

ICOP DIGITAL, INC
Form S-1/A
May 18, 2009
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As filed with the Securities and Exchange Commission on May 18, 2009

Registration No. 333-158551

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

PRE-EFFECTIVE AMENDMENT No. 1

TO

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ICOP Digital, Inc.

(Exact name of registrant as specified in its charter)

Colorado
(State or jurisdiction of
incorporation or organization)

3663
(Primary Standard Industrial
Classification Code No.)

84-1493152
(IRS Employer
Identification No.)

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16801 W. 116th Street

Lenexa, Kansas 66219

(913) 338-5550

(Address, including zip code, and telephone number, including area code, of registrant's principal executive offices)

David C. Owen

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(913) 338-5550

(Name, address, including zip code, and telephone number, including area code, of agent for service)

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Approximate Date of Commencement of Proposed Sale to Public: As soon as practicable after the effective date of this Registration Statement.

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, other than securities offered only in connection with dividend or interest reinvestment plans, 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.

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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. "

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See definitions of large accelerated filer, accelerated filer, and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer "

Accelerated filer "

Non-accelerated filer "
(Do not check if a smaller reporting company)

Smaller reporting company x

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 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 jurisdiction where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED MAY 18, 2009

PRELIMINARY PROSPECTUS

550,000 Units

**Each unit consisting of ten shares of common stock
and ten non-redeemable Class B warrants**

We are offering 550,000 units, with each unit consisting of ten shares of common stock and ten non-redeemable Class B warrants. Each Class B warrant entitles its holder to purchase one share of common stock at an exercise price of \$ _____ per share (110% of the closing price of our common stock on the day preceding the date of this prospectus). The Class B warrants are immediately exercisable and will expire on _____, 2009 (six months from the date of this prospectus). The units will separate immediately and the shares of common stock and the Class B warrants comprising the units will be issued and will trade separately.

We expect to offer units at an initial public offering price equal to ten times the price at which a share of our common stock trades immediately prior to this offering. Assuming the closing price of a share of our common stock on the NASDAQ Capital Market on April 6, 2009, which was \$0.55, the initial public offering price would be \$5.50 per unit. The price of the units was negotiated between the representative and us taking into account, among other factors, the price at which our stock traded on the NASDAQ Capital Market immediately prior to this offering.

Our common stock is traded on the NASDAQ Capital Market under the symbol ICOP. On April 6, 2009, the last reported sale price of our common stock was \$0.55. We intend to apply to list our Class B warrants on the NASDAQ Capital Market under the symbol _____.

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

NEITHER THE SECURITIES AND EXCHANGE COMMISSION (SEC) NOR ANY STATE SECURITIES COMMISSION HAS APPROVED OR DISAPPROVED OF THESE SECURITIES OR PASSED UPON THE ADEQUACY OR ACCURACY OF THIS PROSPECTUS. ANY REPRESENTATION TO THE CONTRARY IS A CRIMINAL OFFENSE.

	Per Unit	Total
Public offering price	\$	\$
Underwriting discount	\$	\$
Proceeds to us, before expenses	\$	\$

The expenses for this offering will include (in addition to the underwriting discount) 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 82,500 units to cover over-allotments and have issued the representative of the underwriters a warrant to purchase up to 550,000 shares of common stock.

Paulson Investment Company, Inc.

The date of this prospectus is _____, 2009

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ABOUT THIS PROSPECTUS

You should rely only on information contained in, or incorporated by reference into, this prospectus, any free writing prospectus and any prospectus supplement or amendment. We have not, and the underwriters have not, authorized anyone to provide you with information different from that contained in this prospectus or incorporated by reference into this prospectus. We are not making offers to sell the securities in any jurisdiction in which such an offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so, or to anyone to whom it is unlawful to make such offer or solicitation. The information in, or incorporated by reference into, this prospectus and any prospectus supplement or amendment prepared by us may be accurate only as of their respective dates.

Our trademarks include: *ICOP*®, *ICOP DIGITAL*®, *ICOP Model 20/20*®, *ICOP Model 20/20*®-W, *ICOP Model 4000* , *ICOP LIVE* , *ICOP iVAULT* , *ICOP iVAULT MMS* , *ICOP EXTREME Wireless Mic*, *ICOP Solution* , *ICOP Guardian* , *ICOP LIVE Platform* , *ICOP DVMS* , *ICOP Model 20/20 LIVE* , *ICOP Guardian LIVE* , *ICOP PC Viewer* , *ICOP IN-FOCUS* , *ICOP BodyCam* , *BUSCOP* , *IBUS* , *BikeCam* , *TransitCop* , *ICOP Digital Video Management System* , *ICOP 20/20 VISION* , *Advancing Surveillance Technology* and *A Veil of Protection* . The trademarks, service marks or trade names of any other company appearing in this prospectus belong to its owner. Use or display by us of trademarks, service marks or trade names owned by others is not intended to and does not imply a relationship between us and, or endorsement or sponsorship by, the owners of the trademarks, service marks or trade names.

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PROSPECTUS SUMMARY

This summary highlights information contained in this prospectus. While we believe that this summary highlights some of the most important information about ICOP Digital, Inc. and this offering, you should read this entire prospectus and the documents incorporated by reference carefully, including Risk Factors, before deciding to invest in our units. References to we, us, our, ICOP, or the Company in this prospectus mean ICOP Digital, Inc.

Business Overview

We design, engineer and market video surveillance products for public safety. Our flagship product, the *ICOP Model 20/20-W*, is a digital in-car video and audio recorder designed for the rugged demands of law enforcement agencies, which provides a secure chain of custody and integrity of the recorded information. Since our first commercial sale in June 2005, we have sold the *ICOP Model 20/20-W* and its predecessor, the *ICOP Model 20/20*, to law enforcement customers in 49 states. The *ICOP Model 20/20-W* technology also has applications in other markets where video surveillance is critical in the safety of people and security of property, including the military and other public safety installations. Our product is installed in the dashboard of the vehicle; therefore, there are no parts in the trunk, under the seat, or overhead, which is critical in considering officer safety and space limitations within patrol cars. An AM/FM radio is built into the *ICOP Model 20/20-W* to replace the AM/FM radio in the dashboard. The *ICOP Model 20/20-W* provides wireless (W) upload of the recorded video to the backend server where the video evidence is stored and managed.

Law enforcement has long recognized the value of gathering intelligence and documenting critical events by means of recorded video. Video and audio evidence collected by in-car systems has been used successfully in cases such as driving under the influence, various traffic violations, vehicular pursuits, narcotic enforcement actions, assaults-on-officer incidents and civil litigation involving law enforcement agencies. Information collected by in-car VHS (analog) video systems has also been 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 quality video and audio, lack of dependability in extreme temperatures, storage and retrieval difficulties and officer safety concerns. The law enforcement industry is currently transitioning from analog to digital technologies for in-car video, and we believe that we are well-positioned to exploit this market. The *ICOP Model 20/20-W* is priced competitively to comparable units, yet we believe it offers superior video and audio quality, officer safety due to secure and convenient placement in the dashboard, and security for the integrity of the recorded evidence.

The *ICOP DVMS* (Digital Video Management System) is the original backend video management system for the *ICOP Model 20/20-W*. In late 2007, we began selling the *ICOP iVAULT MMS* (Media Management System), an enterprise-level software management product, which was developed to serve as a digital evidence locker for law enforcement, enabling storage of multiple file formats. This software is web-enabled, allowing files to be shared within precincts, among precincts or across the nation, using high levels of security.

The *ICOP 20/20 VISION* brings the functionality of the *ICOP Model 20/20-W* to laptops in police cars, allowing the digital video recorder (DVR) to be controlled by an officer's laptop computer anywhere in the vehicle. This product was developed in response to industry demand, which grew out of the dramatic growth of laptops in police vehicles. We began shipping the *ICOP 20/20 VISION* in March 2009.

During the second quarter of 2008, we began selling *ICOP LIVE*, a product that delivers live streaming audio and video. *ICOP LIVE* works in conjunction with the *ICOP Model 20/20-W*, enabling live streaming audio and video to and from a first responder vehicle over wireless networks, including cellular networks, mesh networks, etc., from the *ICOP Model 20/20-W* to police headquarters, personnel on the scene and web-enabled mobile devices such as smart phones and PDAs in the field. Early marketing efforts are focused on our existing customer base of first responders. The audio and video live streams to a virtually unlimited number of simultaneous viewers, using secure protocols. To further leverage the marketing of *ICOP LIVE*, ICOP has entered into co-marketing agreements with Sprint Nextel (Sprint), using the implementation of *ICOP LIVE* over the Sprint Mobile Broadband Network, and with Strix Systems (Strix), one of the worldwide leaders in wireless mesh networking, using the implementation of *ICOP LIVE* over Strix mesh networks.

During the fourth quarter of 2008, the Company introduced the *ICOP Model 4000*, which is a digital video product designed for school buses, cash transit vehicles, commercial and transit vehicles, including buses and trains. The *ICOP Model 4000* records up to eight cameras simultaneously for surveillance of events aboard the vehicles and is capable of live streaming video to first responders and dispatch.

In the first quarter of 2009, we were awarded a contract to outfit security force vehicles in Saudi Arabia with the *ICOP 20/20-W*. We believe we are well-positioned to begin our international expansion plans by first taking advantage of opportunities in the Middle East.

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Corporate Information

We were incorporated under the laws of Colorado on April 4, 1998. Our principal business office is located at 16801 W. 116th Street, Lenexa, Kansas 66219, and our telephone number is (913) 338-5550. Our website address is *www.icop.com*. Information contained on our website or any other website does not constitute part of this prospectus.

This Offering

Securities offered:	550,000 units. Each unit consists of ten shares of common stock and ten Class B warrants, each to purchase one share of common stock. The common stock and the Class B warrants comprising the units are immediately separable and will be issued separately.	
Class B warrants:	The Class B warrants included in the units will be immediately exercisable and will expire on _____, 2009 (six months from the date of this prospectus). The exercise price of a Class B warrant is 110% of the closing price of our common stock on the day preceding the date of this prospectus. The Class B warrants are not redeemable.	
Common stock outstanding after this offering:	12,806,232 shares	
Use of proceeds:	Inventory purchases and general corporate purposes	
NASDAQ Capital Market Symbols:	Common Stock:	ICOP
	Class B warrants:	_____
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.	

As of April 6, 2009, we had 7,306,232 shares of common stock issued and outstanding. Unless the context indicates otherwise, all share and per-share common stock information in this prospectus:

assumes a public offering price of \$5.50 per unit;

assumes no exercises of the Class B warrants being offered hereby as part of the units;

assumes no exercise of the underwriters' over-allotment option to purchase 82,500 units;

assumes no exercise of the representative's warrants;

excludes 1,355,000 shares reserved for issuance upon exercise of outstanding options under our 2002 Stock Option Plan, as amended;

excludes 280,000 shares issuable upon exercise of warrants issued to consultants and our independent directors;

excludes 360,002 shares issuable upon exercise of warrants issued to certain bridge lenders;

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excludes 47,125 shares and 16,494 warrants issuable upon exercise of a purchase warrant issued to our placement agent, Paulson, in our December 2005 private placement of securities; and

excludes 4,208,025 shares issuable upon exercise of the redeemable warrants currently trading on the NASDAQ Capital Market under the symbol ICOPW.

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The following table provides a summary of our historical financial information for the periods and at the dates indicated. The summary historical financial information as of and for the fiscal years ended December 31, 2007 and December 31, 2008 and the historical data as of December 31, 2008 have been derived from our audited financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of the results to be expected in the future.

The information presented below should be read in conjunction with Use of Proceeds, Capitalization, Management's Discussion and Analysis of Financial Condition and Results of Operations and the financial statements and related notes thereto included elsewhere in this prospectus. The information presented below should also be read in conjunction with the Management Discussion and Analysis section and the financial statements and related notes for the fiscal year ended December 31, 2008 appearing elsewhere in this prospectus, and for the quarterly period ended March 31, 2009 included in our Quarterly Report on Form 10-Q for such period, which is incorporated herein by reference.

	Years Ended December 31,	
	2007	2008
Selected Operating Data:		
Sales, net of returns	\$ 11,842,415	\$ 10,859,850
Gross profit	5,197,397	6,689,758
Operating loss	(5,642,414)	(5,791,501)
Other income (expense)	184,130	(130,678)
Loss before income taxes	(5,458,284)	(5,922,179)
Net loss	\$ (5,458,284)	\$ (5,922,179)
Basic and diluted net loss per share	\$ (0.75)	\$ (0.79)
Basic and diluted weighted average common shares outstanding	7,320,699	7,472,032

	December 31, 2008	
	Actual	As Adjusted
Selected Balance Sheet Data:		
Working capital	\$ 3,113,971	\$ 5,556,471
Cash and cash equivalents	99,192	1,320,442
Inventory, at lower of cost or market	3,568,596	4,789,846
Total assets	8,358,138	10,800,638
Total shareholders' equity	5,269,168	7,711,668

The as adjusted data reflect:

the issuance of 550,000 units at an assumed public offering price of \$5.50 per unit; 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 occurs, 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 we are offering. The following is a description of what we consider to be our key challenges and all material risks to our business and securities.

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 every year. We have had limited revenues to date and may never become profitable.

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.

Recession, sustained downturns or sluggishness in the U.S. economy, as well as large budget deficits, could adversely affect the demand for our product.

Recession, sustained downturns or sluggishness in the U.S. economy, as well as large budget deficits, generally affect the markets in which we operate. Most government agencies, on the local, state and federal levels, have been impacted by the current downturn in the economy, with budgetary cuts hitting some agencies particularly hard and many agencies operating at a deficit. As a result, agencies that would otherwise have considered purchasing in-car digital video systems in some cases have decided or may in the future decide to defer the decision for an unknown period of time and may not have the financial resources to purchase our products at any time in the foreseeable future. Were this situation to continue and/or become more widespread, our internal estimates of our projected growth and our actual results of operations could be severely and negatively impacted, particularly while we remain almost entirely dependent on sales of the *ICOP Model 20/20-W* to law enforcement agencies.

We currently have a limited product offering, so a failure to generate significant revenues from our current product line would negatively impact our business.

We anticipate that sales of the *ICOP Model 20/20-W* will account for a substantial portion of our revenues in the near-term. Our long-term success will depend, in significant part, on our ability to achieve greater market acceptance of the *ICOP Model 20/20-W* and the *ICOP iVAULT MMS* in the law enforcement and other first responder markets, and on our success in deploying new products into the market, such as the *ICOP Model 4000* and *ICOP LIVE*. The failure to achieve either of these objectives would have a material adverse effect on our business, financial condition and results of operations.

The ICOP Model 20/20-W 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 markets, 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 products 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 the development of new products or improvements to our existing products 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 technologies could materially affect our ability to compete.

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

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Our markets are 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-W*, 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.

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

We use third-party manufacturers to produce the *ICOP Model 20/20-W* and the *ICOP Model 4000*. The manufacturers make their 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 internationally. 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. Since November 2008, we have had access to a factoring arrangement in which we have agreed to sell all of our accounts receivable at a discount of 0.75% of the face value of each accepted receivable for every 30 days the invoice is outstanding. However, our ability to obtain sufficient advances under this credit line is dependent on generating increased accounts receivable through higher sales volume, which cannot be assumed.

If we are unable to satisfy the financial net worth covenant of our financing agreement, we may be declared in default.

We are required to maintain a tangible net worth of at least \$5 million at all times during the term of a purchasing agreement we have with a financing company. On March 12, 2009, the purchaser granted us a waiver of that covenant until June 10, 2009. While we expect the net proceeds of this offering will satisfy this covenant, if we do not have sufficient funds by June 10, 2009, or if we fail to meet the net worth requirement thereafter, we could be declared in default under the purchasing agreement, which would materially and adversely affect our business because we may be unable to draw down on this line of credit when we need working capital.

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

We do not have the resources, facilities or experience to manufacture our products, and therefore depend on third-party manufacturers. We rely on offshore companies for the development and exclusive manufacturing of our *ICOP Model 20/20-W* and *ICOP Model 4000*. Our manufacturing strategy presents the following risks:

we have limited control over the manufacturing processes;

all of our *ICOP Model 20/20-W* units and its predecessor have been purchased from one supplier; if this supplier were no longer available to us, an alternate supplier may not be immediately available.

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;

the manufacturer of the *ICOP 20/20-W* has certain rights related to an important process used in operating that product; 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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In addition, we may in some cases have to reimburse or incur other charges from third-party contract manufacturing partners for excess inventory resulting from changes in product design or demand. If we accumulate excess or obsolete inventory, price reductions and inventory write-downs may result, which could adversely affect our results of operations and financial condition.

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-W* and *ICOP Model 4000* are manufactured outside of the United States. 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;

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duties, tariffs and other trade barriers and restrictions; 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 is incurred in a foreign currency, our results of operations may be harmed by inflation and currency fluctuations.

We generate our revenues in U.S. dollars, but we currently incur a significant portion of our expenses in the currencies of Japan and Taiwan, where the manufacturers of our *ICOP Model 20/20-W* and *ICOP Model 4000*, respectively, are located. If the Japanese Yen or Taiwan Dollar appreciates relative to the dollar, 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 April 6, 2009, 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, Taiwan Dollar or any other foreign currency. If we do elect to enter into hedging transactions in the future, the costs of such transactions may exceed any resulting benefits.

Our expansion into international markets may be subject to uncertainties that could increase our costs to comply with regulatory requirements in foreign jurisdictions, disrupt our operations, and require increased focus from our management.

We are just beginning to expand into the Middle East, and we eventually expect to enter into other international markets. The expansion of our sales into international markets is subject to numerous additional risks, including: economic and political risks in foreign jurisdictions in which we sell products or seek to sell products; difficulty of enforcing contracts and collecting receivables through some foreign legal systems; differences in foreign laws and regulations, including foreign tax, intellectual property, labor and contract law, as well as unexpected changes in legal and regulatory requirements; differing technology standards and pace of adoption; import and export restrictions on encryption and other technologies; fluctuations in currency exchange rates and any imposition of currency exchange controls; and increased competition by local, regional, or global companies. If we continue to expand our sales globally, our success will depend, in large part, on our ability to anticipate and effectively manage these and other risks associated with our international sales. However, any of these factors could adversely affect our international sales and, consequently, our operating results.

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, and Laura E. Owen, our President, Chief Operating Officer and Corporate Secretary. We maintain a key-person life insurance policy on Laura E. Owen, but not for David C. Owen. The loss of the services of either of these officers could seriously harm our business and our future prospects.

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. If we cannot provide reliable financial reports, 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 operating results.

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 ended December 31, 2007, we were required to furnish a report by our management on our internal control over financial reporting. Beginning with our Annual Report on Form 10-K for the year ending December 31, 2009, our independent auditor will also be required to furnish an attestation on our management s assessment of our internal control over financial reporting.

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We can provide no assurance as to our or our independent auditors' conclusions with respect to the effectiveness of our internal controls over financial reporting under Section 404 of Sarbanes-Oxley. There is a risk that our independent auditors will not 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 operating results.

Defects in our products could impair our ability to sell our products and 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.

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.

Our securities may be delisted from the NASDAQ Capital Market, which could affect its market price and liquidity.

We are required to meet NASDAQ's continued listing requirements (including a minimum bid price for our common stock of \$1.00 per share) to maintain the listing of our common stock on the NASDAQ Capital Market. On September 25, 2008, we received a deficiency letter from the NASDAQ Stock Market indicating that for 30 consecutive trading days our common stock had a closing bid price below the \$1.00 per share minimum closing bid as required for continued listing. In accordance with NASDAQ Marketplace Rules, we were provided a compliance period of 180 calendar days, or until March 24, 2009, to regain compliance with this requirement. On March 24, 2009, NASDAQ notified us that it was extending the suspension of the minimum bid price requirement even further until July 20, 2009; accordingly, we have until December 27, 2009 to regain compliance with the requirement. We can regain compliance with the minimum closing bid price requirement if the bid price of our common stock closes at \$1.00 per share or higher for a minimum of 10 consecutive business days during the suspension period or resuming after the suspension period. If we do not regain compliance with the minimum closing bid price requirement during the initial 180-day compliance period, we will be granted an additional 180-day compliance period if we comply with all NASDAQ Capital Market initial inclusion requirements except the bid price requirement. If we do not regain compliance with the minimum closing bid price requirement during this second 180-day compliance period, NASDAQ will provide written notice that our securities will be delisted from the NASDAQ Capital Market. At such time, we are entitled to appeal the delisting determination to a NASDAQ Listing Qualifications Panel. We cannot provide any assurance that our stock price will recover within the permitted grace period.

If our common stock is delisted, it could be more difficult to buy or sell our common stock and to obtain accurate quotations, and the price of our stock could suffer a material decline. Delisting may also impair our ability to raise capital. Furthermore, if our common stock is delisted, we would apply to have our common stock quoted on the OTC Bulletin Board, and our common stock would become subject to the SEC's penny stock regulations. A penny stock, as defined by the Penny Stock Reform Act, is any equity security not traded on a national securities exchange that has a market price of less than \$5.00 per share. The penny stock regulations generally require that a disclosure schedule explaining the penny stock market and the risks associated therewith be delivered to purchasers of penny stocks and impose various sales practice requirements on broker-dealers who sell penny stocks to persons other than established customers and accredited investors. The broker-dealer must make a suitability determination for each purchaser and receive the purchaser's written agreement prior to the sale. In addition, the broker-dealer must make certain mandated disclosures, including the actual sale or purchase price and actual bid offer quotations, as well as the compensation to be received by the broker-dealer and certain associated persons. The regulations applicable to penny stocks may severely affect the market liquidity for our common stock and could limit your ability to sell your securities in the secondary market.

If our common stock is delisted, the Class B warrants will also be delisted. The NASDAQ Capital Market's continued listing requirements for warrants require that the security underlying the warrant be listed on NASDAQ. If our Class B warrants are delisted, it could be more difficult to exercise or otherwise liquidate our Class B warrants and to obtain accurate quotations, and the price of our Class B warrants could suffer a material decline.

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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. One 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-W* and the *ICOP Model 4000* not being accepted by the marketplace;

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

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

our ability to bring future products to market;

the *ICOP Model 20/20-W* and the *ICOP Model 4000* 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 manufacturers of the *ICOP Model 20/20-W* and the *ICOP Model 4000*;

our ability to protect proprietary rights or the possibility that others may bring infringement claims against us;

a highly competitive and fragmented market;

loss of key management personnel;

our ability to manage growth;

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criminal procedure court rulings that may exclude evidence collected by our systems;

general economic and business conditions in the United States and other of our markets;

potential warranty or product liability claims;

our exposure to foreign currency exchange fluctuations; 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, as of the date of this prospectus, 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 undertake no obligation to revise, or publicly release the results of any revision to, these forward-looking statements. Our business, financial condition, liquidity and results of operations may vary materially from those expressed in our forward-looking statements.

Table of Contents**USE OF PROCEEDS**

Based on an offering price of \$5.50 per unit, we estimate that the net proceeds from the sale of the 550,000 units that we are selling in this offering will be approximately \$2,442,500, or \$2,850,875 if the underwriters exercise their over-allotment option in full, after deducting an underwriting discount of \$0.55 per unit, and estimated offering expenses of approximately \$280,000 payable by us.

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

	Amount	Percentage
Inventory purchases	\$ 1,221,250	50.0%
General corporate purposes	1,221,250	50.0%
Total	\$ 2,442,500	100.0%

Inventory purchases primarily include the purchases of units of the *ICOP Model 20/20-W*, the *ICOP 20/20 Vision* and the *ICOP Model 4000* from third-party manufacturers.

General corporate purposes include accounting and legal fees, rent and other facilities expenses, the repayment of a \$125,000 promissory note issued to the representative of the underwriters, 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 December 31, 2008 and as adjusted to give effect to the sale of units at an assumed offering price of \$5.50 per unit in this offering, less the underwriting discount and offering expenses.

	December 31, 2008	
	Actual	As Adjusted
SHAREHOLDERS EQUITY		
Preferred stock, no par value: 5,000,000 shares authorized: no shares issued and outstanding, actual or as adjusted	\$	\$
Common stock, no par value: 50,000,000 shares authorized: 7,486,385 shares issued and outstanding actual; 12,806,232 shares issued and outstanding, as adjusted	30,338,572	32,781,072
Accumulated other comprehensive income	272	272
Retained deficit	(25,069,676)	(25,069,676)
Total shareholders equity	\$ 5,269,168	\$ 7,711,668

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.

Table of Contents**PRICE RANGE OF COMMON STOCK**

Our common stock is traded on the NASDAQ Capital Market under the symbol ICOP. The following table sets forth the range of high and low sales prices per share as reported on NASDAQ for the periods indicated.

	High	Low
2007		
First Quarter	\$ 7.00	\$ 5.72
Second Quarter	9.06	6.56
Third Quarter	8.65	5.26
Fourth Quarter	6.71	3.74
2008		
First Quarter	\$ 4.08	\$ 1.93
Second Quarter	2.64	1.55
Third Quarter	1.75	0.32
Fourth Quarter	1.00	0.11
2009		
First Quarter	\$ 1.29	\$ 0.17
Second Quarter (through April 6, 2009)	0.60	0.44

The last reported sale price of our common stock on the NASDAQ Capital Market on April 6, 2009 was \$0.55 per share. According to the records of our transfer agent, there were approximately 300 holders of record of our common stock as of April 6, 2009.

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

The following discussion of our financial condition and results of operations should be read in conjunction with our financial statements and accompanying notes included elsewhere in this prospectus. This discussion and analysis contains statements of a forward-looking nature that involve known and unknown risks. Our actual results may differ materially from those anticipated in these forward-looking statements. The following discussion should also be read in conjunction with the Management Discussion and Analysis section and the financial statements and related notes for the fiscal year ended December 31, 2008 appearing elsewhere in this prospectus, and for the quarterly period ended March 31, 2009 included in our Form 10-Q for such period, which is incorporated herein by reference.

Overview

The Company designs, engineers and markets video surveillance products for public safety. Its flagship product, the *ICOP Model 20/20* was designed for the rugged demands of law enforcement agencies, providing superior video and audio recording technology as well as a secure chain of custody and integrity of the recorded information. Since our first commercial sale in June 2005, we sold the *ICOP Model 20/20-W* and its predecessor, the *ICOP Model 20/20*, to law enforcement agencies in 49 states. The *ICOP Model 20/20-W* also has applications in other markets where video surveillance is critical to the safety of people and the security of property, including military and other public safety installations. Installed in the dashboard of the vehicle, there are no parts in the trunk, under the seat or overhead—a critical consideration for officer safety and space limitations within a patrol car; an AM/FM radio is built into our product to replace the AM/FM radio in the dashboard. The *ICOP Model 20/20-W* provides wireless (W) upload of the recorded video to the backend server where the video evidence is stored and managed.

Critical Accounting Policies

The preparation of financial statements in conformity with accounting principles generally accepted in the U.S. 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.

Our critical accounting policies are those that we believe are the most important in determining our financial condition and results and require significant subjective judgment by management. A summary of our significant accounting policies, including the critical accounting policies discussed below, is set out in the notes to the financial statements.

Revenue Recognition

Revenue is recognized upon shipment, title and risk of loss have transferred to the purchaser, there are no significant vendor obligations, the fees are fixed or determinable and collection is reasonably assured. Cost incurred for shipping and insurance are included in cost of sales at the time the related revenue is recognized. Amounts billed to a customer for shipping and insurance is reported as revenue.

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

We purchase a majority of our inventory from foreign contract manufacturers. One of these foreign manufacturers bills us in their local currency. Liabilities in foreign currencies are translated at exchange rates prevailing at the balance sheet date. Costs and expenses are translated into U.S. 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).

Accounting for Income Taxes

Income taxes are accounted for under the assets and liability method. This method gives consideration to the future tax consequences of deferred income or expense items and immediately recognized changes in income tax laws upon enactment. The statements of operations effect is generally derived from changes in deferred income taxes, net of valuation allowances, on the balance sheet as measured by differences in the book and tax bases of our assets and liabilities. We have significant tax loss carryforwards, which are recorded as deferred tax assets. Deferred tax assets realizable in future periods are recorded net of a valuation allowance based on an assessment of our ability to generate sufficient taxable income within an appropriate period. Based on our historical taxable losses, we believe it is unlikely that we will realize the benefits of these deductible differences. As a result, our deferred tax assets are offset entirely by a valuation allowance.

Table of Contents**Share-Based Compensation**

Effective January 1, 2006, we adopted SFAS No. 123R, *Share-Based Payment*, which requires that compensation related to all stock-based awards, including stock options and restricted common stock, be measured based on their estimated grant-date fair value and recognized into expense over the period in which the share-based compensation is earned (requisite service period). We used the modified prospective application method in adopting SFAS No. 123R, whereby the estimated fair value of unvested stock awards granted prior to January 1, 2006 was recognized as compensation expense in periods subsequent to December 31, 2005. We have estimated expected forfeitures, as required by SFAS No. 123R, and are recognizing compensation expense only for those awards expected to vest. We record compensation expense for the grant date fair value of option awards over the service period as the option vests.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet debt, nor have we had any transactions, arrangements, obligations (including contingent obligations) or other relationships with any unconsolidated entities or other persons that may have a material current or future effect on financial conditions, changes in the financial conditions, results of operations, liquidity, capital expenditures, capital resources or significant components of revenue or expenses.

Results of Operations*Comparison of the Years Ended December 31, 2008 and 2007*

We recorded sales of \$10,859,850 and \$11,842,415 for the years ended December 31, 2008 and 2007, respectively, a decrease of \$982,565 (8.3%) primarily due to a reduction in units sold during the fourth quarter of 2008. The reduction in units sold was mainly due to the negative impact of our announcement of our line of credit being declared in default in August 2008. In November 2008, we announced that we had secured a new credit facility, and we believe the negative impact of the default has subsided. Cost of sales for the years ended December 31, 2008 and 2007 were \$6,689,758 and \$6,645,018, respectively, remaining flat year over year. Cost of sales as a percentage of sales was 62% for 2008 compared to 57% for 2007. The increase of cost of sales as a percentage of sales was due to a special limited time program to sell our new *ICOP EXTREME Wireless Mic* at a discount to certain qualifying customers, which negatively affected gross margin. In addition, the cost of inventory was higher in 2008 as a result of unfavorable foreign currency movements in the U.S. Dollar. Gross margin as a percentage of sales was 38% for 2008 compared to 44% for 2007.

Operating expenses were \$9,961,593 and \$10,839,811 for the years ended December 31, 2008 and 2007, respectively, a decrease of \$878,218 (8%). Selling, general and administrative expenses for the twelve months ended December 31, 2008 and 2007 were \$8,830,394 and \$9,040,256, respectively, remaining relatively flat, with a decrease of \$209,862. Research and development expenses for the years ended December 31, 2008 and 2007 were \$1,131,199 and \$1,799,555, respectively, a decrease of \$668,356 (37%). The decrease is the result of a declined use of external consultants during 2008 compared to 2007 and due to the completion of product development for certain products. Stock-based compensation expense for the twelve months ended December 31, 2008 and 2007 was \$576,776 and \$1,513,392, respectively, a decrease of \$936,616 (62%). The decrease is due to the expense recorded in 2007 on the restricted stock awards of approximately \$1,000,000 and the expense recorded on stock options granted in the third quarter of 2007 of approximately \$300,000, offset by the cancellations and grants to Mr. Owen, the Company's Chief Executive Officer, and Ms. Owen, the Company's Chief Operating Officer, of approximately \$200,000 during the third quarter of 2008.

Interest income was \$28,589 and \$223,810 for the twelve months ended December 31, 2008 and 2007, respectively, a decrease of \$195,221 (87%). The decrease is mainly due to the decrease in cash and decrease in interest rates. Interest expense was \$125,906 and \$37,802 for the years ended December 31, 2008 and 2007, respectively, an increase of \$88,104 (233%). The increase is due to the draw down on the line of credit at the end of the first quarter of 2008 used for inventory purchases, the issuance of a note payable of \$780,000 to purchase land and draws against our purchasing agreement in fourth quarter of 2008.

Comparison of the Years Ended December 31, 2007 and 2006

We recorded \$11,842,415 in revenue and \$5,197,397 in gross profit during the year ended December 31, 2007. Our operating loss for 2007 increased \$2,004,239 to \$5,642,414 as we significantly increased our sales and marketing and research and development activities in 2007, which materially increased our revenue and operating expenses. In addition, we recorded an impairment charge on certain inventory of approximately \$170,000 in 2007. Our net loss of \$5,458,284 in 2007 was higher than the loss in 2006 primarily due to the increased sales and marketing and research and development activities in 2007.

Liquidity and Capital Resources

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We have incurred recurring losses and negative cash flows since inception. Historically, we have financed our operations through the issuance of equity securities in private and public offerings, which have provided, in the aggregate, approximately \$26.0

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million since we began commercial operations in June 2005. Of this total, we grossed approximately \$5.0 million in an underwritten public offering of shares and warrants that we completed in the fourth quarter of 2006. We intend to utilize our new financing arrangement described below, as well as to net proceeds of this offering, to supplement operating cash and fund operations in the near future. However, our ability to obtain sufficient advances under our new financing arrangement to meet our operating capital requirements for the foreseeable future will be dependent upon our ability to generate increased accounts receivable through higher sales volumes, which cannot be assured. We will need to become profitable in the near future through generating higher revenues or lowering operating costs, or a combination of the two, or raise additional capital or additional debt financing in order to sustain future operations. There can be no assurance we will achieve profitable operations or generate sufficient cash from operations or from debt or equity financing to support operations in the future.

As a result of our public offerings, we have outstanding 4,315,894 publicly traded warrants, exercisable at \$6.19 per share. These warrants, which expire on July 8, 2010, are subject to redemption upon 30 days' notice at \$0.25 per warrant. Our redemption right was subject to a condition that has been satisfied, so we could redeem the warrants at any time, upon giving proper notice. However, it is not in our best interest to call the warrants until our stock price exceeds the exercise price, and we have no plans to do so at this time. Were these warrants exercised in the future, we could raise up to \$26,715,384, although there is no assurance that any of the warrants will ever be exercised.

Our 2005 Employee Stock Purchase Plan (the 2005 ESPP) enables employees to purchase our common stock at a 15% discount. For the year ended December 31, 2008, we sold 31,331 shares to employees, resulting in proceeds to us of \$51,732. Through April 6, 2009, 19,847 shares have been sold to employees under the 2005 ESPP, resulting in proceeds to us of \$16,870.

On March 3, 2009, we renewed our \$780,000 loan agreement with the Bank of Blue Valley by paying the principal down by \$150,000 and entering into a one-year note for \$629,985 in principal amount. The principal bears interest at 8%, payable monthly. The loan is principally secured by the purchased land.

We had a \$3,500,000 line of credit with Equity Bank. On August 20, 2008, the bank had declared the line of credit in default under the general insecurity clause of the loan agreement and our anticipated breach of the \$7,500,000 net worth financial covenant. We had until October 20, 2008 to refinance or pay off the outstanding balance on the line of credit, which was \$1,425,000 on August 20, 2008. On October 16, 2008, we obtained an extension to pay off the line of credit until December 4, 2008. In connection with the extension, we made a \$600,000 principal payment on the outstanding balance. On November 10, 2008, the entire outstanding balance was repaid on the line of credit with the proceeds of the Purchasing Agreement described below.

On November 10, 2008, we entered into a purchasing agreement (the Purchasing Agreement) with a financing company (the Purchaser) for a term of 18 months under which we agreed to sell all of our accounts receivable at a discount of 0.75% (Purchasing Fee) from the face value of each invoice for every 30 days the invoice is outstanding. We are obligated to sell all of our receivables to the Purchaser, but the Purchaser is not obligated to purchase any receivables or to advance against them. The Purchaser may, in its sole discretion, advance up to 85% of the eligible accounts receivable outstanding for a maximum borrowing of \$5,000,000. The interest rate on any outstanding advances to us will be 2.5% plus the greater of LIBOR plus 2.75% or the prime rate as published by *The Wall Street Journal*. In no event shall LIBOR be less than 3%. We are required to sell the Purchaser \$2,400,000 in invoices each calendar quarter or pay the minimum Purchasing Fee for any shortfall. We are required to maintain a \$5,000,000 tangible net worth at all times during the term of the Purchasing Agreement (the net worth covenant). The Purchasing Agreement may be renewed annually after the initial 18-month term unless either party elects not to renew, and it may be terminated by the Purchaser at any time without cause on 60 days' notice to us. As of March 31, 2009, the balance outstanding was \$734,713. On March 12, 2009, the Purchaser granted a waiver until June 10, 2009, with respect to the net worth covenant; we expect the net proceeds of this offering to satisfy the covenant by the expiration of the waiver.

Under the Purchasing Agreement, the Purchaser may, in its sole discretion, advance us up to 50% of eligible inventory, not to exceed the lesser of (i) 40% of the outstanding advances under the accounts receivable financing or (ii) \$750,000. The interest rate on any outstanding advances on inventory to us will be 3.5% plus the greater of LIBOR plus 2.75% or the prime rate as published by *The Wall Street Journal*. In no event shall LIBOR be less than 3%. The financing facility is secured by a security interest in essentially all of our assets.

On December 31, 2008, we had \$99,192 in cash, \$1,775,741 in accounts receivable, \$3,568,596 in inventory and a total of \$3,088,970 in current liabilities, for a total working capital of \$3,113,971. Net cash used in operating activities for the year ended December 31, 2008 was \$3,324,663, primarily due to decreased accounts receivable driven by the decrease in sales for 2008, compared to cash used in operating activities of \$4,779,999 for the year ended December 31, 2007. Net cash used in investing activities for the year ended December 31, 2008 was \$388,642, primarily to acquire equipment for sales and engineering activities, compared to net cash used in investing activities for the year ended December 31, 2007 of \$936,385. During the first quarter of 2008, we executed a promissory note in favor of the Bank of Blue Valley for \$780,000 to purchase land for \$900,000. This land is intended to be our future corporate location upon the expiration of our current lease agreements. Net cash provided by financing activities was \$653,741 for the year ended December 31, 2008, primarily due to proceeds from the issuance of common stock through the employee stock purchase plan and through the exercise of warrants compared to net cash provided by

financing activities of \$1,186,655 for the year ended December 31, 2007.

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On December 31, 2007, we had \$3,166,213 in cash, \$2,915,897 in accounts receivable, \$4,143,781 in inventory and current liabilities of \$1,648,424, for a total working capital of \$9,079,787. Net cash used in operating activities for the year ended December 31, 2007 was \$4,779,999, primarily to purchase long lead time inventory, eliminate engineering liabilities and fund increased accounts receivable. Net cash used in investing activities for the year ended December 31, 2007 was \$936,385, primarily to acquire equipment for sales and engineering activities. Net cash provided by financing activities was \$1,186,655 for the year ended December 31, 2007 from proceeds of a secondary stock and warrant offering, proceeds received upon exercise of warrants to purchase common stock and proceeds from installment loans to purchase equipment. At December 31, 2007, we also had available a \$2,500,000 bank line of credit (increased to \$3,500,000 in January 2008), secured by accounts receivable, inventory contract rights and general intangibles.

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BUSINESS

Overview

Headquartered in Lenexa, Kansas, ICOP Digital, Inc. designs, engineers and markets video surveillance products, for public safety. Our flagship product, the *ICOP Model 20/20-W*, was designed for the rugged demands of law enforcement agencies, providing a secure chain of custody and integrity of the recorded information. Since our first commercial sale in June 2005, we have sold the *ICOP Model 20/20-W* and its predecessor, the *ICOP Model 20/20*, to law enforcement customers in 49 states. The *ICOP Model 20/20-W* technology also has applications in other markets where video surveillance is critical in the safety of people and security of property, including the military and other public safety installations. Our product is installed in the dashboard of the vehicle; therefore, there are no parts in the trunk, under the seat, or overhead, which is critical in considering officer safety and space limitations within patrol cars. An AM/FM radio is built into the *ICOP Model 20/20-W* to replace the AM/FM radio in the dashboard. The *ICOP Model 20/20-W* provides wireless (W) upload of the recorded video to the backend server where the video evidence is stored and managed.

Law enforcement has long recognized the value of gathering intelligence and documenting critical events by means of recorded video. Video and audio evidence collected by in-car systems has been used successfully in cases such as driving under the influence, various traffic violations, vehicular pursuits, narcotic enforcement actions, assaults-on-officer incidents and civil litigation involving law enforcement agencies. Information collected by in-car VHS (analog) video systems has also been 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 quality video and audio, lack of dependability in extreme temperatures, storage and retrieval difficulties and officer safety concerns. The law enforcement industry is currently transitioning from analog to digital technologies for in-car video, and we believe that we are well-positioned to exploit this market. The *ICOP Model 20/20-W* is priced competitively to comparable units, yet we believe it offers superior video and audio quality, officer safety due to secure and convenient placement in the dashboard, and security for the integrity of the recorded evidence.

The *ICOP DVMS* (Digital Video Management System) is the original backend video management system for the *ICOP Model 20/20-W*. In late 2007, we began selling the *ICOP iVAULT MMS* (Media Management System), an enterprise-level software management product, which was developed to serve as a digital evidence locker for law enforcement, enabling storage of multiple file formats. This software is web-enabled, allowing files to be shared within precincts, among precincts or across the nation, using high levels of security.

The *ICOP 20/20 VISION* brings the functionality of the *ICOP Model 20/20-W* to laptops in police cars, allowing the digital video recorder (DVR) to be controlled by an officer's laptop computer anywhere in the vehicle. This product was developed in response to industry demand, which grew out of the dramatic growth of laptops in police vehicles.

During the second quarter of 2008, we began selling *ICOP LIVE*, a product that delivers live streaming audio and video. *ICOP LIVE* works in conjunction with the *ICOP Model 20/20-W* enabling live stream audio and video to and from a first responder vehicle over wireless networks including cellular networks, mesh networks, etc., from the *ICOP Model 20/20-W* to police headquarters, personnel on the scene and web-enabled mobile devices such as smart phones and PDAs in the field. Early marketing efforts are focused on our existing customer base of first responders. The audio and video live streams to a virtually unlimited number of simultaneous viewers, using secure protocols. To further leverage the marketing of *ICOP LIVE*, ICOP has entered into co-marketing agreements with Sprint Nextel (Sprint), using the implementation of *ICOP LIVE* over the Sprint Mobile Broadband Network, and with Strix Systems (Strix), one of the worldwide leaders in wireless mesh networking, using the implementation of *ICOP LIVE* over Strix mesh networks.

During the fourth quarter of 2008, we introduced the *ICOP Model 4000* which is a digital video product designed for school buses, cash transit vehicles, commercial and transit vehicles, including buses and trains. The *ICOP Model 4000* records up to eight cameras simultaneously for surveillance of events aboard first responder, commercial and transit vehicles. It is capable of live streaming video to first responders and dispatch.

In the first quarter of 2009, we were awarded a contract to outfit security force vehicles in Saudi Arabia with the *ICOP Model 20/20-W*. We believe we are well-positioned to take advantage of opportunities in the Middle East.

The Security Industry

The security industry is generally characterized by a continual evolution of technology that enhances both security and convenience at increasingly lower costs. Government and private industries in the United States and worldwide are actively seeking to develop new products

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and services that will meet the growing demands for homeland security. Billions of dollars are being appropriated by such governments to cope with growing crime and the threat of terrorism. The private sector is also driving the increased demand for homeland security products and services, including reliable integrated video surveillance technologies and communications solutions.

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There are three core market segments for ICOP products:

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

Operators of critical assets and public transportation such as mobile security vehicles supporting energy and chemical sites (gas, electric power, water and nuclear power plants), public transportation (transit, rail, road and marine transportation and airports), school buses and cash transit; and

Private industry.

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 bookings and other police procedures. Video recordings are an essential tool for law enforcement agencies in providing an accurate portrayal of traffic violations, citizen and officer behavior and other events as they occur; documenting police contacts with the public; offering persuasive evidence in court; and allowing for officer performance monitoring and protecting law enforcement agents against false claims of police misconduct. The result is an increased likelihood of criminal prosecutions, reduction of time officers spend in court, improved training, fewer citizen complaints, 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.

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 \$5,200 for the *ICOP Model 20/20-W* and related equipment, there is an estimated potential market of \$2 billion for law enforcement vehicles in the U.S. alone. According to the International Association of Chiefs of Police (IACP), 50% of law enforcement vehicles utilize in-car video systems, representing a significant increase over 2004, when the percentage was 40%. The majority of the existing in-car video systems are VHS (analog); however, these systems are gradually being replaced with digital systems.

While the market began transitioning to digital surveillance systems in approximately 2004, the majority of video applications in law enforcement today still rely on VHS technology. Digital in-car video systems, however, are superior to analog systems in many important respects. Digital video produces a higher quality in both imaging and audio. Digital video stores substantially more event information than analog video, including the date and time, officer name, traffic radar output, GPS coordinates, incident identification, status of emergency lights and other event information on every frame. DVDs can be stored in a fraction of the space of VHS cassettes. Many digital systems are continually in the passive recording mode when the power is on, and when the record mode is activated, a pre-event period of ten seconds to five minutes is added to the recording time, often capturing the incident prompting the officer to begin recording. Access to specific digitally recorded information is much faster; rather than having to review a VHS cassette through fast-forwarding and reversing, a scene may be selected from a menu and viewed instantly. Also, digital video may be archived to a server, reducing storage space. Back-end management software can catalog video information which allows for quick and easy retrieval. Another advantage digital video has over VHS is that digital video recordings will not degrade over time.

Strategy

Our goal is to become the industry leader in providing video surveillance products and solutions that enhance the safety and effectiveness of first responders. Having established a strong foothold in the U.S. law enforcement industry, which represents an estimated \$2 billion market for digital in-car video, we are expanding our focus to other markets, both in the U.S. and abroad, where our technology applications for surveillance and communication are critical to the safety of people and the security of property. These markets include military and government installations, public transportation such as trains and buses and cash transit vehicles. In the future, we plan to continue the development and marketing of additional innovative surveillance and communication systems for the public and private security markets.

To achieve our goal, we employ a multi-pronged strategy focused on three primary functions: marketing and distribution, product development and manufacturing.

Marketing and distribution:

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Establish strategic relationships with key partners, such as Sprint and Strix, OEMs, system integrators, manufacturing representatives and dealers, each providing access to key markets.

Develop additional product applications in the law enforcement as well as other markets where video surveillance and communication are critical to safety and security.

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Product development:

Develop technological enhancements that continue to improve the performance of our existing products.

Develop new products to complement the *ICOP Model 20/20-W*, which currently accounts for the majority of our revenues.

Anticipate advances in digital video technologies and identify next generation technologies to serve existing and potential new markets.

Manufacturing:

Work with high quality third-party manufacturers to reduce manufacturing costs and improve product reliability.

Products

Our suite of product offerings contributes to the overall *ICOP Solution*. The *ICOP Solution* is made up of products designed to secure a community with digital video. The *ICOP Model 20/20-W* is an award-winning digital in-car video system for law enforcement, a ruggedly designed product that records high-quality video. The *ICOP Model 20/20-W* utilizes a highly secured compression technology, which provides tamper-resistant video/audio evidence of a kind and quality that is admissible in court. Working with the *ICOP Model 20/20-W*, the *ICOP EXTREME* Wireless Microphone uses Frequency Hopping Spread Spectrum (FHSS) to eliminate the risk of interference from other devices using the same frequency band and provides secure, private audio recording at a range of over 2,000 feet (line of sight). The *ICOP 20/20 Vision* allows the DVR capabilities of the *ICOP Model 20/20-W* to be controlled by an officer's laptop computer. The *ICOP LIVE* delivers real-time situational awareness (live streaming video) from mobile cameras to multiple viewers and multiple devices simultaneously, such as headquarters, vehicle laptops, smart phones, etc., without requiring the installation of special software onto the receiving devices. The *ICOP Model 4000* mobile DVR records video for transit vehicles and schools. Our mission is to deliver video technology solutions that enable effective collection and efficient management of evidentiary information.

ICOP Model 20/20-W

Our flagship product, the *ICOP Model 20/20-W*, is an award-winning digital in-car video recorder which was developed for specific use in law enforcement. Recognized for its ease of use and installation, robust and intuitive functionality, superior audio and video quality, officer safety-conscious design, performance excellence and cost effectiveness, the *ICOP Model 20/20-W* and its predecessor, the *ICOP Model 20/20*, have been adopted by law enforcement agencies in 49 states since the commercial launch of the *ICOP Model 20/20* in mid-2005.

A key feature of the *ICOP Model 20/20-W* is its ease of installation and servicing. In one hour, the entire system can be installed in the radio slot of a vehicle dashboard, replacing the radio unit; an AM/FM tuner is built into the ICOP product. Unlike competitive products, there are no parts in the trunk, under the seat or overhead—a critical consideration for officer safety and space limitations within a patrol car. The *ICOP Model 20/20-W* provides wireless (W) upload and is designed to be upgradeable to take advantage of higher bandwidth as technology advances.

The rugged *ICOP Model 20/20-W* operates up to three cameras, recording two cameras simultaneously and records 1/4 VGA, Full VGA, or D1 quality video. The Mark button records exact event location for easy retrieval while also capturing location information using the built-in GPS.

The *ICOP Model 20/20-W* system includes a variety of other functions, including wireless 900 MHz transceiver with automatic synchronization and a range of over 2,000 feet; an Officer HELP button that sends an alert to dispatch detailing GPS coordinates and vehicle ID information; an automatic 60-second pre-record feature that is activated by lights, siren, crash sensor or wireless microphone; 40 GB hard drive enabling up to 16 hours of recording in high-resolution mode; and radar, speedometer and brake connection interface.

In February 2006, we were approved as a federal GSA contractor, making the *ICOP Model 20/20-W* readily available to federal agencies and helping us to facilitate contracting with a broad range of U.S. government agencies.

ICOP DVMS

The *ICOP DVMS* (Digital Video Management System) is the backend solution for the *ICOP Model 20/20-W* and is our original backend video storage and management system. It archives, searches, copies and displays two video recordings simultaneously and can burn recorded events to DVD or CD.

ICOP iVAULT MMS

We began selling the *ICOP iVAULT MMS* (Media Management System) in late 2007. The *ICOP iVAULT MMS* archives, searches, copies and displays two video recordings simultaneously and can burn recorded events to DVD or CD. This enterprise-level software is web-enabled, allowing files to be shared within and among precincts or across the nation via the Internet using high levels of security.

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ICOP 20/20 VISION

The *ICOP 20/20 VISION* brings the functionality of the *ICOP Model 20/20-W* to laptops in police cars, allowing the DVR to be controlled by an officer's laptop computer anywhere in the vehicle. This product was developed in response to the dramatic growth of laptops in police vehicles. The *ICOP 20/20 VISION* began shipping in March 2009.

ICOP LIVE

During the second quarter of 2008, the Company began shipping *ICOP LIVE*, a fully integrated solution for enabling live streaming video and audio to tactical response managers and coordinators. *ICOP LIVE* consists of a hardware and software component purchased by the customer and installed as an upgrade to our in-car video system.

ICOP LIVE enables video to live stream to and from a first responder vehicle over wireless networks, including cellular networks, mesh networks, etc., from the *ICOP Model 20/20-W* to police headquarters, other law enforcement vehicles, and other web-enabled devices, such as smart phones, PDAs, etc. The video can live stream from multiple cameras and multiple users simultaneously, using secure protocols.

ICOP Model 4000

During the fourth quarter of 2008, the Company introduced the *ICOP Model 4000*, a digital video recorder designed for school buses, cash transit vehicles, commercial and transit vehicles, including public buses and trains. The *ICOP Model 4000* records up to eight cameras simultaneously aboard such vehicles.

Sales and Marketing

We market the *ICOP Model 20/20-W* directly to city, county, state and federal law enforcement agencies in the U.S. and abroad. Our marketing efforts include advertising in police magazines, direct mailings to law enforcement agencies, participation in industry trade shows, conferences and seminars, providing articles for publication in leading industry magazines, and releasing electronic press kits to television stations in communities where the *ICOP Model 20/20-W* has been installed. Initially, we were marketing the *ICOP Model 20/20-W* and its predecessor primarily to law enforcement agencies. We have since been working on other applications for mobile video, including applications for military, fire trucks, emergency medical technician (EMT) vehicles, school and public buses, and trains.

In addition to our full-time inside sales and regional sales staff, we have established a national Officer Sales Team, which consists 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 also sell through manufacturer's representatives and dealers in the markets we serve.

Our commitment to provide the leading technical support in our industry has helped to escalate our brand and reputation and meet the urgent response requirements of our customers.

Typically, our sales cycle, which ranges from six to eighteen months, begins by initiating contact with a law enforcement agency or the receipt of a request for information from a prospective customer. 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, often provide a trial installation of our product, and negotiate a purchase order. The purchase decision is often made by a committee appointed to research the acquisition, and often requires approval by a local city council or state officials.

International Sales

We have agreements with distributors in key international markets where we believe opportunities are greatest. Our distributors must demonstrate the ability to provide local product installation and our highest level of direct tech support, in addition to the ability to sell to the markets we serve. We have made it possible for the *ICOP Model 20/20-W* to operate in other languages, which is critical to our success and strategic advantage abroad.

In March 2009, we announced that we had been awarded a contract to outfit security force vehicles in Saudi Arabia with *ICOP Model 20/20-W* systems. We have shipped the first order for 100 units as a pilot project. DDIT, a registered Saudi company, is our distributor in the Middle East and provides delivery, installation, and support of our products in that region.

Competition

The law enforcement in-car video market is highly competitive. Digital in-car video is a quickly evolving technology, and the market is growing rapidly as digital technology gains widespread acceptance. As new patrol cars are being purchased or leased, the outdated analog video systems are being replaced by digital systems, and many large cities are purchasing in-car video for the first time.

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Our major competitors for the *ICOP Model 20/20-W* and the *ICOP 20/20 VISION*, in the law enforcement sector, are L-3 Communications Mobile-Vision, Panasonic, Coban Technologies, Inc., and WatchGuard Video. The primary competitors for the *ICOP Model 4000* include AngelTrax, Honeywell, 24/7 Security, Seon and Safety Vision.

In addition to their existing relationships with law enforcement agencies, some 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 that the innovative product design of our products deliver superior quality and value over other products on the market. 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 vehicles are equipped with video recorders, and as old analog systems are upgraded to digital systems.

We believe we compete principally on the basis of:

superior product performance and functionality;

price;

superior product quality and reliability; and

customer service and technical support.

Manufacturing and Suppliers

We entered into a manufacturing agreement in February 2005, which was amended in March 2008, with a foreign company to produce the *ICOP Model 20/20* and its successor, the *ICOP Model 20/20-W* units through December 31, 2009. Under this agreement, the manufacturer is responsible for purchasing the components and manufacturing the units, and we are required to pay 50% upon placement of the purchase order and the remaining 50% upon shipment. The contract manufacturer has certain intellectual property rights to a method of operating the data compression used in the *ICOP Model 20/20* and the *ICOP Model 20/20-W*. If this method were no longer available to us, another contract manufacturer could produce the unit, but a partial redesign would be required and could result in a production delay.

We entered into a license agreement in 2004 with another contract manufacturer. Under this agreement, we are granted the right to design, manufacture, use, sell and distribute products that decode, reconstruct and display video images based on the contractor's proprietary codec technology, and the subcontractor agrees to sell us a supply of semiconductor chips that incorporate the technology. The initial term of this 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* and *ICOP Model 20/20-W*. Other miscellaneous components are acquired on a purchase order basis and we do not have long-term contracts with these suppliers.

We entered into a development and manufacturing agreement in 2008 with a foreign company, pursuant to which the contract manufacturer agreed to produce the *ICOP Model 4000*. The initial term of this agreement is five years. Another contract manufacturer could produce the *ICOP Model 4000*, but a partial redesign would be required and could result in a production delay.

We have entered into agreements with other manufacturers on an as-needed basis to produce new and additional products, but we do not have long-term commitments with these suppliers.

Research and Development

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Research and development costs charged to expense were approximately \$1,132,000 and \$1,800,000 in 2008 and 2007, respectively. No research and development expense has been capitalized.

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.

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Intellectual Property

We have filed U.S. patent applications covering aspects of the design and methods of operating the *ICOP Model 20/20-W*, *ICOP LIVE*, and additional new products and applications. No patents have yet issued. As currently drafted, the claims generally describe the use of a digital recording device in an integrated and synchronized video system able to record data from cameras, microphones and global positioning system equipment, with the recording media housed in a driver accessible, originally manufactured console opening in the vehicle, such as a vehicle radio slot. The claims also are drafted to cover particular features and capabilities of the *ICOP Model 20/20-W* such as the system's in-dashboard recorder, back-end searchable database and event marking capability. In addition to trademarks for all of our products, we have also 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, as we deem necessary or appropriate. We also use confidentiality agreements with employees and key suppliers to ensure the confidentiality of our trade secrets.

Marketing Alliances

We have entered into co-marketing agreements with Sprint and with Strix Systems. While *ICOP LIVE* is able to live stream using any method of transmission, where the bandwidth supports streaming video, the co-marketing relationships with Sprint and Strix afford all parties important marketing message collaboration. With *ICOP LIVE*, it is possible to optimize the response to and management and outcome of a crisis, security breach or crime-in-progress through the delivery of live streaming video, providing real-time situational awareness. Strix Systems is one of the worldwide leaders in wireless mesh networking, and Sprint is one of the three largest wireless companies in the United States based upon the number of wireless subscribers. Our marketing alliances with Sprint and Strix are intended to promote our products to both the public and private sectors. Our marketing alliances do not require Sprint, Strix or ICOP to compensate the other party for the promotion of the other party's products or services.

Employees

As of April 6, 2009, we had 48 full-time employees including 7 in management and administration, 13 in sales and marketing, 11 in engineering, 9 in technical support, 4 in shipping/testing and 4 in technology. In addition, we had one independent contractor working in research and development.

Property

Our offices are located in approximately 12,800 square feet of leased office and warehouse space in Lenexa, Kansas with a lease agreement for five years through June 30, 2010. During 2007, we leased an additional 9,400 square feet of office and warehouse space in Olathe, Kansas, through June 30, 2010. Payments under these two leases total \$23,015 per month, plus taxes, common area charges and insurance. In March 2008, we acquired roughly 10 acres of land in Lenexa, Kansas, for possible construction of new corporate facilities when our current leases expire.

Legal Proceedings

On July 11, 2008, we were served with a summons and a complaint in which ICOP and TriSquare Communications, Inc., a Missouri corporation (TriSquare), and nine other companies were named as defendants in a patent infringement action commenced by L-3 Communications Mobile-Vision, Inc., a New Jersey corporation (Mobile-Vision). According to the complaint, which was filed in the United States District Court for the District of New Jersey, and with the United States International Trade Commission (ITC), the wireless microphone and related base station that TriSquare and its affiliates manufacture and import, and we incorporate into and sell as components of our *ICOP Model 20/20-W* product, infringe upon a patent held by Mobile-Vision covering a wireless microphone for use with an in-car video system.

On January 29, 2009, an ITC administrative law judge granted Mobile-Vision's motion to withdraw its complaint at the ITC. Mobile-Vision has stated that it intends to continue its lawsuit in the New Jersey District Court, where it faces our counterclaims of non-infringement, invalidity of its patent, unfair competition, patent misuse and antitrust violations. We intend to vigorously defend ourselves against Mobile-Vision's claims in this case.

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 April 6, 2009, are as follows:

Name	Age	Position
David C. Owen	70	Chief Executive Officer and Director
Laura E. Owen	51	President, Chief Operating Officer, Corporate Secretary and Director
Mickie R. Koslofsky	38	Chief Financial Officer and Treasurer
Bryan Ferguson	46	Director
Noel Koch	69	Director
Roger L. Mason	56	Director
Kevin McGahee	46	Director of Product Development
David Nicholl	27	Director of Technology

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 husband of 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 national travel insurance company. In 1991, she became the first woman to be appointed Secretary of Commerce for the State of Kansas, the state's economic development agency. She was named one of the Top 25 Most Influential Business Women of 2008 by the Kansas City Business Journal. 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.

Mickie R. Koslofsky has served as our Chief Financial Officer and Treasurer since March 2009. Ms. Koslofsky is a licensed CPA with over 17 years of experience in accounting, financial systems and analysis, budgeting/forecasting, reporting, and Sarbanes-Oxley compliance. Ms. Koslofsky served as Accounting Manager for Cydex Pharmaceuticals, Inc. from May 2008 to October 2008 and as Senior Manager of Financial Reporting for Aptuit, Inc. from 2006 to May 2008. From April 2004 to August 2005, she served as Senior Financial Analyst for DST Systems, Inc., where she was responsible for preparation of financial statements and SEC reporting requirements. Prior to joining DST, Ms. Koslofsky was a Financial Analyst for Sprint Corporation. She received a B.S. degree in accounting from Montana State University and a M.B.A. from Baker University.

Bryan Ferguson has served as a director since August 2008. Prior to becoming a director, Mr. Ferguson served as a member of our Advisory Board from December 2007. Since June 2006, Mr. Ferguson has been a Vice President of Shaw Capital, Inc., the project development and financial services arm of The Shaw Group, Inc. His responsibilities include the development of equity investment projects, assets or acquisitions, providing deal structure, equity and debt financing arrangements and partnership alignment. From January 2003 to June 2006, Mr. Ferguson served as Vice President, Business Development of Shaw Environmental & Infrastructure, Inc. Mr. Ferguson also supports state and federal legislative efforts. Mr. Ferguson received a B.S. degree in Earth Science from Emporia State University.

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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

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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.

Key Employees

Kevin McGahee has served as our Director of Product Development since May 2008. Prior to joining ICOP, Mr. McGahee spent eight years working for Thales ATM. Mr. McGahee has 23 years experience in engineering design and product management, the majority of which was with Thales ATM and Rockwell Collins. Mr. McGahee holds a masters degree in Computer Engineering from Iowa State University, and a B.S. degree in Electric Engineering from Kansas State University.

David Nicholl has served as our Director of Technology since August 2006. He leads software product management for the Company, researches new technologies and assesses their potential to become new products or services for ICOP and advises Company leadership on technical strategy for the delivery of innovative, leading-edge capabilities to our customers. He also provides technical assessments of potential mergers and acquisitions. He interacts with the Sales Team to field innovative products to meet the broad and evolving demands of ICOP's customers, and works with the Engineering Team to help improve ICOP's future product releases by assisting in prioritizing features for future products and by communicating customer feedback to the Engineering group. He held technology and quality-related positions for Bayer Healthcare, Inc. in Boston. Mr. Nicholl holds a B.S. degree in Biochemistry and Molecular Biology from Boston 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 two persons, but we anticipate that we will have more members in the future.

Lou Anemone has served on our Advisory Board since November 2005. Until his retirement in 1999, he was Chief Operating Officer of the New York Police Department. 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.

Tully Plessner has served on our Advisory Board since August 2007. He currently serves as Chairman of Consensus Research Group, a global strategic research and consulting organization headquartered in New York City with Research Centers in Philadelphia, Los Angeles and Düsseldorf, Germany.

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 is serving a term that expires in 2010, Mr. Mason, Ms. Owen and Mr. Ferguson are serving terms that expire in 2009, and Mr. Koch is serving a term that expires in 2011.

Our Board of Directors has three standing committees: an Audit Committee, a Compensation and Incentive Plan 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;

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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

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preparing the report that the SEC requires in our annual proxy statement.

Our Audit Committee is comprised of Messrs. Ferguson, Koch and Mason. Mr. Ferguson 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 SEC, and the NASDAQ Capital Market. The Board has determined that Mr. Ferguson qualifies as an audit committee financial expert, as defined by the rules of the SEC.

Compensation and Incentive Plan Committee. Our Compensation and Incentive Plan Committee assists our Board of Directors in determining the 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; and

administering our stock option and other equity compensation plans.

Our Compensation and Incentive Plan Committee is comprised of Messrs. Ferguson, Koch and Mason. Mr. Mason serves as Chairman of the Compensation and Incentive Plan Committee. The Board has determined that all members of the Compensation and Incentive Plan Committee are independent under the rules of the NASDAQ Capital Market.

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. Ferguson, 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 Capital Market.

Code of Ethics

We have adopted a code of ethics that applies to our officers (including our principal executive, financial and accounting officers), directors, employees and consultants. The text of our code of ethics is available on our website at www.ICOP.com. If disclosure of an amendment or waiver to our code of ethics is required under Form 8-K, we intend to satisfy such disclosure requirement by timely filing a Form 8-K or by posting such information on our website.

Table of Contents**Summary Compensation Table**

The following table sets forth certain information concerning total compensation received by our principal executive officer (PEO), our two most highly compensated executive officers who were serving as executive officers as of the end of our last fiscal year, and an individual for whom disclosure would have been provided but for the fact that the individual was not serving as an executive officer as of the end of our last fiscal year (the Named Executive Officers).

Summary Compensation Table for 2008 and 2007

Name and Principal Position	Year	Salary (\$)	Bonus (\$ (1))	Options Awards (\$ (2))	All Other Compensation (\$)	Total (\$)
David C. Owen	2008	\$ 220,374		\$ (19,636)(3)	\$ 13,564(4)	\$ 214,302
Chief Executive Officer	2007	220,834	\$ 373,567	79,250	17,455(5)	691,106
Laura E. Owen	2008	178,275		(15,501)(6)	17,608(7)	180,382
President, Chief Operating Officer	2007	189,072	373,567	79,250	18,005(8)	659,894
Derick Shupe (9)	2008	135,096		14,381	2,333(10)	151,810
Former Chief Financial Officer						
Tom Tougas (11)	2008	163,799				163,799
Director of Engineering	2007	23,894				23,894

- (1) Represents the cash bonus paid equal to the income tax cost on the restricted common stock awarded becoming unrestricted.
- (2) The amounts recognized are reflected in the share-based compensation expense as disclosed in Note 5: Shareholders' Equity in our financial statements for the fiscal year ended December 31, 2008 in accordance with Statement of Financial Accounting Standards No. 123R, *Share-Based Payment* (SFAS No. 123R). In conjunction with the provisions of SFAS 123R, we amortize compensation expense for the grant date fair value of option awards evenly over the vesting period using the straight-line method.
- (3) On July 10, 2008, 50,000 options to purchase shares of common stock at \$5.85 per share, 50,000 options to purchase shares of common stock at \$6.80 per share and 100,000 shares of restricted stock were cancelled in exchange for 200,000 fully vested options to purchase common stock at \$1.39 per share.
- (4) Includes auto allowance of \$4,714 and 401(k) Company contribution of \$8,850.
- (5) Includes auto allowance of \$8,139 and 401(k) Company contribution of \$9,316.
- (6) On July 10, 2008, 37,500 options to purchase shares of common stock at \$5.85 per share, 50,000 options to purchase shares of stock at \$6.80 per share and 100,000 shares of restricted stock were cancelled in exchange for 200,000 fully vested options to purchase common stock at \$1.39 per share.
- (7) Includes auto allowance of \$10,200 and 401(k) Company contribution of \$7,408.
- (8) Includes auto allowance of \$10,200 and 401(k) Company contribution of \$7,805.

(9) Mr. Shupe resigned in February 2009.

(10) Includes 401(k) Company contribution.

(11) Mr. Tougas resigned in October 2008.

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Option Exercises and Holdings

The following table sets forth, as to those Named Executive Officers, certain information concerning the number of shares subject to both exercisable and unexercisable stock options as of December 31, 2008, and the number of shares of common stock received upon exercise of options during the last fiscal year.

Outstanding Equity Awards at December 31, 2008

Option Awards