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Valuation

12-Month Average Target Value Low	\$0.61
12-Month Average Target Value High	\$1.10
12-Month Target Value Average	\$0.84

Refer to page 25 for details

Market Data:

Symbol	SMME
Sector	Services
Industry	Security and Protection
Risk Level	Speculative
Closing Price	\$0.085
Initial Coverage Price	\$0.085
52 Week High	\$0.19
52 Week Low	\$0.03
10 Day Average Volume	85,991
Market Capitalization	\$6.42M
Enterprise Value	\$6.83M
Shares Outstanding	
-Primary (2/8/10)	75.626M
-Float (approximate)	25.35M



Source: BigCharts.com

Fiscal Year-end December	Estimated 2011	Estimated 2012	Estimated 2013	Estimated 2014
Revenue	\$11.05M	\$18.36M	\$33.26M	\$53.66M
Net Income	\$1.66M	\$2.75M	\$4.99M	\$8.05M
EPS – basic	\$0.02	\$0.03	\$0.05	\$0.07
EPS – diluted	\$0.02	\$0.03	\$0.05	\$0.07

Investment Highlights:

- SmartMetric has developed the world's first and only portable biometric fingerprint scanner that is contained within a credit card-sized card and acts independently of any other computing device. The Company has strong patent protection with respect to this proprietary technology.
- On March 16th, 2010, SmartMetric filed suit against Visa, Inc. and MasterCard, Inc. for patent infringement. Similar technology patent infringement cases have settled for hundreds of millions of dollars.
- The FTC estimates that identity theft costs American businesses approximately \$52 billion per year. The FTC also estimates that nearly 10 million American consumers fall victim to identity theft annually.
- Credit and debit card fraud is the No. 1 fear of Americans in the midst of the global financial crisis. Concern about fraud supersedes that of terrorism, computer and health viruses and personal safety.
- According to the Smart Card Alliance, banks around the globe are rapidly migrating towards a chip-based smartcard as the standard throughout Europe, Asia, Latin America, and Canada.
- SmartMetric is a nimble operator with low overhead with a highly scalable business model, working expeditiously to ramp up production and manufacturing activity to meet expected demand.
- We believe that SmartMetric has taken identity protection within e-commerce to the next level, creating the new global technology standard for a wide range of industries and applications.

Investment Conclusion:

SmartMetric is a company founded on a ground-breaking disruptive technology that has enormous upside potential. However, the Company is still in the “pre-revenue” stage and predicting annual revenue and earnings with any degree of certainty is nearly impossible. Although there are still questions to be answered, we believe that the downside is limited and the risk/reward equation is firmly in favor of the speculative investor looking to gain exposure to identity and security protection.

Table of Contents

		<u>Page</u>
I.	Overview	
	Company	3
	Background	3
	Market Drivers	3
	Lawsuit	4
	Opportunity	5
II.	Products and Services	
	Overview	6
III.	Corporate Strategy	
	Overview	11
	Research and Development	11
	Manufacturing	11
	Sales and Marketing	11
	Competition	12
	Intellectual Property	13
IV.	Industry Analysis	
	Overview	14
	Biometrics	14
	Identity Theft/Fraud	15
	E-Commerce	16
V.	Financial Projections and Valuation	
	Assumptions	22
	Sensitivity Analysis	24
	Valuation Metrics	24
	Valuation Table	25
VI.	Risks	
	Competition Risk	26
	Execution Risk	26
	Financial Risk	26
	Key Management Risk	26
	Micro-Capital Investment Risk	27
	Non-Specific Market Risk	27
	Risk Categories	27
VII.	Management & Consultants	28
VIII.	Corporate Offices and Advisors	29

Important Note: This report contains forward-looking statements, particularly as related to pro forma financial statements, earnings estimates and business expectations, within the meaning of Section 27A of the Securities Act of 1933 and Sections 21E of the Securities Exchange Act of 1934, and are subject to the safe harbor created by these sections. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, goals, assumptions or future events or performance are not statements of historical fact and may be "forward looking statements." Forward looking statements are based on expectations, estimates and projections at the time the statements are made that involve a number of risks and uncertainties which could cause actual results or events to differ materially from those presently anticipated. These forward-looking statements are only made as of the date of their release and Wall Street Resources and the featured Company in this report do not undertake any obligation to publicly update such forward-looking statements to reflect subsequent events or circumstances.

I. OVERVIEW

Company

SmartMetric, Inc. (“SmartMetric” or “the Company”) is a development-stage technology company focused on the development and commercialization of a patented and proprietary state-of-the-art biometric portable data card. SmartMetric’s “Biometric Smartcard” is one of the most advanced identity authentication solutions on the market. It contains a biometric fingerprint scanner and reader which only an authorized user can unlock. The Company’s data card, designed to function as either an identity or a transaction card, is thinner than a credit card and is capable of storing personal data encrypted in such a way that it completely protects the user against identify theft and fraud. The applications for the card are far reaching, and can be used by individual consumers, governmental agencies, and corporations. Incorporated as a Nevada Corporation in 2002, the Company is based in Bay Harbor Islands, FL and its shares trade on the OTC Bulletin Board under the symbol SMME.

Background

Colin Hendrick, CEO of SmartMetric, has been working on the development of a smart card that is capable of identity authentication using a sophisticated biometric solution within a credit-card like device for close to a decade. Imbedded within the credit card sized smart card is an on-board finger print scanner on the board-card along with an integrated circuit chip that will offer one gigabyte of memory capacity and a built-in rechargeable battery.

On September 14, 2004, Mr. Hendrick received a U.S. patent with regard to the use of the Biometric card. Three months prior to receiving the patent, in June 2004 Mr. Hendrick transferred the patent, which was then pending, to Applied Cryptography, Inc., a Nevada corporation, owned by Mr. Hendrick. This patent was recently assigned to SmartMetric, Inc.

The first prototype was completed in the beginning of 2005. Since that time, the Company has been continually adjusting and developing the software to improve its functionality and simultaneously redesigning the engineering of the prototype to minimize the size of the circuitry within the card. The Company expects to have an updated prototype available in the third quarter 2010 but manufacturing will only commence once purchase orders are received from customers. Due to increasing levels of exposure in specialty trade publications and numerous press releases, the Company’s Biometric Smartcard is already receiving growing interest from the private sector, especially amongst banks. This Smartcard has also drawn interest from various governmental agencies, including, but not limited to the Department of Homeland Security and the Department of Defense.

Market Drivers

So what are the factors that are driving people, companies and government organizations towards the adoption of smart card technology? The answer is for some of the same reasons that computers have become essential to our daily lives. Smart cards can pick up, store, process, and secure data similar to the way a computer works. Smart cards are multifunctional, capable of using multiple applications across a wide range of industries and geographic locations.

When smart card technology is combined with biometrics, all of the aforementioned benefits and applications are enhanced with the safety and security of identity authentication, significantly reducing the chance of fraud and increasing the trust of smart card users. Given the growing prevalence of identity theft/fraud over the last decade, identification protection has become a prominent issue for consumers,

corporations, and governments. Over the last few years, there has been an improved ease of integrating a high level of security by matching individual attributes such as fingerprints, voice patterns, or other physical identifiers to database fields. However, there was still a database that could be corrupted or compromised by a motivated hacker.

With SmartMetric's Biometric Smartcard, there is no external database with which to connect. The fingerprint reader integrated within the card either authenticates the registered card holder's identity internally, allowing the data to be accessed, or it does not. There is no chance of fraud or data compromise. There are no PIN's or passwords. If the data is sent over the Internet, once authenticated the data is encrypted, protecting the digitally transmitted data. Whether a person wants to buy a CD online, gain entry to a secure location, or access sensitive financial information, there has never been a safer way to operate in our digital world. In this way, we believe that SmartMetric has taken identity protection within e-commerce to the next level, creating the new global technology standard for a wide range of industries and applications.

Lawsuit against Visa and MasterCard

On March 16th, 2010, SmartMetric announced that it had filed a complaint against Visa, Inc. and MasterCard, Inc. in the United States Federal Court. SmartMetric firmly believes that both Visa, Inc. and MasterCard, Inc. are infringing on SmartMetric's patent dealing with the use of a data card and an automatic connection to a network.

The Company is seeking (1) an injunction against both companies prohibiting them from further infringement on the issued patent, (2) a financial award of damages suffered because of the infringement, and (3) a recoupment of legal costs from the lawsuit incurred by SmartMetric. To give some perspective to the size of the patent infringement damages sought in this case, SmartMetric CEO Colin Hendrick stated that as of the fourth quarter 2008, MasterCard, Inc. had issued approximately 50 million PayPass cards or devices, which use a technology that allegedly breaches SmartMetric's patent. This figure does not include smart cards issued by the other defendant, Visa, Inc. Both defendants in this case requested time to respond and subsequently agreed to respond to the allegations by May 2010.

Although there can be no assurance of victory, SmartMetric and its legal counsel believe that the Company is in a strong position with respect to defending the issued patent against infringement. The Company believes that the only defense that can be presented by the two defendants is "prior use defense", which claims that the technology was available and used prior to the patent being applied for. The Company does not believe that there are any reasonable grounds for this legal defense. That being said, both defendants have vast financial and legal resources and the lawsuit could play out over several years. However, once the case is settled, it is interesting to look at a comparable patent infringement case and the agreement that was eventually reached. **In 2006, after a five year legal battle, BlackBerry maker Research in Motion agreed to pay \$612.5 million to patent holding company NTP to settle a long-running dispute that had threatened to shut down the popular wireless e-mail service for its 3 million users.**

Opportunity

With the explosion of e-commerce over the last decade and business-to-business applications, chip-based smart cards will increasingly replace the conventional magnetic stripe-based “dumb” card that people, corporations, and government agencies will use to access information and conduct e-commerce. There are a number of different smartcards in the marketplace that have a myriad of applications. There are even some smartcards with biometrics that help to protect the user from fraud. However, until now there has never been a smartcard with a built-in fingerprint reader connected to a microprocessor that ensures that identities cannot be falsified and personal data cannot be compromised.

SmartMetric will begin marketing its proprietary biometric smartcard technology to banks and financial institutions in Europe, Asia, South America, and Canada that are already transitioning towards chip-based debit and credit cards. The adoption of this technology outside the United States is fast and widespread. At present, over 9 million terminals (POS and ATM's) can read the SmartMetric chip-based SmartCards and conduct payment transactions.

In our digital world, protecting identities and making secure financial transactions are of paramount importance to consumers, corporations and governments. The applications number in the thousands, from paying bills on-line, to transferring money overseas, to buying a soda at a convenience store by walking by a radio frequency receiver. Over the last ten years, SmartMetric developed this technology, protected it with patents, is currently filing suit against two credit card giants for patent infringement, and is on the verge of commercially rolling out the biometric Smartcards to the world. The Company's technology has received strong interest from a number of financial institutions and SmartMetric is in the process of building its manufacturing facility in South America.

In our opinion, the upside for SmartMetric is compelling assuming that management can effectively market its products, sign deals, and manufacture the cards fast enough to meet demand. For investors, shares of SMME are trading at a deep discount to our 12-month target value, which represents a unique buying opportunity for the speculative investor looking for exposure to the technology sector. In addition, a settlement or beneficial verdict from its litigation with VISA and MasterCard could mean tens if not hundreds of millions of dollars for shareholders.

II. PRODUCTS AND SERVICES

Overview

According to management and our due diligence, the Company has developed the world's first and only portable biometric fingerprint scanner that is contained within a credit card-sized card and acts independently of any other computing device. Prior to the invention of the SmartMetric Biometric Smartcard, there has never been a portable identification authentication solution that incorporated biometrics but that could still fit easily into someone's wallet or purse. Traditional biometric (fingerprint sensors) tools were too large to fit onto a small card-like device. In addition, traditional sensors needed to be connected to a computer that powered the scanner, which eliminated the possibility of having a truly portable device. To overcome these challenges, SmartMetric set out to effectively miniaturize a laptop computer circuit board to the size that fits on a credit card. To accomplish such a herculean task, SmartMetric needed to drastically reduce the size of the electronics and develop newly specialized manufacturing techniques.

Overcoming challenges

The conventional challenge has been the inability to successfully integrate memory chips and biometric sensor technology in size constrained devices with significant daily usage/bending issues (e.g. Smartcard must be capable of bending without breaking when in a wallet). For this reason, SmartMetric specifically designed its card to meet the International Standard Organization (ISO) 7816 Flex requirements so that it will not break or crack when bent or flexed. The prototype card has been designed to meet ISO requirements for crush test, drop test and nail test. It has also been designed to operate in a wide range of temperatures. **As such, The Company's Smartcard has successfully overcome this challenge, becoming the first powerful on-card computer processor with state-of-the-art biometric technology with proven environmental durability.**

The SmartMetric Biometric Smartcard Unique Design

The SmartMetric Biometric Smartcard is the first of its kind with respect to its unique design and functionality. On the cards surface are two components. The first is a standard Smartcard chip that is a standard interface that connects to USB computer smartcard readers, ATM machines and smartcard able Point-Of-Sale (POS) machines in retail outlets. The second component is a sensor that protrudes through the cards surface called the "Metric 60" fingerprint sensor. It can recognize or authenticate fingerprints that are wet or dry. This sensor is connected to a sophisticated miniature circuit board that allows the sensor to read a person's fingerprint and match it with the user's pre-stored fingerprint encrypted and resident inside the circuit board.

The Smartcard has been designed so that the printed circuit conforms to ISO standard (7816/3) which provides five connection points for power and data. It is hermetically fixed in the recess provided for the card and will be burned onto the circuit chip, filled with a conductive material and sealed with contacts protruding. The printed circuit is intended to protect the circuit chip from mechanical stress and static electricity. Communication with the chip will be accomplished through contacts that overlay the printed circuit. The integrated circuit chip defines the capability of a smart chip. Typically, an integrated circuit chip consists of a microprocessor, read only memory (ROM), non-static random access memory and electrically erasable programmable read only memory which will retain its state when the power is removed. The current circuit chip is made from silicon, which is not flexible and particularly easy to break. In order to avoid breakage when the card is bent, the chip is restricted to only a few millimeters in size.

The Smartcard is the size of a standard plastic credit card but thinner. It contains over 150 active and passive components mounted onto a paper-thin circuit board. Reducing a powerful ARM processor to a thin sliver of silicon along with many other complex computer components including a rechargeable lithium polymer battery and memory chips and then mounting them on the super thin board has required innovations in electronic manufacturing and the use of nanotechnology. All of these novel technological components and engineering innovations make reverse engineering extremely difficult.

How is this “Smartcard” different?

Unlike any other type of identification system (e.g. picture-based), the SmartMetric Biometric Smartcard is designed to operate exclusively with the registered user. The Smartcard, by way of containing information unique to the individual user, is useless in the hands of others.

It is unlike any other biometric identity authentication system that currently exists in the marketplace. The SmartMetric Biometric Smartcard contains the world’s smallest fingerprint reader on its surface. Only an authorized fingerprint can unlock sensitive information, such as credit card number, billing address and shipping address that is stored inside the card.

This is what separates SmartMetric’s Biometric Smartcard from other biometric security systems. Since all data is embedded in the card itself, as opposed to being stored at a centralized location, when the verification process takes place, no data is traveling over any network and therefore cannot be intercepted. All of the memory is located in a memory chip protected by encryption that can only be activated when the built-in finger print scanner authenticates the user’s identity. Without a 100% match with the encrypted fingerprint already stored on the card, the Smartcard will not operate. Unlike other popular biometric systems, the data stored on the card simply cannot be compromised. The self-containment of SmartMetric's card makes it substantially resistant to attack, as it does not need to depend upon potentially vulnerable external resources. Because of this characteristic, the SmartMetric Biometric Smartcard will likely be used in different applications which require strong security protection and authentication.

What are some of the applications?

Security and Identity Verification

The SmartMetric Biometric Smartcard can be employed as a way for authorized personnel to gain access to secure facilities or be positively identified by placing a finger on the embedded finger print scanner. The Biometric Smartcard may be used for a wide variety of security applications such as airport employee access and identity, building access and identity, computer network access, drivers’ licenses, passports, and check cashing identity verification, etc.

As an access card, the cards were designed to be compatible with contact devices as well as with contactless card acceptor devices. For contact acceptor devices, the device must physically touch a chip mounted on the surface of the card, which allows data transmission from the Smartcard to the contact reading device. For contactless acceptor devices, a radio frequency signal is sent out from a built-in radio frequency transmitter within the Smartcard to a radio frequency signal receiver in the acceptor device. In both types of acceptor devices, the activation signal is sent only when there has been a positive match of fingerprint by fingerprint sensor.

Additionally, the Biometric Smartcard contains a powerful on-card processor and up to one gigabyte of encrypted memory, enabling the Biometric Smartcard to not only store the full image of a fingerprint but

also maintain a database capable of storing information such as medical records, financial or banking records or human resource data.

Online purchasing

When used as an online purchasing card, the Biometric Smartcard helps protect against identity theft and fraud that consumers can be exposed to when they are making purchases over the Internet. Unlike the conventional method, which requires online consumers to enter sensitive personal information (e.g. credit card numbers) over the Internet to make a purchase, the Smartcard is designed to be inserted into the USB port. Simply touching the surface of the card activates the card allowing the authorized user to securely buy online. Any purchasing information can only be released when the fingerprint authentication takes place, which unlocks the card. Once the fingerprint has been properly authenticated and the card is unlocked, the data travels across the Internet encrypted, which reduces the possibility of identity fraud and theft. Not only is the technology reliable, but it simplifies the entire process of identity authentication since no central fingerprint database is required.

Online money transfer

When used as an online money transfer card, SmartMetric has developed software and systems to allow money to be transferred from one card to another over the Internet with user confirmation of transaction by both sender and receiver. Because fingerprint authentication is required at both ends of the transaction, the sending and receiving parties' can be confident that only the appropriate person is receiving the funds. The low cost of Internet communication enables this new person to person money transfer method to be very attractive relative to other more expensive forms of money transfer.

Who are the potential customers?

Governmental agencies and the military

The SmartMetric Biometric Smartcard's identity and access benefits are attractive to large government agencies and the military. Some of these uses include but are not limited to:

- Passports – With government plans for an electronic passport in the future, the Company's technology is applicable for identity verification.
- National Health Insurance Card – A national system of electronic medical could save millions of dollars every year and enhance the efficiency of the healthcare system. However, if the information were in a centralized database, the security of the medical records could be compromised. Medical records could be securely stored on the SmartMetric card, with access granted only to those whose fingerprint matches.
- DMV – A fingerprint sensor on the surface of a driver's license will secure the user against ID theft and will add an extra layer of security. It will also help the authorities to quickly determine the true identity of anyone carrying the card.
- Social Welfare Payments – The mandated use of SmartMetric's cards will ensure that those who are receiving the benefits are actually owed the benefits. This will protect both the consumer and the government agencies against identity fraud and theft.
- Government Employee/Military Personnel Identity – SmartMetric's cards allow for enhanced security for identify verification, access to digital information and physical access to restricted facilities. The SmartMetric card can also control access to certain locations within a building to

only allow certain personnel into secured areas. The best part is the elimination of passwords or information that was previously stored on centralized databases. Each individual's identity is stored in the palm of their hand.

- Airport Security – The SmartMetric card is ideal for security check points at airports.
- School security – The SmartMetric card would be an obvious benefit to ensuring that only approved personnel are able to gain physical access to schools.

Business

- Business to Business Funds Transfer – Secure transactions of large sums of money can be safely and easily transferred over the Internet from card to card.
- Employee Access and Identification - SmartMetric cards (contactless) employing radio frequency signaling are ideal for use in building lobbies and other locations where a fast pace is desirable. A person will press his finger on the reader on his ID card, a green light on the card will signal a match, and then the card will transmit the employee's name, ID number, and photo (not the fingerprint) to a nearby computer at a security desk. Verification and employee access is automatic, saving valuable time and money.
- Securing IP – The SmartMetric card is capable of securing Intellectual Property, including data files, designs and or any other form of proprietary data that needs to be safely secured.

Individual Consumer

From the encrypted safety of the SmartMetric card, consumers can make online purchases, store money, and transfer money securely and immediately from their computers.

- Secure Checkout – When buying online, the SmartMetric card protects the consumer from hackers because only the authorized user can unlock the sensitive personal information. No more typing credit card information into a computer keyboard, no more passwords to memorize. The credit card information stays on the card and is only transmitted over the Internet when you touch the fingerprint pad.
- Card to Card Transfer – The SmartMetric card can be used as a portable money wiring service to transfer money from one card to another card anywhere in the world over the Internet safely and securely. By using a simple USB adaptor, the SmartMetric card is able to send and receive money over the Internet. When the funds receiver connects his or her card to their computer, the funds are automatically sent from the sender's card and deposited onto the receiver's card. The receiver can now take their card to an ATM machine and convert the funds on their card into cash. When you send money to another person's card, only their fingerprint can activate their card to receive the money. This method of cash transfer is safe, secure, instantaneous, and much less expensive than wire transfer fees charged by financial institutions.
- Digital Cash on Card - The SmartMetric card is also a Secure Digital Bank with funds for payments digitally transferred via real money stored on the SmartMetric Biometric Smartcard, allowing for real time payments and funds transfer from mobile phones, other wireless devices and desk top computers. The secure digital bank can be used for micro payments (payments under \$2.00) for goods and services such as digital music sound tracks, news and information content and various low priced net based goods and services. Also for automatic digital form filling using

wireless or dial up devices and computers from customer information stored on the SmartMetric Biometric Smartcard.

- Automatic Secure Sign On to a Network - By inserting the SmartMetric Biometric Smartcard into a card reading device attached to a computer, the user can automatically log on to a network. No more passwords to remember. The user simply places his or her card in the card reader and the system automatically dials up and logs on.
- Computer Desktop Access Protection – The SmartMetric card can be used as a “gatekeeper” for personal computer settings. By validating the user’s identity at the beginning of a computer session, the card can not only establish pre-set desktop preferences automatically, but also create a secure environment for online shopping, instant form filling, and other financial or personal activities.

III. CORPORATE STRATEGY

Overview

Since the inception of the Company until now, the Company has been a development stage company focused on the research and development of its SmartMetric Biometric Smartcard. At this stage, the Company is nearing the end of the R&D days, moving towards the commercial manufacturing and production stage of its business. However, before this transition can happen, the Company must switch its focus from being a developer and focus heavily on manufacturing, production, and marketing. The following sections detail what the Company must do to effectively transition from an R&D shop to a successful revenue producing entity.

Research and Development

At present, SmartMetric is focused on completing development of its biometric card. Most of the technological refinements have been completed, and the Company is in the last stages of finalizing the product for commercial production. It expects to have the final prototype ready by June 2010.

Manufacturing

SmartMetric intends to open up its own manufacturing facility to produce its advanced “in card” fingerprint scanning and matching technology. The planned facilities will utilize the Company's proprietary expertise in sub-micro electronics to manufacture its proprietary biometric smartcards. The Company is currently in discussions with economic development officials in several alternative locations, all of whom have indicated strong interest in recruiting the Company's operations to their respective communities.

Sourcing

The components for the card include the lithium polymer battery, the fingerprint sensor, microchips, memory chips, processing chips, and many other raw materials that go into the production of this specialized biometric smartcard. SmartMetric intends to purchase these components from a number of unaffiliated third parties. The Company does not intend to enter into purchasing contracts with these companies which will give the Company the freedom to identify other sources for these components when appropriate. SmartMetric believes that the sources and availability of these materials are numerous and readily available, and should not affect the ability of SmartMetric to meet future demand.

Sales and Marketing

Once the prototype of the biometric card has been completed, the Company intends to market and sell its product to banking interests in the private sector and governmental agencies such as the Department of Homeland Security and the Department of Defense. The Company has already received interest in the product from these organizations and others. At present, the Company does not have a marketing or sales force or a distribution arrangement in place. SmartMetric will need to expend resources to develop its own marketing and sales force or enter into third-party distribution arrangements.

Different regions have different laws that incentivizes different customers

Insurance law plays a large part in how SmartMetric will pursue its clients and specifically, which types of clients to target in certain geographical markets. For example, in the United States, banks are not responsible for losses from credit card fraud; the merchants are liable for losses. For this reason, banks in

the U.S. are less motivated to use or advocate biometric smartcards to protect themselves against credit card fraud because they don't bear the financial liability. In other countries, banks, not the merchants, are held responsible for losses from credit card fraud, so that they are much more motivated to increase security and decrease fraud by using and advocating advanced biometric smartcards for their customers. Thus, SmartMetric will initially market its technology and products to large international banks¹ outside of the U.S., and market its technology and products to non-banking entities within the U.S.

Competition

The identity management sector is highly competitive with many companies competing for the next cutting edge disruptive technology. This industry is dominated by several large international corporations such as Keyware (NYSE Euronext: KEYW), Gemalto (NYSE Euronext: GTO) and Precise Biometrics (Stockholm: PREC.ST), all of which manufacture and/or distribute and market identity management products. The following is a description of each of the main industry players.

1. Keyware was founded in 1996 and went public in 2000 and is headquartered in Brussels, Belgium. While Keyware's primary business model is transaction processing, they maintain a significant platform in identity tracking technology and maintain a competitive advantage through high capitalization.
2. GemAlto manufactures powerful, user-friendly software focusing on bar-code technology. GemAlto incorporates identity verification tools within its software. GemAlto maintains a large Internet presence and its software is easily downloadable, making them a market force.
3. Precise Biometrics sells products which utilize its patented biometric fingerprint authentication technology which allows it to isolate the characteristic features of a human fingerprint and to match such features with a stored template to secure identity.

These companies are publicly traded with significant brand identity in their respective markets and strong track records. These companies are also significantly better funded than SmartMetric. SmartMetric is a newcomer to this industry, with no proven track record and an untested product. The Company also has limited brand awareness in the marketplace. SmartMetric will be competing with these as well as smaller and mid-size identity management manufactures, distributors, and developers.

The following is a list of some of the other biometric identity management companies:

- ZKSoftware
- Cross Match Technologies Inc.
- Hirsch Electronics
- MorphoTrak
- Triad Biometrics LLC
- Union Community
- Digitus Biometrics
- Fingerprint Cards
- Cogent
- Accu-Time Systems, Inc.

¹ SmartMetric's Biometric Smartcard currently meets the EMV specifications required by banking institutions. For the home market, no certifications are required.

- Green Bit
- Aware, Inc.
- NEC
- Human Recognition Systems
- DAON
- IDTECK
- Smartmatic
- BIO-key
- Suprema Inc.
- Lumidigm

In conclusion, while these companies are focused on biometric security solutions, we believe that none of these competitors are currently using a biometric tool physically integrated on a smartcard as SmartMetric, Inc. has done. Therefore, we believe that SmartMetric has little direct competition with conventional biometric solution providers.

Intellectual Property

SmartMetric relies on patents, licenses, trade secrets, trademarks, copyright registrations and non-disclosure agreements to establish and protect its proprietary rights in its technologies and products.

Patents

Applied Cryptography, Inc., a company owned and controlled by Colin Hendrick, President and CEO of SmartMetric, owned the patent for a Biometric card process. Mr. Hendrick has recently assigned the patent to SmartMetric. The patent expires September 30, 2014.

The patent asserts claims to the following processes:

- A system for managing digital rights of digital content over a network.
- A data card contains user information including digital rights information specific to a users, the data card having memory component for enabling information to be stored within the data card.
- A data card reader is adapted to access the user information contained on the data card when the data card is in communication with a card reading device.
- A data processor in communication with the data card reader is adapted to be connected to the network.
- An application program resides on the memory component of the data card, the application program being configured to operate in conjunction with a universal language for creating and controlling digital rights, to manage user rights of the digital content available on the network based on the digital rights information specific to the user which is contained on the data card.

IV. INDUSTRY ANALYSIS

Overview

There are several industries and growth drivers that are applicable to SmartMetric's technology. First and foremost, the device is a biometric tool that is used for identity verification. Biometric tools have been garnering attention and increasing popularity over the last few years because of their effectiveness vis-à-vis traditional identity verification systems. Biometrics are primarily used to counter the growing prevalence of identity fraud and theft, which costs American billions of dollars every year. Secondly, transactions conducted over the Internet, or e-commerce, is a multi-billion dollar per year market, and this unique identity verification tool is ideal for making e-commerce safer, more secure, and faster.

Biometrics

Biometric technologies identify users by electronically capturing a specific biological or behavioral characteristic of that individual, such as a fingerprint or voice or facial feature, and creating a unique digital identifier from that characteristic. Because this process relies on largely unalterable human characteristics, positive identification can be achieved independent of any information possessed by the individual seeking authorization.

The process of identity authentication typically requires that a person present for comparison one or more of the following factors:

- Something known such as a password, PIN or mother's maiden name;
- Something carried such as a token, card, or key; or
- Something physical such as fingerprint, voice pattern, signature motion, facial shape or other biological or behavioral characteristic.

Comparison of biological and behavioral characteristics has historically been the most reliable and accurate of the three factors, but has also been the most difficult and costly to implement into a single product that can automatically verify the identity of a user accessing a computer network or the Internet. However, recent advances in biometric collection technologies (both biometric hardware products and their associated processing software) have increased the speed and accuracy and reduced the cost of implementing biometrics in commercial environments. For this reason, individuals, web site operators, government organizations, and businesses will increasingly use this method of identity authentication.

Biometrics refers to the automatic identification of a person based on his/her physiological or behavioral characteristics. This method of identification is preferred over traditional methods involving passwords and personal identification numbers ("PINs") for various reasons: (i) the person to be identified is required to be physically present at the point of identification to be identified; (ii) identification based on biometric techniques obviates the need to remember a password or carry a token. By replacing PINs, biometric techniques can potentially prevent unauthorized access to or fraudulent use of cellular phones, biometric cards, desktop PCs, workstations and computer networks. It can be used during transactions conducted via telephone and Internet (e-commerce and e-banking). In automobiles, biometrics could replace keys-less entry devices.

PINs and passwords may be forgotten, and token-based methods of identification, e.g., passports and driver's licenses, may be forged, stolen or lost. Various types of biometric systems are being used for real-time identification, with the most popular based on face recognition and fingerprint matching. Other biometric systems utilize iris and retinal scanning, speech, facial thermograms and hand geometry.

A biometric system is essentially a pattern recognition system, which makes a personal identification by determining the authenticity of a specific physiological or behavioral characteristic possessed by the user. An important issue in designing a practical system is to determine how an individual is identified.

Identity theft/fraud

Each year, hundreds of thousands of Americans are victimized by identity theft, which is among the most insidious and personally violative crimes in modern-day society. In fact, it is one of the fastest growing crimes in the United States. The advent of the digital age, in addition to an increased reliance on electronic means of transacting business and together with the greater proliferation of the Internet and the availability of sophisticated technology, has contributed to making the electronic consumer ever more susceptible to perpetrators of all types. Identity fraud is not a new crime, but the fertile ground for fraudsters has migrated from the dumpster to the database. The question facing corporations and the government is how to stop or limit the damage caused to their reputations, their bottom lines and, more importantly, their customers.

As a result, identity technology is one of the fastest-growing areas in the security market. There is a convergence of solutions to attack fraud and mitigate risks. Governments, law enforcement agencies and businesses are focused on enhancing security, reducing identity theft, and protecting personal privacy while enabling easy lawful access. Worldwide identity and access management (IAM) revenue will reach \$9.9 billion in 2010, an 8% increase from 2009 revenue of \$9.2 billion. Overall, the IAM market is estimated to grow to \$11.9 billion by 2013².

Identity theft and identity fraud in the United States have reached epidemic proportions, costing businesses and consumers billions of dollars annually. Identity fraud is not a new crime, but the proliferation of the Internet and the availability of sophisticated technology have created a fertile environment for identity thieves to pillage through large databases of personal records and perpetrate fraudulent activities. It has become far too common to hear about yet another security breach that occurs at a bank, retailer, university, or data aggregator.

Credit and debit card fraud is the No. 1 fear of Americans in the midst of the global financial crisis. Concern about fraud supersedes that of terrorism, computer and health viruses and personal safety. (Source: Unisys Security Index: United States, March 2009)

In 2008, the Federal Trade Commission (FTC) received over 1.2 million consumer complaints, 313,982 or 26% of which were related to identity theft, representing the largest category of all complaints received. Of the identity theft category, credit card fraud (20%) was the most common form followed by government documents/benefits (15%) and employment fraud (15%). Electronic fund transfer-related identity theft continued to be the most frequently reported type of identity theft bank fraud.

The FTC estimates that identity theft costs American businesses approximately \$52 billion per year. The FTC also estimates that nearly 10 million American consumers fall victim to identity theft annually with total economic losses of approximately \$5 billion. Of the 10 million reported fraud cases, over six million involve fraudulent uses of existing accounts and over three million involve new accounts being opened in victims' names. In addition, the FTC estimates that almost two million U.S. Internet users experience fraud each year, with 70% of those who experience fraud doing their banking or paying their bills online, and over half believing that they received a "phishing" e-mail. According to a Zogby poll in April 2007, 91% of respondents said they are concerned that their identity may be stolen and 34% do not feel confident that banks and retailers are doing enough to protect their information. It affects banks and

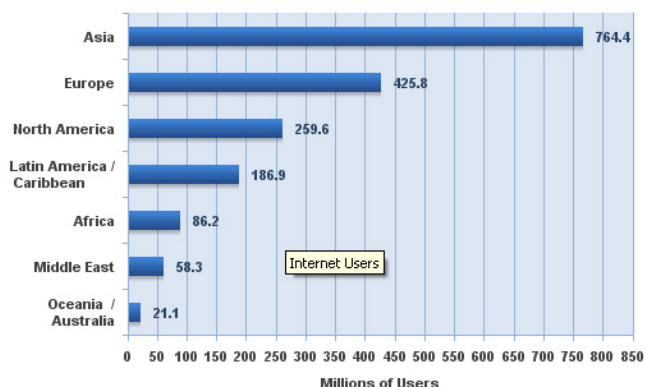
² According to Gartner Inc., a leading IT research and advisory company, article titled: "Gartner Says Worldwide Identity and Access Management Market Will Grow 8 Percent in 2010 and reach \$9.9 Billion" dated March 3, 2010.

card issuers, retailers, insurers, employers and increasingly, consumers. Insurance fraud alone is an \$80 billion industry!

E-Commerce

Over the last 15 or so years, the buying and selling of products or services over the Internet (e-commerce) has grown by leaps and bounds due to widespread Internet usage by both corporations and consumers. As of December 31st, 2009, there were approximately 1.8 billion Internet users around the globe, which represents approximately one-quarter of the entire global population of 6.8 billion people. The Internet user growth rate from 2000-2009 is 399.3%. Of all the world regions, the highest penetration rate (as a percentage of total population) is North American, with 300 million users representing 76.2% of the total population³. However, the growth rate in North America is near the bottom of the list, which Africa and the Middle East topping the charts with 1,810% and 1,675% respectively⁴.

Internet Users in the World by Geographic Regions - 2009



Source: Internet World Stats - www.internetworldstats.com/stats.htm
 Estimated Internet users are 1,802,330,457 for December 31, 2009
 Copyright © 2010, Miniwatts Marketing Group

WORLD INTERNET USAGE AND POPULATION STATISTICS						
World Regions	Population (2009 Est.)	Internet Users Dec. 31, 2000	Internet Users Latest Data	Penetration (% Population)	Growth 2000-2009	Users % of Table
Africa	991,002,342	4,514,400	86,217,900	8.7 %	1,809.8 %	4.8 %
Asia	3,808,070,503	114,304,000	764,435,900	20.1 %	568.8 %	42.4 %
Europe	803,850,858	105,096,093	425,773,571	53.0 %	305.1 %	23.6 %
Middle East	202,687,005	3,284,800	58,309,546	28.8 %	1,675.1 %	3.2 %
North America	340,831,831	108,096,800	259,561,000	76.2 %	140.1 %	14.4 %
Latin America/Caribbean	586,662,468	18,068,919	186,922,050	31.9 %	934.5 %	10.4 %
Oceania / Australia	34,700,201	7,620,480	21,110,490	60.8 %	177.0 %	1.2 %
WORLD TOTAL	6,767,805,208	360,985,492	1,802,330,457	26.6 %	399.3 %	100.0 %

NOTES: (1) Internet Usage and World Population Statistics are for December 31, 2009. (2) CLICK on each world region name for detailed regional usage information. (3) Demographic (Population) numbers are based on data from the [US Census Bureau](#). (4) Internet usage information comes from data published by [Nielsen Online](#), by the [International Telecommunications Union](#), by [GfK](#), local Regulators and other reliable sources. (5) For definitions, disclaimer, and navigation help, please refer to the [Site Surfing Guide](#). (6) Information in this site may be cited, giving the due credit to www.internetworldstats.com. Copyright © 2001 - 2010, Miniwatts Marketing Group. All rights reserved worldwide.

³ In the U.S., there are 227,719,000 Internet users representing 74.1% of the population

⁴ InternetWorldStats.com

According to a U.S. Census Bureau report called E-Stats, e-commerce grew to \$3.333 trillion in 2007, a 12.1% increase over 2006 e-commerce figures. As a percentage of all U.S. shipments, sales, or revenue, in 2007 e-commerce represented approximately 15% of the total figure of \$21,847 trillion. In 2006, this percentage was 14%. Broken down by sector, in the business to business sector (includes manufacturing and merchant wholesale), e-commerce represented \$3.08 trillion of the \$11.088 trillion total, or 28%. In the business to consumer sector (retail and selected services), e-commerce represented only \$251 trillion of the \$10.759 trillion total, or 2%. Despite the low percentage for B-to-C sales, this sector is grew at a much higher clip from 2006 to 2007, 19% as compared to 11.6% for the B-to-B sector.

Description	Value of Shipments, Sales, or Revenue				Year to Year Percent Change		% Distribution of E-commerce	
	2007		2006		Total	E-commerce	2007	2006
	Total	E-commerce	Total	E-commerce				
Total *	21,847	3,333	20,797	2,972	5.0	12.1	100.0	100.0
B-to-B*	11,088	3,082	10,542	2,761	5.2	11.6	92.5	92.9
Manufacturing	5,306	1,856	5,016	1,567	5.8	18.4	55.7	52.7
Merchant Wholesale	5,782	1,226	5,526	1,194	4.6	2.7	36.8	40.2
Excluding MSBOs ¹	4,150	689	3,881	639	6.9	7.8	20.7	21.5
MSBOs	1,632	537	1,645	555	-0.8	-3.2	16.1	18.7
B-to-C*	10,759	251	10,255	211	4.9	19.0	7.5	7.1
Retail	3,995	127	3,870	107	3.2	18.4	3.8	3.6
Selected Services	6,764	124	6,385	104	5.9	19.7	3.7	3.5

* We estimate business-to-business (B-to-B) and business-to-consumer (B-to-C) e-commerce by making several simplifying assumptions: manufacturing and wholesale e-commerce is entirely B-to-B, and retail and service e-commerce is entirely B-to-C. We also ignore definitional differences among shipments, sales, and revenues. The resulting B-to-B and B-to-C estimates, while not directly measured, show that almost all the dollar volume of e-commerce activity involves transactions between businesses. See the "Note to reader" for cautions relating to the interpretation of the "Total" shown here.
¹Manufacturers' Sales Branches and Offices

Smart Cards

The global smart card market has been experiencing continuous, double-digit growth over the last several years. A smart card is any plastic card (like a credit card) with an embedded integrated circuit for storing information. The smart card is gaining popularity across all geographical locations due to their flexibility and wide variety of applications. Other contributing factors that have been driving and will continue to drive the smart card market include increased storage capacity, faster processing speed and ever increasing security concerns. The global shipment of smart cards is expected to reach an estimated 5.4 billion units by the end of 2009, and this figure is projected to surge at a CAGR of nearly 13% during 2010-2012.⁵

As of the end of 2009, there were 576.4 million credit cards in circulation in the U.S., with credit card purchase volume of \$1.76 trillion consisting of 20.2 billion transactions through yearend 2009. Factoring in the cost of lost/stolen merchandise, U.S. retail merchants are suffering a total industry-wide fraud loss of \$191 billion.

⁵ ReportLinker report titled "Smart Card Market Forecast to 2012" published January 2010

EMV (Europay, Mastercard and Visa) credit and debit smartcards are widely becoming the global standard for financial banking cards. EMV is an interoperability standard developed by three financial institutions that ensures that all Europay, MasterCard, and VISA branded smartcards and all Smartcard reading POS terminals and ATM's work together to deliver the highest security level. This new EMV global standard is based on the migration away from magnetic stripe cards and towards chip-based smartcards. At present, banks are still issuing hybrid cards that support magnetic stripe and chip transactions, but the next generation cards will completely eliminate the magnetic stripe from the smartcard. Banks around the globe are rapidly migrating towards this new standard throughout Europe, Asia, Latin America, and Canada. According to a research report⁶ on EMV migration in Mexico and Brazil, strong growth is anticipated in EMV/chip cards and terminals. Brazil had issued 341 million EMV/chip cards in 2008, with a forecast of 145 million to be issued in 2009. Mexico had issued 82 million EMV/chip cards in 2008, with a forecast of 17 million for 2009. At present, there are over 800 million EMV compliant credit cards issued.

Some of the various types of smart cards and their applications include, but are not limited to the following:

- Financial services
- Affinity programs
- Cellular phones
- Secure network
- Government
- Healthcare
- Information Technology
- Mobile Communication
- Banking/Mobile Banking
- Global Money Transfer (Remittance)
- Loyalty Programs
- Mass Transit
- Driving Licensing
- Electronic Toll Collection
- Telephone Cards, etc.

⁶ The Smart Card Alliance Latin America (SCALA)

One Example: Global Money Transfer

According to a February 2007 study⁷, the phenomenon of international remittances is rapidly transforming the financial landscape. As millions of workers from around the globe seek employment in other countries, payments to their families back home are creating dynamic flows of money. It's estimated that global remittance volume reached more than \$232 billion in 2005, with an additional unquantifiable amount transmitted through informal channels that could increase total volume by 50%.

The relationship between Latin America and the U.S. constitutes the highest volume remittance market in the world. Over the last two years, the percentage of Latin American immigrants sending remittances has increased from 61% to 73%, and the average remittance has increased from \$240 to \$300. The robust and increasing demand for person-to-person cross-border remittance services coincides with the increasing dominance of electronic transactions and the rise of prepaid cards. These two activities, though independent of one another, share important characteristics and opportunities. Remitters are more likely to have limited financial access because of their immigrant status. Prepaid cards are increasingly seen as a tool to provide the unbanked and underbanked with broader access.

The opportunities for mobile banking are also very attractive. According to Juniper Research, phone-to-phone fund transfers and mobile payments in the developing world, together with the commercialization in 2009 of Near Field Communications (NFC) based payments will generate transactions worth approximately \$22 billion by 2011 and be adopted by 204 million mobile phone users. The report expects the SMS based Person-to-Person fund transfers and payments will drive the developing world m-payment (mobile payment) market.

As reported in the Economic Times in India on March 5, 2008, "Mobile banking services, which use low-cost channels such as SMS, can bring more "unbanked" people to the financial mainstream." India is the largest M-banking opportunity. It is estimated that there are over 6 million new mobile phones purchased each month. According to the article: "...the majority of the next 250 million mobile phone customers are going to come from rural India which also houses majority of the 135 million "unbanked" India households."

In order to support and expand all these electronic based services and to meet the rapidly expanding mobile phone market, it is widely expected that new financial and non-financial products and services will also be developed to meet this growing demand. Stored value cards alone are one of the most dynamic and fastest growing products in the financial services industry.

⁷ The Center for Financial Services Innovation, an affiliate of ShoreBank Corporation

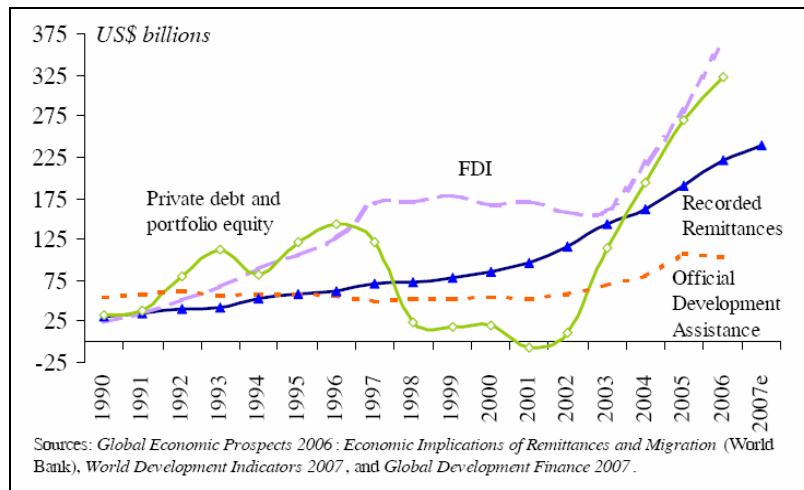
Worldwide flows of remittances by migrant workers to their families back in their homeland exceeded \$300 billion in 2006, according to a report jointly issued by the International Fund for Agricultural Development (IFAD) and the Inter-American Development Bank (IDB).

INFLOWS	2002	2003	2004	2005	2006	2007e	Change 2006-07	Change 2002-07
Developing countries	116	144	161	191	221	240	8%	107%
East Asia and the Pacific	29	35	39	47	53	58	10%	97%
Europe and Central Asia	14	17	21	29	35	39	10%	175%
Latin America and the Caribbean	28	35	41	49	57	60	6%	115%
Middle-East and North Africa	15	20	23	24	27	28	7%	86%
South Asia	24	30	29	33	40	44	10%	81%
Sub-Saharan Africa	5	6	8	9	10	11	5%	116%
Low-income countries	32	39	40	46	56	60	9%	88%
Middle-income countries (MICs)	84	105	121	145	166	179	8%	114%
Lower MICs	55	68	76	90	102	112	10%	103%
Upper MICs	29	37	45	55	63	67	6%	136%
High income OECD countries	53	60	67	68	72	74	3%	40%
High income non-OECD countries	1	2	3	4	4	4	1%	298%
World	170	206	231	263	297	318	7%	87%
OUTFLOWS	2002	2003	2004	2005	2006		Change 2005-06	Change 2002-06
Developing countries	20	24	31	36	44		23%	226%
High income OECD	88	100	113	124	136		10%	64%
High income non-OECD	23	23	22	24	27		15%	20%
World	131	147	166	183	207		13%	74%

Sources: Data through 2006 are authors' calculation based on data from *IMF Balance of Payments Statistics Yearbook 2007*. Data for 2007 are estimates based on this source and data releases from central banks, national statistical agencies, and World Bank country desks. Remittances are defined as the sum of workers' remittances, compensation of employees, and migrant transfers – see www.worldbank.org/prospects/migrationandremittances for data definitions and the entire dataset.

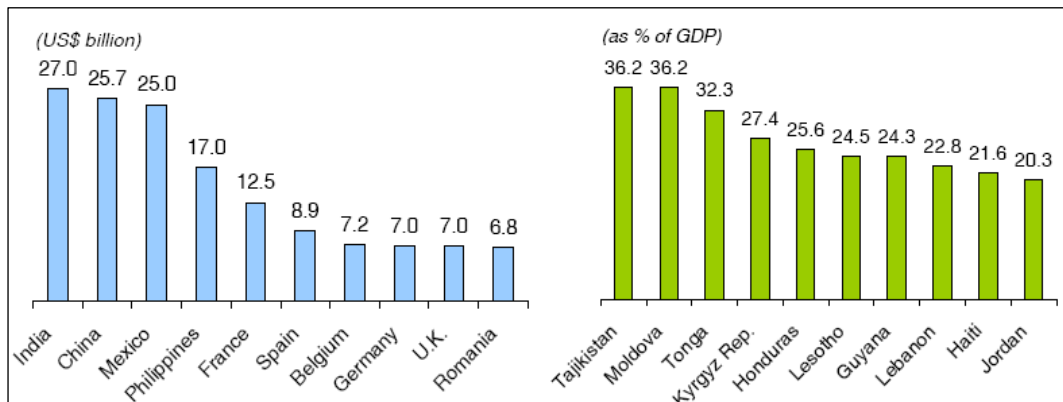
According to the World Bank⁸, worldwide flows of remittances were expected to reach \$318 billion in 2007. Of this amount, remittances sent home by migrants from developing countries were expected to exceed \$240 billion in 2007, up from \$221 billion in 2006 and more than double the level reached in 2002. This amount reflects only officially recorded transfers—the actual amount including unrecorded flows through formal and informal channels is believed to be significantly larger. Recorded remittances are more than twice as large as official aid and nearly two-third of foreign direct investment flows to developing countries. Remittances are the largest source of external financing in many poor countries. Also remittances have been less volatile than other sources of foreign exchange earnings in developing countries.

⁸ World Bank report titled “Remittance Trends 2007” published November 29, 2007



In 2007, India, Mexico and China are likely to be the top three recipients of remittances, accounting for nearly one-third of remittances received by the developing countries. Prior to 2006, Mexico had consistently been the top destination of remittances. In 2006, India, with \$24.5 billion in remittances, surpassed Mexico, which had \$24.2 billion. China was the third largest destination, receiving \$21 billion and then the Philippines with \$14.6 billion. It was reported that 59 countries had been receiving more than \$1 billion of remittances annually.

Top Remittance Recipient Countries:



Latin America and the Caribbean (LAC) region remains the largest recipient of (recorded) remittances. However, the growth of remittances to the region has slowed in recent months. Remittance flows to Europe and Central Asia have registered the highest growth rate among six developing regions, mostly due to upward revision of data in some countries. As a share of GDP, remittances are the highest in the Middle East and North Africa region. Remittance flows to Sub-Saharan Africa are grossly underestimated, with wide gaps in data reporting in many countries.

The World Bank also believes that the remittance industry is experiencing some positive structural changes with the advent of cell phones. With the introduction of phone-based services, this may imply a shift from cash-based remittances to account-based remittances in the future. As money transfers are being subjected to more intense scrutiny by regulators, the industry has experienced a shift in remittances from informal to formal channels. In addition, mobile banking with cell phones can potentially extend remittance services to millions of people in remote, rural areas.

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V. FINANCIALS

Assumptions

For the purpose of projecting revenue and earnings for SmartMetric, we decided to take a top-down approach by looking at the number of Internet users in the United States and making certain market penetration assumptions. For the purpose of this exercise, we are only including the U.S. market even though we fully expect that the Company will derive significant business from outside the U.S. We are excluding all international revenue expectations from this model to be conservative. We believe that this is the right approach given the fact that the Company has yet to begin its commercial operations.

There are four likely sources of revenue: government, retail, marketing alliances, and transactional commissions. Our government revenue assumptions are simple; we are projecting unit sales of 3 million, 6 million, 12 million, and 24 million at \$50 per unit for the years 2011, 2012, 2013, and 2014 respectively and assuming a flat penetration rate of 1.5%. Because the Company is still a development-stage company, we are excluding any revenues from future market alliances that may or may not be formed.

Revenue and Earnings Assumptions (U.S. only)	2011	2012	2013	2014
Government Revenue				
Number of SmartCards	3,000,000	6,000,000	12,000,000	24,000,000
Average Price of Biometric Smartcard	\$50.00	\$50.00	\$50.00	\$50.00
Penetration rate of gov't ID market	1.5%	1.5%	1.5%	1.5%
Government Revenue	\$2,250,000	\$4,500,000	\$9,000,000	\$18,000,000
Retail Revenue				
Number of Internet users (U.S.)	227,719,000	239,104,950	251,060,198	263,613,207
Growth Rate		5%	5%	5%
Average Price of Biometric Smartcard	\$55.00	\$55.00	\$55.00	\$55.00
Market Share	0.050%	0.075%	0.125%	0.175%
Retail Revenue	\$6,262,273	\$9,863,079	\$17,260,389	\$25,372,771
Transactional Revenue				
Number of Internet users (U.S.)	227,719,000	239,104,950	251,060,198	263,613,207
Growth Rate		5%	5%	5%
Total retail e-commerce (U.S.)	\$127,000,000,000	\$133,350,000,000	\$140,017,500,000	\$147,018,375,000
Growth Rate		5%	5%	5%
Number of SmartCards	113,860	179,329	313,825	461,323
Growth Rate		5%	5%	5%
Average Transaction Size	\$558	\$558	\$558	\$558
Commission rate per transaction	4%	4%	4%	4%
Transaction Revenue	\$2,540,000	\$4,000,500	\$7,000,875	\$10,291,286
Total Gov't, Retail and Transactional Revenue	\$11,052,273	\$18,363,579	\$33,261,264	\$53,664,057
Net Margin assumption (after tax)	15.0%	15.0%	15.0%	15.0%
Net Income	\$1,657,841	\$2,754,537	\$4,989,190	\$8,049,609
Shares Outstanding	95,000,000	105,000,000	110,000,000	112,500,000
EPS	\$0.02	\$0.03	\$0.05	\$0.07

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For the retail revenues, we begin with the number of Internet users and use a conservative annual growth rate of 5% per annum. We assume an average unit price of \$55.00 and a market penetration rate growing from 0.05% in 2011 to 0.175% in 2014. We believe that these assumed market penetrations rates are conservative.

With respect to the transactional commission revenues, we begin again with the number of Internet users and apply the same market penetration rates as above to determine the number of Smartcards that will be manufactured and sold. We then calculate average transaction size by dividing total retail e-commerce by the number of Internet users. We assume a 4% commission rate and calculate the transactional revenue per annum.

With total estimated revenue calculated, we assume a net margin percentage of 15% after taxes to calculate net income for all future years. We assume that the share count in 2011 will be 95 million, increasing 10 million shares in 2012, 5 million shares in 2013, and 2.5 million in 2014, giving us EPS estimates for 2011, 2012, 2013, and 2014.

Caveat

We acknowledge that there are strengths and weaknesses in top down financial models. Top down models connect a business model with the real world, allowing the analyst/investor to estimate how much of the total market share a business can penetrate over extended periods of time. However, top down models can sometimes be too simplistic-- not accounting for company specific line items that may affect performance. For example, the initial expenses associated with starting a business can be abnormally high as a percentage of revenues compared to future years, which can cause a company to initially report significant net losses. We do not account for these "one-time" expenses in our model, which may result in overstating earnings for the first full year of operations. In this specific case, we believe that SmartMetric is a nimble operator with low overhead with a highly scalable business model, capable of quickly ramping up production and manufacturing activity to meet demand. We also believe that we have used conservative estimates throughout the model, including the net margin percentage, which should help offset any short-term performance hurdles. In summary, we do not intend for this model to be an exact predictor of financial performance over the next three years, but instead a guide to the Company's revenue/earnings path and future potential within a multi-billion dollar identity protection and e-commerce industry.

Sensitivity Analysis

In our model and valuation table, we used very conservative market penetration rates to illustrate revenue, earnings, and then calculated a 12-month target valuation. In the sensitivity analysis below, we show how the valuation would be affected if we adjusted the penetration rates under scenarios B, C, and D. As we can clearly see, if SmartMetric is able to grab 1.25% of the market by the end of 2014, our 12-month target would move up to \$5.50 per share. Although we don't believe that scenario D is unrealistic, we do believe that it is not the conservative approach to the Company given its infancy with respect to commercialization. Therefore, we are maintaining scenario A as our preferred choice until the facts change our opinion.

Sensitivity Analysis based on market penetratio rates					
Years	2011	2012	2013	2014	12-Month Target Value
Penetration Rates					
Scenario A	0.050%	0.075%	0.125%	0.175%	\$0.84
Scenario B	0.100%	0.150%	0.250%	0.500%	\$1.61
Scenario C	0.250%	0.500%	0.750%	1.000%	\$3.83
Scenario D	0.500%	0.750%	1.000%	1.250%	\$5.50

Valuation Metrics

Comparison Table:

Company	Ticker	Price	Forward P/E Ratio	Price to Revenue Ratio	Price to Book Ratio	EBITDA (\$M)	Gross Margin %	Qtr. Rev Growth % yoy	Number of Shares O/S	Market Cap (\$M)
BIO-key International	BKYI.OB	\$0.17	N/A	5.27	11.43	-2.41	78.0%	-25.0%	77,710,000	\$13
Cogent	COGT	\$9.44	18.17	6.77	1.49	39.58	65.6%	-21.4%	89,560,000	\$846
ImageWare Systems	IWSY.PK	\$0.75	N/A	2.85	N/A	-4.31	66.2%	13.8%	22,100,000	\$17
L-1 Identity Solutions	ID	\$7.98	46.94	1.05	0.92	69.99	29.5%	-1.4%	86,850,000	\$693
Average			32.6	4.0	4.6		59.8%	-8.5%	69,055,000	\$392.3
SmartMetric	SMME	\$0.08	N/A	N/A	N/A	N/A	N/A	N/A	75,630,000	\$5.9

Source: Yahoo Finance as of May 11, 2010

Valuation Table

Year	Earnings Estimate	Price to Earnings Multiple (X)	Future Value	Discount Rate	12-Month Target Value
2011	\$0.02	35	\$0.61	35%	\$0.61
2012	\$0.03	35	\$0.92	35%	\$0.73
2013	\$0.05	35	\$1.59	35%	\$0.94
2014	\$0.07	35	\$2.50	35%	\$1.10
Average					\$0.84

We calculate a 12-month target average value of \$0.84 per share for SMME shares. We are using a 35x P/E multiple due to the above average revenue growth rate (2011-2014 four-year CAGR of 68.4%) and a 35% discount rate. We caution investors that our pro forma estimates are based on a number of assumptions and scenarios which may vary materially from actual results. As indicated earlier, while we are highly confident in the demand, the precise financial metrics may vary from customer to customer and deal to deal. We will update the 12-month target valuation as deals are announced.

We also believe that this valuation calculation could be significantly low should the Company settle or receive a successful ruling in its patent infringement litigation against Visa and MasterCard. Although we have no way to determine what the damages will be, if any, when the litigation is completed. However, based on prior cases of technology patent infringement, the settlement could reach the hundreds of millions of dollars level, which would push our 12-month target value well beyond the \$1.00 per share mark.

VI. RISKS

Index

- **Competition Risk**
- **Execution Risk**
- **Financial Risk**
- **Key Management Risk**
- **Micro-capital Investment Risk**
- **Non-Specific Market Risks (Liquidity, trading rules & BD restrictions)**
- **Risk Categories**

Competition Risk

The market for identity management products and services is very competitive. Many of the Company's competitors have greater financial, technical, research, marketing, sales, distribution, service and other resources than SmartMetric. Additionally, some competitors may offer broader product lines and have greater name recognition, and may offer discounts as a competitive tactic, forcing intense pricing pressure. Moreover, competitors may develop or market technologies or products that are more effective or more commercially attractive than the Company's future products, or that may render the Company's technologies or products less competitive or obsolete.

Execution Risk

As with any growing company implementing an accelerated growth plan, SmartMetric's ultimate success or failure will depend on management's ability to execute their business plan in an efficient and timely manner. The experience and solid reputation of the Company's management team helps mitigate this risk; however, the future value of the Company is heavily weighted on the successful launch of the Company's biometric Smartcards that have not yet been commercialized.

Financial Risk

SmartMetric is dependent on continued financing from outside investors due to recurring operating losses. The Company will likely need to raise additional capital in order to commercialize its technology as well as to meet general working capital requirements. Capital may be raised through further sales of equity securities; however, there is no firm commitment to invest in SmartMetric at this time. There can be no assurances that the Company will be successful in obtaining debt or equity financing in order to achieve its financial objectives and continue as a going concern. As a result, investors must be financially capable of losing their entire investment.

Key Management Risk

Management's skill and experience are key determinant of success. SmartMetric, like most small companies, is heavily dependent on key management, the loss of any of which could seriously, adversely affect the Company.

Micro-capital Investment Risk

Micro-capital investing involves inherent risk and investors should carefully research any company considered for investment. Micro-capital companies are usually early in their market cycle and vulnerable to significant price volatility.

Non-Specific Market Risks (Liquidity, trading rules & BD restrictions)

SmartMetric' common stock is quoted on the Over-the-Counter Bulletin Board ("OTCBB") as such; there is only a limited trading market for its common stock. Furthermore, the Company's common stock is subject to the penny stock rules by the Securities and Exchange Commission that requires brokers to provide extensive disclosure to its customers prior to executing trades in penny stocks, and as such there may be a reduction in the trading activity of its common stock. Collectively, investors may find it difficult to sell their shares of the Company's common stock.

Risk Categories

WSR's investment universe revolves around undiscovered emerging growth companies that possess higher risk profiles than established "blue chip" companies. Presently WSR maintains three risk categories including growth, aggressive growth and speculative with the later assigned to higher risk companies.

Growth – Lower risk investment relative to small capital company investments with a defined revenue pattern, reasonable earnings predictability and sound balance sheet.

Aggressive Growth – Average to higher risk investment relative to small capital company investments in a high growth stage or industry. May have limited history of generating revenue or be operating in a highly competitive or rapidly changing environment. Investor must have the financial capacity to lose a significant portion of his or her investment.

Speculation - High risk investment with short or unprofitable operating history and limited revenue or earnings predictability. Companies are typically early stage in the process of commercializing a new and often potentially disruptive technology into a large market. Investor must have the financial capacity to lose his or her entire investment.

VII. MANAGEMENT

Officers, Directors and Key Management

<u>Name</u>	<u>Position</u>
Colin Hendrick	Chairman of the Board, CEO and President
Jay Needelman	Director - CFO
Elizabeth Ryba	Director
Peter Sleep	VP Sales – Asia Pacific

Colin Hendrick

Colin Hendrick has been President, Chief Executive Officer, Chief Financial Officer and Chairman of the Board of SmartMetric since the Company's inception in 2002. Mr. Hendrick has served as President and CEO of Smart Micro Chip, Inc., an Australian corporation from 2000 to 2002. From 1999 to 2001, Mr. Hendrick was President and Chief Executive Officer of Smarticom Inc. and Fast Econ, Inc., Australian corporations. From 1994 to 1998, Mr. Hendrick served as executive officer of Applied Computing Science (Australia), an Australian company involved in e-commerce systems, research and development. Mr. Hendrick attended Dandenong College in Australia.

Jay M. Needelman, CPA

Jay M. Needelman has been the Chief Financial Officer for SmartMetric since July 2004. Mr. Needelman has over 16 years of experience in public accounting. A 1991 graduate of Florida State University in Tallahassee, Florida, Mr. Needelman began his career in public accounting in Miami, Florida, in 1991. After working for two different firms, Mr. Needelman founded his own firm in late 1992.

Elizabeth Ryba

Elizabeth Ryba has been a director of SmartMetric since 2006. Ms. Ryba has over 15 years of experience in the credit card industry. She was a promotion director at Hearst Publishing from 2002 through 2005. Between 2001 and 2004, Ms. Ryba was a consultant at Stratus Rewards Credit Cards where she launched a Visa Luxury credit card where points were redeemable on private jets. Between 2000 and 2001, Ms. Ryba worked as a Marketing Consultant for SpaFinder. In 1991 through 1999 Ms. Ryba worked at Master Card where she launched a SmartCard in Australia. Ms. Ryba received her M.S. in Marketing from the University of Illinois, and her B.A. in English from the State University of New York at Stony Brook.

Peter Sleep

Peter Sleep was appointed Vice President of Sales – Asia Pacific in April 2006. Mr. Sleep was appointed Secretary and Director of SmartMetric in January 2003. In April 2008, Mr. Sleep resigned from his position as director of SmartMetric. From November 1996 to January 2003, Mr. Sleep was Vice President of Smart MicroChip, Inc., an Australian corporation. Mr. Sleep attended Brunswick Technology School and Footscray College, both located in Australia.

VIII. CORPORATE OFFICES & ADVISORS

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Analyst Certification:

I, Paul Silver, hereby certify that the views expressed in this research report accurately reflect my personal views about the subject securities and issuers.

About the Analyst:

Mr. Silver joined Wall Street Resources in 2006 as the Director of Research. He has been in the financial services industry since 1995 and began his professional career in auditing with a Big Four accounting firm in New York City. Mr. Silver made the move to Wall Street as a sell-side research analyst for two global investment banks in New York City including Salomon Smith Barney and UBS Paine Webber. At Salomon Smith Barney he was a member of the firm's research team covering REITs that was consistently ranked #1 by Institutional Investor magazine. Most recently, Mr. Silver worked for a private equity firm as its Chief Investment Strategist. Mr. Silver is a graduate of the College of William and Mary in Virginia with a BA in liberal arts and New York University's Stern Business School with an MBA in International Finance and Accounting.

Rating Disclosures

Buy – Rating assigned to companies in the High Growth or Aggressive Growth investment risk categories that, in our opinion, the covered company is undervalued by more than 25% of its 12-month discounted fair value. In other words, the enrolled company, in our opinion, has the opportunity to appreciate 25% or more the next 12-months. Alternatively, a Buy rating would be assigned to companies in the Speculation investment risk categories that, in our opinion, the covered company undervalued by more than 35% of its 12-month discounted fair value. In other words, the enrolled company, in our opinion, has the opportunity to appreciate 35% or more the next 12-months.

Market Perform - Rating assigned to companies in any investment risk category that, in our opinion, the covered company is valued between -10% and +10% of its 12-month discounted fair value. In other words, the covered company, in our opinion, has the opportunity to appreciate or depreciate 10% or more the next 12-months.

Underperform - Rating assigned to companies in any investment risk category that, in our opinion, the covered company is valued +10% or more of its 12-month discounted fair value. In other words, the covered company, in our opinion, has the opportunity to depreciate 10% or more the next 12-months.

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