ICOP DIGITAL, INC
Form 10QSB/A
July 06, 2005

U.S. Securities and Exchange Commission

Washington, D.C. 20549

Form 10-QSB/A-3

(Mark One)

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

For the quarterly period ended March 31, 2005

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

Commission file number: 000-27321

ICOP Digital, Inc.

(Name of small business issuer in its charter)

Colorado	**84-1493152**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

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

(Address of principal executive offices, including ZIP Code)

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

N.A.

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

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ý No o

Transitional Small Business Disclosure Format Yes o No ý

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

Explanatory Note

ICOP Digital, Inc. is filing this Amendment to its quarterly report on Form 10-QSB for the quarter ended March 31, 2005 to revise its financial statements to conform with an amendment to its Annual Report on Form 10-KSB for the year ended December 31, 2004. As further described in Note 6 to the financial statements and in Item 3, controls and procedures, the amendment to the annual report revised the valuation and recording of convertible preferred stock issued in 2004. The revision did not affect total capital or cash position.

ICOP DIGITAL, INC.

PART I - FINANCIAL INFORMATION

Forward-Looking Statements

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

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

- risks and uncertainties;
- general economic and business conditions;
- the business opportunity that may be presented to and pursued by us;
- changes in laws or regulations and other factors, many of which are beyond our control; and
- ability to obtain financing on favorable conditions.

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

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Item 1. Financial Statements

ICOP DIGITAL, INC.

(A development stage company)

Balance Sheet (Unaudited)

March 31, 2005

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

$	1,440,328

* See Note 6

See accompanying notes to financial statements.

ICOP DIGITAL, INC.

(A development stage company)

Statements of Operations (Unaudited)

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

* See Note 6

See accompanying notes to financial statements.

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ICOP DIGITAL, INC.

(A development stage company)

Statements of Cash Flows (Unaudited)

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

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

* See Note 6

See accompanying notes to financial statements.

ICOP DIGITAL, INC.

(A development stage company)

Notes to Financial Statements

Note A: Basis of Presentation

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

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

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

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

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

Operations and Merger

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

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

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

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

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

Going Concern Basis

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

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

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

Note 2: Related Party Transactions

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

Note 3: Notes Payable

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

Note 4: Shareholders Equity

Preferred Stock converted to common stock

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

Note 5: Income Taxes

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

Note 6 Restatement of Financial Statements

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

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

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

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

The following table shows the effect of the restatement:

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

Item 2. Plan of Operation

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

Liquidity and Capital Resources

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

Our auditors included an explanatory paragraph in their opinion on our financial statements for the year ended December 31, 2004, to state that our losses since inception and our net capital deficit at December 31, 2004 raise substantial doubt about our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon raising additional capital and achieving profitable operations. We cannot assure you that our plan of operation will be successful in addressing this issue.

Our Capital Requirements

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

Employees

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

ITEM 3 CONTROLS AND PROCEDURES

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 March 31, 2005 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 March 31, 2005, the Company s disclosure controls and procedures were not effective because of the material weaknesses described below under Identification of Material Weaknesses.

The Company has restated its previously issued financial statements for the three months ended March 31, 2005 as described more fully below under The Restatement.

After giving effect to the adjustments and other revisions in the classification described under The Restatement, the Company s management believes that the financial statements included in this Quarterly Report on Form 10-QSB fairly present in all material respects the Company s financial condition, results of operations and cash flows for the periods presented and that this Quarterly Report on Form 10-QSB does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report.

Identification of Material Weaknesses

In connection with the assessment by the Company s management of the effectiveness of the Company s internal control over financial reporting as of March 31, 2004, the Company s management identified the material weaknesses described below, certain of which contributed to the restatement of the Company s financial statements for the three months ended March 31, 2005, as more fully described under The Restatement.

1. *The Company did not maintain effective controls over the financial reporting process due to an insufficient complement of personnel with a level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the Company s financial reporting requirements.* The Company s controls over the completeness, accuracy and review of its documentation of close processes relating to valuation and issuance of convertible preferred stock were ineffective in their design and execution. In addition, the Company did not have effective controls over the process for identifying and accumulating all required supporting information to ensure the completeness of its footnote disclosures, including the support for the accounting positions taken on non-routine transactions, equity issuance transactions, stock split and other equity change transactions. These control deficiencies resulted in certain audit adjustments to and additional disclosures made in the 2004 financial statements, as more fully described under The Restatement. Additionally, the control deficiencies described above could individually or in the aggregate result in a material misstatement to the annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that these control deficiencies constitute material weaknesses.

2. *The Company did not maintain an effective control environment.* The financial reporting organizational structure was not adequate to support the complexity of the Company. This control deficiency indicates that the Company did not maintain an effective control environment. This control deficiency could result in a material misstatement to annual or interim financial statements that would not be prevented or detected. Accordingly, management has determined that this control deficiency constitutes a material weakness.

The Restatement

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

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

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

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

Management s Remediation Initiatives

In response to the matters discussed under Identification of Material Weaknesses above, the Company plans to continue to review and make necessary changes to the overall design of its control environment, including the roles and responsibilities of each functional group within the organization and reporting structure, as well as policies and procedures to improve the overall internal control over financial reporting. In particular, the Company has implemented and/or plans to implement subsequent to March 31, 2005 the specific measures described below to remediate the material weaknesses described above.

The Company s failure to have a sufficient complement of personnel with a level of accounting knowledge, experience and training in the application of generally accepted accounting principles commensurate with the Company s financial reporting requirements contributed to the Company s failure to maintain effective controls over the financial reporting process. To remediate the material weaknesses described in item 1 of Identification of Material Weaknesses, the Company has implemented or plans to implement the measures described below, and will continue to evaluate and may in the future implement additional measures.

1. General plan for hiring and training of personnel The Company s planned remediation measures are intended to generally address this material weakness by ensuring that the Company will have sufficient personnel with knowledge, experience and training in the application of

generally accepted accounting principles commensurate with the Company s financial reporting requirements. These measures include the following:

(a) The Company s chief financial officer, with assistance from outside consultants, other than the Company s independent registered public accounting firm, has reviewed and will continue to review and adapt the overall design of the Company s financial reporting structure, including the roles and responsibilities of each functional group within the Company;

(b) The Company retained and intends to continue to retain the services of outside consultants, other than the Company s independent registered public accounting firm, with relevant accounting experience, skills and knowledge, working under the supervision and direction of the Company s management, to supplement the Company s existing accounting personnel;

(c) The Company in July 2005 implemented an enhanced formal training process for the training of financial staff and plans to continue this process to ensure that personnel have the necessary competency, training and supervision for their assigned level of responsibility and the nature and complexity of the Company s business.

2. Accurate preparation and review of financial statements The Company s planned remediation measures are intended to address material weaknesses related to the financial close and reporting process that have the potential of preventing the accurate preparation and review of the Company s financial statements in future financial periods. The Company s planned remediation measures include the following:

(a) During the second quarter of 2005, the Company began to implement, and plans to continue to improve, new and enhanced procedures to ensure that non-routine transactions are identified and escalated to enhanced evaluation during the close process to help ensure proper accounting treatment. Specific steps include training and ongoing monitoring of financial staff, and active review of contracts by knowledgeable financial and legal staff.

(b) The Company plans to enhance in 2005 the communication and distribution of its accounting policies and procedures and development of a process to more effectively accumulate and analyze information required for financial statement footnote disclosures.

3. Expansion of board and creation of audit committee In March 2005 we expanded our board of directors to include additional independent members and created an audit committee that includes a financial expert. We believe the addition of this oversight committee will add perspective and expertise to the review of our filings and avoid future errors.

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 the first quarter of 2005 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting, with the exception of adding additional independent directors and creating an audit committee in March 2005. The discussion above under Management s Remediation Initiatives describes the material planned and actual changes to the Company s internal control over financial reporting subsequent to March 31, 2005 that have materially affected, or are reasonable likely to materially affect, the Company s internal control over financial reporting.

PART II - OTHER INFORMATION

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

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

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

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

Item 6. Exhibits

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

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

SIGNATURES

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

	ICOP DIGITAL, INC.
Date: July 5, 2005	By: /s/ David C. Owen David C. Owen, President Chief Executive Officer Principal Executive Officer
Date: July 5, 2005	By: /s/ John C. Garrison John C. Garrison Chief Financial Officer Principal Accounting Officer