

ICOP DIGITAL, INC  
Form 10QSB/A  
June 30, 2005

## U.S. Securities and Exchange Commission

Washington, D.C. 20549

### Form 10-QSB/A-2

(Mark One)

**QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended March 31, 2005

**TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

Commission file number: 000-27321

### ICOP Digital, Inc.

(Name of small business issuer in its charter)

**Colorado**  
(State or other jurisdiction of  
incorporation or organization)

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

**11011 King Street, Suite 260, Overland Park, KS 66210**

(Address of principal executive offices, including ZIP Code)

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Issuer's telephone number: (913) 338-5550

N.A.

(Former name, address and fiscal year, if changed since last report)

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Transitional Small Business Disclosure Format Yes  No

The issuer had 1,648,862 shares of its common stock issued and outstanding as of May 14, 2005, the latest practicable date before the filing of this report.

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Explanatory Note

ICOP Digital, Inc. is filing this Amendment to its quarterly report on Form 10-QSB for the quarter ended March 31, 2005 to revise its financial statements to conform with an amendment to its Annual Report on Form 10-KSB for the year ended December 31, 2004. The amendment to the annual report revised the valuation and recording of convertible preferred stock issued in 2004. The revision did not affect total capital or cash position.

ICOP DIGITAL, INC.

PART I - FINANCIAL INFORMATION

Forward-Looking Statements

This report on Form 10-QSB/A contains forward-looking statements that concern our business. Such statements are not guarantees of future performance and actual results or developments could differ materially from those expressed or implied in such statements as a result of certain factors, including those factors set forth in Item 2 - Plan of Operation and elsewhere in this report. All statements, other than statements of historical facts, included in this report that address activities, events or developments that we expect, believe, intend or anticipate will or may occur in the future, including the Company's ability to successfully maintain its existence while it identifies potential business opportunities, are forward looking statements.

These statements are based on certain assumptions and analyses made by us in light of our experience and our product research. Such statements are subject to a number of assumptions including the following:

risks and uncertainties;

general economic and business conditions;

the business opportunity that may be presented to and pursued by us;

changes in laws or regulations and other factors, many of which are beyond our control; and

ability to obtain financing on favorable conditions.

The cautionary statements contained or referred to in this report should be considered in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf. We undertake no obligation to release publicly any revisions to any forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events.



## Item 1. Financial Statements

ICOP DIGITAL, INC.

(A development stage company)

Balance Sheet (Unaudited)

March 31, 2005

<b>Assets</b>	<b>Restated *</b>
Current Assets	
Cash	\$ 798,374
Accounts receivable, net	25,157
Prepaid expenses	179,700
<b>Total current assets</b>	<b>1,003,231</b>
Property and equipment, at cost, net of accumulated depreciation of \$47,737	132,987
Other assets:	
Deferred patent costs	61,480
Deferred offering costs	242,630
	\$ 1,440,328
<b>Liabilities and Shareholders Deficit</b>	
Current Liabilities:	
Accounts payable	\$ 1,734,618
Accrued liabilities	368,833
Unearned revenue	46,866
Notes payable, related parties	119,066
Notes payable	2,200,000
Current maturities of long-term debt	7,870
Accrued interest payable	26,712
<b>Total current liabilities</b>	<b>4,503,965</b>
Long-term debt, net of current maturities	32,258
<b>Total liabilities</b>	<b>4,536,223</b>
Shareholders' deficit (Note 4):	
Preferred stock, no par value; 5,000,000 shares authorized, 23,665 shares issued and outstanding	1,420,000
Common stock, no par value; 50,000,000 shares authorized, 1,648,862 shares issued and outstanding	3,301,266
Accumulated other comprehensive loss, net of tax	(63,535)
Deficit accumulated during development stage	(7,753,626)
<b>Total shareholders' deficit</b>	<b>(3,095,895)</b>

\$

1,440,328

\* See Note 6

See accompanying notes to financial statements.

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ICOP DIGITAL, INC.

(A development stage company)

Statements of Operations (Unaudited)

	2005	Three Months Ended March 31,	2004 Restated *	May 24, 2002 Inception through March 31, 2005 Restated *
Sales, net of returns	\$	\$	\$	50,657
Cost of sales				31,755
Gross profit				18,902
Operating expenses:				
Selling, general and administrative		334,049	450,155	3,354,407
Research and development		117,226	492,804	3,986,354
Loss from disposition of subsidiary, net				450,000
Settlement of dispute				400,000
Total operating expenses		451,275	942,959	8,190,761
Loss from operations		(451,275)	(942,959)	(8,171,859)
Other (expenses):				
Foreign currency translation				(4,221)
Gain on restructure of trade debt				471,707
Interest expense		(29,181)	(658)	(49,253)
Loss before income taxes		(480,456)	(943,617)	(7,753,626)
Income tax provision				
Net loss	\$	(480,456)	(943,617)	(7,753,626)
Net loss available to common shareholders after beneficial conversion feature	\$	(480,456)	(1,443,617)	(8,253,626)
Basic and diluted loss per share to common shareholders	\$	(0.29)	(0.88)	
Basic and diluted weighted average common shares outstanding *		1,647,444	1,635,033	

\* See Note 6

See accompanying notes to financial statements.





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ICOP DIGITAL, INC.

(A development stage company)

Statements of Cash Flows (Unaudited)

	Three Months Ended March 31,		May 24, 2002 Inception through March 31, 2005 Restated*
	2005	2004	
<b>Cash flows from operating activities:</b>			
Net loss	\$ (480,456)	\$ (943,617)	\$ (7,753,626)
Adjustments to reconcile net loss to net cash used by operating activities:			
Depreciation	9,557	5,478	60,785
Book value of equipment retired		1,733	28,837
Stock-based compensation			350,000
Stock options issued			95,000
Preferred stock issued to settle dispute			400,000
Loss on unconsolidated subsidiary			450,000
Gain on restructured trade debt			(471,707)
Changes in operating liabilities:			
Increase in accounts receivable, Inventory and prepaid expenses	(126,859)	5,400	(204,607)
Increase in accounts payable and accrued liabilities	(319,498)	368,517	2,585,201
<b>Net cash used in operating activities</b>	<b>(917,256)</b>	<b>(562,489)</b>	<b>(4,460,117)</b>
<b>Cash flows from investing activities:</b>			
Purchases of property and equipment	(23,247)	(16,557)	(114,895)
Payment of patent costs		(42,029)	(61,730)
Investment in subsidiary		(450,000)	(450,000)
Liabilities assumed in recapitalization			9,432
Deposits		3,000	
<b>Net cash used in investing activities</b>	<b>(23,247)</b>	<b>(505,586)</b>	<b>(617,193)</b>
<b>Cash flows from financing activities:</b>			
Proceeds from issuance of notes payable	2,000,000	200,000	2,906,231
Principal payments on notes payable	(22,735)	(293,878)	(640,115)
Proceeds from the sale of preferred stock		1,099,998	1,099,998
Proceeds from the sale of common stock		150,000	2,774,700
Payment of offering costs	(242,630)		(265,130)
<b>Net cash provided by financing activities</b>	<b>1,734,635</b>	<b>1,156,120</b>	<b>5,875,684</b>
<b>Net change in cash</b>	<b>794,132</b>	<b>88,045</b>	<b>798,374</b>
Cash, beginning of period	4,242	118,780	
<b>Cash, end of period</b>	<b>\$ 798,374</b>	<b>\$ 206,825</b>	<b>\$ 798,374</b>
<b>Supplemental disclosure of cash flow information:</b>			
Income taxes	\$	\$	\$

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Interest		12,229	3,419	25,295
Non-cash investing and financing transactions:				
Subsidiary acquired with stock	\$		\$	700,000
Subsidiary divested for stock			(700,000)	(700,000)
Preferred stock converted to common		(79,998)		(79,998)
Foreign currency translation		(54,060)	23,589	63,535
Equipment acquired with notes payable				96,714
Equipment acquired with stock				11,000

\* See Note 6

See accompanying notes to financial statements.

ICOP DIGITAL, INC.

(A development stage company)

Notes to Financial Statements

Note A: Basis of Presentation

The financial statements presented herein have been prepared by the Company in accordance with the accounting policies in its audited financial statements for the period ended December 31, 2004, included in its annual report on Form 10KSB/A as filed June 27, 2005, and should be read in conjunction with the notes thereto. The Company entered the development stage in accordance with Statement of Financial Accounting Standard ( SFAS ) No. 7 on May 24, 2002. It is a development stage enterprise engaged in the design, development and marketing of an in-car video recorder system for use in the law enforcement industry.

In the opinion of management, all adjustments (consisting only of normal recurring adjustments) which are necessary to provide a fair presentation of operating results for the interim period presented have been made. The results of operations for the periods presented are not necessarily indicative of the results to be expected for the year.

Interim financial data presented herein are unaudited. The unaudited interim financial information presented herein has been prepared by the Company in accordance with the policies in its audited financial statements for the period ended December 31, 2004 and should be read in conjunction with the notes thereto.

The accompanying statements of operations and cash flows reflect the three-month period ended March 31, 2005. The comparative figures for the three-month period ended March 31, 2004 have been included in the accompanying statements of operations and cash flows for comparison on an unaudited basis.

Note 1: Nature of Operations, Merger, and Summary of Significant Accounting Policies

Operations and Merger

ICOP Digital, Inc. was incorporated in May 2002 in Nevada and merged into a wholly owned subsidiary of the Company as of December 31, 2003. The Company, formerly named Vista Exploration Corporation, subsequently changed its name to ICOP Digital, Inc. The Company is a development stage enterprise engaged in the design, development and marketing of in-car video recorder systems for use in the law enforcement industry. Seven of the Company's in-car video units and related equipment have been sold. The Company's offices are located in Overland Park, Kansas.

Certain changes have been made to the prior year's financial statements in order to conform to the current year's presentation. On February 28, 2005, the Company's shareholders approved a reverse stock split that exchanged one new share of stock for ten existing shares effective March 10, 2005. All share and per share amounts in this document have been changed to reflect the effect of this change.

The 2004 financial statements have been restated to record a deemed dividend of \$500,000 during the first quarter of 2004 to the Company's preferred shareholders for the value of their right to convert shares of preferred stock to common stock. This non-cash dividend in the first quarter of 2004 did not effect net capital but increased the net loss to common shareholders. In addition, the financial statements have been restated to record a non-cash operating expense of \$400,000 in the fourth quarter of 2004 as a result of issuing 6,667 shares of convertible preferred stock to settle a dispute.

In February 2003, the Company purchased all the issued and outstanding common stock of McCoy's Law Line, Inc. ( McCoy's ) to obtain access to McCoy's marketing organization and permit ICOP to sell and distribute law enforcement-related products in addition to the ICOP in-car digital video recording system. The purchase price consisted of 70,000 shares of ICOP common stock valued at \$10.00 per share. In March 2004, ICOP determined to develop a different system to market its products and sold its investment in McCoy's. The sale price consisted of the 70,000 shares of ICOP common stock valued at \$10.00 per share that had been paid for the purchase.

Effective December 31, 2003, ICOP Digital, Inc. (ICOP) exchanged 100 percent of its outstanding shares of common stock for 1,457,700 shares of the common stock of Vista Exploration Corporation ( Vista ) After January 2004, the two companies were consolidated. The acquisition has been treated as a recapitalization of ICOP, with Vista the legal surviving entity. Since Vista had, prior to the recapitalization of ICOP, no assets and net liabilities (consisting principally of accounts payable) and no operations, the recapitalization has been accounted for as the sale of 179,000 shares of ICOP common stock for the net liabilities of Vista. The historical financial statements presented herein have been restated and are those of ICOP. Costs of the transaction have been charged to the period. In November 2004, the Company changed its name from Vista to ICOP Digital, Inc.

#### Going Concern Basis

The accompanying financial statements have been prepared on a going concern basis, which contemplates the realization of assets and the satisfaction of liabilities in the normal course of business. As shown in the accompanying financial statements, the Company has suffered significant losses since inception. This factor, among others, may indicate that the Company will be unable to continue as a going concern.

The Company is in the process of conducting a public offering of its common stock to raise capital for inventory, marketing and sales, research and development and general operations. In the longer term, the Company plans to expand its acquired operations, continue to pursue sales of its products and become profitable. There is no assurance that the Company's products will gain market acceptance or that the Company will attain profitability.

The financial statements do not include any adjustments relating to the recoverability and classification of assets and/or liabilities that might be necessary should the Company be unable to continue as a going concern. The Company's continuation as a going concern is dependent upon its ability to meet its obligations on a timely basis and, ultimately, to attain profitability.

#### Note 2: Related Party Transactions

Notes and loans payable to related parties consisted of unsecured advances made to the Company under promissory note and loan agreements for working capital purposes and pay no interest. The notes payable are due on demand. During the three months ended March 31, 2005, shareholders and affiliates were repaid \$20,000 on existing notes. Subsequent to March 31, 2005, a director loaned \$300,000 to the Company to allow the Company to accelerate manufacturing of inventory. This note is due on closing of a secondary stock offering or in October 2005 and accrues interest at approximately 8% per annum.

Note 3: Notes Payable

In March 2005, the Company completed the sale of \$2,200,000 in secured promissory notes and related common stock warrants. These notes were sold to accredited investors, are due when the public offering is closed or July 31, 2005 and accrue interest at a rate of 8% per annum.

Note 4: Shareholders' Equity

Preferred Stock converted to common stock

In January 2005, a shareholder converted 1,333 shares of the Company's Class A preferred shares having a value of \$79,998 into 10,664 shares of the Company's no par common stock.

Note 5: Income Taxes

The Company records its income taxes in accordance with Statement of Financial Accounting Standard No. 109, Accounting for Income Taxes. The Company incurred net operating losses during the periods shown on the condensed financial statements resulting in a deferred tax asset, which was reserved, therefore the net benefit and expense resulted in \$0 income taxes.

Note 6 Restatement of Financial Statements

The Company has restated its financial statements for the year ended December 31, 2004 and for the quarter ended March 31, 2005 to correct errors identified as a result of a regulatory review of the Company's financial statements and reflect the corresponding changes described below. There was no net change to cash provided by financing activities, cash used in operating or investing activities or net capital as a result of these errors.

During the first quarter of 2004, the Company received subscriptions for 25,000 post-split shares of convertible preferred stock and received payments totaling \$1,099,998 for 18,333 of those post-split shares. In December 2004, the Company issued another 6,667 post-split shares for no additional consideration to one of the original subscribers to settle a dispute. The Company originally recorded these transactions as the sale of 25,000 post-split shares of preferred stock for proceeds of \$1,099,998. This restatement separates the sales of preferred stock completed early in 2004 and records a deemed dividend for the benefit provided by the included conversion feature. The restatement next reports the December issuance as a separate transaction and records an expense for the settlement of the dispute.

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For the first component, we revised our analysis of the beneficial conversion feature using as comparable fair value of our common stock the price received for most of the sales of common stock during 2003 and 2004, \$10.00 per post-split share. A share of the preferred stock can be converted into eight shares of common stock, so the \$60.00 per post-split share price is equivalent to a common stock price of \$7.50 per post-split share, a difference of \$2.50 per post-split common share. On an as converted basis, for the 200,000 post-split common shares, this calculation results in a value of the beneficial conversion feature of \$500,000. The preferred stock is immediately convertible to common stock, so this value was immediately recorded as a deemed dividend to increase the net loss available to common shareholders for the year ended December 31, 2004.

For the second component, the investor had subscribed for 13,334 post-split preferred shares during the first quarter of 2004. The investor paid half of the subscription price or \$400,000, at that time. A dispute subsequently arose over the terms of payment for the remaining shares subscribed. The Company issued an additional 6,667 post-split shares to the investor to settle this dispute during the fourth quarter of 2004. The Company has re-stated its financial statements by recording an operating expense equal to the unpaid subscription price of \$400,000 and increasing paid in capital by the same amount. Originally, the Company had booked the sale of the entire 13,334 post-split shares of convertible preferred stock for \$400,000, the total amount of cash received for the shares.

The following table shows the effect of the restatement:

	As Previously Reported	As Restated
<b>As of March 31, 2005:</b>		
Shareholders Deficit		
Preferred stock	\$ 1,020,000	\$ 1,420,000
Common stock	3,301,266	3,301,266
Retained deficit	(7,353,626)	(7,753,626)
Total Shareholders deficit	(3,095,895)	(3,095,895)
Preferred shares issued and outstanding	23,665	23,665
Common shares issued and outstanding	1,648,862	1,648,862
<b>For the quarter ended March 31, 2005:</b>		
Net Loss	(480,456)	(480,456)
Net loss available to common shareholders after beneficial conversion feature	(480,456)	(480,456)
Loss per share available to common shareholders	(0.29)	(0.29)
Basic and diluted weighted average common		
<b>For the quarter ended March 31, 2004:</b>		
Net Loss	\$ (943,617)	\$ (943,617)
Deemed dividend - beneficial conversion feature		(500,000)
Net loss available to common shareholders after beneficial conversion	(943,617)	(1,443,617)
Loss per share available to common shareholders	(0.58)	(0.88)
<b>For the period from May 24,2002 (inception) through March 31, 2005:</b>		
Operating expenses:		
Settlement of dispute	\$	\$ 400,000
Loss from operations	(7,771,859)	(8,171,859)
Net Loss	(7,353,626)	(7,753,626)
Net loss available to common shareholders after beneficial conversion	(7,753,626)	(8,253,626)
Cash flows from operating activities		
Net loss	(7,353,626)	(7,753,626)
Preferred stock issued to settle dispute		400,000
Net cash used in operating activities	(4,460,117)	(4,460,117)
Net cash used in investing activities	(617,193)	(617,193)
Net cash provided by financing activities	5,875,684	5,875,684

Item 2. Plan of Operation

During the three months ended March 31, 2005, the Company incurred \$117,226 in research and development expenses and \$334,049 in general and administrative expense, resulting in an operating loss of \$451,275. During the three months ended March 31, 2004, the Company incurred \$492,804 in research and development expenses and \$450,155 in general and administrative expense, resulting in an operating loss of \$942,959. The reduced level of expense is the result of completion of product development and the change in focus to sales and marketing as the Company executes its business plan and pursues funding for expansion. Funding provided by the bridge loans and the contemplated secondary offering should permit expansion of sales, service and engineering personnel, facilitate acceleration of product manufacturing and help the Company to achieve operating breakeven over the coming twelve months.

#### Liquidity and Capital Resources

On March 31, 2005, the Company had \$798,374 in cash and a total of \$4,503,965 in current liabilities, primarily related to the research and development costs and the bridge loans obtained in conjunction with the proposed secondary offering. Net cash used in operating activities for the three months ended March 31, 2005 was \$917,256 compared to cash used in operating activities of \$562,489 for the three months ended March 31, 2004. Net cash used in investing activities for the three months ended March 31, 2005 was \$23,247. Net cash provided by financing activities was \$1,734,635 for the three months ended March 31, 2005, substantially from the bridge loans and offset by payment of offering costs for the proposed secondary offering.

Our auditors included an explanatory paragraph in their opinion on our financial statements for the year ended December 31, 2004, to state that our losses since inception and our net capital deficit at December 31, 2004 raise substantial doubt about our ability to continue as a going concern. Our ability



to continue as a going concern is dependent upon raising additional capital and achieving profitable operations. We cannot assure you that our plan of operation will be successful in addressing this issue.

#### Our Capital Requirements

We will need to raise additional funds to finance our planned operations during the next 12 months. We have filed and are currently pursuing a public offering of common stock intended to provide these funds. There is no guarantee that additional financing will be available to us when needed or, if available, that it can be obtained on commercially reasonable terms. If we do not obtain additional financing, we will not be able to implement our business plan. Furthermore, we could be forced to cease operations and liquidate our assets.

#### Employees

We have twelve full time employees at March 31, 2005.

#### Item 3. Controls and Procedures.

(a) Our management, with the participation of our President and Chief Financial Officer, conducted an evaluation of our disclosure controls and procedures, as such terms are defined under Rules 13a-15(e) and 15d-15(e) promulgated under the Securities Exchange Act of 1934, as amended, as of the end of the period covered by this report. Based on their evaluation, our President and Chief Financial Officer concluded that our disclosure controls and procedures were effective.

(b) For the quarter ended March 31, 2005, there have been no changes in our internal control over financial reporting that have materially affected or are reasonably likely to materially affect our internal control over financial reporting. As a result of a subsequent review of our financial statements by regulators, we detected certain errors. We re-stated our already-issued 2004 financial statements and our first quarter 2005 financial statements as soon as practicable to correct these errors. The errors occurred in the treatment of a reverse stock split that occurred subsequent to the financial statement date and in interpretation of rules regarding valuation of preferred convertible equity securities. In March 2005 we expanded our board of directors to include additional independent members and created an audit committee which includes a financial expert. We believe the addition of this oversight committee will add perspective and expertise to the review of our filings and avoid future errors.

## PART II - OTHER INFORMATION

### ITEM 2. UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

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On March 15, 2005, the Company completed the sale of \$2,200,000 in secured promissory notes and the associated issuance of common stock warrants to accredited investors pursuant to exemptions available under section 4(2) of the Securities Act of 1933, as amended, and under Rule 506 of Regulation D, promulgated under the Securities Act. Information about the sale is contained in a current report on Form 8-K filed with the SEC on March 16, 2005.

### ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

At a special meeting of shareholders on February 28, 2005, the shareholders of the Company approved a 1-for-10 reverse stock split of the Company's outstanding common and preferred stock, effective March 10, 2005. With 18,382,000 pre-split shares outstanding and entitled to vote at the meeting, 11,245,975 cast votes in favor, 42,899 cast votes against, and 20,000 abstained. Additional information about the meeting and the matters submitted to a vote is contained in a current report on Form 8-K filed with the SEC on March 2, 2005.

Item 6. Exhibits

(a) The following exhibits are furnished as part of this report:

Exhibit 31.1	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 31.2	Certification required by Section 302 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.1	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002.
Exhibit 32.2	Certification required by Section 906 of the Sarbanes-Oxley Act of 2002.

SIGNATURES

In accordance with the requirements of the Securities and Exchange Act of 1934, as amended, the registrant caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

ICOP DIGITAL, INC.

Date: June 30, 2005

By: /s/ David C. Owen  
David C. Owen, President  
Chief Executive Officer  
Principal Executive Officer

Date: June 30, 2005

By: /s/ John C. Garrison  
John C. Garrison  
Chief Financial Officer  
Principal Accounting Officer