

ICOP DIGITAL, INC  
Form SB-2  
September 13, 2006  
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As filed with the Securities and Exchange Commission on September 13, 2006

Securities Act File No. 333-

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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**  
Washington, D.C. 20549  
***FORM SB-2***  
***REGISTRATION STATEMENT***

*Under*

*The Securities Act of 1933*

**ICOP Digital, Inc.**

(Exact name of registrant as specified in its charter)

**Colorado**  
(State or Other Jurisdiction of  
Incorporation or Organization)

**3663**  
(Primary Standard Industrial  
Classification Code Number)  
**16801 W. 116th Street**

**84-1493152**  
(I.R.S. Employer Identification No.)

**Lenexa, Kansas 66219**

**(913) 338-5550**

(Address and Telephone Number of Principal Executive Offices and Principal Place of Business)

**David C. Owen**

**16801 W. 116th Street**

**Lenexa, Kansas 66219**

**(913) 338-5550**

(Name, Address and Telephone Number of Agent for Service)

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*Copy to:*

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**Approximate Date of Commencement of Proposed Sale to Public:** As soon as practicable after this registration statement becomes effective.

If any of the securities being registered on this form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box.

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, please check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering.

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box.

**Table of Contents****CALCULATION OF REGISTRATION FEE**

<b>Title of Each Class of Securities to Be Registered</b>	<b>Amount to be Registered</b>	<b>Proposed Maximum Offering Price per Security(1)</b>	<b>Proposed Maximum Aggregate Offering Price</b>	<b>Amount of Registration Fee</b>
Common stock	1,150,000(2)	\$ 4.78	\$ 5,497,000	\$ 588.18
Warrant to purchase one share of common stock	1,150,000(2)(3)	\$ 1.73	\$ 1,989,500	\$ 212.88
Common stock issuable upon exercise of warrants	1,150,000(3)	\$ 6.19	\$ 7,118,500	\$ 761.68
<b>TOTAL:</b>			<b>\$ 14,605,000</b>	<b>\$ 1,562.74</b>

(1) Estimated solely for purposes of calculating the amount of the registration fee paid pursuant to Rule 457(c) under the Securities Act, based upon the average of the high and low prices of the common stock and warrants on September 8, 2006, as reported on the Nasdaq Capital Market.

(2) Includes 150,000 shares and 150,000 warrants which the underwriters have the option to purchase to cover over-allotments, if any.

(3) Pursuant to Rule 416 under the Securities Act, there are also being registered hereby such additional indeterminate number of securities as may become issuable pursuant to the anti-dilution provisions of the warrants.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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**The information in this prospectus is not complete and may be changed. We have filed a registration statement with the Securities and Exchange Commission relating to this offering. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.**

**SUBJECT TO COMPLETION, DATED SEPTEMBER 13, 2006**

**PROSPECTUS**

**1,000,000 shares of common stock**

**1,000,000 redeemable warrants**

We are offering 1,000,000 shares of common stock and 1,000,000 redeemable warrants. We sometimes refer to the shares of common stock and redeemable warrants being sold in this offering as the securities. Each warrant may be exercised to purchase one share of common stock at an exercise price of \$6.19. The warrants have terms identical to those warrants currently quoted on the Nasdaq Capital Market under the symbol ICOPW and therefore are exercisable at any time after issuance until their expiration date on July 8, 2010, unless earlier redeemed. We may redeem some or all of the warrants at a price of \$0.25 per warrant at any time after our accumulated gross revenue, as reviewed by our independent auditors, exceeds \$15 million, by giving not less than 30 days prior written notice to the holders of the warrants.

Our common stock and warrants are traded on the Nasdaq Capital Market and NYSE Arca under the symbols ICOP and ICOPW, respectively. On September 8, 2006, the last reported sale prices of our common stock and warrants were \$4.69 and \$1.70, respectively. The offering prices of the shares and warrants offered by this prospectus are \$ per share and \$ per warrant. In this offering, you may purchase either shares or warrants or a combination thereof.

**INVESTING IN THESE SECURITIES INVOLVES SIGNIFICANT RISKS. SEE RISK FACTORS BEGINNING ON PAGE 4.**

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.

	Shares		Warrants	
	Per Share	Total	Per Warrant	Total
Public offering price	\$	\$	\$	\$
Underwriting discount	\$	\$	\$	\$
Proceeds to us, before expenses	\$	\$	\$	\$

The expenses for this offering will include a non-accountable expense allowance of 3% of the gross proceeds of this offering payable to Paulson Investment Company, Inc., the representative of the underwriters of this offering. Additionally, we have granted the underwriters a 45-day option to purchase up to an additional 150,000 shares of common stock and 150,000 warrants.

**Paulson Investment Company, Inc.**

**Capital Growth Financial, LLC**

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 The date of this prospectus is , 2006

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You should rely only on the information contained in this prospectus. We have not, and the underwriters have not, authorized any other person to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. The information in this prospectus may only be accurate as of the date appearing on the cover page of this prospectus, regardless of the time this prospectus is delivered or our common stock and warrants are sold.

We are not, and the underwriters are not, making an offer to sell the common stock and warrants in any jurisdiction where the offer or sale is not permitted. No action is being taken in any jurisdiction outside the United States to permit a public offering of our securities or the possession or distribution of this prospectus in any such jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside of the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable in that jurisdiction.

We own the following trademarks: *ICOP*<sup>®</sup>, *ICOP Digital*<sup>®</sup> and the ICOP Digital logo. We are seeking trademark protection for *ICOP Model 20/20* and *ICOP On Watch*. All other brand names or trademarks appearing in this prospectus are the property of their respective owners.

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**PROSPECTUS SUMMARY**

*This is only a summary and does not contain all the information that may be important to you. You should read the more detailed information contained in this prospectus, including but not limited to, the risk factors beginning on page 4. References to we, us, our or the company mean ICOP Digital, Inc.*

**Our Company**

We design, engineer and market a digital in-car video system the *ICOP Model 20/20* designed for the rugged demands of the law enforcement agencies and other first responder markets such as fire departments and emergency medical units. The product offers what we believe to be superior video and audio recording technology as well as proprietary compression technology that insures the integrity of the recorded information. We have sold the *ICOP Model 20/20* to over 140 law enforcement customers in 43 states through August 15, 2006. The *ICOP Model 20/20* technology also has applications in other markets where surveillance and communications are critical to the safety of people and the security of property, including military and government installations; public transportation such as trains, buses and airplanes; financial institutions, telecommunications and energy facilities; and transportation centers such as airports, seaports, train stations and bus stations. In the future, we plan to develop and market other innovative surveillance and communications systems for the public and private security market.

Law enforcement has long recognized the value of gathering intelligence and documenting critical events by means of recorded videotape. Video and audio evidence collected by in-car systems has been used successfully in driving under the influence cases, traffic violations, vehicular pursuits, narcotic enforcement actions, assaults on officer incidents and civil litigation involving law enforcement agencies. Information collected by in-car video systems can also be used to assist agencies in identifying potential threats to homeland security.

The majority of in-car police video systems currently employed, however, rely on outdated analog technology that suffers from inferior video and audio quality, lack of dependability in extreme temperatures, storage and retrieval difficulties and officer safety concerns. The law enforcement industry is transitioning from analog to digital technologies for in-car video, and we believe that we are well-positioned to exploit this market. We believe that the *ICOP Model 20/20* is priced below comparable units and that it offers features that are superior to its competition, including improved picture and audio quality, efficient and convenient placement in the radio slot in the dashboard, easy storage and retrieval of data, greater assurance of officer safety through strategic placement of the various components and, through our proprietary technology, enhanced security and integrity of the recorded information.

Our principal business office is located at 16801 W. 116th Street, Lenexa, Kansas 66219, and our telephone number at that address is (913) 338-5550. Our website address is [www.ICOP.com](http://www.ICOP.com). Information contained in our website or any other website does not constitute part of this prospectus.

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**This Offering**

Securities offered:	1,000,000 shares of common stock and 1,000,000 redeemable warrants
Warrant terms:	Each warrant entitles the holder to purchase one share of common stock at an exercise price of \$6.19. The warrants expire on July 8, 2010.
	We have the right to redeem the warrants issued in this offering at a redemption price of \$0.25 per warrant at any time after our accumulated gross revenue, as reviewed by our independent auditors, exceeds \$15 million. We are required to provide 30 days prior written notice to the warrant holders of our intention to redeem the warrants.
Common stock outstanding after this offering:	7,079,482 shares
Redeemable warrants outstanding after this offering:	4,217,500 warrants
Use of proceeds:	Inventory purchases, non-recurring engineering costs and general corporate purposes
Nasdaq Capital Market and NYSE Arca symbols:	Common stock: ICOP Warrants: ICOPW
Risk factors:	Investing in these securities involves a high degree of risk. As an investor you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the Risk Factors section.
There were 6,079,482 shares of our common stock issued and outstanding as of September 8, 2006. Unless the context indicates otherwise, all share and per-share common stock information in this prospectus:	

assume no exercise of the warrants being offered;

assume no exercise of the underwriters' over-allotment option to purchase up to 150,000 shares and 150,000 warrants; and

exclude the issuance of up to: (i) 757,500 shares of common stock issuable upon exercise of options granted under our stock option plan as of September 8, 2006; (ii) 105,000 shares of common stock issuable upon exercise of warrants to consultants and our independent directors as of September 8, 2006; (iii) 399,982 shares of common stock issuable upon exercise of warrants to certain bridge lenders as of September 8, 2006; (iv) 260,000 shares and 260,000 warrants issuable upon exercise of purchase warrants held by Paulson Investment Company, Inc. ( "Paulson" ) and its assignees, issued to Paulson as representative of the underwriters in our 2005 public offering of securities; (v) 65,000 shares and 22,750 warrants issuable upon exercise of a purchase warrant held by our placement agent, Paulson, in our December 2005 private placement of securities; and (vi) 3,217,500 shares issuable upon exercise of the redeemable warrants currently trading on the Nasdaq Capital Market and NYSE Arca under the symbol ICOPW.

**Table of Contents****Summary Consolidated Financial Data**

The following summary consolidated financial information has been derived from our audited consolidated financial statements for the fiscal years 2004 and 2005 and derived from our unaudited consolidated financial statements for the six months ended June 30, 2005 and 2006 included elsewhere in this prospectus. The unaudited summary consolidated financial information and the actual and as adjusted consolidated balance sheet data include all adjustments, consisting principally of normal recurring adjustments, that we consider necessary for a fair presentation. Our historical results are not necessarily indicative of the results to be expected in the future, and the results of interim periods are not necessarily indicative of the results for the entire year.

You should read this information together with Management's Discussion and Analysis of Financial Condition and Results of Operations and our consolidated financial statements and related notes, included elsewhere in this prospectus.

	Years Ended December 31,		Six Months Ended June 30,	
	2004	2005	2005	2006
<b>Selected Operating Data:</b>				
Revenue	\$ 50,657	\$ 1,760,421	\$ 327,394	\$ 2,167,759
Gross profit	18,902	708,851	88,491	904,508
Operating loss	(2,850,773)	(2,816,407)	(1,039,803)	(1,864,938)
Other income (expense), net	458,260	(81,391)	(141,109)	55,754
Loss from continuing operations before				
benefit for income taxes	(2,392,513)	(2,897,798)	(1,180,912)	(1,809,184)
Net loss	(2,392,513)	(2,897,798)	(1,180,912)	(1,809,184)
Net loss to common stockholders	\$ (2,892,513)	\$ (2,897,798)	\$ (1,180,912)	\$ (1,809,184)
Net loss per share to common stockholders	\$ (1.80)	\$ (0.92)	\$ (0.71)	\$ (0.32)
Shares used in computing net loss per share:				
Basic and diluted	1,608,445	3,156,538	1,667,444	5,619,264

	June 30, 2006	
	Actual	As adjusted
<b>Selected Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 1,530,411	\$ 2,989,411
Finished goods, inventory at cost	5,204,595	9,204,595
Total assets	8,542,439	14,001,439
Total current liabilities	560,840	560,840
Long-term debt, net of current maturities	100,814	100,814
Total stockholders' equity	7,880,785	13,339,785
The as adjusted data reflect:		

the issuance of the common stock at an assumed public offering price of \$4.78 per share;

the issuance of the warrants at an assumed public offering price of \$1.73 per warrant; and

the receipt of the net proceeds from this offering.



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**RISK FACTORS**

*An investment in our securities involves a high degree of risk and many uncertainties. You should carefully consider the specific factors listed below, together with the cautionary statement that follows this section and the other information included in this prospectus, before purchasing our securities. If one or more of the possibilities described as risks below actually occur, our operating results and financial condition would likely suffer and the trading price of our securities could fall, causing you to lose some or all of your investment in the securities you purchase. The following is a description of what we consider our key challenges and material risks.*

**Risks Related to Our Business**

**We have a history of losses, and we expect to continue to operate at a loss at least for the near term and may never be profitable.**

Since the inception of our current business in 2002, we have incurred net losses in every year, including net losses of \$537,000 for the year ended December 31, 2002, \$4,343,000 for the year ended December 31, 2003, \$2,393,000 for the year ended December 31, 2004 and \$2,898,000 for year ended December 31, 2005. We also incurred a net loss of \$1,809,000 for the six months ended June 30, 2006. Although we had working capital of \$7,148,000 at June 30, 2006, we have had negative cash flows from operations. As a result of ongoing operating losses, we also had an accumulated deficit of \$11,980,000 at June 30, 2006. We have had limited revenues to date and may never become profitable. We expect that our expenses will increase in the foreseeable future as we seek to expand our product line and sales and distribution network, implement internal systems and infrastructure and comply with the legal, accounting and corporate governance requirements imposed upon public companies. These ongoing financial losses may adversely affect our stock price.

**Our limited operating history makes evaluation of our business difficult.**

We have a limited operating history and have encountered, and expect to continue to encounter, many of the difficulties and uncertainties often faced by early stage companies. We commenced our current business operations in May 2002 and initiated the national roll-out of the *ICOP Model 20/20* in June 2005. Accordingly, we have only a limited operating history by which you can evaluate our business and prospects. An investor must consider our business and prospects in light of the risks, uncertainties and difficulties frequently encountered by early stage companies, including limited capital, delays in product development, possible marketing and sales obstacles and delays, inability to gain customer acceptance or to achieve significant distribution of our products to customers and significant competition. We may not be able to successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer, and we may be unable to stay in business.

**We currently have only one product offering and limited sales, so a failure to generate significant revenues from our current product would negatively impact our business.**

We anticipate that sales of the *ICOP Model 20/20* will account for all of our revenues in the near-term. Our long-term success will depend, in significant part, on our ability to achieve market acceptance of the *ICOP Model 20/20* in the law enforcement and other first responder markets. The failure to do so would have a material adverse effect on our business, financial condition and results of operations.

**The *ICOP Model 20/20* is technologically complex, and our inability to improve the product and develop new products in the video surveillance market would adversely impact our ability to compete in our market.**

To be competitive in our market, we must continually improve and expand our product line. Our success depends on our ability to anticipate advances in digital video technologies, enhance our existing product and develop and introduce new products and product line extensions to meet customer requirements and achieve market acceptance. This involves highly complex processes and will include components for which we have not yet demonstrated technical feasibility. Difficulty in development of new products or improvements to our existing product could delay or prevent the creation and release of such products, which would materially harm our business, operating results, financial condition and future growth. In addition, the introduction by others of new, protected technology could materially affect our ability to compete.

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### **If we are unable to compete in our market, you may lose all or part of your investment.**

Our market is highly competitive and highly fragmented. Most major in-car video manufacturers are in the process of developing, or have developed, new products that, like our *ICOP Model 20/20*, use digital video recording technology. Many of these competitors have significant advantages over us, including greater financial, technical, marketing and manufacturing resources, more extensive distribution channels, larger customer bases and faster response times to adapt new or emerging technologies and changes in customer requirements. As a result, our competitors may develop superior products or beat us to market with products similar to ours. If we are not successful in competing against our current and future competitors, you could lose your entire investment.

### **We may lose potential sales because of our inability to fulfill orders on a timely basis.**

We use a third-party Japanese manufacturer to produce the *ICOP Model 20/20*, and the manufacturer makes its production and purchasing decisions based on information we provide regarding our projected needs. However, many customers will not provide us with forecasts of their requirements for our products. If those customers place significant orders, we may not be able to increase our production quickly enough to fulfill their orders. The inability to fulfill orders could damage our relationships with customers and reduce our sales which could have a material adverse effect on the value of your investment.

### **We may need to raise additional capital.**

We are currently operating at a loss and expect our expenses to continue to increase as we expand our geographic presence throughout the United States and abroad. To date, we have relied almost exclusively on financing transactions to fund operations. In the future, new sources of capital may not be available to us when we need it or may be available only on terms we would find unacceptable. If such capital is not available on satisfactory terms or is not available at all, we may be unable to continue to fully develop our business, and our operations and financial condition may be materially and adversely affected. Debt financing, if obtained, could increase our expenses and would be required to be repaid regardless of operating results. Equity financing, if obtained, could result in dilution to our existing stockholders.

### **We depend on third parties to manufacture our product, and those third parties may not perform satisfactorily.**

We do not have the resources, facilities or experience to manufacture our product, and therefore depend on third parties for its manufacture. We rely on a Japanese company for the development and exclusive manufacture of our *ICOP Model 20/20* and on a Hong Kong company to provide electronic circuit and mechanical design and manufacturing services for a 900 MHz ISM band wireless microphone system used in the *ICOP Model 20/20*. Our manufacturing strategy presents the following risks:

we have limited control over the manufacturing processes;

if we have to change to new manufacturers, they would have to be educated in the processes necessary for the production of our products, which could be time consuming;

our Japanese manufacturer has certain rights related to an important process used in operating the *ICOP Model 20/20*; if this method were no longer available to us, we would have to redesign the product which could delay production; and

we may not have intellectual property rights, or may have to share intellectual property rights, to any improvements in the manufacturing processes or new manufacturing processes for our products.

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**Our use of manufacturers outside the United States may subject us to a number of risks that could disrupt the supply of our products and adversely impact sales, earnings and customer relationships.**

Our *ICOP Model 20/20* is manufactured in Japan and the microphone used in its operation is manufactured in Hong Kong. In addition to foreign currency risks, foreign manufacturing subjects us to a number of additional risks, including:

changes in trade policy and regulatory requirements;

uncertain economic conditions in the countries in which the manufacturing occurs;

duties, tariffs and other trade barriers and restrictions;

foreign collection problems; and

political and transportation risks.

Any of the above factors could disrupt the supply of products and adversely impact sales, earnings and customer relationships.

**Because a significant portion of our expenses are incurred in a foreign currency, our results of operations may be harmed by inflation and currency fluctuations.**

We expect to generate our revenues in U.S. dollars, but we incur a significant portion of our expenses in the local currency of Japan, where the exclusive manufacturer of our *ICOP Model 20/20* is located. If the rate of inflation of the Japanese yen increases, we may experience an increase in our expenses without a corresponding increase in our revenues. If our manufacturing dollar costs increase, our dollar-measured results of operations would be harmed.

Our operations could be harmed if we are unable to protect ourselves against currency fluctuations in the future. As of September 8, 2006, we were not engaged in any currency hedging transactions to decrease the risk of financial exposure fluctuations in the exchange rate of the dollar against the Japanese yen. If we do elect to enter into hedging transactions in the future, the costs of such transactions may be more than any resulting benefit.

**Government agency budgetary and political constraints may delay or limit our sales.**

Our principal customers for the *ICOP Model 20/20* have been state and local police forces that are funded principally by limited local budgets and federal or state grants. These agencies may also experience political pressure that dictates the manner in which they spend money. As a result, even if an agency wants to acquire our product, it may be unable to purchase them due to budgetary or political constraints. Some orders may also be canceled or substantially delayed due to budgetary, political or other scheduling delays that frequently occur in connection with the acquisition of products by such agencies. Any such cancellations or delays would likely adversely affect our financial results which, in turn, could cause our stock price to decline.

**We expend significant resources in anticipation of a sale due to our lengthy sales cycle and may receive no revenue in return.**

Generally, law enforcement and other agencies that may consider using our product consider a wide range of issues before committing to purchase products such as an in-car video system, including product benefits, training costs, product reliability and budgetary constraints. The length of our sales cycle may range from 60 days to a year or more. We may incur substantial selling costs and expend significant effort in connection with the evaluation of our product by potential customers before they place an order. Initial orders by agencies typically are for a small number of units that are used to evaluate the product. If these potential customers do not purchase our product, we will have expended significant resources and received no revenue in return.



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### **Customer order estimates may not be indicative of actual future sales.**

Some of our customers provide us with forecasts of their requirements for our products over a period of time. We make many management decisions based on these customer estimates, including purchasing materials, hiring personnel and other matters that may increase our production capacity and costs. If a customer reduces its orders from prior estimates after we have increased our costs and production capabilities or committed to third-party manufacturers, this reduction will decrease our sales, and we may not be able to reduce our costs to account for this reduction in customer orders. Such increases in costs without increases in sales may reduce our profitability or our potential to achieve profitability and have a material adverse effect on the value of your investment.

### **If we are unable to protect our proprietary rights, the value of your investment may be materially and adversely affected.**

Our failure to protect our proprietary rights could have a material adverse effect on our business, financial condition and results of operation. We cannot assure you that any patents, trademarks or copyrights or our other proprietary rights issued to, licensed or otherwise used by us, will not be challenged, invalidated or circumvented, or that the rights granted thereunder will provide competitive advantages to us. Furthermore, others may be able independently to develop substantially equivalent or superior proprietary technology and an equivalent product or system may be marketed in competition with our products, thereby substantially reducing the value of our proprietary rights. We also may not be able to protect our proprietary technology from duplication. Many successful technology companies have had their systems and methods of operation duplicated, almost entirely, by competitors. We cannot assure you that a competitor will not attempt to duplicate and improve upon the products that we may develop. Additionally, the prevention or unauthorized use and disclosure of our intellectual property will likely become more difficult as our business grows. We could incur substantial legal costs in defending any patent, trademark, copyright or other infringement claims or in asserting any patent rights, copyrights or other proprietary rights, including those granted by third parties, in a suit with another party. If we are unsuccessful in our efforts to protect our intellectual property and proprietary technology, you could lose all or part of your investment.

### **Successful infringement claims by third parties could result in substantial damages, lost product sales and the loss of important proprietary rights.**

There has been substantial litigation regarding patent and other intellectual property in various high technology industries. In the future, we may be notified of allegations that we may be infringing on intellectual property rights possessed by others. Should litigation be brought against us, such litigation could be extremely expensive and time consuming and could materially adversely affect our business, financial condition and results of operations, regardless of the outcome of the litigation. Such litigation could also result in loss of certain proprietary rights, significant monetary liability and barriers to product manufacturing. Any of these outcomes could materially harm our business and have a material negative impact on the value of your investment.

### **Pressure by our customers to reduce prices and agree to long-term supply arrangements may adversely affect our net sales or profit margins.**

Our customers and potential customers, especially in the law enforcement industry, are often under budgetary pressure and are price sensitive. Our customers may negotiate supply arrangements with us well in advance of delivery dates, thereby requiring us to commit to product prices before we can accurately determine our costs. If this happens, we may have to reduce our third-party manufacturing costs and obtain higher volume orders to offset lower average sales prices. If we are unable to offset lower sales prices by reducing our costs, our gross profit margins will decline. This could have a material negative effect on the value of your investment.

### **The loss of our key management personnel could result in a material adverse effect on our business.**

Our future success depends in large part upon the continued service of key members of our senior management team, including David C. Owen, our Chairman and Chief Executive Officer, Laura E. Owen, our President, Chief Operating Officer and Corporate Secretary and John C. Garrison, our Chief Financial Officer. We do not maintain any key-person life insurance policies. The loss of the services of any of these officers could seriously harm our business and our future prospects.

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### **If we are unable to manage rapid growth effectively, our operating results could be adversely affected.**

Our business strategy anticipates rapid growth for the foreseeable future. This growth will place significant strain on our administrative, operational and financial resources and increase demands on our systems and controls. To manage our future growth, we will need to attract, hire and retain highly skilled and motivated officers and employees and improve existing systems and/or implement new systems for information processing, operational and financial management and training, integrating and managing our growing employee base. If we are unable to manage growth effectively, our operating results could be adversely affected.

### **If we fail to maintain an effective system of internal controls, we may not be able to accurately report our financial results or prevent fraud. As a result, investors could lose confidence in our financial reporting, which would harm our business and the trading price of our securities.**

Effective internal controls are necessary for us to provide reliable financial reports and to prevent fraud. If we cannot provide reliable financial reports or prevent fraud, our brand and operating results could be harmed. Any failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our operating results or cause us to fail to meet our reporting obligations. Inferior internal controls could also cause investors to lose confidence in our reported financial information, which could negatively affect the trading price of our stock.

### **Compliance with the requirements imposed by Section 404 of the Sarbanes-Oxley Act could have a material adverse effect on our net income.**

Pursuant to Section 404 of the Sarbanes-Oxley Act of 2002 ( Sarbanes-Oxley ), beginning with our Annual Report on Form 10-KSB for the fiscal year ending December 31, 2007, we will be required to furnish a report by our management on our internal control over financial reporting. To achieve compliance with Section 404 of Sarbanes-Oxley within the prescribed period, we will need to engage in a process to document and evaluate our internal control over financial reporting, which will be both costly and challenging. We can provide no assurance as to our or our independent auditors' conclusions with respect to the effectiveness of our internal control over financial reporting under Section 404 of Sarbanes-Oxley. There is a risk that neither we nor our independent auditors will be able to conclude that our internal controls over financial reporting are effective as required by Section 404 of Sarbanes-Oxley. Moreover, the costs to comply with Section 404 of Sarbanes-Oxley, as currently in effect, could have a material adverse effect on our net income.

### **Digital video has yet to be widely accepted as admissible scientific evidence in court.**

Videos from analog mobile in-car video systems have long been accepted by the courts as reliable scientific evidence. However, because of its relatively recent introduction, digital video systems, in general, and the *ICOP Model 20/20*, in particular, have not undergone the rigorous scientific testing that courts may demand before recognizing their reliability. If video files from digital in-car video units are not admissible in court, law enforcement agencies are not likely to purchase the product.

### **Defects in our products could impair our ability to sell our products or could result in litigation and other significant costs.**

Detection of any significant defects in our products may result in, among other things, delay in time-to-market, loss of market acceptance and sales of our products, diversion of development resources, injury to our reputation, or increased warranty costs. Because our products are complex, they may contain defects that cannot be detected prior to shipment. These defects could harm our reputation and impair our ability to sell our products. The costs we may incur in correcting any product defects may be substantial and could decrease our profit margins. Additionally, errors, defects or other performance problems could result in financial or other damages to our customers, which could result in litigation. Product liability litigation, even if we prevail, would be time consuming and costly to defend. Our product liability insurance may not be adequate to cover claims.

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### **Our operating results may fluctuate, which makes our results difficult to predict and could cause our results to fall short of expectations.**

Our operating results may fluctuate as a result of a number of factors, many of which are outside of our control. For these reasons, comparing our operating results on a period-to-period basis may not be meaningful, and you should not rely on our past results as an indication of our future performance. Our quarterly and annual expenses as a percentage of our revenues may be significantly different from our historical or projected rates. Our operating results in future quarters may fall below expectations. Any of these events could cause our stock price to fall. Each of the risk factors listed in this Risk Factors section, as well as others including general economic conditions, political events such as war, threat of war and terrorist actions, and natural disasters, may adversely affect our operating results and the prices of our securities.

### **Risks Related to Investment in Our Securities**

#### **The warrants may be redeemed on short notice, which may have an adverse effect on their price.**

We may redeem the warrants for \$0.25 per warrant on 30 days prior written notice at any time after our accumulated gross revenue, as reviewed by our independent auditors, exceeds \$15 million. Through June 30, 2006, our accumulated gross revenue totaled \$3,979,000. If we give notice of redemption, holders of our warrants will be forced to sell or exercise the warrants they hold or accept the redemption price. The notice of redemption could come at a time when it may not be advisable or possible for holders of our warrants to sell or exercise the warrants they hold, and, therefore, those holders may not be able to realize the value of the warrants they own.

#### **If we do not maintain an effective registration statement or comply with applicable state securities laws, our warrant holders may not be able to exercise the warrants.**

For the holders of our warrants to be able to exercise their warrants, the shares of our common stock to be issued upon exercise of those warrants must be covered by an effective and current registration statement and qualify or be exempt under the securities laws of the state or other jurisdiction in which the warrant holders live. We can give no assurance that we will be able to continue to maintain a current registration statement relating to the shares of our common stock underlying the warrants or that an exemption from registration or qualification will be available throughout their term. This may have an adverse effect on demand for the warrants and the prices that can be obtained from reselling them.

#### **While the warrants are outstanding, it may be more difficult to raise additional equity capital.**

The warrants being offered in this offering, as well as the 3,217,500 identical warrants currently outstanding, will expire on July 8, 2010. While the warrants are outstanding, we may find it more difficult to raise additional equity capital. Also, we may be forced to honor the exercise of the warrants at times when we may be able to obtain additional equity capital on more favorable terms from other sources.

#### **Future sales or the potential for sale of a substantial number of shares of our common stock could cause the trading price of our common stock and warrants to decline and could impair our ability to raise capital through subsequent equity offerings.**

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock and warrants to decline and could materially impair our ability to raise capital through the sale of additional equity securities. For example, the grant of a large number of stock options or other securities under an equity incentive plan or the sale of our securities in private placement transactions at a discount from market value could adversely affect the market price of our common stock or warrants.

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**Our principal stockholders, directors and executive officers will continue to have substantial control over our company after this offering, which could limit the ability of our other stockholders to influence the outcome of key transactions, including a change in control, and could result in the approval of transactions that would be adverse to their interests.**

Our principal stockholders, directors and executive officers and entities affiliated with them will beneficially own approximately 20.1% of the outstanding shares of our common stock following this offering. As a result, these stockholders, if they were to act together, would be able to influence matters requiring approval by our stockholders. They may also have interests that differ from our remaining stockholders and may vote in a manner that would be adverse to the interests of the other stockholders. The concentration of ownership could have the effect of delaying, preventing or deterring a change in control of our company, depriving our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and affecting the market price of our common stock.



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**FORWARD-LOOKING STATEMENTS**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, liquidity, results of operations, plans and objectives. In some cases, you may identify forward-looking statements by words such as may, should, plan, intend, potential, continue, believe, expect, predict, anticipate and estimate, the negative of these words or other comparable words. These statements are only predictions. You should not place undue reliance on these forward-looking statements. The forward-looking statements are qualified by their terms and/or important factors, many of which are outside our control, involve a number of risks, uncertainties and other factors that could cause actual results and events to differ materially from the statements made. Such factors include, among other things, those described elsewhere in this prospectus and the following:

the *ICOP Model 20/20* not being accepted by the law enforcement industry or digital video recording not being accepted as evidence in criminal proceedings;

difficulty meeting demand for in-car video technologies at a cost that results in a profit;

our ability to improve our product and to develop other products necessary to compete in the industry;

our ability to bring future products to market;

the *ICOP Model 20/20* being replaced by more advanced technologies and thereby becoming obsolete;

the limited number of product offerings;

budget cuts in the law enforcement industry affecting purchasing levels;

our lack of profitability and operating history;

our limited ability to control interruptions in production by the outside manufacturer of the *ICOP Model 20/20*;

successful infringement claims and our ability to protect proprietary rights;

a highly competitive and fragmented market;

loss of key management personnel;

our ability to manage rapid growth;

criminal procedure court rulings regarding right to privacy;

general economic and business conditions in the United States;

defects in products could result in litigation and other significant costs; and

other factors detailed in our filings with the Securities and Exchange Commission.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, including those events and factors detailed in our filings with the Securities and Exchange Commission, not all of which are known to us. Neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We will update this prospectus only to the extent required under applicable securities laws. If a change occurs, our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

#### **USE OF PROCEEDS**

Based upon the averages of the high and low prices of our common stock and warrants on September 8, 2006, as reported on the Nasdaq Capital Market, of \$4.78 per share and \$1.73 per warrant, we estimate that the net proceeds from the sale of the 1,000,000 shares and 1,000,000 warrants that we are selling in this offering will be approximately \$5,459,000, or \$6,337,850 if the underwriters exercise their over-allotment option in full, after deducting an underwriting discount of \$0.478 per share and \$0.173 per warrant, and estimated offering

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expenses of approximately \$400,000 payable by us.

We intend to use the net proceeds of this offering as follows:

	Amount	Percentage
Inventory purchases	\$ 4,000,000	73.2%
Nonrecurring engineering costs	500,000	9.2%
Sales and marketing	500,000	9.2%
General corporate purposes	459,000	8.4%
<b>Total:</b>	<b>\$ 5,459,000</b>	<b>100.0%</b>

Inventory purchases include the purchases of *ICOP Model 20/20* units from our Japanese manufacturer.

Nonrecurring engineering costs include adding wireless download capabilities and other enhancements to existing products and continuing the development of new products.

Sales and marketing expenses include the hiring of personnel to expand vertical and military sales opportunities, as well as increased sales, engineering and administrative support personnel.

General corporate purposes include accounting and legal fees, rent and other facilities expenses and other working capital expenses, and may include acquisitions of companies, products or technology, although there are no current agreements with respect to any acquisitions.

The foregoing discussion is an estimate based on our current business plan. We may find it necessary or advisable to use portions of the net proceeds we receive from this offering for other purposes, and we will have broad discretion in applying the net proceeds. Pending these uses, we intend to invest the net proceeds of the offering in short-term, interest-bearing, investment grade securities.

**DIVIDEND POLICY**

We have not declared or paid any dividends and do not intend to pay any dividends in the foreseeable future. We intend to retain any future earnings for use in the operation and expansion of our business. Any future decision to pay dividends on our common stock will be at the discretion of our board of directors and will depend upon our financial condition, results of operations, capital requirements and other factors our board of directors may deem relevant.

**CAPITALIZATION**

The following table sets forth our actual capitalization as of June 30, 2006 and as adjusted to give effect to the sale of 1,000,000 shares at \$4.78 per share and 1,000,000 warrants at \$1.73 per warrant in this offering, less the underwriting discount and offering expenses.

	June 30, 2006	
	Actual	As adjusted
<b>STOCKHOLDERS EQUITY</b>		
Preferred stock, no par value: 5,000,000 shares		
actual authorized: no shares issued and outstanding		
Common stock, no par value: 50,000,000 shares		
actual authorized: 5,900,980 shares issued and		
outstanding actual; 6,900,980 as adjusted	\$ 19,860,937	\$ 25,319,937

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Retained deficit	(11,980,152)	(11,980,152)
Total capitalization	\$ 7,880,785	\$ 13,339,785

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You should read this table in conjunction with the sections of this prospectus captioned "Use of Proceeds" and "Management's Discussion and Analysis of Financial Condition and Results of Operations" as well as the financial statements and related notes included elsewhere in this prospectus.

**PRICE RANGES OF COMMON STOCK**

Since July 9, 2005, our common stock has traded on the Nasdaq Capital Market and NYSE Arca. It currently trades under the symbol "ICOP". Prior to that, our common stock traded on the OTC Bulletin Board. The first reported trading of our common stock occurred on October 18, 2004. Below are the price ranges of our common stock, as reported on the Nasdaq Capital Market and adjusted for a 1-for-10 share reverse split effective March 10, 2005.

	<b>High</b>	<b>Low</b>
2004		
Fourth Quarter (from October 18, 2004)	\$ 20.00	\$ 5.10
2005		
First Quarter	\$ 8.20	\$ 5.10
Second Quarter	\$ 5.00	\$ 3.55
Third Quarter	\$ 5.20	\$ 3.30
Fourth Quarter	\$ 8.22	\$ 4.25
2006		
First Quarter	\$ 7.70	\$ 4.25
Second Quarter	\$ 7.00	\$ 3.90
Third Quarter (through September 8, 2006)	\$ 6.69	\$ 4.18

The last reported sale price of our common stock on the Nasdaq Capital Market on September 8, 2006 was \$4.69 per share. According to the records of our transfer agent, there were approximately 190 holders of record of our common stock as of August 21, 2006.

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**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

We are an early stage company. The first sales of our *ICOP Model 20/20* occurred in December 2004, and we initiated a national roll-out of the *ICOP Model 20/20* in June 2005. We exited the development stage in June 2005 when we recorded substantial sales of the *ICOP Model 20/20*. We recorded approximately \$1,760,000 in revenue and \$709,000 in gross profit during the year ended December 31, 2005. Our operating loss for 2005 was reduced to \$2,816,000 from \$2,851,000 in 2004 as we significantly increased our sales and marketing activities in 2005, which materially increased our revenue. Our net loss of \$2,898,000 in 2005 was higher than the \$2,393,000 loss in 2004 primarily because 2004 included an unusual gain from a restructure of trade debt. Through 2007, we plan to continue to expand our sales, marketing, product promotion and development activities to leverage what we believe to be our advantages in technology and pricing using the net proceeds of this offering.

In July 2005, we completed an underwritten public offering of units of common stock and warrants to purchase common stock that provided gross proceeds of approximately \$12 million. In December 2005, we completed a private offering of units of common stock and warrants for the purchase of common stock that provided additional gross proceeds of approximately \$4 million.

We entered into a manufacturing agreement in February 2005 with a Japanese company to produce at least 10,000 *ICOP Model 20/20* units through December 31, 2008. Through June 30, 2006, we ordered and received 2,500 units from this manufacturer. Under this agreement, the manufacturer is responsible for purchasing the components and manufacturing the units, and we are required to deliver letters of credit when we place the purchase order. We have expanded our sales staff and are currently marketing the *ICOP Model 20/20* to law enforcement agencies. We have sold the *ICOP Model 20/20* to over 140 law enforcement agencies in 43 states as of August 15, 2006.

Through 2007, we expect to spend approximately \$1,500,000 on research and development of new products, including the *ICOP JCAM* camera described later in this prospectus. We do not expect major additional purchases of plant and equipment during that period due to our contract manufacturing arrangements. We believe that the expanded facilities we moved into in June 2005 will allow adequate expansion of engineering, sales, technical support and shipping activities for the foreseeable future.

We do not plan to increase our administrative staff substantially in the near term, since the manufacturing of the *ICOP Model 20/20* is handled by a third party. We increased our sales staff in the first half of 2006 and may further increase our sales and marketing staff, engineering and tech support staff as the need arises.

The timing of additional activities and the development of other markets and products depend on the speed with which we penetrate the law enforcement and other first responder markets. Additionally, while it is not likely, we may consider manufacturing our own products once the process is substantially automated and if we determine that we can do so cost effectively.

**Critical Accounting Policies**

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of the contingent assets and liabilities at the date of the financial statements and revenue and expenses for the period reported. Estimates are based upon historical experience and various other assumptions that are believed to be reasonable under the circumstances. These estimates are evaluated periodically and form the basis for making judgments regarding the carrying values of assets and liabilities and the reported amount of revenue and expenses. Actual results may differ from these estimates under different assumptions.

The Company's critical accounting policies are those that it believes are the most important in determining its financial condition and results, and requires significant subjective judgment by management. A summary of the Company's significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the financial statements.

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### **Research and Development Costs**

Research and development costs are charged to expense as incurred. No costs are deferred since the requirements that a product under development be clearly defined, have identifiable costs, be technically feasible, and have a clearly defined market or use, are not objectively assured. If the costs associated with the project were deferred, any deferred costs would be recovered as charges against earnings in future periods.

### **Foreign Currency Translation**

The Company outsourced certain research and development to a Japanese firm and purchases a majority of its inventory from this firm. Services and products were billed to us in the local currency. Liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Costs and expenses are translated into US dollars at the date of the transaction or at average exchange rates for the period. Gains and losses resulting from translation are accumulated as a component of other comprehensive income (loss). Realized gains and losses from foreign currency transactions are recognized as other income (loss).

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

We have no off-balance sheet arrangements other than the operating lease under which we hold our office and warehouse facility. This arrangement provides approximately 12,000 square feet of office warehouse space at a cost of approximately \$20,000 per month through June 2010.

### **Equity-Based Compensation**

In December 2004, the Financial Accounting Standards Board issued Statement 123R, Share-Based Payment. It addresses transactions in which an entity obtains employee services in share-based payment transactions. Share-based payment transactions include stock options. This Statement was effective for us beginning on January 1, 2006. Prior to January 1, 2006, we accounted for employee services in share-based payment transactions under the intrinsic method. Under the intrinsic method, if the stock option is at-the-money or out-of-the-money, no expense is recorded. Since January 1, 2006, we have applied the fair value method. Under the fair value method, stock options are expensed. Statement 123R will apply to stock options granted prior to January 1, 2006 only if a previous award was modified, repurchased or cancelled after December 31, 2005.

### **Results of Operations**

#### *Comparison of six months ended June 30, 2006 and 2005*

Substantial sales of our *ICOP Model 20/20* began in June 2005. During the six months ended June 30, 2006, we reported sales of \$2,168,000 and cost of sales of \$1,263,000 resulting in gross profit of \$905,000 compared to sales of \$327,000 and cost of sales of \$239,000 resulting in gross profit of \$88,000 for the same period of 2005. All of these sales were of our *ICOP Model 20/20*. During the six months ended June 30, 2006, we incurred \$565,000 in research and development expenses and \$2,205,000 in selling, general and administrative expenses, resulting in an operating loss of \$1,865,000. During the six months ended June 30, 2005, we incurred \$262,000 in research and development expenses and \$867,000 in general and administrative expense, resulting in an operating loss of \$1,040,000. The increased level of expense in 2006 over the corresponding period of 2005 is the result of expansion of product development and sales and marketing as we achieved funding in July 2005 and December 2005, expanded our facilities and added personnel to execute our business plan. Funding provided by the completed secondary offering and subsequent private offering in 2005 permitted expansion of sales, service and engineering personnel, accelerated product manufacturing.

#### *Comparison of years ended December 31, 2005 and 2004*

We are an early stage company, and the first sales of our *ICOP Model 20/20* occurred in December 2004. We exited the development stage in June 2005 when we recorded substantial sales of the *ICOP Model 20/20* in connection

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with its national roll-out. We accumulated approximately \$1,760,000 in revenue and \$709,000 in gross profit during the year ended December 31, 2005. Our operating loss for 2005 was reduced to \$2,816,000 from \$2,851,000 in 2004 as we significantly increased our sales and marketing activities in 2005. Our net loss of \$2,898,000 in 2005 was higher than the \$2,393,000 loss in 2004 primarily because 2004 included an unusual gain from a restructure of trade debt of \$471,707.

### **Liquidity and Capital Resources**

On June 30, 2006, we had \$1,530,000 in cash, \$889,000 in accounts receivable, \$5,205,000 in inventory and a total of \$561,000 in current liabilities, for a total working capital of \$7,148,000. Net cash used in operating activities for the six months ended June 30, 2006 was \$3,573,000, primarily to purchase long lead time inventory, eliminate engineering liabilities and fund increased accounts receivable, compared to cash used in operating activities of \$2,440,000 for the six months ended June 30, 2005. Net cash used in investing activities for the six months ended June 30, 2006 was \$269,000, primarily to acquire equipment for sales and engineering activities, compared to net cash used in investing activities for the six months ended June 30, 2005 of \$143,000. Net cash provided by financing activities was \$192,000 for the six months ended June 30, 2006 from proceeds received upon exercise of warrants to purchase common stock and from installment loans to purchase equipment, compared to net cash provided by financing activities of \$2,946,000 for the six months ended June 30, 2005, substantially from the bridge loans and offset by payment of offering costs for the secondary offering that was completed in July 2005. At June 30, 2006, we had available a \$2,500,000 bank line of credit, secured by accounts receivable, inventory contract rights and general intangibles.

In July 2005, we completed an underwritten public offering of units of common stock and warrants to purchase common stock that provided net proceeds of the offering of approximately \$10,700,000. In December 2005, we completed a private offering of units of common stock and warrants for the purchase of common stock that provided additional net proceeds of approximately \$3,500,000. We anticipate that our current resources and our present level of personnel will be adequate to sustain our operations in the coming 12 months. The current offering will allow us to accelerate expansion of our business.



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### **BUSINESS**

We design, engineer and market digital video systems. Our first product, the *ICOP Model 20/20*, is designed for the rugged demands of law enforcement and other first responder markets such as fire departments and emergency medical personnel. The product offers what we believe to be superior video and audio recording technology as well as proprietary compression technology that insures the integrity of the recorded information. The *ICOP Model 20/20* technology also has applications in other markets where surveillance and communications are critical to the safety of people and the security of property, including military and government installations; public transportation such as trains, buses and airplanes; financial institutions, telecommunications and energy facilities; and transportation centers such as airports, seaports, train stations and bus stations. We are expanding our development of new mobile and stationary video products for other innovative surveillance and communications systems for the public and private security market.

#### **The Security Industry**

The security industry is characterized in general by a continual evolution of technology that enhances both security and convenience at increasingly lower costs. Governments and private industry in the United States and worldwide are actively seeking to develop new products and services to meet the growing demands for homeland security. Billions of dollars are being appropriated by the federal and state governments of the U.S. and governments throughout the world to cope with terrorism. The private sector is also increasing the demand for homeland security products and services, especially, we believe, reliable integrated video surveillance technologies and communications solutions.

There are three core market segments for the *ICOP Model 20/20* and other products that we are developing based on this technology:

*First responders* including law enforcement, military, fire departments and emergency medical personnel;

*Operators of critical assets and facilities* such as banking and financial institutions, energy and chemical sites (gas, electric power, water and nuclear power plants), transportation facilities (rail, road transportation, marine transportation and airports), telecommunications facilities, government facilities, bridges, dams, border patrol, seaports, federal monuments and national icons; and

Private industry.

#### **The In-Car Video Industry**

The law enforcement industry has long recognized the value of documenting critical incidents by means of recorded videotape. Videotape provides accurate portrayal of traffic violations, citizen and officer behavior and other events as they occur, documents police contacts with the public, offers persuasive evidence in court, allows for officer performance monitoring and protects law enforcement agents against false claims of police misconduct. The result is an increased likelihood of criminal prosecutions, less officer overtime spent in court, improved training, fewer citizen complaints and reduced exposure to civil liability and enhanced officer safety, as well as the potential to improve accountability and trust between the police and the public.

The advent of the videotape camera in the early 1980s and improvements made in the field since then have given rise to many new applications of video technology in law enforcement. Agencies in the United States and around the world are applying video technology to many facets of police operations by equipping vehicles with video recorders, monitoring public areas and recording booking and other police procedures.

In-car video was originally used, beginning in the 1980s, to record field sobriety tests to support driving under the influence of alcohol allegations. In the 1990s, in-car video cameras proved valuable to document drug interdiction stops. By the late 1990s, the police were also using in-car video to document traffic stops in response to allegations of racial profiling and to address the increase in assaults on officers. Since the terrorists attacks of September 11, 2001, video recordings from police vehicles have been recognized as a means by which information needed to locate terrorists can be collected, thereby improving homeland security.

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Although there have been recent technological advances making the use of the mobile video recorder more practical and affordable, the majority of video applications in law enforcement today still rely on outdated, analog VHS technology. Problems with current in-car analog technologies include:

poor video and audio quality that makes identification difficult;

high failure rates under normal circumstances and especially when used in extreme temperatures, resulting in lost data and high maintenance costs;

danger to the officer in the event of an accident as the in-car unit and in some cases the cameras may become projectiles because of their installation constraints;

occupation of valuable space in the trunk and in the interior of the vehicle;

significant physical space requirements for storage of data on VHS tapes;

excessive time required to evaluate and catalog recorded material;

lack of effective zoom capabilities; and

limited area coverage when camera positioning is fixed.

Digital in-car video systems were first offered to the law enforcement industry only recently and have been quickly recognized to be superior to analog systems in many important respects. Digital video, for example, allows for pre-event recording while analog video does not. Most digital systems are continually in the passive recording mode when the power is on. When the record mode is activated, a period of time, from ten seconds to five minutes depending on the manufacturer, is added to the recording, possibly capturing the incident that prompted the officer to begin recording.

Access to specific digitally recorded information is much quicker. Rather than having to review a VHS cassette by fast-forwarding and reversing, a scene can be selected from a menu and viewed instantly. Also, digital video produces higher quality images and stores substantially more information than analog video, including, on every frame, the date and officer name, traffic radar output, GPS coordinates, incident identification and status of emergency lights and other factors.

DVD disks can be stored in a fraction of the space of VHS cassettes. Digital video can also be archived to a server, reducing storage space even further. Video archived to a server can be viewed from computers networked to the server instead of having to retrieve a video from a physical storage facility, with the ability to control access and functions. Also, back end management software, available from a few manufacturers, catalogs video information allowing for easy retrieval through a computer.

Digital video systems also offer the advantage of being able to record simultaneously more than one channel of video, allowing two or more cameras to record different views at once. In addition, copies of video clips can be made more quickly than analog and do not degrade over time like VHS.

## **The ICOP Digital Video Solution**

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Our *ICOP Model 20/20* digital in-car video system addresses the deficiencies of analog video technology by providing all the advantages described above. We believe that our system is different from competing digital systems by its superior features and performance, its lower price and our superior customer support. We believe the *ICOP Model 20/20* offers the highest quality digital system on the market, with the following characteristics:

*Prevention of unauthorized access and editing of video.* Our proprietary compression algorithm prevents unauthorized access and editing of video.

*In-dash system.* Our system includes a built-in AM/FM radio and fits into the radio slot in the dashboard of the police vehicle, allowing for easier installation and maintenance and more available vehicle and trunk space.

*Officer safety.* Our system includes no low-hanging parts that could endanger the officer in the event of an accident.

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*Improved picture quality.* Our system features full video graphics array ( VGA ) compared with VGA used by many of our competitors, resulting in superior picture quality.

*Easy storage and retrieval of video files.* Our system video is downloaded from the vehicle hard drive to a server, and video can be accessed quickly and easily by ticket/case number, date/time, type of incident, vehicle number and other identifying characteristics. The video files are convertible to AVI, VHS or MPEG-2 format.

Additional features of the *ICOP Model 20/20* include:

continuous loop recording stores 60 seconds of pre-event recording, possibly capturing the underlying infraction that leads to a traffic stop or other event that triggers the decision to record the event;

high-quality wireless 900 MHz microphone, with ability to remotely activate the recorder, a range of up to 1,000 feet and an officer HELP button that sends an alert to dispatch, with GPS coordinates and vehicle identification (where compatible with other police equipment);

up to three cameras per vehicle, two of which can record simultaneously, with multiple angles and zoom capabilities;

password-protected files;

built-in GPS, with continuous latitude/longitude display, allowing exact marking of event locations on every frame of video;

radar equipment interface (where compatible with other police equipment);

automatic indexing of video clips by date, time and event identification, office identification, racial profiling, GPS data, vehicle identification, case number and type of incident; and

removable vehicle-grade hard drive.

The *ICOP Model 20/20* also requires for operation an adapter (hardware used to download data from vehicle-grade hard drive) and a back office system server, an industrial-grade computer that includes the preloaded, proprietary *ICOP Digital Video Management System* (software to manage, store, copy and burn events onto DVD, CD or VHS tape).

Our strategy is to price the *ICOP Model 20/20* below market, as municipalities and state governments are cost sensitive, often mandating competitive bidding. We are the only company we know of among our competitors to publish a uniform pricing schedule for in-car video equipment.

The two-camera *ICOP Model 20/20* is priced at \$4,800 per unit with volume discounts available for purchases of five or more units. The server is priced according to the storage requirements of the law enforcement agency (\$4,000 and up), the *ICOP Video Management System* (software that manages the video files on the server) is priced at \$1,500, adapter hardware used to download data from the hard drive is priced at \$300, and a label maker for printing labels for DVDs is priced at \$150. Optional equipment includes an additional 20GB removable vehicle hard drive priced at \$350, a Sony color camera for rear window recording priced at \$450 and an additional 900 MHz wireless microphone priced at \$150. We can arrange lease-to-own financing of the purchase and installation of the *ICOP Model 20/20* through tax-exempt municipal leases that are available to certain qualified governmental entities. We provide a one-year parts and labor warranty on the *ICOP Model 20/20*, with extended warranties available.

**Future Applications and Products**

There is a substantial demand for security solutions worldwide and a growing use of closed circuit television, biometrics, access control, radar and GPS technologies. New applications for these technologies are being adopted at military installations, borders, airports, nuclear facilities, power plants and pipelines.

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We continue to enhance the features and performance of the *ICOP Model 20/20* while exploring new applications of the *ICOP Model 20/20* specifically and video surveillance technology in general. We believe that our future success depends in large part on investing in research and development to enhance our ability to:

identify and respond to emerging technological trends in related markets;

improve our *ICOP Model 20/20* by adding features and functionality that our customers want;

develop solutions to customers' changing needs; and

develop new video solutions for public and private security.

Currently, video surveillance systems are undergoing a transition from analog to digital in many industries. The demand for video surveillance system today is being driven primarily by the replacement of analog equipment with digital equipment. Digital technology enables audio-video data compression that minimizes transmission bandwidth and storage requirements and permits security cameras to operate on standard data networks without the expense of bulky coaxial cables.

An intelligent or smart camera has all the needed functionality built into the unit and does not require a separate computer to operate. We are currently developing an intelligent camera called the *ICOP JCAM* camera, which could continuously monitor at-risk sites such as airports, borders, seaports, utilities and private industry facilities. Using proprietary intelligent cameras and surveillance image-analyzing software together with a standard cellular phone network, we believe the system could provide a comprehensive view of a defined area, centrally monitor contracted sites 24/7 in real time and detect threats and issue warnings when there is an intrusion. With this automated monitoring and recognition of possibly hostile intruders, large areas could be efficiently monitored with minimal human involvement.

We expect the *JCAM* camera to have the following benefits over existing analog technology:

reduced security costs;

web-based functionality;

fewer images to archive, reducing storage requirements;

high-compression ratio for storage of high-resolution images, resulting in high integrity of data, high speed data transmission and lower storage requirements;

faster searches through recorded information;

lower bandwidth to support networked cameras;

advanced capabilities such as motion detection and stabilization, with encryption;

design flexibility for development of products for multiple applications sold at multiple price points;

reduction of human error and human oversight;

wired, fiber and wireless media, greatly enhancing expandability; and

capability of providing intelligent responses/alerts based on motion detection information.

We expect to begin beta testing our *JCAM* camera in September 2006.

### **Sales and Marketing**

We are currently marketing the *ICOP Model 20/20* primarily to law enforcement agencies. However, ICOP has begun working on other applications for mobile video, including military, fire trucks, emergency medical technician (EMT) vehicles, school and public buses, trains, planes, border patrol vehicles and taxi cabs.

There are more than 440,000 police vehicles currently in service in the U.S., and approximately 70,000 new vehicles are leased or purchased by law enforcement agencies each year. At an average selling price of at least \$5,000

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for the *ICOP Model 20/20* and related equipment, there is an estimated potential market of over \$2 billion for law enforcement vehicles in the U.S. alone.

In 2004, approximately 38% of local law enforcement and 72% of state highway patrol vehicles had VHS (analog) in-car video systems. According to the International Association of Chiefs of Police (IACP), 48% of law enforcement vehicles utilized in-car video in 2005, representing a significant increase over 2004. The vast majority of these systems are VHS, though they are gradually being replaced with digital systems. We believe that warranties on these VHS systems have expired or will soon expire, and the systems will increasingly need service and will eventually need to be replaced. The market began transitioning to digital surveillance systems in 2004.

We market the *ICOP Model 20/20* directly to all levels of city, county, state and federal law enforcement agencies. Our marketing efforts include advertising in police magazines, direct mailings to law enforcement agencies and participation in industry trade shows, conferences and seminars. In addition to our full-time inside sales and regional sales staff, we have established a national Officer Sales Team consisting of police officers across the country who call on local police departments, typically within a 500-mile radius of their homes; these officers are part-time independent contractors. We have begun releasing electronic press kits to television stations in communities where the *ICOP Model 20/20* has been installed in order to raise awareness of the *ICOP Model 20/20*.

Digital in-car video systems require an experienced technical support team to respond to customer questions and to assist with their particular application. We are committed to building a talented technical support team to meet this important need. To support our sales efforts, we also produce promotional materials that include brochures, video presentations, data sheets and other technical materials along with our website to explain our product. We provide demonstration systems generally for 30- and 60-day trial periods, which affords prospective customers an opportunity to have a hands-on experience with the *ICOP Model 20/20* and the ICOP Video Management System.

Our sales cycle typically begins by initiating contact with a law enforcement agency or the receipt of a request for information from a prospective customer, usually through our website. After making the contact or receiving the request for information, we assess the potential customer's needs, make presentations and product demonstrations at the customer's place of business, present a formal proposal and negotiate a contract. The decision to purchase is typically made by a group of people including the chief of police or sheriff but may also include political decision-makers such as city council members.

Our primary focus is on development in the U.S. market and in Canada through our inside sales team and regional staff, and via the ICOP Officer Sales Team and distributors. We are also expanding into other markets abroad, such as Australia, Latin America and the Middle East, where we currently have distributors.

## **Competition**

The law enforcement market in-car video market is highly competitive. Digital in-car video is a quickly evolving technology, and the market is growing rapidly as the new technology is gaining widespread acceptance, new patrol cars are being purchased or leased and outdated analog video systems are being replaced by digital systems.

Most major in-car video manufacturers are in the process of developing, or have developed, digital video technology, and many have already introduced and sold digital units to law enforcement agencies. We believe that we have three major competitors—Mobile-Vision, Inc., Kustom Signals and International Police Technologies, Inc.—and many other competitors who sell or may in the future sell in-car video systems to law enforcement agencies.

In addition to their existing relationships with law enforcement agencies, many of these competitors have significant advantages over us, including greater financial, technical, marketing and manufacturing resources, preferred vendor status with our existing and potential customer base, more extensive distribution channels, larger customer bases and faster response times to new or emerging technologies and changes in customer requirements. As a result, our competitors may develop superior products or beat us to market with products similar to ours.

We believe we compete principally on the basis of:

product performance and functionality;





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price;

product quality and reliability; and

customer service and technical support.

We believe that our innovative product design and our proprietary compression technology make the *ICOP Model 20/20* superior in quality to other products. While we believe that existing wireless uploading technology needs to improve before it can be successfully used in in-car systems, some law enforcement agencies are attracted to this new technology, which we currently do not offer. We are currently designing wireless transfer capability for the *ICOP Model 20/20*, which should be available for sale in the near future.

The market for digital in-car video systems for police and other first responder vehicles is expected to grow rapidly over the next five years, as more cars are equipped with video surveillance and as upgrades to digital systems are made. We feel we are positioned to become a leader in this market based on what we believe to be the superiority of our innovative product and its attractive price.

### **Manufacturing and Suppliers**

We entered into a development and manufacturing agreement dated February 10, 2005 with Tietech Co., Ltd., a Japanese company with ISO 9001 certification, pursuant to which Tietech has exclusive rights to manufacture the *ICOP Model 20/20*. The initial term of the agreement is 10 years. While Tietech assisted in its development, we maintain the intellectual property rights necessary to produce the *ICOP Model 20/20*. The manufacturer does have certain intellectual property rights to a method of operating the data compression used in the *ICOP Model 20/20*. If this method were no longer available to us, another manufacturer could produce the unit, but a partial redesign would be required and could result in a production delay.

We entered into an agreement with TriSquare Communications (Hong Kong) Co., Ltd. dated February 11, 2004, pursuant to which it manufactures a 900 MHz wireless microphone system for use with the *ICOP Model 20/20*.

We entered into a license agreement, effective December 2004, with Showlei Associates, pursuant to which Showlei granted us the non-exclusive right to design, manufacture, use, sell and distribute software that decodes, reconstructs and displays video images based on Showlei's proprietary technology, and agrees to sell us a supply of semiconductor chips that incorporate the proprietary technology. The initial term of the agreement is 10 years.

We also rely on several unaffiliated subcontractors to supply certain components and assemblies that are incorporated in our *ICOP Model 20/20*. We acquire our components on a purchase order basis and do not have long-term contracts with suppliers.

### **Inventory Systems**

Inventory warehousing and shipping are managed from our Lenexa, Kansas facility. We use standard warehousing systems to store, retrieve, monitor and manage our inventory.

### **Intellectual Property**

We have filed U.S. patent applications covering aspects of the design and methods of operating the *ICOP Model 20/20*. Among other things, the claims, as currently drafted, generally describe the use of a digital recording device in an integrated and synchronized surveillance system able to record data from cameras, microphones and global positioning system equipment, with the recording media housed in a driver accessible console opening originally manufactured into the vehicle, such as a car radio slot. The claims also are drafted to cover particular features and capabilities of the *ICOP Model 20/20*, such as the system's in-dash recorder, back-end searchable database and event marking capability. We also have secured registered trademarks for ICOP, ICOP Digital and the stylistic use of our logo. We intend to continue to seek formal intellectual property protections to protect our technologies, processes and designs. We also use confidentiality agreements with employees and key suppliers to ensure the confidentiality of our trade secrets.

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### **Employees**

As of September 8, 2006, we had 36 full-time employees including 7 in management and administration, 15 in sales and marketing and 14 in engineering.

### **Description of Property**

Our offices are located in approximately 12,800 square feet of leased office and warehouse space in Lenexa, Kansas. Our lease is for five years through June 30, 2010 at a cost of \$15,000 per month plus taxes, common area charges and insurance.

### **Legal Proceedings**

We do not know of any pending or threatened legal proceedings to which we are or would be a party or any proceedings being contemplated by governmental authorities against us, or any of our executive officers or directors relating to their services on our behalf.

### **Company History**

We were formed in Colorado as Bail Corporation in April 1998 with the purpose of acquiring or merging with a privately owned company. In March 2001, we began to engage in the oil and gas business and changed our name to Vista Exploration Corporation. We leased oil and gas properties in Southeast Kansas to drill for coal bed methane gas, but due to a lack of funding in March 2003, we returned to our original plan of seeking a merger with, or an acquisition of, an operating business that wanted to become a public company. In January 2004, ICOP Digital, Inc., a Nevada corporation ( ICOP Nevada ), merged with and into our wholly owned subsidiary. ICOP Nevada commenced operations in May 2002 for the purpose of engaging in the design, development and marketing of an in-car digital video recorder for use in the law enforcement industry. As a result of the merger, our principal business became that of ICOP Nevada. In November 2004, we changed our name to ICOP Digital, Inc.; and in March 2005, we completed a 10 shares for 1 share reverse split of our common and preferred stock. In June 2005, ICOP Nevada was merged into the Colorado corporation and ceased to exist.

**Table of Contents****MANAGEMENT****Directors, Executive Officers and Key Employees**

Our executive officers, directors and key employees, and certain information about them, including their ages as of September 8, 2006, are as follows:

<b>Name</b>	<b>Age</b>	<b>Position</b>
David C. Owen	68	Chief Executive Officer and Director
Laura E. Owen	48	President, Chief Operating Officer, Corporate Secretary and Director
John C. Garrison	55	Chief Financial Officer and Treasurer
L. Derrick Ashcroft	77	Director
Noel Koch	67	Director
Roger L. Mason	54	Director
Kevin McDugle	39	Director of Military Sales
John Stransky	39	Director of National Sales
Adam Woydziak	24	Director of Technical Support
Randy Urban	47	Director of Engineering

The following is a brief description of the principal occupation and recent business experience of each of our directors, executive officers and key employees:

*Directors and Executive Officers*

*David C. Owen* has served as a director since January 2003 and as our Chief Executive Officer since July 2004. From July 2004 until August 2006, he also served as our President, and from January 2004 to July 2004, he was our Chief Financial Officer. Since 1985, Mr. Owen has been president of Owen & Associates, Inc., a private investment and management entity. Mr. Owen has more than 40 years of experience in the financial industry and has served in executive management positions with both retail and investment banks. He served as a Kansas State Senator from 1968 to 1972 and as Lieutenant Governor of Kansas from 1972 to 1974. He received a B.A. degree in Business Administration and Economics from Ottawa University in Ottawa, Kansas. In September 2004 in connection with an action brought by the Securities Commission of Kansas involving the private sale of a small amount of unregistered securities not involving us, Mr. Owen stipulated to a consent decree enjoining him and his agents from acting as a broker-dealer in Kansas unless registered under the Kansas Securities Act or exempt from registration, from offering or selling unregistered securities in Kansas unless exempt from registration, and from otherwise violating the Kansas Securities Act. Mr. Owen, who was not an officer, director or placement agent for the company involved, stipulated to the consent decree in order to dispose of the action expeditiously and did not admit any of the allegations. Mr. Owen is married to Laura E. Owen.

*Laura E. Owen* has served as our President and a director since August 2006, as our Chief Operating Officer since March 2005, and as our Corporate Secretary since May 2003. From 1998 until May 2003, she served as President of Unicard.com, Inc., a travel insurance company. Ms. Owen has spent over two decades working on business issues in the public and private sectors. In 1991, she became the first woman to be appointed Secretary of Commerce for the State of Kansas, the state's economic development agency. Ms. Owen received a B.S. degree in Business Administration from Delaware Valley College in Philadelphia. Ms. Owen is the wife of David C. Owen.

*John C. Garrison* has served as our Chief Financial Officer since July 2004 and as our Treasurer since March 2005. He has provided accounting services to the Company since April 2001. Prior to joining us in 2004, Mr. Garrison worked independently as a Certified Public Accountant. Mr. Garrison serves on the boards of directors of Quest Resource Corporation and Empire Energy Corporation International, both publicly traded companies. He received a B.S. degree in Business Administration and Accounting from Kansas State University.

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*L. Derrick Ashcroft* has served as a director since March 2005. Mr. Ashcroft is involved in banking and tax consulting for high net worth individuals. He currently owns and operates a cattle ranch in New Mexico, and over the last five years, he has served on boards of several companies. He currently serves on the board of Dwango North America Corp, a publicly traded company. Mr. Ashcroft received an M.A. degree from Oxford University in England.

*Noel Koch* has served as a director since March 2005. He is an expert on terrorism and security-related issues, with over 40 years of experience in developing advanced analytical procedures for identifying and assessing potential threats to individuals and to institutional and corporate assets. Since August 1986, Mr. Koch has served as the president and chief executive officer of International Security Management, Inc., a provider of security services to foreign and domestic government agencies, corporations and individuals in high-risk environments. Since August 1986, he also has served as the president and chief executive officer of Transecur, Inc., an on-line, interactive global security information service with offices in the U.S. and Europe. Mr. Koch also is a partner in Anchor Special Risks Registry, a computer-based system designed to record and assess hostile activities towards corporations and other institutions. Mr. Koch is a former instructor for the U.S. State Department's Anti-Terrorism Assistance Program, and served for over five years as Director of Special Planning in the U.S. Department of Defense. Mr. Koch received a B.A. degree in English from Widener University and an M.A. degree in Political Science from Bryn Mawr College.

*Roger L. Mason* has served as a director since January 2004. From May 2002 until January 2004, he served as a director of ICOP Nevada. Since 1995, Mr. Mason has been a broker at the Fishman & Company Realtors, a real estate business, in Olathe, Kansas. He received a B.S. degree in Construction Technology from Pittsburg State University in Pittsburg, Kansas.

There are no family relationships among our executive officers and directors, except that Mr. and Ms. Owen are husband and wife.

*Key Employees*

*Kevin McDugle* has served as our Director of Military Sales since July 2006 and served as our Director of National Sales from March 2005 until July 2006. From September 2003 through February 2005, Mr. McDugle led the sales team at International Police Technologies, Inc., and, prior to that, served as Division Director at RHI Consulting. He holds an M.B.A. from the University of Phoenix and a B.S. degree in Business from Southern Nazarene University in Bethany, Oklahoma.

*John Stransky* has served as our Director of National Sales since July 2006. From January 2006 to July 2006, he was one of our sales representatives. From November 2003 to January 2006, Mr. Stransky was a sales representative for Devtron Electronics, Inc., a contract manufacturer specializing in mixed technology assemblies and, prior to that, worked as a sales representative for Ideacom Midwest, a provider of business voice and data communication systems. Mr. Stransky attended Webster University in St. Louis, Missouri.

*Adam Woydziak* joined us in March 2005 as our Director of Technical Support. After graduating from college, from April 2003 to March 2005, Mr. Woydziak was network administrator for Reproduction Systems, Inc., a litigation support firm where he maintained and upgraded network systems and provided technical support internally and to law firms. He received a B.S. degree in Telecommunications Management from DeVry University in Kansas City, Missouri.

*Randy Urban* has served as our Director of Engineering since July 2006 and served as our Director of Hardware Development since November 2005. Before joining us, he served as a design engineer for InnovASIC, Inc., a designer of digital, analog and mixed signal replacement integrated circuits. Mr. Urban received a B.S. degree in Electrical Engineering from Kansas State University.

*Advisory Board*

In November 2005, we formed an Advisory Board of experts in the industries we serve. The Advisory Board is currently made up of one person, and we anticipate that it will have more members in the future.

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*Lou Anemone*, 60, has served as a member of our Advisory Board since November 2005. Until his retirement in 1999, he was Chief Operating Officer of the New York Police Department. From October 2001 to December 2001, he was Deputy Director of the New York State Office of Public Security. From December 2001 to May 2003, he was Director of Security for the Metropolitan Transportation Authority. From November 1999 until October 2001, and since June 2003, Chief Anemone has owned and operated a law enforcement and counter-terrorism consulting company, Anemone Consulting, Inc.

### **Board Classifications and Committees**

Our Board of Directors is divided into three classes as nearly equal in number as possible. Each year the stockholders elect the members of one of the three classes to three-year terms of office. Currently, Mr. Owen and Mr. Koch serve as Class A directors, whose terms expire in 2008, Mr. Ashcroft serves as a Class B director, whose term expires in 2007, and Mr. Mason and Ms. Owen serve as Class C directors, whose terms expire in 2009.

Our Board of Directors has three standing committees: an Audit Committee, a Compensation Committee and a Nominating and Governance Committee.

*Audit Committee.* Our Audit Committee oversees our accounting and financial reporting processes, internal systems of accounting and financial controls, relationships with independent auditors, and audits of financial statements. Specific responsibilities include the following:

selecting, hiring and terminating our independent auditors;

evaluating the qualifications, independence and performance of our independent auditors;

approving the audit and non-audit services to be performed by our independent auditors;

reviewing the design, implementation, adequacy and effectiveness of our internal controls and critical accounting policies;

overseeing and monitoring the integrity of our financial statements and our compliance with legal and regulatory requirements as they relate to financial statements or accounting matters;

with management and our independent auditors, reviewing any earnings announcements and other public announcements regarding our results of operations; and

preparing the report that the Securities and Exchange Commission requires in our annual proxy statement.

Our Audit Committee is comprised of Messrs. Ashcroft, Koch and Mason. Mr. Ashcroft serves as Chairman of the Audit Committee. The Board has determined that all members of the Audit Committee are independent under the rules of the Securities and Exchange Commission, the Nasdaq Stock Market and NYSE Arca. The Board has determined that Mr. Ashcroft qualifies as an audit committee financial expert, as defined by the rules of the Securities and Exchange Commission.

*Compensation Committee.* Our Compensation Committee assists our Board of Directors in determining the development plans and compensation of our officers, directors and employees. Specific responsibilities include the following:

approving the compensation and benefits of our executive officers;

reviewing the performance objectives and actual performance of our officers;

administering our stock option and other equity compensation plans; and

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reviewing and discussing with management the compensation discussion and analysis that the Securities and Exchange Commission will require in our future Form 10-Ks and proxy statements.

Our Compensation Committee is comprised of Messrs. Ashcroft, Koch and Mason. Mr. Mason serves as Chairman of the Compensation Committee. The Board has determined that all members of the Compensation Committee are independent under the rules of the Nasdaq Stock Market and NYSE Arca.

*Nominating and Governance Committee.* Our Nominating and Governance Committee assists the Board by identifying and recommending individuals qualified to become members of our Board of Directors, reviewing correspondence from our stockholders, and establishing, evaluating and overseeing our corporate governance guidelines. Specific responsibilities include the following:

evaluating the composition, size and governance of our Board of Directors and its committees and make recommendations regarding future planning and the appointment of directors to our committees;

establishing a policy for considering stockholder nominees for election to our Board of Directors; and

evaluating and recommending candidates for election to our Board of Directors.

Our Nominating and Governance Committee is comprised of Messrs. Ashcroft, Koch and Mason. Mr. Koch serves as Chairman of our Nominating and Governance Committee. The Board has determined that all members of the Nominating and Governance Committee are independent under the rules of the Nasdaq Stock Market and NYSE Arca.

**Director Compensation**

In 2005, our independent directors received options to purchase 7,500 shares and warrants to purchase 5,000 shares for their service on the Audit Committee. In August 2006, our independent directors each received options to purchase an additional 7,500 shares. In addition, our independent directors receive meeting fees and reimbursement of expenses.

**Executive Compensation**

The following table sets forth certain information concerning total compensation received by our Chief Executive Officer and our other most highly compensated executive officers (the Named Executive Officers) for services rendered to ICOP in all capacities for the last three fiscal years, but is limited to executive officers other than our Chief Executive Officer who earned more than \$100,000 in total compensation during the last fiscal year.

**Summary Compensation Table**

Name and Principal Position	Fiscal Year	Annual Compensation	Long-Term Compensation	
		Salary (\$)	Awards Securities Underlying Options/SARs (#)	All Other Comp. (\$)
David C. Owen, Chairman, President and Chief Executive Officer	2005	119,792	250,000	18,923(1)
	2004	149,047(2)	50,000	11,806(3)
	2003	58,564	0	0