

ICOP DIGITAL, INC  
Form SB-2/A  
April 22, 2005

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As filed with the Securities and Exchange Commission on April 22, 2005

Securities Act File No. 333-123827

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**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

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**Pre-Effective Amendment No. 1 to  
FORM SB-2**

**REGISTRATION STATEMENT**

**Under**

**The Securities Act of 1933**

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**ICOP DIGITAL, INC.**

(Exact name of registrant as specified in its charter)

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

**3663**  
(Primary Standard Industrial  
Classification Code Number)  
**11011 King Street, Suite 260**  
**Overland Park, KS 66210**  
**(913) 338-5550**

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

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

**David C. Owen**  
**11011 King Street, Suite 260**  
**Overland Park, KS 66210**  
**(913) 338-5550**

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

*Copy to:*

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

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

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

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

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

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

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

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

**SUBJECT TO COMPLETION, DATED APRIL 25, 2005**

**PROSPECTUS**

**833,333 Units**

**Each unit consisting of two shares of common stock  
and two redeemable warrants, each to purchase one share of common stock**

We are offering 833,333 units with each unit consisting of two shares of common stock and two warrants. Each warrant entitles its holder to purchase one share of common stock at an exercise price of \$ . The warrants are exercisable at any time after they become separately tradable until their expiration date, which is five years after the date of this prospectus. We may redeem some or all of the warrants at a price of \$0.25 per warrant at any time after our accumulated gross revenue, as reviewed by our independent auditors, exceeds \$15 million, by giving not less than 30 days prior written notice to the holders of the warrants. The warrants will trade only as part of a unit for at least 30 days following the date of this prospectus unless Paulson Investment Company, Inc., as the representative of the underwriters, determines that separate trading of the warrants should occur earlier.

We expect to offer units at an initial public offering price between \$8.00 and \$12.00 per unit. We anticipate that the aggregate offering price will be \$10,000,000, excluding units that may be sold on exercise of the underwriters' over-allotment option. The price of the units will be negotiated between the representative and us taking into account, among other factors, the price at which our stock trades on the National Association of Securities Dealers Over-the-Counter Bulletin Board ("OTC BB") immediately prior to this offering.

Our common stock is currently traded on the OTC BB under the symbol "ICDG.OB." On April 18, 2005, the last reported sale price of our common stock was \$4.00 per share. We have applied to list our common stock, units and warrants on the Nasdaq SmallCap Market under the symbols ICDG, ICDGU and ICDGW, respectively, which listing we expect to occur concurrently with the effectiveness of this offering. We also have applied for dual listing of the securities on Tier 2 of the Pacific Exchange; if we meet its listing requirements, the Pacific Exchange listing will also occur concurrently with the effectiveness of this offering.

**Investing in these units involves significant risks. See "Risk Factors" beginning on page 4.**

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

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

The expenses for this offering will include a non-accountable expense allowance of 3% of the gross proceeds of this offering payable to Paulson Investment Company, Inc., the representative of the underwriters of this offering. Additionally, we have granted the underwriters a 30-day option to purchase up to an additional 125,000 units to cover over-allotments and have agreed to issue the representative a warrant to purchase 83,333 units.

**Paulson Investment Company, Inc.**

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*The date of this prospectus is \_\_\_\_\_, 2005*

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Until \_\_\_\_\_, 2005 (the 25<sup>th</sup> day after the date of this prospectus), all dealers effecting transactions in our units, whether participating in this distribution, may be required to deliver a prospectus. This is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

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

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

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

**PROSPECTUS SUMMARY**

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

**Our Company**

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

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

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

We are an early stage development company, and the first sales of our *ICOP Model 20/20* occurred in December 2004. While we had outstanding unfilled purchase orders for \$524,825 in *ICOP Model 20/20*'s and related equipment as of March 31, 2005, we have so far sold only seven units and related equipment to a total of five law enforcement agencies, generating total revenues of \$51,000.

Our principal business office is located at 11011 King Street, Suite 260, Overland Park, Kansas 66210, and our telephone number at that address is (913) 338-5550. Our website address is [www.ICOPdigital.com](http://www.ICOPdigital.com). Information contained in our website or any other website does not constitute part of this prospectus.

**This Offering**

Securities offered	833,333 units. Each unit consists of two shares of common stock and two public warrants, each to purchase one share of common stock. The common stock and warrants will trade only as a unit for at least 30 days following the effective date of this offering. The representative of the underwriters will determine when the units separate, after which the common stock and the public warrant will each trade separately.	
Public warrants:	The public warrants included in the units will be exercisable commencing 30 days after the effective date of this offering, assuming the units separate at that time, or as of the date on which the units separate thereafter. The exercise price of a public warrant is 75% of the public offering price of the units. The public warrants expire on the fifth anniversary of the effective date of this offering.	
	We have the right to redeem the public warrants issued in this offering at a redemption price of \$0.25 per warrant at any time after our accumulated gross revenue, as reviewed by our independent auditors, exceeds \$15 million. We are required to provide 30 days' prior written notice to the public warrant holders of our intention to redeem the warrants.	
Common stock outstanding after this offering	3,315,528 shares	
Use of proceeds	Inventory purchases, repayment of bridge loans, non-recurring engineering costs, sales and marketing, and general corporate purposes.	
Proposed Nasdaq SmallCap Market and Pacific Exchange symbols:	Units:	ICDGU
	Common stock:	ICDG
	Public warrants:	ICDGW
Risk factors	Investing in these securities involves a high degree of risk. As an investor you should be able to bear a complete loss of your investment. You should carefully consider the information set forth in the "Risk Factors" section.	

There were 1,648,862 shares of our common stock issued and outstanding as of March 31, 2005. Unless the context indicates otherwise, all share and per-share common stock information in this prospectus:

assumes a public offering price of \$12.00 per unit;

reflects a 1-for-10 reverse stock split of our common stock effective on March 10, 2005;

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assumes no exercise of the public warrants;

assumes no exercise of the underwriters' over-allotment option to purchase up to 125,000 units;

assumes no exercise of the representative's warrants; and

excludes the issuance of up to (i) 189,336 shares of common stock issuable upon conversion of shares of outstanding preferred stock; (ii) 275,000 shares of common stock issuable upon exercise of outstanding warrants held by bridge lenders; (iii) 390,000 shares of common stock issuable upon exercise of options granted under our stock option plan at a weighted average exercise price of \$8.75 per share; (iv) 200,000 shares of common stock issuable upon exercise of Class A warrants at an exercise price of \$18.00 per share; and (v) 5,000 shares of common stock issuable upon exercise of warrants issued to a consultant at an exercise price of \$10.00 per share.

**Summary Consolidated Financial Data**

	Years Ended December 31,	
	2003	2004
<b>Selected Operating Data:</b>		
Revenue	\$	\$ 51,000
Gross profit		19,000
Operating loss	\$ (4,333,000)	\$ (2,451,000)
Other income, net		\$ 458,000
Loss from continuing operations before benefit for income taxes		\$ (1,993,000)
Net loss	\$ (4,343,000)	\$ (1,993,000)
Net loss per share basic and diluted	\$ (3.23)	\$ (1.24)
Shares used in computing net loss per share:		
Basic and diluted	1,343,583	1,610,239
	<b>December 31, 2004</b>	
	<b>Actual</b>	<b>As adjusted</b>
<b>Selected Balance Sheet Data:</b>		
Cash and cash equivalents	\$ 4,000	\$ 8,204,000
Working capital (deficit)	\$ (2,816,000)	\$ 5,384,000
Total assets	\$ 263,000	\$ 8,463,000
Notes payable and current portion of long-term debt	\$ 347,000	\$ 347,000
Long-term debt, net of current portion	\$ 35,000	\$ 35,000
Total stockholders' equity (deficit)	\$ (2,669,000)	\$ 5,531,000

The as adjusted data reflect:

the issuance of the units at a public offering price of \$12.00 per unit; and

the receipt of the net proceeds from this offering.



## 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 units in this offering. If one or more of the possibilities described as risks below actually occur, our operating results and financial condition would likely suffer and the trading price of our securities could fall, causing you to lose some or all of your investment in the securities we are offering. The following is a description of what we consider our key challenges and material risks.*

### Risks Related to Our Business

#### **Our auditors have substantial doubt about our ability to continue as a going concern.**

In their report in connection with our 2004 financial statements, our auditors included an explanatory paragraph stating that, because we have incurred net losses and have a net capital deficiency for the years ended December 31, 2003 and 2004, there is substantial doubt about our ability to continue as a going concern. Our continued existence will depend in large part upon our ability to successfully secure additional financing to fund future operations. This offering is a principal element of our plan to move toward profitable operations. Even after this offering, if in the future we are not able to achieve positive cash flow from operations or to secure additional financing as needed, we may again experience the risk that we will not be able to continue as a going concern. If we cannot successfully continue as a going concern, our stockholders may lose their entire investment.

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

Since the inception of our current business in 2002, we have incurred net losses in every year, including net losses of \$537,000 for the year ended December 31, 2002, \$4,343,000 for the year ended December 31, 2003 and \$1,993,000 for the year ended December 31, 2004. We had a working capital deficit of \$2,859,000 at December 31, 2004 and have had negative cash flows from operations. As a result of ongoing operating losses, we also had an accumulated deficit of \$6,873,000 and a stockholders' deficit of \$2,669,000 at December 31, 2004. We have had only very limited revenues to date. We expect to incur losses until at least the first half of 2006 and may never become profitable. We expect that our expenses will increase substantially for the foreseeable future as we seek to expand our product line and sales and distribution network, implement internal systems and infrastructure and comply with the legal, accounting and corporate governance requirements imposed upon public companies. These ongoing financial losses may adversely affect our stock price.

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

We have a limited operating history and have encountered, and expect to continue to encounter, many of the difficulties and uncertainties often faced by early stage companies. We commenced our current business operations in May 2002 and began delivering our initial product the *ICOP Model 20/20* in December 2004. Accordingly, we have only a limited operating history by which you can evaluate our business and prospects. An investor in our units must consider our business and prospects in light of the risks, uncertainties and difficulties frequently encountered by early stage companies, including limited capital, delays in product development, possible marketing and sales obstacles and delays, inability to gain customer acceptance or to achieve significant distribution of our products to customers, and significant competition. We may not be able to successfully address these risks. If we are unable to address these risks, our business may not grow, our stock price may suffer, and we may be unable to stay in business.

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

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

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

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

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

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

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

We are currently operating at a loss and expect our expenses to continue to increase as we commence full scale production of our product and expand our geographic presence throughout the United States. To date, we have relied almost exclusively on financing transactions to fund operations. We anticipate that the net proceeds from this offering will be sufficient to fund our operations for at least 12 months. Our projections may, however, be wrong. We could face unforeseen costs, or our revenues could fall short of our projections. We do not have any currently identified sources of additional capital on which we could rely if we find our revenues and the offering proceeds are insufficient to fund our operations. New sources of capital may not be available to us when we need it or may be available only on terms we would find unacceptable. If such capital is not available on satisfactory terms or is not available at all, we may be unable to continue to fully develop our business, and our operations and financial condition may be materially and adversely affected. Debt financing, if obtained, could increase our expenses and would be required to be repaid regardless of operating results. Equity financing, if obtained, could result in dilution to our existing stockholders.

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

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

we have limited control over the manufacturing processes;

the manufacturing processes have not been tested in quantities needed for commercial sales;

delays in scale-up to commercial quantities could delay the commercialization of our products;

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

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

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

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

We use a third-party Japanese manufacturer to produce the *ICOP Model 20/20*, and they make their production and purchasing decisions based on the information regarding our projected needs that we provide to them. 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.

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

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

changes in trade policy and regulatory requirements;

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

duties, tariffs and other trade barriers and restrictions;

foreign collection problems; and

political and transportation risks.

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

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

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

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

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

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

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

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

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

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

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

Our failure to protect our proprietary rights could have a material adverse effect on our business, financial condition and results of operation. We cannot assure you that any patents, trademarks or

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

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

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

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

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

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

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

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

Our business strategy anticipates rapid growth for the foreseeable future. This growth will place significant strain on our administrative, operational and financial resources and increase demands on our systems and controls. To manage our future growth, we will need to attract, hire and retain highly skilled and motivated officers and employees and improve existing systems and/or implement new systems for information processing, operational and financial management and training, integrating and

managing our growing employee base. If we are unable to manage growth effectively, our operating results could be adversely affected.

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

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

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

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

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

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

**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.

**Risks Related to Investment in Our Securities**

**There currently is no public trading market for our units or warrants and only a limited trading market for our common stock which is currently listed on the OTC BB. If an active market does not develop or, if developed, is not sustained, you may not be able to sell your securities.**

There is currently no public trading market for our units or warrants and only a limited trading market for our common stock which is currently listed on the OTC BB. After this offering, we expect that our securities will be quoted on the Nasdaq SmallCap Market and, if we meet its listing requirements, the Pacific Exchange. We can provide no assurance that an active market will develop or be sustained for any of these securities. If an active public trading market for our securities does not develop or is not sustained, it may be difficult or impossible for purchasers in this offering to resell their securities at any price. Even if an active public market does develop, the market price could decline below the amount our public investors paid for their units, or the assumed allocated price of the common stock and warrant the components of the units.

**We will have broad discretion in using the proceeds from this offering.**

Although we have identified generally in this prospectus how we expect to use the proceeds from this offering, we will have broad discretion in determining the specific uses of the proceeds. As a result, you will not have the opportunity to evaluate the economic, financial or other information on which we base our decisions on how to use the proceeds.

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

Our principal stockholders, directors and executive officers and entities affiliated with them will beneficially own approximately 24.3% of the outstanding shares of our common stock immediately after this offering. As a result, these stockholders, if they were to act together, would be able to significantly influence or even control matters requiring approval by our stockholders, including the election of directors and the approval of mergers or other extraordinary transactions. They may also have interests that differ from our remaining stockholders and may vote in a manner that would be adverse to the interests of the other stockholders. The concentration of ownership could have the effect of delaying, preventing or deterring a change in control of our company, depriving our stockholders of an opportunity to receive a premium for their common stock as part of a sale of our company and affecting the market price of our common stock.

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

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

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

For the holders of our public warrants to be able to exercise their warrants, the shares of our common stock to be issued upon exercise of those warrants must be covered by an effective and



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

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

While the public warrants are outstanding, we may find it more difficult to raise additional equity capital. Also, when these public warrants are likely to be exercised, we may be able to obtain additional equity capital on more favorable terms from other sources.

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

Sales of a substantial number of shares of our common stock in the public markets, or the perception that these sales may occur, could cause the market price of our stock to decline and could materially impair our ability to raise capital through the sale of additional equity securities. Once this offering is completed, in addition to the 3,315,528 shares of common stock actually issued and outstanding, there will be another 3,678,526 shares of common stock reserved for future issuance as follows:

up to 1,666,666 shares underlying the public warrants;

up to 500,000 shares underlying the over-allotment option, including the shares underlying the warrants included in that option;

up to 333,332 shares underlying the representative's warrants, including the shares underlying the warrants included in the representative's warrants;

up to 514,192 shares underlying stock options previously granted, or to be granted, under our Stock Option Plan;

up to 200,000 shares underlying Class A warrants outstanding as of March 31, 2005;

up to 275,000 shares underlying bridge warrants outstanding as of March 31, 2005; and

up to 189,336 shares of common stock issuable upon conversion of preferred stock.

The common stock included in the units as well as the common stock underlying the public warrants will be freely tradable without restriction. Before this offering, we had 1,648,862 shares of common stock outstanding, of which 188,789 will be freely tradable. The remaining 1,460,073 shares are either held by "affiliates," as defined by the rules and regulations promulgated under the Securities Act of 1933, or are "restricted securities" as defined in Rule 144 promulgated under the Securities Act of 1933. The shares held by "affiliates" can only be sold in compliance with the timing and volume limitations of Rule 144. The other restricted shares may be sold without limitation under Rule 144(k). We have granted piggyback registration rights to holders of 31,500 shares of common stock. We also have granted registration rights to holders of our bridge warrants. While we, our executive officers and directors and certain of our stockholders have agreed not to sell any shares of stock for a period of one year after this offering without the consent of the representative of the underwriters, the representative may waive that restriction at its sole discretion.

**FORWARD-LOOKING STATEMENTS**

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

- the *ICOP Model 20/20* not being accepted by the law enforcement industry;
- difficulty meeting demand for in-car video technologies at a cost 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* being replaced by more advanced technologies and thereby becoming obsolete;
- the limited number of product offerings;
- budget cuts in the law enforcement industry affecting purchasing levels;
- our lack of profitability and operating history;
- our limited ability to control interruptions in production by the outside manufacturer of the *ICOP Model 20/20*;
- successful infringement claims and our ability to protect proprietary rights;
- a highly competitive and fragmented market;
- loss of key management personnel;
- our ability to manage rapid growth;
- criminal procedure court rulings regarding right to privacy;
- general economic and business conditions in the United States; and
- defects in products could result in litigation and other significant costs.

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

**USE OF PROCEEDS**

We estimate that the net proceeds from the sale of the 833,333 units that we are selling in this offering will be approximately \$8,200,000, or \$9,565,000 if the underwriters exercise their over-allotment option in full, based on an assumed public offering price of \$12.00 per unit, and after deducting the estimated underwriting discount of \$900,000 and estimated offering expenses of approximately \$900,000 payable by us.

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

	<b>Amount</b>	<b>Percentage</b>
Inventory purchases	\$ 3,000,000	36.6%
Repayment of bridge loans	2,320,000	28.3
Non-recurring engineering costs	950,000	11.6
Sales and marketing	850,000	10.4
General corporate purposes	1,080,000	13.2
	<b>-----</b>	<b>-----</b>
Total:	\$ 8,200,000	100.0%
	<b>-----</b>	<b>-----</b>

General corporate purposes include repayment of approximately \$430,000 in loans from directors and a director's spouse, payment of approximately \$186,000 in back salaries to non-officer employees, accounting and legal fees, rent and other facilities expenses and other working capital expenses, and may include acquisitions of companies, products or technology, although there are no current agreements with respect to any acquisitions.

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

**PRICE RANGES OF COMMON STOCK**

Our common stock trades on the OTC BB under the symbol "ICDG.OB." It traded under the symbol "ICPD.OB" until March 16, 2005. The first reported trading occurred on October 18, 2004. Below are the price ranges of our common stock, adjusted for a 1-for-10 share reverse split effective March 10, 2005.

	<b>HIGH</b>	<b>LOW</b>
2004		
Fourth Quarter (from October 18, 2004)	\$ 20.00	\$ 5.10
2005		
First Quarter	\$ 8.20	\$ 5.10
Second Quarter (through April 18, 2005)	\$ 5.00	\$ 3.55

The last reported sale price of our common stock on the OTC BB on April 18, 2005 was \$4.00 per share. According to the records of our transfer agent, there were approximately 223 holders of record of our common stock as of March 31, 2005.

**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 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.

### PLAN OF OPERATION

We are an early stage development company, and the first sales of our *ICOP Model 20/20* occurred in December 2004. While we have outstanding unfilled purchase orders for \$524,825 in *ICOP Model 20/20*'s and related equipment as of March 31, 2005, we have sold only seven units and related equipment to a total of five law enforcement agencies, generating total revenues of \$51,000. Our plan of operation through the first half of 2006 is summarized below.

We entered into a development and manufacturing agreement on February 10, 2005 with a Japanese company to produce a minimum of 10,000 *ICOP Model 20/20* units through December 31, 2008. Through March 31, 2005, we have received 10 units from this manufacturer. Under this agreement, the manufacturer is responsible for purchasing the components and manufacturing the units, and we pay for the units when shipped. On closing of this offering, we will advance \$1 million to the manufacturer to be used to purchase long lead-time components to allow uninterrupted production after they have completed approximately 700 units. We are currently marketing the *ICOP Model 20/20* to law enforcement agencies.

We will use the proceeds of this offering to purchase inventory, repay bridge loans, pay non-recurring engineering costs, increase our sales and marketing efforts and for general corporate purposes. In March 2005, our expenses exceeded our revenue by approximately \$130,000 per month. Prior to the receipt of material revenue from sales of the *ICOP Model 20/20*, we believe this "burn rate" will increase to approximately \$150,000 per month. We believe that once sales of the *ICOP Model 20/20* reach approximately 200 units per month, which we expect will occur in the second half of 2005, we will be operating at a break even level.

Through the first half of 2006, we expect to spend approximately \$1.5 million on research and development for new products, including the *ICOP On Watch* camera. We do not expect major purchases of plant and equipment during that period due to our contract manufacturing arrangements. We do plan to lease larger facilities beginning in July 2005 to allow for expansion of engineering, sales, technical support and shipping activities. We expect to spend approximately \$150,000 to move and equip this new space and project an increase in monthly rental expense of approximately \$10,000.

We do not plan to increase our administrative staff substantially in the near term, since the manufacturing of the *ICOP Model 20/20* is handled by a third party. We will likely increase our sales and marketing staff, engineering and tech support staff as sales grow.

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

## BUSINESS

### Introduction

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

### The Security Industry

The security industry is characterized in general by a continual evolution of technology that enhances both security and convenience. According to the Security Industry Association, the current worldwide electronic security market is estimated to be more than \$30 billion per year.

Governments and private industry in the United States and worldwide are actively seeking to develop new products and services to meet the growing demands for homeland security. Billions of dollars are being appropriated by the federal and state governments of the U.S. and governments throughout the world for coping with terrorism. The private sector is also increasing the demand for homeland security products and services, especially, we believe, reliable integrated video surveillance technologies and communications solutions.

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

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

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

*Private industry.*

### The In-Car Video Industry

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

The advent of the videotape camera in the early 1980s and improvements made in the field since then have given rise to many new applications of video technology in law enforcement. Agencies in the United States and around the world are applying video technology to many facets of police operations

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by equipping vehicles with video recorders, monitoring public areas and recording booking and other police procedures.

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

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

poor video and audio quality that makes identification difficult;

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

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

occupation of valuable space in the trunk and cab;

excessive time required to evaluate and catalog recorded material;

significant physical space for storage of the in-car unit and the data itself;

lack of effective zoom capabilities; and

limited area coverage when camera positioning is fixed.

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

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

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

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





## The ICOP Digital Solution

Our *ICOP Model 20/20* digital in-car video system addresses the deficiencies of analog video technology by providing all the advantages described above while differentiating itself from competing digital systems by offering what we believe to be a superior product, at a lower price and with superior customer support. We believe that the *ICOP Model 20/20* offers the highest quality digital system available for the law enforcement market, with the following characteristics:

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

*In-dash system.* Our *ICOP Model 20/20* includes a built-in AM/FM radio and fits into the radio slot in the dashboard of the police vehicle, allowing for easier installation and maintenance and more available vehicle and trunk space.

*Officer safety.* Our *ICOP Model 20/20* includes no dangling parts that could endanger the officer in the event of an accident.

*Improved picture quality.* Our *ICOP Model 20/20* features full video graphics array ("VGA") compared with  $\frac{1}{4}$  VGA used by many of our competitors, resulting in superior picture quality.

*Easy storage and retrieval of video files.* Our *ICOP Model 20/20* video is downloaded from the vehicle hard drive to a server, and video can be accessed quickly and easily by ticket/case number, date/time, type of incident, vehicle number and other identifying characteristics. The video files are convertible to Windows Media Player, VHS or MPEG-2 format.

### *Additional features:*

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

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

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

Password-protected files;

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

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

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

Removable vehicle-grade hard drive.

Management and control of the video evidence recorded by the *ICOP Model 20/20* requires an adapter (hardware used to download data from a vehicle-grade hard drive) and *The B.O.S.S.* (Back Office System Server), an industrial-grade computer that includes preloaded, proprietary management system software.

Our strategy is to price the *ICOP Model 20/20* well below the market, as municipalities and state governments are cost sensitive, often mandating competitive bidding. We are the only company we know of among our competitors to publish its pricing schedule for in-car video equipment. Our competitors have many pricing schedules, due to multiple layers of distributors, sometimes resulting in customers obtaining different quotes on the same product from our competitors.

The two-camera *ICOP Model 20/20* is priced at \$4,500 per unit with volume discounts available for purchases of more than five units. *The B.O.S.S.*, which generally supports up to 10 units of the *ICOP Model 20/20*, is priced at \$4,500, adapter hardware used to download data from the hard drive is priced at \$300, and a label maker for printing labels for DVDs is priced at \$150. Optional equipment includes an additional 20GB removable vehicle hard drive priced at \$350, a Sony color camera for rear window recording priced at \$450 and an additional 900 MHz wireless mic priced at \$150. We can arrange lease-to-own financing of the purchase and installation of the *ICOP Model 20/20* through tax-exempt municipal leases which are available to certain qualified governmental entities. We provide a one-year parts and labor warranty on the *ICOP Model 20/20* with extended warranties available.

### **Future Applications and Products**

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

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

identify and respond to emerging technological trends in related markets;

develop solutions to customers' changing needs; and

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

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

An "intelligent" or "smart" camera has all the needed functionality built into the unit and does not require a separate computer to operate. We are currently in the early stages of investigating the development of an intelligent camera, which we have named *ICOP On Watch*, which could continuously monitor at-risk sites such as airports, borders, seaports, utilities and private industry facilities. Using proprietary intelligent cameras and surveillance image-analyzing software together with a standard cellular phone network, we believe the system could provide a comprehensive view of a defined area, centrally monitor contracted sites 24/7 in real time and detect threats and issue warnings when there is an intrusion. The technology is being developed for us to design a system capable of detecting motions and distinguishing naturally occurring movements, such as leaves waving in the wind, from that of a human being. With this automated monitoring and recognition of possibly hostile intruders, large areas could be efficiently monitored with minimal human involvement.

We expect the *ICOP On Watch* camera, as contemplated, to have the following benefits over existing analog technology:

reduced security costs;

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fewer images to archive reducing storage requirements;

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

faster searches through recorded information;

lower bandwidth to support networked cameras;

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

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

reduction of human error and human oversight; and

wired, fiber and wireless media, greatly enhancing expandability.

### **Sales and Marketing**

We are currently marketing our *ICOP Model 20/20* only to law enforcement agencies. In-car video, however, has applications in many other special use vehicles such as fire trucks, emergency medical technician (EMT) vehicles, school and public buses, trains, planes, military, border patrol vehicles and taxi cabs.

There are more than 440,000 police vehicles currently in service in the U.S., and approximately 70,000 new vehicles are leased or purchased by law enforcement agencies each year. At an average selling price of at least \$5,000 for the *ICOP Model 20/20* and related equipment, there is an estimated potential market of over \$2 billion for law enforcement vehicles in the U.S. alone.

In 2004, approximately 38% of local law enforcement and 72% of state highway patrol vehicles had VHS (analog) in-car video systems. Warranties on these VHS systems have expired or will soon expire, and the systems will increasingly need service and will eventually need to be replaced. The market began transitioning to digital surveillance systems in 2004.

We market the *ICOP Model 20/20* directly to all levels of city, county, state and federal law enforcement agency.