

ICOP DIGITAL, INC  
Form 10QSB  
November 14, 2006  
Table of Contents

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**United States**  
**Securities and Exchange Commission**  
**Washington, D.C. 20549**  
**Form 10-QSB**

(Mark One)

- QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
For the quarterly period ended September 30, 2006
- TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**  
Commission file number: 001-32560

**ICOP Digital, Inc.**

(Exact name of small business issuer as specified in its charter)

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

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

**16801 W. 116<sup>th</sup> Street, Lenexa, Kansas 66219**

(Address of principal executive offices)

**(913) 338-5550**

(Issuer's telephone number)

**N.A.**

(Former name, former address and former 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

Indicate by check mark whether the registration is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

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Transitional Small Business Disclosure Format: Yes  No

The issuer had 7,229,481 shares of its common stock issued and outstanding as of November 9, 2006, the latest practicable date before the filing of this report.

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**Table of Contents**

**QUEPASA CORPORATION AND SUBSIDIARIES**

**INDEX**

|   | <b>Page</b> |
|---|-------------|
| <b>PART I. FINANCIAL INFORMATION</b>  |             |
| <u>Forward Looking Statement</u>  | 2           |
| Item 1 <u>Financial Statements</u>  |             |
| <u>Balance Sheet as of September 30, 2006 (unaudited)</u>   | 3           |
| <u>Statements of Operations (Unaudited) for the Three and Nine Months Ended September 30, 2006 and 2005</u> | 4           |
| <u>Statement of Changes in Stockholders' Equity (Unaudited)</u>   | 5           |
| <u>Statements of Cash Flows (Unaudited) for the Nine Months Ended September 30, 2006 and 2005</u>           | 6           |
| <u>Notes to Financial Statements (Unaudited)</u>  | 7           |
| Item 2 <u>Management's Discussion and Analysis or Plan of Operation</u>                                     | 11          |
| Item 3 <u>Controls and Procedures</u>   | 12          |
| <b>PART II. OTHER INFORMATION</b>   |             |
| Item 1 <u>Legal Proceedings</u>   | 12          |
| Item 2 <u>Unregistered Sales of Equity Securities and Use of Proceeds</u>                                   | 12          |
| Item 3 <u>Defaults upon Senior Securities</u>   | 12          |
| Item 4 <u>Submissions of Matters to a Vote of Security Holders</u>  | 12          |
| Item 5 <u>Other Information</u>   | 12          |
| Item 6 <u>Exhibits</u>  | 12          |
| <u>SIGNATURES</u>   | 13          |

**Table of Contents**

ICOP DIGITAL, INC.

PART I - FINANCIAL INFORMATION

**Forward-Looking Statements**

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

1. the *ICOP Model 20/20* not being accepted by the law enforcement industry;
2. difficulty meeting demand for in-car video technologies at a cost that results in a profit;
3. our ability to improve our products and to develop other products necessary to compete in the industry;
4. our ability to bring future products to market;
5. the *ICOP Model 20/20* being replaced by more advanced technologies and thereby becoming obsolete;
6. the limited number of product offerings;
7. budget cuts in the law enforcement industry affecting purchasing levels;
8. our lack of profitability and operating history;
9. our limited ability to control interruptions in production by the outside manufacturer of the *ICOP Model 20/20*;
10. successful infringement claims and our ability to protect proprietary rights;
11. a highly competitive and fragmented market;
12. loss of key management personnel;

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13. our ability to manage rapid growth;
14. criminal procedure court rulings regarding right to privacy;
15. general economic and business conditions in the United States;
16. defects in products could result in litigation and other significant costs; and
17. other factors detailed in our filings with the Securities and Exchange Commission.

The forward-looking statements are based on our beliefs, assumptions and expectations of our future performance, taking into account information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, including those events and factors detailed in our filings with the Securities and Exchange Commission, not all of which are known to us. Neither we nor any other person assumes responsibility for the accuracy or completeness of these statements. We will update this report 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.

**Table of Contents****Item 1. Financial Statements**

## ICOP DIGITAL, INC.

## Balance Sheet (Unaudited)

|   | <b>September 30, 2006</b> |
|---|---------------------------|
| <b>Assets</b>   |                           |
| Current Assets  |                           |
| Cash  | \$ 1,959,360              |
| Accounts receivable, net  | 1,088,139                 |
| Finished goods inventory, at cost   | 4,524,275                 |
| Prepaid expenses  | 268,769                   |
| <b>Total current assets</b>   | <b>7,840,543</b>          |
| Property and equipment, at cost, net of accumulated depreciation of \$303,387                     | 753,735                   |
| Other assets:   |                           |
| Deferred offering costs   | 72,113                    |
| Deferred patent costs   | 64,750                    |
| Deposits  | 15,000                    |
|   | <b>\$ 8,746,141</b>       |
| <b>Liabilities and Shareholders Equity</b>  |                           |
| Current Liabilities:  |                           |
| Accounts payable  | \$ 153,022                |
| Accrued liabilities   | 403,944                   |
| Unearned revenue  | 128,147                   |
| Current maturities of long-term debt  | 43,147                    |
| <b>Total current liabilities</b>  | <b>728,260</b>            |
| Long-term debt, net of current maturities   | 100,309                   |
| <b>Total liabilities</b>  | <b>828,569</b>            |
| Shareholders equity:  |                           |
| Preferred stock, no par value; 5,000,000 shares authorized, no shares issued and outstanding      |                           |
| Common stock, no par value; 50,000,000 shares authorized, 6,079,481 shares issued and outstanding | 20,793,313                |
| Accumulated other comprehensive income, net of tax  |                           |
| Deficit accumulated   | (12,875,741)              |
| <b>Total shareholders equity</b>  | <b>7,917,572</b>          |
|   | <b>\$ 8,746,141</b>       |

See accompanying notes to financial statements.

**Table of Contents**

## ICOP DIGITAL, INC.

## Statements of Operations (Unaudited)

|  | Three Months          |                       | Nine Months           |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Ended                 |                       | Ended                 |                       |
|  | September 30,<br>2006 | September 30,<br>2006 | September 30,<br>2005 | September 30,<br>2005 |
| Sales, net of returns  | \$ 1,564,240          | \$ 902,297            | \$ 3,731,999          | \$ 1,229,691          |
| Cost of sales  | 878,029               | 523,911               | 2,141,279             | 762,814               |
| <b>Gross profit</b>  | <b>686,211</b>        | <b>378,386</b>        | <b>1,590,720</b>      | <b>466,877</b>        |
| Operating expenses:  |                       |                       |                       |                       |
| Selling, general and administrative                          | 1,349,200             | 750,674               | 3,898,717             | 1,617,240             |
| Research and development                                     | 245,730               | 137,337               | 465,660               | 399,065               |
| <b>Total operating expenses</b>                              | <b>1,594,930</b>      | <b>888,011</b>        | <b>4,364,377</b>      | <b>2,016,305</b>      |
| Loss from operations   | (908,719)             | (509,625)             | (2,773,657)           | (1,549,428)           |
| Other income (expenses):                                     |                       |                       |                       |                       |
| Foreign currency translation                                 | 2,823                 | 1,283                 | 29,982                | (55,023)              |
| Interest income  | 18,645                | 30,190                | 61,795                | 30,190                |
| Interest expense   | (8,339)               | (21,325)              | (22,893)              | (106,128)             |
| Loss before income taxes                                     | (895,590)             | (499,477)             | (2,704,773)           | (1,680,389)           |
| Income tax provision   |                       |                       |                       |                       |
| <b>Net loss</b>  | <b>\$ (895,590)</b>   | <b>\$ (499,477)</b>   | <b>\$ (2,704,773)</b> | <b>\$ (1,680,389)</b> |
| Basic and diluted loss per share                             | \$ (0.15)             | \$ (0.11)             | \$ (0.47)             | \$ (0.66)             |
| Basic and diluted weighted average common shares outstanding | 5,905,784             | 4,390,059             | 5,715,785             | 2,557,435             |

See accompanying notes to financial statements.

**Table of Contents****ICOP DIGITAL, INC.****Statement of Changes in Shareholders' Equity (Unaudited)**

|  | Preferred Stock |        | Common Stock |               | Accumulated | Other | Retained        | Total        |
|--|-----------------|--------|--------------|---------------|-------------|-------|-----------------|--------------|
|  | Shares          | Amount | Shares       | Amount        | Loss        |       |                 |              |
| Balance at December 31, 2005                                       |                 | \$     | 5,478,182    | \$ 19,303,683 | \$ 71,695   |       | \$ (10,170,968) | \$ 9,204,410 |
| March 2006, exercise of warrants to purchase common stock          |                 |        | 22,798       | 155,254       |             |       |                 | 155,254      |
| Stock options issued in exchange for services provided             |                 |        |              | 1,000         |             |       |                 | 1,000        |
| May 2006, restricted common stock issued in exchange for services  |                 |        | 400,000      | 2,340,000     |             |       |                 | 2,340,000    |
| Deferred compensation expense related to restricted common stock   |                 |        |              | (2,091,000)   |             |       |                 | (2,091,000)  |
| Stock options re-issued in exchange for services provided          |                 |        |              | 360,000       |             |       |                 | 360,000      |
| Stock issued under employee stock purchase plan                    |                 |        | 1,300        | 6,904         |             |       |                 | 6,904        |
| September 2006, exercise of warrants to purchase common stock      |                 |        | 177,201      | 717,472       |             |       |                 | 717,472      |
| Unrealized effect of the change in foreign currency exchange rates |                 |        |              |               | (71,695)    |       |                 | (71,695)     |
| Net loss for the period ended September 30, 2006                   |                 |        |              |               |             |       | (2,704,773)     | (2,704,773)  |
| Balance at September 30, 2006                                      |                 | \$     | 6,079,481    | \$ 20,793,313 | \$          |       | \$ (12,875,741) | \$ 7,917,572 |

See accompanying notes to financial statements



**Table of Contents**

## ICOP DIGITAL, INC.

## Statements of Cash Flows (Unaudited)

|   | Nine Months    |                |
|---|----------------|----------------|
|   | Ended          |                |
|   | September 30,  |                |
|   | 2006           | 2005           |
| Cash flows from operating activities:                                       |                |                |
| Net loss  | \$ (2,704,773) | \$ (1,680,389) |
| Adjustments to reconcile net loss to net cash used by operating activities: |                |                |
| Depreciation  | 180,108        | 61,779         |
| Stock based compensation  | 249,000        |                |
| Stock options issued  | 361,000        |                |
| Changes in operating liabilities:   |                |                |
| Decrease (Increase) in accounts receivable, inventory and prepaid expenses  | (1,756,465)    | (2,822,888)    |
| Decrease in accounts payable, accrued liabilities and unearned revenue      | (60,153)       | (1,477,603)    |
| Net cash used in operating activities                                       | (3,731,283)    | (5,919,101)    |
| Cash flows from investing activities:                                       |                |                |
| Purchases of property and equipment   | (331,736)      | (406,017)      |
| Deferred patent costs   | (3,270)        |                |
| Deposits  |                | (14,750)       |
| Net cash used in investing activities                                       | (335,006)      | (420,767)      |
| Cash flows from financing activities:                                       |                |                |
| Proceeds from issuance of notes payable                                     | 68,000         | 3,157,000      |
| Principal payments on notes payable   | (29,457)       | (3,465,617)    |
| Proceeds from the sale of common stock                                      | 879,630        | 11,148,638     |
| Payment of offering costs   | (72,113)       | (667,471)      |
| Net cash provided by financing activities                                   | 846,060        | 10,172,550     |
| Effect of currency exchange rate changes on cash                            | (49,454)       |                |
| Net change in cash  | (3,269,683)    | 3,832,682      |
| Cash, beginning of period   | 5,229,043      | 4,242          |
| Cash, end of period   | \$ 1,959,360   | \$ 3,836,924   |
| Supplemental disclosure of cash flow information:                           |                |                |
| Income taxes  | \$             | \$             |
| Interest  | 22,893         | 115,887        |
| Non-cash financing transactions:  |                |                |
| Preferred stock converted to common   | \$             | \$ (1,499,998) |
| Foreign currency translation  | 29,982         | 75,581         |
| Equipment purchases financed  | 68,000         | 38,000         |

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See accompanying notes to financial statements.

**Table of Contents**

ICOP DIGITAL, INC.

Notes to Financial Statements (Unaudited)

**Note 1: 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, 2005, included in its annual report on Form 10-KSB as filed March 28, 2006, 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 and left the development stage in June 2005 when significant sales of production equipment were recorded. It is 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, 2005 and should be read in conjunction with the notes thereto.

The accompanying statements of operations and cash flows reflect the nine-month period ended September 30, 2006. The comparative figures for the nine-month period ended September 30, 2005 have been included in the accompanying statements of operations and cash flows for comparison on an unaudited basis.

**Note 2: 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 (a Colorado corporation) as of December 31, 2003 and was merged out of existence in June 2005. The Company, formerly named Vista Exploration Corporation, subsequently changed its name to ICOP Digital, Inc. The Company is engaged in the design, development and marketing of in-car video recorder systems for use in the law enforcement industry. The Company's offices are located in Lenexa, Kansas.

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.

**Note 3: Notes Payable**

In January 2006, the Company executed installment notes to finance equipment purchases in the total amount of \$56,000, payable monthly including interest at 7.75% per annum through January 2010. In July 2006, the Company executed an installment note to finance an equipment purchase in the amount of \$12,000. All installment notes were repaid in full in October 2006.

**Table of Contents****Note 4: Shareholders' Equity**

## Sale of common stock

In March 2006, a shareholder exercised warrants to purchase 22,798 shares of the Company's no par common stock at a total net proceeds of \$155,254. In September 2006, additional shareholders exercised warrants to purchase 177,201 shares of the Company's no par common stock at a total net proceeds of \$717,472.

In August 2006, the Company sold 1,300 shares of its no par common stock to employees under its Employee Stock Purchase Plan at a total net proceeds of \$6,904.

## Award of restricted common stock for services

In May 2006, the board of directors granted a total of 400,000 shares of restricted common stock to two executive officers in recognition of their importance to the achievement of certain milestones and to the future of the company. The shares have been issued to the officers but are restricted from sale by the officers. Restrictions on 50% of the shares lapse when the company reaches a total of \$15 million gross revenue from inception and restrictions on the remaining 50% of the shares lapse when the company reaches positive earnings before interest, taxes, depreciation and amortization for three consecutive months. The grant further provides that the officers will receive a supplemental bonus in an amount equal to the income tax liability incurred by the officers at the time the restrictions lapse. The company valued these restricted shares at the market value on May 4, 2006 of \$5.85 per share for a total of \$2,340,000. Progress toward the gross revenue target is measurable, but progress toward the positive earnings target is uncertain. Accordingly, the value of the shares related to the gross revenue target will be reported as compensation expense and added to paid in capital ratably as revenue accumulates to the \$15 million target. A total of \$249,000 has been recognized as compensation expense at September 30, 2006. Any portion of the value that has not been recognized at the time the target is achieved will be recognized at that time. The value of the shares related to the positive earnings target will be recognized when that target is achieved.

## Stock options and warrants

In March 2006, the Company granted an employee an option to purchase an aggregate of 10,000 shares of the Company's common stock at an exercise price of \$10.00 per share. The option vests in five increments of 2,000 shares each through December 31, 2009 and expires on January 31, 2010. The quoted market price of the stock was \$5.32 per share. The Company valued the option at \$0.50 per share, or \$5,000, in accordance with SFAS 123(R). The vested portion of \$1,000 was recorded as stock-based compensation in the accompanying financial statements.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 4.72%   |
| Dividend yield                 | 0.00%   |
| Volatility factor              | 34.00%  |
| Weighted average expected life | 3 years |

On May 4, 2006, the board of directors cancelled all outstanding stock options with an exercise price over the closing stock price for the company's common stock on May 4, 2006 and granted new options at that closing price. Expiration dates and vesting terms of the replacement options were substantially identical to those cancelled. Collectively, the company replaced options to purchase an aggregate of 600,000 shares of the Company's common stock at an exercise price of \$5.85 per share. The quoted market price of the stock on May 4, 2006 was \$5.85 per share. The Company determined the average increase in the value of the issued options over the value of the cancelled options to be \$0.56 per share, or \$335,000, in accordance with SFAS 123(R). The vested portion of \$306,000 was recognized as stock-based compensation in the accompanying financial statements.

**Table of Contents**

The increase in the fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 4.97%   |
| Dividend yield                 | 0.00%   |
| Volatility factor              | 51.00%  |
| Weighted average expected life | 3 years |

In August 2006, the Company granted four employees options to purchase an aggregate of 35,000 shares of the Company's common stock at an exercise price of \$5.85 per share. The options vest in five annual increments of 7,000 shares each beginning December 31, 2006 and expire August 8, 2011. The quoted market price of the stock was \$5.25 per share. The Company valued the option at \$1.91 per share, or \$67,000, in accordance with SFAS 123(R). The vested portion of \$8,000 was recorded as stock-based compensation in the accompanying financial statements.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 4.72%   |
| Dividend yield                 | 0.00%   |
| Volatility factor              | 48.00%  |
| Weighted average expected life | 3 years |

In August 2006, the Company granted three independent directors options to purchase an aggregate of 22,500 shares of the Company's common stock at an exercise price of \$5.85 per share. The options vest immediately and expire August 8, 2011. The quoted market price of the stock was \$5.25 per share. The Company valued the option at \$1.91 per share, or \$43,000, in accordance with SFAS 123(R). The expense of \$43,000 was recorded as stock-based compensation in the accompanying financial statements.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 4.72%   |
| Dividend yield                 | 0.00%   |
| Volatility factor              | 48.00%  |
| Weighted average expected life | 3 years |

In August 2006, the Company granted a consultant a warrant to purchase an aggregate of 10,000 shares of the Company's common stock at an exercise price of \$7.50 per share. The warrant vests in three increments of 2,000 or 4,000 shares each through August 10, 2007 and expires August 10, 2009. The quoted market price of the stock was \$5.25 per share. The Company valued the option at \$1.50 per share, or \$15,000, in accordance with SFAS 123(R). The vested portion of \$3,000 was recorded as stock-based compensation in the accompanying financial statements.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |         |
|--------------------------------|---------|
| Risk-free interest rate        | 4.72%   |
| Dividend yield                 | 0.00%   |
| Volatility factor              | 48.00%  |
| Weighted average expected life | 3 years |

**Table of Contents**

In September 2006, in connection with the exercise of preferred stock warrant, the Company granted a warrant to a consultant to purchase an aggregate of 30,000 shares of the Company's common stock at an exercise price of \$6.81 per share. The warrant vests immediately and expires on September 11, 2009. The quoted market price of the stock was \$4.69 per share. The Company valued the option at \$0.93 per share, or \$28,000, in accordance with SFAS 123(R). The fair value of this warrant was charged against the proceeds of the shares issued in the accompanying financial statements.

The fair value of the options was estimated at the date of grant using the Black-Scholes option-pricing model with the following assumptions:

|                                |           |
|--------------------------------|-----------|
| Risk-free interest rate        | 4.7%      |
| Dividend yield                 | 0.00%     |
| Volatility factor              | 49.00%    |
| Weighted average expected life | 2.3 years |

**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: Subsequent Events**

In October and November 2006, the Company sold 1,150,000 shares of the Company's no par common stock and 1,150,000 warrants to purchase shares in a registered secondary offering for a total net proceeds of approximately \$5,800,000. The warrants are exercisable at \$6.19 per share for a period of five years and are callable at a price of \$.25 per share when the Company achieves \$15 million in revenue.

In October 2006, the Company granted four employees options to purchase an aggregate of 25,000 shares of the Company's common stock at an exercise price of \$5.85 per share. The options vest in five increments of approximately 5,000 shares each beginning immediately through December 31, 2009 and expire on January 31, 2010.

In November 2006, the Company granted two employees and two consultants options to purchase an aggregate of 40,000 shares of the Company's common stock at an exercise price of \$5.85 per share. The option vests in five increments of approximately 8,000 shares each through December 31, 2009 and expire on January 31, 2010.

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**Table of Contents****Item 2. Management's Discussion and Analysis or Plan of Operation**

During the three months ended September 30, 2006, the Company reported sales of \$1,564,000 and cost of sales of \$878,000 resulting in gross profit of \$686,000 compared to sales of \$903,000 and cost of sales of \$524,000 resulting in gross profit of \$378,000 for the same period of 2005. Significant sales of production equipment began in June 2005. During the three months ended September 30, 2006, the Company incurred \$246,000 in research and development expenses and \$1,349,000 in general and administrative expense, resulting in an operating loss of \$909,000. During the three months ended September 30, 2005, the Company incurred \$137,000 in research and development expenses and \$751,000 in general and administrative expense, resulting in an operating loss of \$510,000. The increased level of expense in 2006 over the corresponding period of 2005 is the result of expansion of product development and sales and marketing as the Company achieved funding in July and December 2005, expanded its facilities and added personnel to execute its business plan. Funding provided by the completed secondary offering and subsequent private offering permitted expansion of sales, service and engineering personnel, accelerated product manufacturing and should allow the Company to achieve operating breakeven over the coming twelve months.

During the nine months ended September 30, 2006, the Company reported sales of \$3,732,000 and cost of sales of \$2,141,000 resulting in gross profit of \$1,591,000 compared to sales of \$1,230,000 and cost of sales of \$763,000 resulting in gross profit of \$467,000 for the same period of 2005. Significant sales of production equipment began in June 2005. During the nine months ended September 30, 2006, the Company incurred \$466,000 in research and development expenses and \$3,899,000 in general and administrative expense, resulting in an operating loss of \$2,774,000. During the nine months ended September 30, 2005, the Company incurred \$399,000 in research and development expenses and \$1,617,000 in general and administrative expense, resulting in an operating loss of \$1,549,000. The increased level of expense in 2006 over the corresponding period of 2005 is the result of expansion of product development and sales and marketing as the Company achieved funding in July and December 2005, expanded its facilities and added personnel to execute its business plan. Funding provided by the completed secondary offering and subsequent private offering permitted expansion of sales, service and engineering personnel, accelerated product manufacturing and should allow the Company to achieve operating breakeven over the coming twelve months.

**Liquidity and Capital Resources**

On September 30, 2006, the Company had \$1,959,000 in cash, \$1,088,000 in accounts receivable, \$4,524,000 in inventory and a total of \$728,000 in current liabilities, for a total working capital of \$7,112,000. Net cash used in operating activities for the nine months ended September 30, 2006 was \$3,731,000, primarily to purchase long lead time inventory and fund increased accounts receivable, compared to cash used in operating activities of \$5,919,000 for the nine months ended September 30, 2005. Net cash used in investing activities for the nine months ended September 30, 2006 was \$335,000, primarily to acquire equipment for sales and engineering activities, compared to net cash used in investing activities for the nine months ended September 30, 2005 of \$421,000. Net cash provided by financing activities was \$846,000 for the nine months ended September 30, 2006 from proceeds of notes payable and exercise of warrants to purchase common stock, compared to net cash provided by financing activities of \$10,173,000 for the nine months ended September 30, 2005, substantially from the secondary offering that was completed in July 2005.

**Our Capital Requirements**

We believe that we have the necessary funds to finance our planned operations during the next 12 months. We have no commitments for material capital expenditures.

**Employees**

We have thirty-six full time employees at September 30, 2006.

**Table of Contents**

**Item 3. Controls and Procedures**  
**Evaluation of Disclosure Controls and Procedures**

In connection with the preparation of this Quarterly Report on Form 10-QSB, the Company carried out an evaluation under the supervision and with the participation of the Company's management, including the CEO and CFO, as of September 30, 2006 of the effectiveness of the design and operation of the Company's disclosure controls and procedures, as such term is defined under Rules 13a-15(e) and 15d-15(e) under the Exchange Act. Based upon this evaluation, the CEO and CFO concluded that, as of September 30, 2006, the Company's disclosure controls and procedures were effective.

**Changes in Internal Control over Financial Reporting**

There have not been changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) during our last fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II - OTHER INFORMATION

**Item 1. Legal Proceedings**  
None.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**  
None.

**Item 3. Defaults upon Senior Securities**  
None.

**Item 4. Submission of Matters to a Vote of Security Holders**

At the annual meeting held August 10, 2006, shareholders approved the election of Roger Mason and Laura Owen as Class C Directors for three year terms. Mr. Mason received 5,074,713 votes for and 227,234 withheld. Ms Owen received 5,131,188 votes for and 170,759 withheld. In addition, shareholders voted in favor of increasing the number of shares reserved for issuance under the Company's 2002 Stock Option Plan to 1.5 million shares by a vote of 2,631,507 for, 395,683 against and 2,274,757 withheld.

**Item 5. Other Information**  
None.

**Item 6. Exhibits**  
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.



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- 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.

**Table of Contents**

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: November 13, 2006

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

Date: November 13, 2006

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