviation trade group in the world, to market our document verification technology to the Aviation Industry. We are actively pursuing additional well known organizations to expand our distributor channels.

We generate revenues from the sale or lease of ID-Check and IDentiScan terminals, the sale of software upgrades, the sale of software maintenance and hardware warranty programs, the sale of C-Link software and from the licensing of our patented software to third parties.

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

6

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) endorsement by nationally known public interest groups and trade associations;
- (ii) trade publications;
- (iii) trade shows;
- (iv) conventions and seminars;
- (v) direct mail; and
- (vi) our website.

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. In June 2002, we hired a director of sales for the Western Region of the U.S.

Our initial target markets

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

- (i) airports, airlines, bus, port and rail terminals;
- (ii) banks and credit unions;
- (iii) credit card issuers;

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- (iv) mass merchandisers;
- (v) convenience stores;
- (vi) grocery and pharmacy chains;
- (vii) casinos;
- (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) Banks are facing increased losses from fraudulent transactions involving identity theft and additionally are required to verify the identity of new accounts under provisions of the Patriot Act.
- (c) Mass merchandisers and credit card issuers, who are facing huge economic losses through the use of fraudulent credit cards and stolen or forged checks, could use our technology to verify that the customer who pays by check or credit card and 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. We have changed the requirements to become a reseller to be more selective and are in the process of revamping our distributor network to provide for a more knowledgeable and effective reseller.

7

Upgrade Capability

Our software requires periodic updates as states and provinces that did not previously conform to AAMVA standards begin to store electronically readable information on their driver licenses and as states and provinces adjust or modify the format of their electronically stored information. The technology, which can be used to instantly upgrade the terminal by simply scanning an encrypted upgrade card through the ID-Check terminal or downloading it from our website through a 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 and is continually being enhanced with new features. C-Link, when used in conjunction with our ID-check terminal, has the ability to collect transaction information read and stored by the ID-Check terminal, instantaneously display it in real time for enhanced security purposes and save it to a PC hard drive for permanent storage. Once saved, the information can be

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utilized to prevent potential economic loss to the user and can also be used to easily search, analyze and generate demographics, statistics and mailing lists for existing customers where permitted by law. It has the ability to build and maintain watch lists, detect a recurring entry and signal the user when an alert is triggered.

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 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. We are currently testing other Windows based handheld products that could operate our software for applications in the hospitality industry as well as other industries.

IDN-DCD In 2002, we built several prototypes of a data capture device containing a customized imager/scanner and a three track magnetic stripe reader that are capable of reading all encoded data on encoded driver licenses so that our IDN-DLL can be utilized with the customer's computer system.

(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

8

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. We recently instituted a lawsuit claiming patent infringement against CardCom.

There are also products being marketed which are essentially electronic

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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 had engaged Hand Held Products, Inc. (HHP) formerly known as 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. We have paid \$600,000 as a deposit to secure the purchase of the remaining units. HHP informed us that effective July 9, 2003, they have discontinued manufacturing this model and we are in discussions with them and other manufacturers as to which platform we will select to run our patented software. The current terminal is fully capable of running our patented software since it utilizes a state-of-the-art imager/scanner and magnetic stripe reader. However, we have reserved the \$600,000 deposit because we have not yet determined whether we will purchase the remaining units or select a new hardware platform to run our patented technology.

If we are unable to secure a manufacturer for our terminal on satisfactory terms to us, there may be an adverse effect on our results of operations. However, as a result of our licensing of our technology, such effect could be reduced as we would be less dependent on our supplier for sales.

In connection with the acquisition of certain assets of the IDentiScan Company, LLC, we have also engaged another manufacturer, Accu-Time Systems, Inc. to provide for the manufacturing of our IDentiScan line of products.

(5) Intellectual Property

In January 1999, we were issued a patent on our ID-Check software technology. In October 2002, we received from the U.S. Patent Office the issuance of our continuation patent No. 6,462,416 B1. 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 Nos. 6,523,741 and 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.K. patent application No. 103275.4 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.

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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.

9

(6) Employees

As of March 26, 2003, we had twenty-five full-time employees and one part-time employee, including four who are engaged in executive management, thirteen in information technology, six in sales and marketing and three 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. In March 2002, we signed a 2-year lease in Connecticut to operate our IDentiScan division, which expires March 31, 2004. Payments under these leases were \$80,538 for 2000, \$210,882 for 2001, \$242,083 for 2002, and will be \$2,113,236 for the remaining years of the leases.

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 our stock, who allegedly suffered losses because of the rise in the price of our 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. On July 26, 2002, we filed a motion to dismiss the lawsuit. Our motion to dismiss has been fully briefed by both sides and is awaiting the Court's decision. The Company believes the suit is without merit.

A demand for arbitration was brought by Early Bird Capital Inc. in January 2002, seeking issuance of warrants with registration rights pursuant to the terms of a Financial Advisory and Investment Banking Agreement dated as of August 20, 2000. The arbitration took place in December 2002 and January 2003, and both sides have completed presenting their cases. Early Bird Capital has demanded a monetary judgment in the amount of \$968,000, which, if awarded, would have a material adverse effect on us. We believe we have presented a meritorious defense; however, there can be no assurance that we will prevail.

On February 19, 2003, we filed a summons and complaint upon CardCom Technology, Inc. for its infringement on our patent. Under Federal rules, absent an extension of time, the CardCom answer is due on or before April 1, 2003.

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 our fiscal year ended December 31, 2002 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) Our Common Stock is traded on the American Stock Exchange under the symbol "IDN." The following table indicates high and low sales quotations for the periods indicated based upon information supplied by AMEX.

2001 ----	Low ---	High ----
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 ----		
First Quarter	\$11.30	\$18.19
Second Quarter	\$4.85	\$15.75
Third Quarter	\$2.10	\$5.90
Fourth Quarter	\$2.90	\$9.87
2003 ----		
January	\$6.35	\$8.44
February	\$5.80	\$7.66

(b) Number of Holders of Common Stock. The number of holders of record of our Common Stock on March 26, 2003 was 67, which does not include individual participants in security position listings.

(c) Dividends. There were no cash dividends or other cash distributions made by us during the fiscal year ended December 31, 2002. Future dividend policy will be determined by our Board of Directors based on our earnings, financial condition, capital requirements and other then existing conditions. It is anticipated that cash dividends will not be paid to the holders of our common stock in the foreseeable future.

(d) Recent Sales of Unregistered Securities. 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 1999, 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 working 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.

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In connection with the issuance, (i) each shareholder represented to us 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) we 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

11

the stock certificates issued in such transactions. Each shareholder had adequate access to sufficient information about us 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 by us 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 us 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 us 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

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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 shares of 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 us that it and/or its officers or employees were experienced in evaluating and investing in newly-organized, high-technology companies such as Intelli- Check, (ii) the Foundation represented that the shares acquired cannot be sold without registration under the Securities Act,

12

except in reliance upon an exemption therefrom and (iii) we 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 us 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. We believe 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 us, the shareholders had adequate access to sufficient information about us to make an informed investment decision. We 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

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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 us 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) we 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 us 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 us 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) we 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 us 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, we 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

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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 us 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) we 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 us 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 us 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) we 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 us 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. Because of his relationship with us, Mr. Binder had adequate access to sufficient information about us to make an informed investment decision. We believe 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 M