



Fleetwood Research

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www.fleetwoodresearch.com

81 Pondfield Road • Suite 229 • Bronxville, NY 10708 • (914) 663-9510

INTELLI-CHECK INC. (IDN – AMEX)

Investment Recommendation: Buy

Risk Level: High

Portfolio Objective: Long-Term Growth

Investment Rationale: The demand for cost effective and reliable document verification products has increased dramatically in recent years. Intelli-Check has established a niche position within the market that could expand significantly over the next several years. Over the last year, the company has strengthened its balance sheet, refocused, expanded and enhanced its marketing program, generated several key customers, and established a variety of key strategic relationships that will support its growth. Our revenue and earnings growth model suggests profitability in 2006 and significant growth in revenue and earnings through at least 2008. Relative to the industry, however, the valuation of the common shares appears to be low. As the company expands its market presence, and revenue and earnings continue to grow, market awareness should increase and the valuation level is expected to increase accordingly. Over the next 12 to 18 months, we believe Intelli-Check could trade in a price range between \$8 and \$10. We rate the stock a Buy.

Price (11/3/05) Common	\$ 3.35	Basic shares outstanding	12.1 mil.
52 - week price range	\$ 2.90 – 6.95	Diluted shares	12.1 mil.
Dividend/Yield	none	Market Capitalization	\$ 37.4 mil.
		Est. float	11.0 mil.
		Est. inst. ownership	28.0
Russell 2000:	658.77	Insider's Holdings	21.2%

Selected Annual Data

FY 12/31 \$(000)	2004A	2005P	2006E	2007E	2008E
Revenue	\$ 1,119.4	\$ 2,350.0	\$ 7,500.0	\$ 16,000.0	\$ 30,000.0
Net Income ¹	\$ (8,127.3)	\$ (3,637.5)	\$ 200.0	\$ 4,250.0	\$ 10,900.0
EPS ²	\$ (0.79)	\$ (0.32)	\$ 0.02	\$ 0.35	\$ 0.90
P/E	nmf	nmf	167.5 X	9.6 X	3.7 X

Key Considerations

Homeland Security Initiatives - . The Office of Management and Budget has projected that the total budget for the Department of Homeland Security (DHS) will approach \$40.2 billion. The Civitas Group projects that the present value of spending on Homeland Security over the next five years will be about \$115 billion.

Revenue and earnings growth potential - For 2005, we project total revenue of \$2.5 million, with losses of about \$(3.6) million, or \$(0.32) per share. By 2006, many of the initiatives established during 2004 and 2005 should be creating growing revenue streams. We project Intelli-Check's revenue to expand to \$7.5 million during 2006 and turn marginally profitable with earnings of \$0.02 per share. For 2007, we project revenue could more than double to \$16 million with earnings per share of \$0.35.

¹ Net Income is fully taxed. The company, however, should be able to apply loss carryforward credits resulting in higher reported income.

² Earnings per share is after dividends and non-cash charges and is based on diluted shares for gains, and basic shares for losses.

Strong Balance Sheet - At the beginning of the third quarter, Intelli-Check completed a \$5.0 million private placement of common shares, resulting in approximately \$7.0 million in cash, \$6.5 million in working capital, and no debt. This current capitalization will allow the company to achieve profitability, assuming actual results are similar to our projections.

Key Strategic Relationships - Intelli-Check has focused on establishing strategic relationships with several major corporations, as well as with certain well known and respected trade associations and public interest groups in order to support its growing marketing effort. Representative companies and groups that the company has already established strategic relationships with include: Digimarc, Precision Dynamics Corporation, VeriFone Holdings, Inc. and Viisage Technology Inc., among others.

HSPD 12 and FIPS 201 – HSPD 12 calls for a significant change in the process for implementing common identification standards by mid 2006. One of the standards is Federal Information Processing Standard 201 (FIPS 201), which specifies standards for verifying the identity of individuals seeking access to Federally controlled government facilities and infrastructure. Government agencies have until June 27, 2006 to make sure their processes for issuing credentials and registering employees meet the criteria laid out in FIPS 201.

First Responder Program – Intelli-Check’s technology has been embedded on a hand held device as part of the First Responder program. The first systems are currently being tested. Over a three to five year period, more than one million of these systems could be deployed.

Key Customers - The Company has shown the greatest progress within the Commercial Sector over the last several years. Key relationships include: **Certegy** – In early February, Certegy licensed the ID-CHECK technology for risk-management and loss-prevention purposes. Certegy authorizes more than \$36 billion in domestic check transactions annually. **Verifone** – A multi-year Marketing & Services Agreement calls for Intelli-Check to integrate its age and document-verification technology into certain VeriFone systems. **Significant Retail Customer** – In early June, Intelli-Check was awarded a contract to provide driver’s license verification capability for customer transactions throughout a major national retail chain. A significant portion of second quarter revenue was related to this contract.

Intelli-Check's Business

Intelli-Check, Inc., markets an advanced document verification system based on patented and proprietary ID-Check software. The system is designed to read and verify encoded data contained on U.S. and Canadian driver licenses, state issued identification cards and military IDs that generally comply with standards of the American Association of Motor Vehicle Administrators (AAMVA), the American National Standards Institute (ANSI) and the International Standards Organization (ISO).

Peter G. Mintz

Excerpts from the 19 page Research Report published on November 4, 2005 - Available upon request.

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