

The Independent Research Group



IQ Biometrix, Inc.
OTC: IQBM.OB
\$0.83

June 17, 2003

Recommendation: BUY

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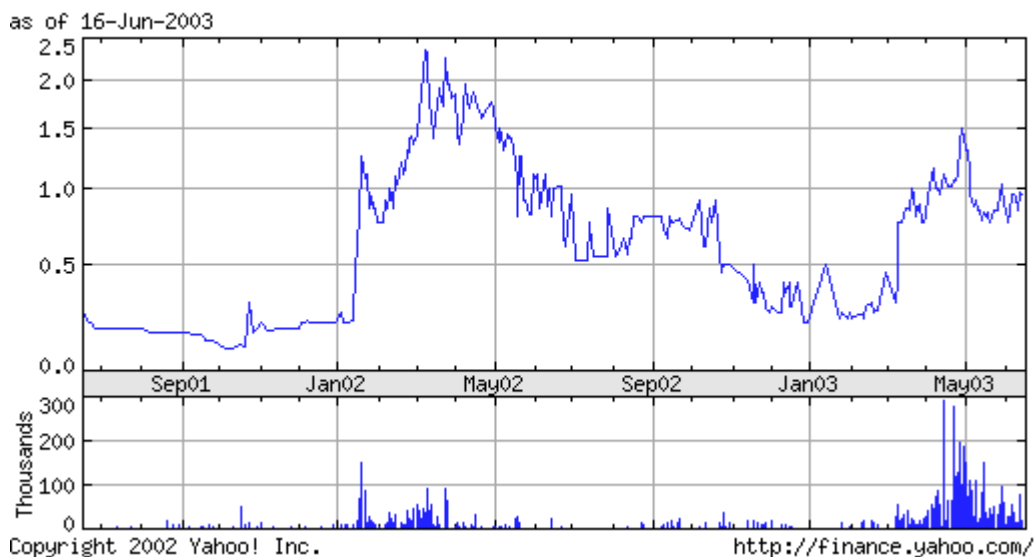
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Share Data	Share Data	Ratios	Values
Price	\$0.83	EPS ttm	Na
52 W Range	\$0.20-\$1.56	PE ttm	Na
Shares Outstanding	29.1MM	Est. EPS CY03	\$0.03
Volume	2,200	ROE Est. CY03	-2.62%
		Current Ratio Est. CY03	1.04
		Sales ttm	Na
		Debt/Equity Est. CY03	0.10

THE COMPANY

IQ Biometrix, Inc. (IQB) is headquartered in Fremont, California, and provides law enforcement and security technology solutions for government and private industry. IQB's mission is to develop state-of-the-art biometric software systems that address critical needs in crime prevention and crime solving, as

well as to assist in the worldwide efforts against terrorism. IQB is an industry leader in facial composite technology. IQB's award winning facial composite software, FACES, has been used successfully by police agencies for more than five years to identify and apprehend criminal suspects. FACES enables users to create quality pictures from a database of about 4,000 facial features. IQB's current client base includes over 4,500 police departments, the U.S. military, FBI and CIA contributing to over 150,000 user licenses. Through the application of a common alphanumeric ID code, all of these law enforcement agencies can quickly and effectively work together to apprehend criminals.

John Walsh, host of America's Most Wanted (AMW), is the official spokesperson for FACES and works in close relationship with IQB as a strategic partner.

“FACES is an exciting technology that takes the police composite program into the 21st century. It's going to catch a lot of criminals.”
-- John Walsh, host of America's Most Wanted

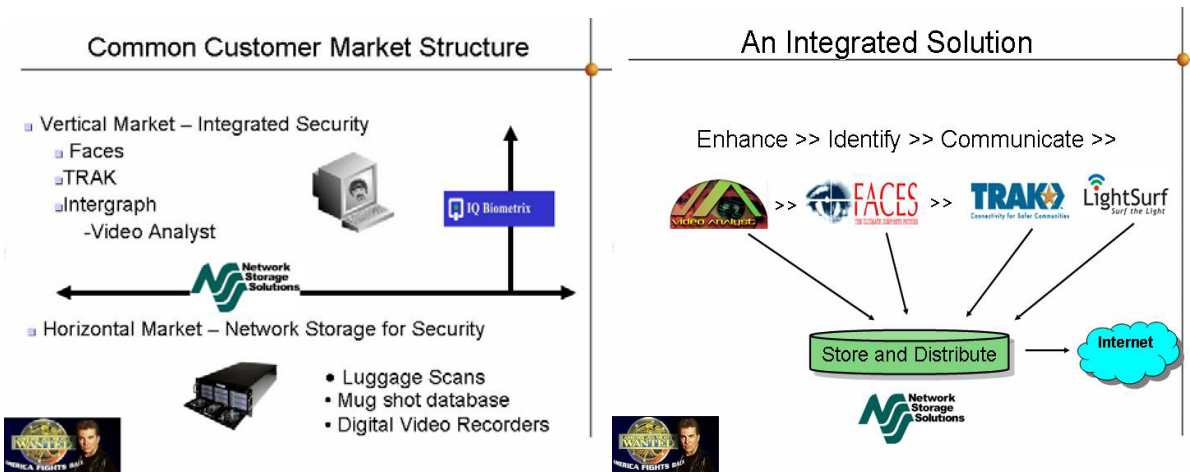


John Walsh became involved after broadcasts of a FACES composite led to the arrest of the notorious 'South Florida Rapist' who was responsible for the brutal attack and attempted abductions of a dozen girls and young women. Prior to the October 1998 AMW broadcast, several sketches of the suspect had been hand-drawn, but provided few leads for police. Soon after the FACES sketch appeared on AMW, a woman contacted police, saying the portrait was that of her son. The suspect was arrested within hours and charged. FACES has been adopted as an official crime-solving tool on AMW, viewed by an average of 11 million people every week.



Composite and photograph of suspect. Provided by IQB.

On May 5, 2003, IQB signed a Letter of Intent to acquire Network Storage Solutions, Inc. (NSS), a leading developer and supplier of network storage software and products for security and other applications. NSS offers SPANStor, an award winning Network Attached Storage (NAS) operating system, a full line of NAS/SAN gateways and storage appliances, and the Thunderbolt storage system series. IQB will issue 12.5 million shares of its common stock to NSS and options for 3.5 million shares of IQB common stock vesting over three years to NSS management and staff. The combined entity will have approximately \$16 million in total assets and generate approximately \$7.4 million in revenue in CY2003.



The acquisition of NSS will provide several key elements to help IQB achieve continued development and succeed as a major provider of facial composite, recognition and tracking systems. The acquisition is expected to 1) expand IQB's geographic presence through NSS's high-quality customer base of leading global companies and several government agencies; 2) leverage IQB's technology into new markets; and 3) provide law enforcement and security industries with increased digital storage capabilities. The combined technologies will provide law enforcement agencies and the security industry with increased ability and enhanced potential to catch criminals, find lost or abducted children and fight terrorism.

BULL CASE

- IQB's award winning facial composite software, FACES, has been used successfully by police agencies for more than five years to identify and apprehend criminal suspects.
- Over 4,500 police departments, the U.S. military, FBI and CIA use FACES contributing to over 150,000 user licenses.
- John Walsh, host of America's Most Wanted (AMW), is the official spokesperson for FACES and works in close relationship with IQB as a strategic partner. AMW is viewed by over 11 million viewers each week.
- FACES is the only composite image program that automatically generates a unique ID code for every image created. The company's proprietary InterCode™ is a breakthrough feature and is as unique as fingerprints or DNA.
- FACES produces a high quality, photo like picture that can be easily transmitted worldwide in seconds via the InterCode™.
- FACES is easy to use and can be utilized by people who have very little experience with computers.
- FACES is targeted for detectives at state and local law enforcement agencies. There were 17,784 agencies in the U.S. as of June 2000.
- FACES is considered the industry standard for facial composite software. FACES composite are easily distinguishable from its competitors due to its superior high quality image.
- NSS is a leading supplier of network storage software and products for security applications.
- NAS technology is accepted as the industry standard for network distributed storage.
- Both the NAS and SAN systems are highly complementary and will converge over the next few years. NSS has produced the first truly integrated NAS-SAN solution.
- The acquisition of NSS will result in horizontal market opportunities by providing law enforcement and security industries with increased digital storage capabilities.
- The merger with NSS will diversify IQB's geographic presence and leverage its technology into new markets.

- The merger between IQB and NSS creates a new but very strong management team with extensive experience in the law and security industries and good government contacts.
- The increasing demand of law enforcement for faster case resolution, faster emergency response, irrefutable evidence and better crime deterrents has resulted in an increased need for security technology solutions.
- In the aftermath of September 11th, it was clear that authorities needed a way to share vital criminal, health, and safety information with each other or with the public that would uniformly deliver information to affected groups of people. TRAK II is the solution.
- The TRAK system comes with thousands of pre-loaded law enforcement contacts called "Targets" that can be added to, altered and arranged easily at each agency. The speed in which TRAK disperses information is invaluable.
- By integrating FACES with TRAK, the system can be used everyday by law enforcement on an unlimited number of cases.
- TRAK is used by more than 1,300 U.S. law enforcement agencies in 32 states.
- The threat of additional terror attacks has resulted in strong demand and interest in Homeland Security.
- **FACES/TRAK II** is a vital component to Homeland Security. The market opportunity for **FACES/TRAK II** is estimated to be \$250 million annually in the U.S. alone.
- The Homeland Security Act is targeted to drive the government's biggest technology spending in five years.
- Recent child protection legislation created a matching grant program to facilitate the expansion of the Amber Alert program to all states. States are integrating Amber Alert with TRAK in order to supplement the text message and include images of the victim.
- Facial recognition is expected to be one of the fastest growing segments of the biometric market during the next two to three years.
- Global biometric industry revenues are expected to reach \$4 billion by 2007.
- 2004 elections put pressure on lawmakers to increase spending for Homeland Security initiatives. As a result, the company reports better than expected profitability of \$8.3 million as per our Best Case scenario.
- The Company continues seeks out strategic acquisitions that are accretive to earnings.
- The Company is assembling a world-class management team with strong contacts within government.
- Compelling business model (high margins, low operating costs, recurring revenue streams, sparse competition).

BEAR CASE

- Local and state governments are experiencing their worst budget crises in years. This could negatively impact IQB which sells its FACES product to law enforcement agencies that are potentially reliant on local and state funding.
- The Homeland Security Department is not adequately funded by the federal government.
- The difficult economic environment and budget cuts could result in the Company's operating performance falling below expectations. Our Worst Case scenario projects a net loss of \$219k in CY2003 and net income of \$2.8 million in CY2004, versus the Base Case scenario of a net loss of \$913k in CY2003 and net income of \$6.7 million CY2004.
- The company does not raise sufficient capital to see it through to profitability.
- Competitors may offer facial composite products that are cheaper and thus more attractive to those agencies under budgetary pressure.
- Management does not execute on its business strategy and fails to effectively leverage the IQB and NSS customer markets.

BRIEF HISTORY

IQ Biometrix (IQB)

IQB's origin stems from the early 1990s in Montreal, Canada where the company developed a unique methodology for facial imagery and composites. In 1998, after compiling custom studio photos of more than 4,000 people and creating software at a development cost of \$4 million, the FACES™ software product was launched.

In March 2002, the company merged with JVWeb, which had no significant assets or operations. Although JVWeb was at the time a public "shell" that acquired all of the assets of IQB, for accounting purposes IQB was treated as the accounting acquirer and the public company henceforth. In November 2002, the company changed its name and ticker symbol from JVWeb Inc. (JVWW) to IQ Biometrix, Inc. (IQBM.OB).

In May 2003, IQB entered into a letter of intent to acquire Network Storage Solutions, a leading developer and supplier of network storage software and products, located in Chantilly, Virginia. The merger is expected to close by the end of the second quarter 2003.

Network Storage Solutions (NSS)

NSS was founded in October 1996 with the management led buyout of the assets of industry pioneer, Symmetrical Technologies, Inc. a company that shipped network attached Optical storage devices in 1990. NSS introduced its current generation of SPANStor™ enabled network attached storage (NAS) products in May 1998. Since then, SPANStor has continued to grow in functionality and performance culminating in the enterprise release of SPANStor Version 5.0 in 2002.

NSS develops and markets modular NAS appliances that are designed specifically for high performance data access, ease of management, and reliability. They are comprised of industry standard, best of breed hardware integrated with a highly optimized, specialized, and feature-rich journaled file system. In 2001, NSS announced a relationship with Hitachi Data Systems that brought together Hitachi's world-class storage area network (SAN) technology with the NSS NAS products to produce the industry's first truly integrated NAS-SAN solution. This offering has been well received by large customers around the globe.

RECENT DEVELOPMENTS

6/17/03 – NSS enters into a multi-year, \$1 million OEM agreement with Inno Micro Corporation of Japan, diversifying its revenue base and expanding its international reach.

6/13/03 – NSS enters into a multi-year, \$5 million OEM agreement with InVision Technologies, Inc, a manufacturer of airport security scanning devices. Under the terms of the agreement, NSS will supply InVision with NAS products for integration into InVision's detection systems used at major airports worldwide for screening passenger checked luggage. The NAS products will be used as a repository for scanned luggage images.

6/12/03 – IQB retains National Capital Co., LLC, a boutique M&A banking firm based in the Washington DC area, with an extensive network of contacts with companies that provide security products and related services to commercial and government entities.

5/5/03 – IQB enters into a Letter of Intent to acquire Network Storage Solutions, a leading developer and supplier of network storage software and products.

3/10/03 – IQB along with its partners, SocialTech and Intergraph, launch its National Terrorist Alert & Tracking System (TRAK II) at the Strategies for Public Safety Transformation Conference in Bal Harbour, Florida where attendees included representatives from the FBI, Department of Justice and more than 200 police departments from around the world.

3/1/03 – NSS was named one of the Greater Washington Fast 50 companies. Washington Techway, a Post Newsweek Tech Media Group publication, presents this award. The Fast 50 award recognizes the fastest growing Maryland, Virginia or District of Columbia companies, based on revenues.

2/19/03 – IQB launches FACES LE for Law Enforcement, a professional version of FACES and integrated with TRAK. The integrated solution is introduced to the 1,300 current TRAK users in 32 states.

1/23/03 – IQB forms a strategic partnership with Intergraph Solutions Group to combine the FACES software and Video Analyst® System.

11/12/02 – The Company changes its name and ticker symbol from JVWeb Inc. (JVWW) to IQ Biometrix Inc. (IQBM).

9/26/02 – IQB forms a strategic partnership with SocialTech to integrate their respective software products, FACES and TRAK (Technology to Recover Abducted Kids).

7/15/02 – IQB launches the beta version of FACES 4.0.

2/28/02 - IQ Biometrix California, Inc., a provider of facial comparison security software, signs a definitive agreement for a reverse merger with JV Web of Houston (OTC: JWVV.OB).
Please insert events for 2003

BUSINESS STRATEGY

IQB's business strategy is to develop partnerships and integrate FACES with partner technologies in order to deliver comprehensive and meaningful security solutions to its clients. For a decade or more, the challenge in the federal government has been learning to do more with less. Now, with increased threats, responsibilities, and budgetary pressures, federal agencies must be even more responsive and flexible without compromising security. They are relying more and more on integrated IT solutions. At the same time, security and emergency response requirements are essential to success in this new war, especially information security.

IQB is committed to building partnerships with government, private or non-profit organizations in order to provide effective, cost-efficient and sustainable technology solutions. To date, IQB has developed three primary strategic partnerships:

1. SocialTech – a 501(C)(3) non-profit organization founded in 1995, in response to the 1993 abduction and murder of Polly Klaas. The founders shared a vision to equip law enforcement with a technology that would respond quickly and efficiently when a life is in danger. The result was TRAK, “Technology to Recover Abducted Kids”, developed in partnership with Hewlett Packard and At&T. TRAK is a computer software system that assists law enforcement in the process of communicating important visual information. This system allows any police officer to quickly and efficiently create high-resolution photo bulletins and share them electronically with other law enforcement

jurisdictions, the media and the community. TRAK is currently used by more than 1,300 U.S. law enforcement agencies in 32 states.

2. Intergraph Solutions Group (ISG) – a division of Intergraph Corporation INGR and a systems integration and management consulting company. ISG offers extensive solutions for the law enforcement, military, intelligence, surveillance, and security communities through its Video Analyst® System. ISG’s advanced video analysis and enhancement products and services apply NASA-developed technology to support crime scene analysis, surveillance, stings, aerial reconnaissance, dash-mounted camera, and other police uses.
3. DataWorks Plus – a company that provides law enforcement information management solutions, including mugshot database.

IQB aims to help meet homeland security needs either through building partnerships or through strategic acquisitions. Effective security solutions are needed to address multiple pressing needs:

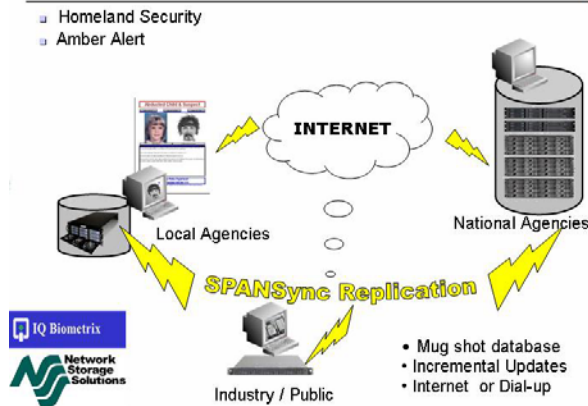
Terror Alert System, when a threat is verified, to immediately distribute clear, accurate information (including images) between authorities and to the public as appropriate.

Amber Alert System, when a child is endangered, that not only activates the media via the Emergency Alert System but dramatically enhances the response by incorporating images and enabling authorities to immediately distribute color bulletins to law enforcement throughout the region and to all facets of the community (schools, businesses, transportation centers, etc.)

Community Alert System, that is used multiple times each day by local authorities on a broad range of community health and safety issues (all ages of missing persons, wanted persons, Megan's Law notices, stolen property, and gang/drug abatement efforts).

Meeting new homeland security requirements requires agencies at all levels of government and the private sector to effectively communicate and coordinate information related to threats. IQB is focused on bringing proactive solutions that use available data to prevent attacks and reduce vulnerability. Within the security arena, existing solutions primarily focus on capturing and aggregating data. IQB believes the lack of focus on analysis and distribution of data in order to ensure effective tracking and monitoring of criminal suspects is a major deficiency among existing security solutions. IQB’s merger with NSS furthers the company’s mission to help develop a national alert network by supporting integrated IT solutions.

Nationwide Intelligence /Alert Network



PRODUCT DESCRIPTIONS

FACES

IQB has two patents (one pending in the U.S. and one awarded in Canada), and a proprietary library of facial components. FACES LE™ Version 3.1 has a database of approximately 4,000 facial features that can be combined to create images of either sex and any race. FACES utilizes a unique and patent pending process where it generates the image using a “Universal Skin, a gray scale image that eliminates the affects of lighting and ethnicity. Selected features are automatically blended together to produce a high-quality, photo-like composite image. FACES is a desktop software product that can be operated on any standard computer system, Windows and Macintosh platforms, with a CD-ROM drive.

The image shows the FACES software interface on the left, featuring a large central window for the composite image, a sidebar with various facial features, and a grid of feature options. On the right, a slide titled 'Identify' lists the following points:

- IQBiometrics – Faces
 - Most Cases start without a photo of a suspect
 - Facial Composite
 - Over 150,000 copies currently in use in law enforcement

Below the text, two images are compared: a 'Sketch' and a 'Faces Composite'. The sketch is labeled with 'Harsh contrast' and 'Unrealistic eyes'. The faces composite is labeled with 'Realistic Skin Tone' and '4800 facial components'. The IQ Biometrics logo is visible in the bottom right corner.

A breakthrough feature of FACES is the company’s proprietary InterCode™, which allows each composite picture to be encrypted into an alphanumeric ID code. FACES is the only composite image program that automatically generates a unique ID code for every image created. The code uses 3,000 different measurements in the face to produce a “fingerprint” for each composite. The advantage of the InterCode™ is that it allows users to obtain impeccable quality composite pictures in a matter of seconds. The ID codes generated by FACES can be transmitted worldwide at the click of a mouse and in any format (i.e. phone, fax, email, radio). In addition, FACES promotes better inter-agency communications by allowing other police agencies to recreate the exact composite image. The Intercode™ feature can reduce the amount of time it may take to apprehend a criminal suspect. In addition, the encrypted

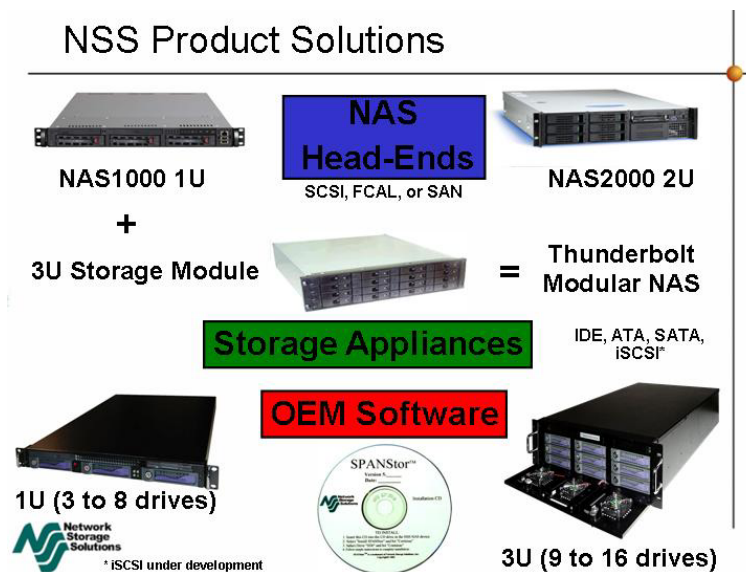
InterCode can be placed on driver's licenses and credit cards as a measure to enhance security and identity.

IQB will soon launch FACES 4.0, which is based on an extensive library of over 5,000 different facial features, including scars, tattoos, earrings and piercings, and many other unique facial traits. The features can be combined, through the software program, into unique facial composites, which can be converted into unique 38-digit alphanumeric ID codes.

The next generation of the FACES product, FACESearch, will incorporate a search function through a digitized database utilizing the IQB InterCode™ that can be online or stored locally for law enforcement agencies. Through IQB's strategic partnership with Dataworks, a 1.5 million image mug shot database (called iMug) has been developed that can be searched with the FACESearch system from any FACES/TRAK terminal. Police will be able to use a FACES composite of a suspect to search the iMug database to determine if the suspect sketch matches any past offenders.

SPANStor™

NSS provides a complete offering of world-class network attached storage (NAS) technology utilizing its award-winning SPANStor NAS operating system. NSS's NAS devices are based on the highest quality hardware, which allows for ease of expansion and scalability.



SPANStor version 5.0 is built on an open, NetBSD kernel with a powerful Journaling File System that can operate on virtually any Intel based server platform. The backend storage attachment is agnostic as SPANStor's operating system will support multiple storage suppliers without any unique functionality. SCSI, Fibre and IDE/ATA attachment are supported through the use of industry standard host bus adapters and controllers. Standard features of SPANStor include support for CIFS, NFS, and HTTP, user quota (storage) management, DNS, NIS, and WINS, ACL and Active Directory, NDMP, SNMP with trap support, UNICODE (foreign language), dynamic volume management and SPANShot (point in time view of up to 500 snapshots per file). Optional products include Fail-Over functionality, virus scanning licensed through NAI, and SPANSync, which provides intelligent file replication and data migration. It enables System Administrators to replicate data from one or many SPANStor NAS system to another in an efficient manner using the existing TCP/IP network infrastructure.

SPANStor NAS Version 5 Features



- Journaled File System (ALFS)
- Easy Web Management
- NFS v2 and v3 (Large file support)
- SPANSnaps (4096 snapshots per f/s)
- File and Group quotas
- HA Failover cluster
- NDMP
- SNMP /with trap support
- Native fiber channel Host Bus Adapter
- Full fabric logon and FCAL supported
- Seamless Windows and UNIX integration
- Multiple Ethernet NIC adapters (10/100/1000)
- DNS, NIS, WINS
- FTP, SSH, Telnet
- Multi-protocol filing locking
- Multi-Byte Unicode support
- Dynamic volume management
- Email notification via SMTP
- Detailed monitoring and logging
- Win2k Active Directory and ACL support,
- Storage array configuration and event notification
- Anti-Virus



SPANStor has the architecture to support emerging market needs by taking advantage of its highly adaptable platform. SPANStor provides the foundation for true Intelligent Data Management (IDM). The IDM vision is a global and distributed file storage and management solution that allows for the automated and optimized management of data over its complete life cycle: creation, acquisition, retention, virtualization, distribution, replication, archive and deletion. IDM envisions: a logical *aggregation* of storage devices distributed across potentially vast networks, *distributing content* where it is most useful and yet providing *centralized and automated management* for corporate information systems

GROWTH OPPORTUNITIES

Law enforcement and security are under more pressure than ever, with increasing demands for faster case resolution, faster emergency response, irrefutable evidence, and better crime deterrents. From the FBI to mall security, officers and investigators are the front line in the war on terrorism. However, limited funds, labor-hour reductions, and a growing web of sophisticated threats present significant challenges to law enforcement and security personnel. Technology is becoming essential to help police, airport security, MPs, sheriffs, forensics, and highway patrol overcome these challenges.

TRAK – Technology to Recover Abducted Kids

TRAK is a computer software system that allows police officers to create and transmit high-quality photo bulletins to other law enforcement jurisdictions, the media and the community. While law enforcement often has some type of imaging technology in place, such as a booking system, there is no shared technology that links agency to agency across jurisdictional lines the way TRAK does. Neither is there any other tool that connects each agency to the media and community. The TRAK system comes with thousands of pre-loaded law enforcement contacts called "Targets" that can be added to, altered and arranged easily at each agency.



It is generally thought that for every minute that passes, a perpetrator can travel one mile. Consequently, the first 2-4 hours of a child kidnapping are crucial. With a widely distributed image, five or five hundred miles from the location of an incident, law enforcement possesses a greater likelihood of surrounding and capturing an abductor. Thus, while an abductor may be leaving the original agency's jurisdiction, the TRAK bulletin is alerting other agencies, and the community warning them of the suspect's potential arrival. Prior to TRAK, such alerts were most often in text only and communicated by telephone or



teletype, or via fax with sometimes fuzzy, unrecognizable pictures. In-person delivery proved too time consuming and costly. The speed with which TRAK disperses information is invaluable.

Through IQB's strategic partnership with SocialTech, the FACES software and the TRAK system can be easily integrated to include facial composites on police bulletins and advisories.

TRAK: Easy Creation of Posters Alerts

Push Button Distribution of Posters Alerts



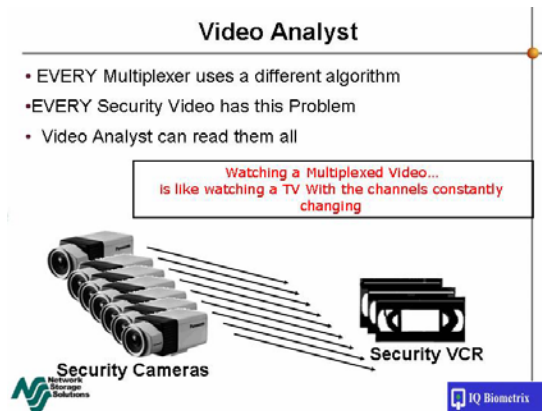


By combining FACES with TRAK, the TRAK system can be used everyday by many law enforcement officers on an unlimited number of cases. While TRAK was originally designed to help law enforcement agencies locate and recover abducted children, it has since been used in countless types of other applications including finding missing/wanted persons, distributing school bulletins about suspicious persons, creating “gang books” for patrol, and distributing registered sex offender notifications. With the ability to include facial composites on TRAK alerts and bulletins, the possibilities are almost endless.

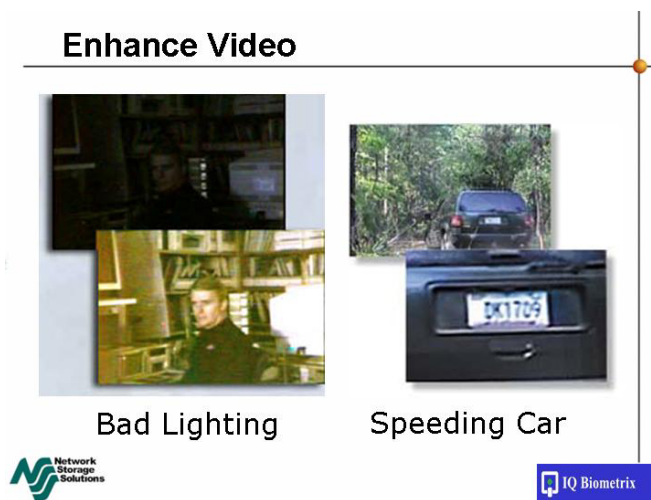
TRAK is currently used by more than 1,300 U.S. law enforcement agencies in 32 states. In recent months over 50,000 photo bulletins per month have been transmitted from TRAK Systems. That number increases every month. The State of New Jersey has dedicated \$1.8 million dollars to purchasing 600 TRAK systems for 600 state police stations. IQB is seeking matching funds from the Department of Homeland Security and the Amber Alert program of the Department of Justice in order to add the FACES capability to each system. Ohio, Nebraska, Florida and Texas are currently reviewing the TRAK system with FACES capabilities.

Video Analyst® System

Intergraph Solutions Group (ISG) provides affordable video analysis products and services to government and commercial enterprises. The demand for intelligent video analysis systems has grown dramatically over the last ten years. Video analysis is central to successful operations especially in the military, law enforcement, security, and surveillance arenas. Increasingly, law enforcement agencies from large cities to small towns use video from dash mount cameras or crime scenes. This video must meet stringent evidentiary requirements. Military and intelligence agencies employ video for everything from surveillance to weapon system guidance. This requires accommodation of images from UAVs or aircraft, IR, SONAR, and much more. Whether in a bank, gas station, convenience store, or drug store, video is most likely used to support security.



ISG's Video Analyst technology delivers the highest quality video images possible without altering the underlying footage. Video Analyst's ability to average, stabilize, register, and zoom selected areas of frames allows an unprecedented method of correcting jumpy or dark video with dramatic effect.



The FACES software is capable of being fully integrated into ISG's Video Analyst® System. The integration enables users to enhance video and then use it to build a composite image all in one system. IQB and ISG are working together to develop a solution to automatically transform a photo image into a composite.

TRAK II – The National Terrorist Alert and Tracking System

In the aftermath of September 11th, it was clear that authorities needed a way to share vital criminal, health, and safety information with each other or with the public that would uniformly deliver information to affected groups of people. The imminent threat of additional terror attacks with potentially catastrophic loss of life and property (dirty bombs, bio-terror, etc.) made the immediate deployment of an effective authority-based alert system mandatory.

In March 2003, IQB and its two partners, SocialTech and ISG, introduced The National Terrorist Alert and Tracking System (TRAK II), a national emergency alert solution to prevent and respond to terrorist threats. TRAK II is a vital component to Homeland Security providing police, government, military, health and emergency response agencies a rapid, secure system to share protected and critical information with each other, and to broadly distribute security and safety information to the public.

TRAK II meets essential requirements:

- TRAK II provides immediate alert distribution capacity between authorities (Federal, State, County, local) for fast, coordinated information sharing (law enforcement, fire, OES, government).
- TRAK II provides immediate and unlimited alert distribution capacity for the authorities to share vital health and safety information with the public.
- TRAK II provides the ability to incorporate images (0-6) in alert bulletins for maximum recognizability of victims, suspects, property and places.
- TRAK II provides alert distribution to other authorities' TRAK II systems, email, fax machines, web sites, pagers, cell phones, wireless, etc.
- TRAK II provides a highly structured (for authorities) and densely populated (millions) shared electronic address book of alert recipients with appropriate and controlled access by authorities.
- TRAK II provides immediate scalability for alert distribution, from a single recipient to a local area, county, region, or state.
- TRAK II provides a strong security model within existing state technology security structure to ensure confidentiality of law enforcement data.
- TRAK II provides necessary reliability (hardware, software) for a mission-critical tool.
- TRAK II provides a solution built with open industry standards for maximum interoperability and future growth and connectivity.

The system can be used in any emergency situation, from homeland security threats to industrial or natural disasters to coordinate law enforcement measures, such as child abductions or wanted persons cases.

An example of how TRAK II would work is as follows:

- An airport surveillance camera identifies a man suspected of terrorist activities who has passed through security.
- Using Video Analyst, a weak, blurred image of the suspect is enhanced.
- Using FACES and eyewitness accounts, a photo-quality composite of the suspect is developed.
- Using TRAK II, a bulletin with the composite and a text description is created and transmitted to all airport destinations of flights that the suspect could have taken.
- The bulletin is then delivered quickly and efficiently to the TSA, airport management, and airport law enforcement at each of the airports.

IQB estimates the market opportunity for TRAK II to be approximately \$250 million, with the rollout of TRAK II in each state attributing \$100 million (or roughly \$2 million per state). The remaining market opportunity is anticipated to be derived from federal agencies. For example, in the wake of the September 11th terrorist attack the FBI authorized the purchase of six TRAK systems at \$500 each for use by the New York Field Office and its Resident Agencies. This process cleared the way for any other Field Office to acquire TRAK at the same price and to join the over 1,000 law enforcement agencies already using TRAK. The Homeland Security Act is projected to drive the government's biggest technology spending plan in five years. The recent budget passed in 2002 by Congress calls for \$52 billion in information technology spending, representing more than a 15% increase year over year.

Amber Alert

In April 2003, the President signed child protection legislation, which included support for a national Amber Alert network. Named after nine year old Amber Hagerman, who was abducted and murdered in 1996, the AMBER Alert system helps to safely recover abducted children across the country. Immediately after a child has been kidnapped and is considered endangered, law enforcement officers

launch an Amber Alert by informing broadcast media of critical details, including a description of the suspect and his vehicle. Radio and TV stations use the Emergency Alert System to interrupt their programming with the emergency information.

The most important aspect is that the Amber Alert plan is a systematic and procedurized response protocol that can be activated within minutes; getting information to the media and the public quickly. However, when a child is endangered, there are other critical elements of a complete response plan that law enforcement must seamlessly initiate. Undoubtedly, one of the most effective tools to safely recover a child is the broad distribution of a color image of the victim. An Amber Alert is just a text message. TRAK can enhance that message, however, by incorporating the color image in the same first minutes. TRAK makes it easy for any officer in an emergency situation to quickly build a color photo bulletin and make it available to the TV media, other law enforcement, and the community. With the integration of FACES with TRAK, a facial composite of the perpetrator along with a photo of the child can be distributed. TRAK enables law enforcement to distribute bulletins within minutes to an unlimited number of law enforcement agencies as well as throughout the community (i.e. transportation centers, shopping malls, convenience stores, gas stations, etc.) to supplement the Amber Alert text media broadcast.

While 38 states have passed Amber Alert laws, only 18 states have abduction alert networks in place. The new legislation will create a matching grant program through the Departments of Justice and Transportation to facilitate voluntary expansion of the program to all states. The Bush administration already has directed \$10 million to hire a national Amber network coordinator, train workers and upgrade equipment. The new legislation also closes loopholes that currently exist in the patchwork of AMBER systems, ensuring the ability of law enforcement to track down abductors even if they cross state lines. The states of California and New Jersey are the first to implement AMBER Alert with TRAK as the primary communication tool. By the end of 2002, it is estimated that there will be over 2000 TRAK systems in the field, most of them donated.

Casinos

For high rollers, Las Vegas is paradise on earth. Amid the gilt ceilings and sumptuous, florid surroundings, patrons focus on one thing: Gambling. Meanwhile, the casinos are watching, especially if a patron is wining big. Every gambling table has a security camera above it, while hundreds more tilt, pan, and zoom in on any suspicious activity from strategic locations throughout the facility. Upstairs, surveillance experts watch and record patrons' moves. If they see someone suspicious, they can capture the face and plug it into IQB's FACESearch product, which will quickly check to see if it matches any of the 2000-3000 known cheats on Las Vegas' Blacklist. In the old days, security personnel memorized books of mug shots, then peered down on gamblers through binoculars from the catwalks. Now casinos can use IQB's FACESearch software to match known criminals' facial characteristics with those of gamblers in the casino. The FACES software can save surveillance experts time and in some cases the casino its operating license. IQB is currently in discussions with interested parties. IQB estimates the annual U.S. market opportunity of providing the FACES software to casinos at approximately \$20 million.

MARKET SIZE AND DYNAMICS

FACES

FACES is easy to use and can be utilized by people who have very little experience with computers. One of the advantages of using FACES is that a sketch artist is not needed to create composite images; all it takes is the click of a mouse. A police officer can sit down with a victim or witness and create a photo quality composite within minutes. This provides law enforcement a greater chance of apprehending

suspects. For smaller police departments, sketch artists can be too costly to use. In many areas, there is only one sketch artist serving several local police stations. When a crime occurs, it can take up to two to three hours for a sketch artist to arrive at the scene of a crime. During this time details may begin to fade in victims' and witnesses' memories. In addition, even under the best conditions, the construction of a composite by a sketch artist is a complex, time-consuming process that can take up to several hours. It is generally thought that for every thirty minutes that pass a suspect can travel approximately 50 miles. As a result, the shorter the period from the time a crime has been committed to the time a composite can be completed and distributed, the better chances that the suspect will be apprehended. The ease of use of FACES is a great advantage for victims, witnesses, and law enforcement.

IQB primarily targets detectives at state and local law enforcement agencies. According to the U.S. Department of Justice, there were 17,784 state and local law enforcement agencies in the U.S. as of June 2000.

Law enforcement - type of agency	
Local police	12,666
Sheriff	3,070
Primary state	49
Special jurisdiction	1,376
Texas county constable	623
TOTAL	17,784

These agencies employed 1,019,496 full-time persons, including 708,022 sworn officers and 311,474 civilian personnel.

Law enforcement - full time sworn officers	
Local police	440,920
Sheriff	164,711
Primary state	56,348
Special jurisdiction	43,413
Texas county constable	2,630
TOTAL	708,022

Half of these law enforcement agencies had fewer than 10 full-time sworn officers, resulting in an even greater need for a computerized composite software product.

Law enforcement agencies - full time sworn officers		
1000 or more	77	0.43%
500 – 999	83	0.47%
250 – 499	203	1.14%
100 – 249	669	3.76%
50 – 99	1,177	6.62%
25 – 49	2,237	12.58%
10 – 24	4,124	23.19%
1 – 9	8,983	50.51%
0	231	1.30%
TOTAL AGENCIES	17,784	100%

local police departments, 16% (70,547) of full-time sworn officers were assigned to investigations.

Local department officers - primary assignment		
Patrol duty	291,007	66%
Investigations	70,547	16
Court operations	8,818	2
Jail operations	4,409	1
Other	66,138	15
TOTAL OFFICERS	440,920	100%

In sheriff offices, 12% (19,765) of full time sworn officers were assigned to investigations.

Sheriff officers – primary assignment		
Patrol duty	67,532	41%
Investigations	19,765	12
Jail operations	39,531	24
Court operations	28,001	17
Other	9,883	6
TOTAL OFFICERS	164,711	100%

According to the U.S. Department of Justice, law enforcement is becoming increasingly reliant on IT tools to meet increased demands, threats and responsibilities.

- In 2000, 28% of local police departments and 33% of sheriffs' offices, used computers for inter-agency information sharing.
- In 2000, 75% of local police officers and 61% of sheriffs' officers worked for an agency that used in-field computers or terminals, compared to 30% and 28% in 1990.
- The percentage of local police departments using computers for Internet access increased from 24% in 1997 to 56% in 2000. Among sheriffs' offices, 31% used computers for Internet access in 1997, increasing to 67% in 2000.
- In 2000, 45% of all local police departments and 53% of all sheriffs' offices used video cameras on a regular basis. The most common use of video cameras was in patrol cars, with 37% of local police departments and 40% of sheriffs' offices using video cameras in this application.
- In 2000, 47% of sheriffs' offices and 29% of local police departments used digital imaging technology for mug shots; 21% of sheriffs' offices and 29% of local police departments used digital imaging technology for suspect composites; 27% of sheriffs' offices and 11% of local police departments used digital imaging technology for fingerprints.

Network Storage

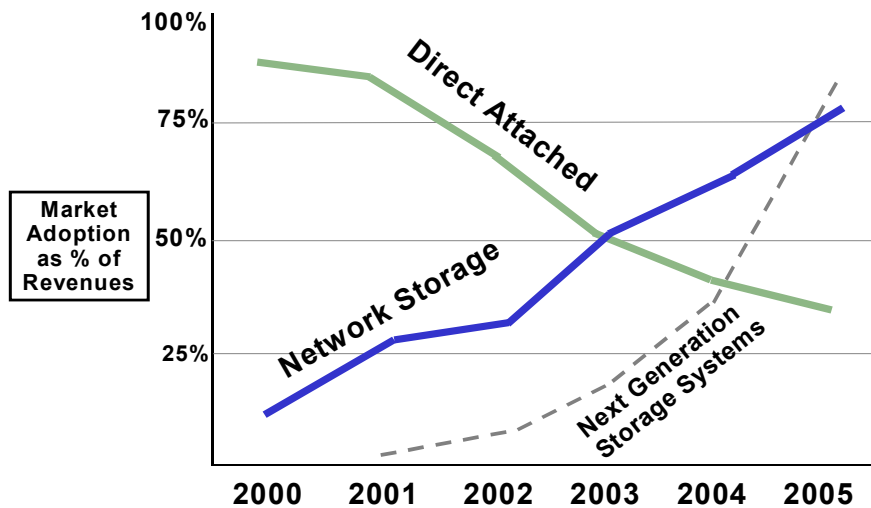
There are several approaches to providing network data storage capacity. These approaches include:

- General Purpose Servers
- Storage Area Networks (SAN)
- Networked Attached Storage (NAS)

The infrastructure to store, manage, and maintain access to digital data is categorized into five segments: storage software, Fibre Channel connectivity, Storage Area Networks (SAN), Networked Attached Storage (NAS), and Direct Attached Storage.

Networked storage is on the rise due to the commercialization of the Internet and the need to improve the reliability and speed of information retrieval. According to International Data Corporation, the computer data storage market is expected to increase by a 23.4% CAGR from \$38.3 billion in 2000 to \$88 billion in 2004. The driving forces behind this growth is the explosive growth of global e-business, growing online data requirements created by the Internet, and the increasing deployment and complexity of enterprise applications.

Storage Market Trend: From Direct to Network



Source: The Yankee Group

Until recently the majority of the world’s information resided on film or in print. Today, the bulk of the world’s information resides in digital form. The emergence of a digital economy has increased the number of electronic transactions that occur, and consequently the amount of electronic transactional data that must be stored. In addition, the growth in Web pages is exponentially increasing the demand for enterprise storage.

According to Dataquest, storage spending could eclipse server spending in 2004, accounting for 54% of total server/storage expenditures, up from 36% in 1998. More and more companies are building their technology infrastructure around information storage, rather than around network servers. According to Dataquest, the NAS market, specifically, was a \$1.4 billion market in 2000 and is estimated to grow at a CAGR of 75% over the next three years to reach \$6.4 billion in 2003.

Source: International Data Corporation

Keeping files on a server in a format that is accessible by different users on different types of computers allows users to share data and integrate various types of computers on a network. This is a key benefit for NAS systems. Dissimilar clients running various operating systems can access the same data since NAS systems use open, industry standard protocols. NAS connects to a network and provides file access services to computer systems. NAS connects directly to the LAN via an Internet protocol network. NAS

navigates through the LAN (at multiple points) to provide storage services. NAS benefits from improving LAN performance because NAS provides file sharing among different systems and is easy to manage.

COMPETITION

FACES

IQB's four leading competitors in facial composites are Identikit from Smith & Wessen, Compu-Sketch from Digital Descriptor Systems, E-fit from Aspley, and Suspect ID from ImageWare.



Images left to right: FACES, Identi-Kit 2000, E-fit, Suspect ID, Compu-Sketch (unavailable)

We believe as do many law enforcement agents that FACES is the best facial composite software product on the market. FACES is easy to use with little training, inexpensive, and produces a superior photo-like image. Law enforcement agents consider FACES the industry standard and can easily distinguish a FACES composite from other competitors by its high quality image.

Some of the comments IQB has received from FACES users include:

“You are absolutely correct when you stated that this CD is the most incredible composite software to ever hit the market. Officers in my department are amazed at what it can do.”

Richard E. Bergeron, Jr., Chief of Police, Webster Police Dept., Webster, Massachusetts

“This is just leaps and bounds over anything we've had in the past. The FACES program makes a composite look virtually like a photo and it produces a good quality image.”

Detective Hester, Greenfield Police Dept., Ohio

“I have been a law enforcement officer for over 30 years, having worked a variety of assignments which required composite drawings of suspects. For those drawings I utilized a system utilizing individual foils to construct the desired image, a complex, time-consuming process under the best conditions. After becoming familiar with your system, I was so impressed that I showed several officers how to develop a composite drawing using your FACES software. I know that this valuable gift will enhance our efforts in bringing to justice those who are intent on violating the law at the expense of society.”

Byron C. Nelson, Chief of Police, Sequim Police Dept., Sequim, Washington

Since September 11, 2001, momentum has built for security systems based on biometrics. Companies similar to IQBM with facial recognition products include Iris Technologies, ImageWare, Imagis Technologies, Viisage Inc., BioID AG, VisionSphere Technologies and Visionics Corp. Iris Technologies based in Singapore, for example, is competing with IQB in the area of border patrol. Iris Technologies takes a facial “print”, allowing government agents to view various types of information based on the passport owner. However, Iris Technologies' product is expensive to implement, requiring a reader at each location. As a result, the company has not made significant inroads into the market. We believe the U.S. government will be a driving force behind the implementation of biometric security measures,

dedicating large amounts of resources and creating a large market opportunity for IQB. Many of IQB's competitors are privately held and or foreign based.

Comparative Values and Ratios

Ticker Name		Avg.	Price		Price		Annual	P/Sales	Annual
		Shrs. Out.	Market Cap.	Current Price	12 Month Low	12 Month High	Sales (\$MM)		
SWB	Smith & Wesson Holding	31.311	53.275	\$ 1.76	\$ 1.00	\$ 2.70	76.55	0.59	10.60
DDSI	Digital Descriptor System	56.600	0.249	\$ 0.00	\$ -	\$ 0.02	1.21	0.14	NM
IW	ImageWare Systems, Inc.	5.485	12.240	\$ 2.23	\$ 1.40	\$ 4.34	18.26	0.68	2.07

Ticker Name		Annual	Annual	Annual	Annual	TTM	Annual	Annual	
		Debt/Equity	Current Ratio	EBITDA (\$MM)	Net Profit (\$MM)				Net Profit Margin
SWB	Smith & Wesson Holding	9.15	2.09	2.881	-5.462	-7.1%	0.0%	-307.9%	-18.1%
DDSI	Digital Descriptor System	NM	0.13	-0.530	-1.517	-125.4%	-158.1%	NM	NM
IW	ImageWare Systems, Inc.	0.21	0.84	-3.235	-4.847	-26.6%	-35.1%	-63.7%	-56.1%

Network Storage

The NAS market has very established players and has become increasingly competitive with a number of new entrants. Traditional server companies (such as Dell, IBM, Compaq, Quantum, and HP) have added storage appliances to their product portfolios. The two largest players in the NAS market are Network Appliance (NetApp) and EMC, storage pure-play vendors. Both NetApp and EMC compete in the mid-range NAS appliance market. Additional competition in the NAS appliance market is found from Internet service providers, application service providers, Internet data centers, data warehouses, storage farms and other content-intensive markets. While EMC and NetApp account for approximately 80% of the NAS market, the remainder of the market is fragmented with the next largest competitor only capturing about 3% market share.

A key element of NSS' product offering is its proprietary operating system software, SPANStor. There are hundreds of companies providing storage software solutions in the market today. Some of these companies are pure storage software vendors, such as VERITAS software, while others like EMC, IBM and Compaq are system vendors that sell software applications bundled together with their hardware products. The increase among systems vendors to the storage software market is due to the shift in enterprise IT capital spending from storage hardware to storage software solutions. In addition, storage software solutions benefit from considerably higher gross margins than hardware solutions. NSS distinguishes itself from its competitors on the basis of:

- product features and performance
- cross platform compatibility and scalability
- total cost
- technical expertise and development of proprietary software
- time lag to market with new features and appliances
- technical support.

CUSTOMER BASE - NSS

NSS targets the \$12 billion mid-range network storage market; the fastest growing segment of the network storage industry. With NSS' core technology, the company has the ability to develop a wide range of marketing and sales relationships. Its unique design concept for SPANStor allows it to be offered as a software only solution for OEM's or integrated with various hardware platforms. With its channel partners, NSS provides a head-end solution for integration with their storage systems to offer a complete NAS solution for their market sector. This provides the building blocks for NSS' customers to

quickly offer state-of-the-art solutions at the lowest possible cost. NSS also provides NAS appliances targeted at specific market segments such as a back-up appliance or a low cost near-line storage solution. The current software is the core technology for developing into future areas such as data virtualization and storage system management.

NSS has developed a diverse customer base across multiple applications and market segments. NSS provides its solutions worldwide in Europe, Asia and South Africa.



FINANCIAL OUTLOOK

On a pro forma basis assuming the merger had consummated on January 1, 2003, the combined entity is expected to report approximately \$16 million in total assets and \$7.4 million in total revenue in CY2003. Revenue generation in CY2003 is expected to be derived 30% from FACES or FACES integrated solutions and 70% from network storage products. FACES 4.0 is expected to be released by the end of 2Q2003 and begin generating revenue via telemarketing into the installed customer base and to new customers in July 2003. Revenue from FACES 4.0 is expected to account for \$392.5k in CY2003 with the remainder achieved through the sale of TRAK II (the combined FACES/TRAK/Intergraph product) into State governments. The Company projects that the rollout of TRAK II will begin with the state of New Jersey in August 2003, with a new state rolling out every fourth month thereafter. Ohio, Nebraska, Florida and Texas are the next states expected to follow in the rollout of the TRAK system with FACES capabilities. The Company projects that each state will have a six month rollout schedule at the rate of \$250k per month. Storage network product sales of \$5.2 million is based on NSS's current customer base for CY2003. NSS's account base consists of three primary segments: OEMs (60%), domestic channel partners (11%) and international channel partners (29%). Operating expenses are based on a full integration of the two company's functions. There are limited expense reductions anticipated at the time of the acquisition. The company expects to be profitable from operations in 3Q2003 and cash flow positive in 4Q2003.

In CY2004, the company projects that revenue will grow substantially to \$28 million driven largely by taking advantage of horizontal market opportunities and offering integrated security solutions. The company anticipates that in CY2004, NSS's customer base will expand significantly by tapping into IQB's government customers and contacts. Revenue derived from network storage products is anticipated to account for \$21.5 million or 76% of total revenues. NSS's customer base will consist of OEMs (60%), domestic channel partners (17%) and international channel partners (23%). Revenue from FACES 4.0 is anticipated to generate \$2.25 million, with the rollout of TRAK II to state government \$4 million in

CY2004. The company expects to report net income of \$6.7 million and strong cash flow from operations of \$6.5 million in CY2004.

The company estimates that by year end 2003 it will have \$1.2 million in cash balances. The company is in the process of raising \$2 million in equity capital. The Company raised \$400k in 2Q2003 with the remainder anticipated to be attained in 3Q2003.

MODEL

We have modeled a Worst and Best Case operating scenario with the Base Case largely based on the Company's financial projections. Under our Base Case scenario, we bumped revenues up by approximately \$2 million in CY2003 from the Company's projections. We believe IQB's ability to rollout the TRAK system with FACES capabilities (TRAK II) will occur faster on a state level than anticipated based on the positive interest and potential impact the system will have on homeland security.

Summary of Worst, Base and Best Case Scenarios

Pro Forma Combined Entity	Worst Case Scenario		Base Case Scenario		Best Case Scenario	
	CY2003	CY2004	CY2003	CY2004	CY2003	CY2004
Revenue	7,053,310	21,030,375	9,404,413	28,040,500	11,285,295	33,648,600
COGS	2,468,658	8,832,758	3,479,633	10,805,728	4,175,559	13,122,954
Gross Income	4,584,651	12,197,618	5,924,780	17,234,772	7,109,736	20,525,646
Gross Margin	65%	58%	63.0%	61%	63%	61%
Administration	1,460,839	1,996,475	1,623,154	2,218,305	1,623,154	2,551,051
Engineering	1,783,238	3,144,331	1,981,375	4,031,193	1,981,375	4,031,193
Operations	686,591	1,227,049	762,878	1,319,408	762,878	1,451,349
Sales	1,040,132	2,353,391	1,155,702	2,614,879	1,271,272	3,007,111
Marketing	69,015	637,631	72,648	671,191	72,648	738,310
Total Operating Expenses	5,039,814	9,358,877	5,595,757	10,854,976	5,711,328	11,779,013
Net Operating Income	(455,163)	2,838,740	329,023	6,379,796	1,398,408	8,746,633
Net Operating Margin	-9.93%	23.27%	3.50%	22.75%	12.39%	25.99%
Depr, Interest and Other	(235,909)	(62,000)	(584,091)	(357,449)	(584,091)	(362,000)
Pretax Income	(219,254)	2,900,740	913,114	6,737,245	1,982,499	9,108,633
Income Taxes	-	43,511	-	48,259	-	81,216
Net Income	(219,254)	2,857,229	913,114	6,688,986	1,982,499	9,027,416
Pretax Margin	-3.11%	13.79%	9.71%	24.03%	17.57%	26.83%
EPS	\$ (0.01)	\$ 0.09	\$ 0.03	\$ 0.22	\$ 0.06	\$ 0.29
# of Shares Outstanding	31,767,951	31,767,951	31,101,285	31,101,285	30,701,285	30,701,285

Under our Worst Case scenario, we assume revenue will fall short of the Base Case by 25%. As a result, our Worst Case scenario reflects revenue of \$7.1 million in CY2003, increasing to \$21 million in CY2004. In addition, we lowered the gross profit margin to 65% in CY2003 and 58% in CY2004 under the assumption that a difficult economic environment will put downward pressure on state and local budgets. We lowered operating expenses moderately to reflect management's ability to reduce operating expenses if revenue targets are not achieved. Under our Worst Case scenario, IQB will post a net loss of \$219 thousand in CY03 and achieve profitability of \$2.8 million in CY2004.

In our Best Case scenario, we assume that IQB can achieve 20% higher revenue. With an accelerated adoption of TRAK II we project revenue could reach \$11.3 million in CY2003. In addition, we believe IQB could achieve revenue of \$33.6 million in CY2004 on the assumption that 2004 elections will put pressure on lawmakers to increase spending for Homeland Security needs. Operating expenses have been adjusted to reflect higher sales commissions and personnel costs associated with the increase in sales volume. Based on 20% higher revenue partially offset by slightly higher operating expenses, IQB would report net income of \$1.9 million in CY2003 and \$9.0 million in CY2004.

INVESTMENT THESIS

Televised images of blown-out buildings in Riyadh, Saudi Arabia, on May 12 underscored the frightening reality that the war on terrorism and the resultant security concerns are far from over. However, this grim situation can create a positive opportunity for those companies in the security industry helping to meet the needs of U.S. Homeland Security.

We believe IQB is poised to take advantage of the highest allocation of federal funding to IT security solutions in recent history. The integration of FACES with TRAK creates a much needed solution for authorities to share vital criminal, health and safety information with each other or with the public. TRAK II meets new homeland security requirements that the government and private sectors effectively communicate and coordinate information related to terrorist threats.

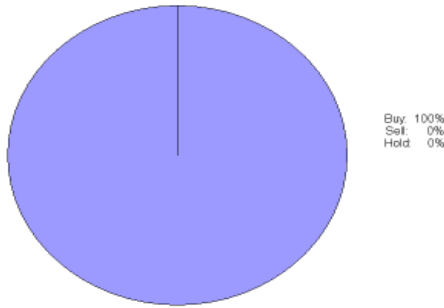
In addition, the merger between IQB and NSS furthers the company's mission to succeed as a major provider of facial composite, recognition and tracking systems. The acquisition enables the company to provide law enforcement agencies with increased digital storage capabilities in order to employ integrated IT solutions. The combined technologies will provide law enforcement and the security industry with increased ability and enhanced potential to catch criminals, find lost or abducted children and fight terrorism.

We believe the field of biometrics is beginning to boom. While biometrics has long been a developmental area, interest has accelerated as more federal agencies have started to use the technology to automate ID processes in secure buildings or at border crossings. In addition, biometrics received substantial credibility when the respected National Institute of Standards & Technology (NIST) posted test results validating the comparative accuracy of many biometric products. Accuracy or lack thereof had been a major deterrent against the use of biometrics and a key sticking point with civil libertarians. Global biometric industry revenues are expected to reach \$4 billion by 2007 with facial recognition expected to be one of the fastest-growing segments of the biometric market.

The latest attack in Saudi Arabia is an unfortunate reminder for everyone that homeland security remains an ongoing concern. There are no guarantees in security or investing, but we believe IQB is positioned to take advantage of the growing demand for solutions aimed at keeping innocent people safe. We recommend IQB for risk adverse growth oriented investors.

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Percent of Buy/Sell/Hold Recommendations



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APPENDIX A

Facial Recognition And The Biometric Industry

Disguised with fake glasses, a moustache and a wig, and armed with excellent forged identification, a terrorist is boarding a flight in San Francisco headed for Washington, D.C. What he doesn't know is that the face of each person in line is being scanned by a video camera. The image is then being analyzed and compared to a database of suspects and, by the time he reaches the counter, a light flashes on the ticket agent's screen. The police are summoned by silent alarm, and the terrorist is arrested before he takes his seat.

While not all the pieces of such a system are in place yet, September 11th has brought a surge of interest in facial-recognition technology. According to the International Biometric Group LLC (IBG), a New York City-based integration and consulting firm, facial recognition is expected to be one of the fastest-growing segments of the biometric market during the next two to three years. The possible uses for facial-recognition technology include airport screening, controlling access to computer systems, restricted areas, entitlement benefits and the nation's borders. The Defense Department is researching its possible use for computer network security and the State Department is considering ways to use biometrics to aid in passport processing. The Enhanced Border and Visa Security Act of 2002 mandates that every person coming into the U.S. using a visa have a multiple biometric machine-readable visa by October 2004. The proposal could be worth \$3.8 billion and would establish the U.S. as the de facto global identity regulator. On a global basis, the biometric ID market could exceed \$12 billion once the U.S. program is fully established in five to ten years.

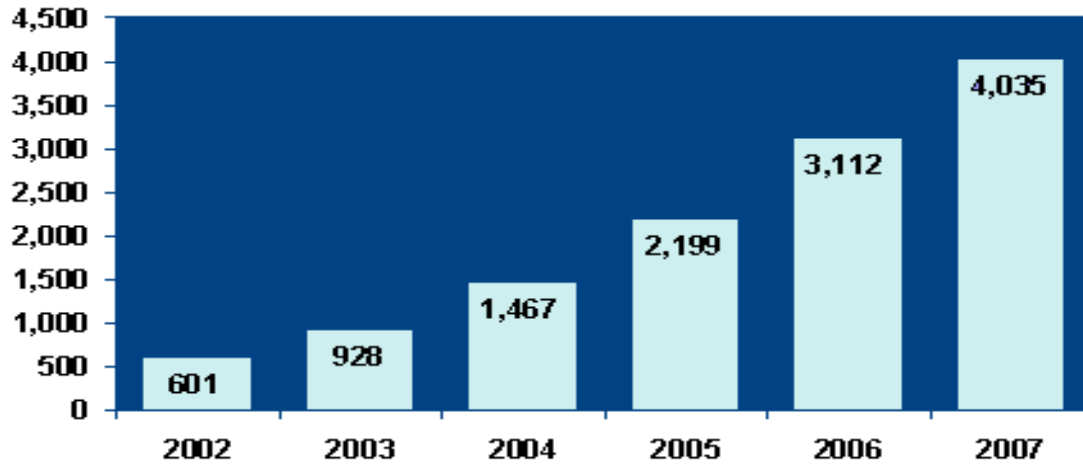
Facial recognition is a biometric technology that identifies people based on their facial features. Facial recognition systems are built on computer programs that take a facial image, measure characteristics such as the distance between the eyes, the length of the nose, and the angle of the jaw, and create a unique file called a "template." Using templates, the software then compares that image with another image and produces a score that measures how similar the images are to each other. Typical sources of images for use in facial recognition include video camera signals and pre-existing photos such as those in driver's license databases.

Facial recognition systems today are almost entirely incapable of identifying uncooperative subjects. Non-cooperative subjects are unaware or do not care that a biometric system is in place, and make no effort either to be recognized or to avoid recognition by using disguises or taking evasive measures. Current facial recognition solutions work more successfully if subjects are motivated to use the system correctly and voluntarily enroll in the process, in which the system takes multiple pictures of a subject's face, usually from slightly different angles, to increase the system's ability to recognize the face. However, a lot of focus and attention is being given to the biometric industry. The U.S. government is counting on continued advances in biometrics to ensure the security of the U.S. The National Institute of Standards and Technology which is helping to establish standards for biometric uses, recently posted test results validating the comparative accuracy of many biometric products.

According to the International Biometric Group's [Biometrics Market Report 2003-2007](#), trends in the biometric industry are as follows:

- Global 2002 industry revenues of \$601 million are expected to reach \$4.04 billion by 2007, driven by large-scale public sector biometric deployments, the emergence of transactional revenue models, and the adoption of standardized biometric infrastructures and data formats.

Total Biometric Revenues 2002 - 2007 (\$m)



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- Fingerprint-based technologies, including both finger-scan and AFIS, are projected to account for \$467 million of 2002 industry revenues, far and away the largest technology segment. This growth is attributable to the wide range of applications in which fingerprint-based solutions operate effectively.

- Among emerging biometric technologies, facial recognition and middleware are projected to reach \$200 million and \$215 million, respectively, in annual revenues in 2005. Iris-scan is projected to reach \$210 million in annual revenue in 2007.

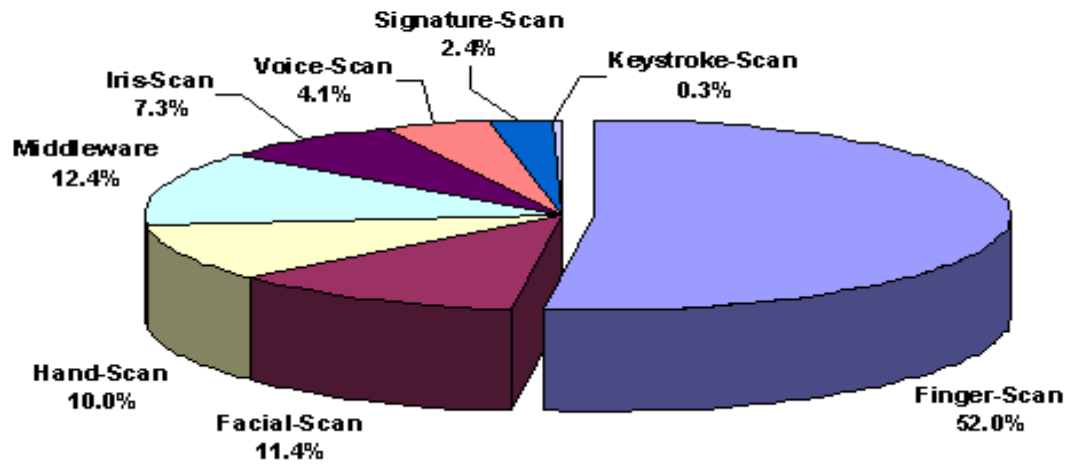
- Civil ID and PC / Network Access will be the leading biometric applications over the next five years, expected to account for nearly \$2 billion in combined annual revenues in 2007. Physical Access / Time and Attendance will reach \$245 million in annual revenues by 2004, with Surveillance and Screening applications projected to reach \$49 million in annual revenue in 2004.

- Government Sector will be the leading biometric vertical market through 2007 with \$1.2 billion in annual revenues. Financial Sector and Travel and Transportation follow with \$672 million and \$556 million, respectively, in 2007. The various scenarios in which government agencies must identify and authenticate both citizens and employees, particularly subsequent to 9/11, is a critical growth factor.

2003 Comparative Market Share by Technology

(Does not include AFIS revenue)

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APPENDIX B

IQB - Management Team, Board of Directors and Advisors

Management Team

William Scigliano, Chief Executive Officer and President/Board Member

Before joining IQ Biometrix, Bill Scigliano worked for eight years with the Attorney General of British Columbia, Canada as Executive Director, Corporate & Public Issues. In that role, he was responsible for intergovernmental relations on an international and national level. He also led a multi-agency team responsible for the implementation, administration and delivery of the province's drug treatment court, services for victims of serious crimes and tobacco litigation initiative. Mr. Scigliano was responsible for the development and administration of justice and enforcement corporate programs. As a member of the Executive Justice Technology Strategies Committee, he advised on the expansion of the use of technology in justice system, spearheading initiatives including the development of a consolidated 911 system, electronic court filing, electronic land title registration systems, and U.S. - Canadian internet gambling enforcement initiatives. Mr. Scigliano has also served for six years as a high-profile liaison with the U.S. National Association of Attorneys General and the Committee of Western Attorneys Generals. He has provided direct support to federal, provincial and state attorneys general and justice ministers meetings and developed corporate responses to rapidly developing justice issues. He has also acted as the government's liaison for the "America's Most Wanted" television show.

Grady Tucker, VP of Sales and Marketing

Grady Tucker joins IQB with more than a decade of experience as a corporate and government technology sales consultant. He has specialized in selling, marketing and training computer software customers through GSA Schedule resellers and contract holders including GTSI, EDS, Comark Federal, SoftMart, ASAP, Corporate Software, CompUSA, Lockheed Martin, Unisys, McBride, CDW and Daly Computers. He has sold into a wide range of key US government agencies including: FBI, CIA, NASA, FEMA, Department of Defense, Department of State, Federal Aviation Authority, US Postal Service and IRS. Prior to establishing his consultancy Mr. Tucker held senior sales positions with Ashton-Tate dBase and Egghead Discount Software He is a graduate of the University of Maryland and a MS in Quality Systems Management from The National Graduate School, MA.

Rajesh Venkatachalam, Chief Technology Officer

Before joining IQ Biometrix, Rajesh co-founded MVION, a wireless enterprise application software company with products targeted towards mobile users. Prior to MVION, Mr. Venkatachalam spent two years working in Paris and Barcelona heading European operations of a systems integrator company managing large legacy migration projects involving platform reengineering, Y2K and Euro conversion. He also has experience in sales and marketing of software development projects for major corporations. He holds an undergraduate degree in physics, mathematics and chemistry from Bangalore University in Bangalore, India.

Greg Micek, *Vice President, Corporate Development/Board Member*

Greg Micek comes to IQ Biometrix with more than 19 years of general business management background, as a Chief Executive Officer and Chief Financial Officer with the Micek Group and JVWeb Inc. Mr Micek was also the president and CEO of Hyperdynamics Corporation. In 1991 and 1992, he worked with Parker Brothers as a business reorganization consultant. Since 1997, Mr. Micek has volunteered with the Young Inventors Club, a Houston program to bring the invention process to the community's schools.

Seth Horn, *Chief Financial Officer*

Seth Horn brings more than 25 years experience in accounting and financial management to IQB. He is concurrently, the CFO with The Players Network (PNTV-OTC BB), a multimedia company. Prior to joining IQB Seth was CFO for Global Business Services. Previously, Seth served as controller of Powering Oil Company and was CFO and controller for International Vinyl Products, a manufacturer of custom cases. From 1981 to 1991, Mr. Horn was a corporate and investment banker specializing in M/A; and corporate finance. He is a Certified Public Account and earned a bachelor's degree in accounting from Pennsylvania State University.

IQB Board Members and Advisors

John Walsh, *Official Spokesperson*

John Walsh, the official spokesperson for IQ Biometrix, is a tireless advocate for victims and missing children, and host of the nation's number one crime-fighting show: "America's Most Wanted". He has been repeatedly honored by the law enforcement community: he was named U.S. Marshals' Man of the Year in 1998 and, two years later, received the same distinction from the FBI - the bureau's highest civilian award. He is the only private citizen to receive a Special Recognition Award from the U.S. Attorney General, and he has been honored in the Rose Garden four times by three presidents: Clinton, Bush and Reagan (twice). Today, Mr. Walsh continues his lobbying efforts, testifying before Congress and state legislatures on crime, missing children and victims' rights. His latest initiatives include lobbying for a Constitutional Amendment for victims' rights. He has also started a production company, Straight Shooter, in partnership with America's Most Wanted Executive Producer Lance Heflin, also an advisor to IQ Biometrix.

Morden C. Lazarus, *Chairman of the Board*

Morden C. Lazarus founded the law firm of Lazarus Charbonneau in 1967. He has acted as legal counsel to the Royal Bank of Canada for more than 25 years. He has also acted as legal counsel to many casino properties and is the only Canadian gaming lawyer to have been appointed a member of the Board of Trustees of the International Association of Gaming Attorneys ("IAGA"), based in Las Vegas, Nevada. He was named Secretary of IAGA in September of 2002 and will occupy the office of President of IAGA in the fall of 2004. He is a member of the board of directors of DPC Biosciences Corporation, Anchor Gaming (Canada) Inc. and United Tote (Canada) Inc., subsidiaries of International Game Technology (IGT). He is also presently chairman and CEO of ISee3D Inc. (formerly "International Telepresence (Canada) Inc."). In the past, he was appointed by the Quebec Cabinet to the Board of Directors and executive committee of Société de développement industriel du Québec (now "Investissement Québec"), the province's largest Crown corporation, where he served for approximately six years. He is associated

with many charitable groups and institutions and is past recipient of the "Man of the Year" award for the Juvenile Diabetes Foundation.

Eric McAfee, *Strategic Advisor to the CEO/Board Member*

Eric McAfee is an experienced entrepreneur and venture capitalist. He is a principal at Berg McAfee Companies, a high technology private-equity group based in Cupertino, California. Mr. McAfee has co-founded six technology companies, raising more than \$110 million, and has venture-funded 22 companies. In 2000, he was selected to serve as a member of the George W. Bush National Information Technology Advisory Board and in 1985 won a Congressional Award for volunteer work. He co-founded CISystems (2000 – acquired by IQ Biometrix in November 2001), MindArrow Systems (now Avalon Digital Marketing – 1999), NetStream (1998), Global Digital Technologies (1996) and New Media Corporation (1992grew to \$48 million revenues in three years). He serves, or has served on, numerous boards including Verdisys, ExpressLink, mvion, CustomerLink Systems, Global Digital, iCommerce, Quikview, DataZone, Intraop Medical, and DAC Intl (precision lathes for optical lenses). Mr. McAfee graduated as the Dean's Medallist from the Fresno State University Business School, and lectured as the 2001 Craig School Entrepreneur in Residence at FSU. He is also a 1993 graduate of the Stanford Graduate School of Business Executive Program, and is a graduate of the Harvard Business School private equity partnership course.

APPENDIX C

NSS - Management Team, Board of Directors and Advisors

Thomas Makmann, *President and CEO*

Tom Makmann was formerly president and chief operating officer at nStor (San Diego, CA) a leading provider of integrated, enterprise-class storage solutions. Mr. Makmann's career has spanned over 30 years where he has held top management positions in various high tech start-ups and turnarounds in the storage hardware and software and video companies. Previously, he was at Hammer Storage Solutions, Shepherd Surveillance, Inc., Sytron Corp, Maxtor Corp., Kalok Corp, Archive Corp. and Control Data.

Bradford L. Clemmons Sr., *Chief Technology Officer*

Brad Clemmons is a recognized leader in networked storage. He came to NSS from Network Imaging Corporation, where he served as Vice President of Engineering, Vice President of Product Development, and Director, Systems Development. Prior to Network Imaging, he was co-founder and Executive Vice President of NSI Corporation, and Micro Systems Solutions Incorporated (MSSI), focusing on networking, CAD solutions, and consulting. Prior to founding MSSI in 1987, Mr. Clemmons was a technical consultant for Intergraph Corporation for four years. Before joining Intergraph, Mr. Clemmons was a senior field engineer with Pentamation Enterprises and served in the U.S. Coast Guard.

Robert Fredericks, *Vice President, COO/CFO*

Rob Fredericks joined NSS from American Medical Labs, where he served as Senior Vice President and CFO. Mr. Fredericks brings NSS extensive experience managing both Finance and Operations previously serving in a number of technology companies as CFO, Director of Operations, or Comptroller, including: Ogden Government Services, BDS Incorporated, and Atlantic Research. Mr. Fredericks earned his MBA from George Mason University in 1991 and is a CPA in the Commonwealth of Virginia. Mr. Fredericks graduated from Bob Jones University in 1983 with a BS in Accounting.

Douglas L. Donsbach, *Vice President, Engineering*

Doug Donsbach, a founder of NSS, is responsible for strategic technology planning and oversees all hardware and software development. Mr. Donsbach's accomplishments at NSS include the architecture for the SPANStor line of NFS, NetWare and NT network storage servers and the write-once and erasable optical and magnetic disk file system used for these servers. Mr. Donsbach originated the concept of a low-cost network file server for write-once and erasable optical disks and he developed the operating system and file systems for the first generation of low-cost network file servers for stand alone and jukebox optical disks drives. Before founding (the then) Symmetrical Technologies in 1989, Mr. Donsbach was manager of the Storage Products Business Unit for Perceptics Corporation, a supplier of mass storage products for the UNIX and VMS markets. Mr. Donsbach has also held senior technology development/management positions at Nissan, GE, Union Carbide and Oak Ridge Facility and Manufacturing Automation. Mr. Donsbach earned a degree in Physics from Austin Peay State University.

APPENDIX D

Patent Information

IQB's key patents include ability to convert photographs and images to an alphanumeric code that can be electronically transmitted, compared and matched (Published Canadian Patent Application 2236388. Applications for US Patent pending with claims allowed.)

Summary of Basic Allowed Claim

A computer readable storage medium comprising a facial image program element suitable for use on a computer having a memory, said program element being operative to: a) create a first input for receiving a set of facial morphology element codes, each facial morphology element code being representative of part of an image, an element code including at least one symbol, said symbol being representative of a certain characteristic of the image part associated with the element code, the symbol being capable of acquiring a plurality of possible values, said values being indicative of variations of the certain characteristic; b) create a second input for receiving a plurality of code factors associated to respective symbols of said set of element codes, a given code factor from the plurality of code factors being assigned a value greater than the maximum value of the associated symbol; c) process said set of element codes to derive an image code, said image code being a compressed digital representation of the facial image, said image code being derived at least in part on the basis of said plurality of code factors; d) output the image code.

The Canadian application is available online from the Canadian Intellectual Property Office website at www.cipo.gc.ca.

Combined P&L						
	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Revenue	490,363	518,300	2,630,750	3,765,000	7,404,413	28,040,500
COGS	154,492	238,300	1,087,862	1,261,660	2,742,314	10,805,728
Gross Income	335,871	280,000	1,542,888	2,503,340	4,662,099	17,234,772
Gross Margin	68.5%	54.0%	58.6%	66.5%	63.0%	61.5%
Administration	387,300	326,556	404,770	504,528	1,623,154	2,218,305
Engineering	375,575	401,094	552,534	652,173	1,981,375	4,031,193
Operations	167,795	111,224	201,536	282,323	762,878	1,319,408
Sales	218,528	233,448	310,236	393,490	1,155,702	2,614,879
Marketing	1,276	-	30,000	41,372	72,648	671,191
Total Operating Exp	1,150,473	1,072,322	1,499,076	1,873,886	5,595,757	10,854,976
EBITDA	(814,602)	(792,322)	43,812	629,454	(933,658)	6,379,796
	-166.12%	-152.87%	1.67%	16.72%	-12.61%	22.75%
Depr, Int. and Other	51,863	73,591	(655,759)	(53,786)	(584,091)	(357,449)
Pretax Income	(866,465)	(865,912)	699,571	683,240	(349,567)	6,737,245
Income Taxes	-	-	-	-	-	48,259
Net Income	(866,465)	(865,912)	699,571	683,240	(349,567)	6,688,986
Pretax Margin	-176.7%	-167.1%	26.6%	18.1%	-4.7%	23.9%

Combined - Balance Sheet						
	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Cash	4,632	203,680	940,429	1,198,063	1,198,063	7,623,890
Accounts Receivable	79,612	141,791	816,764	1,147,044	1,147,044	2,571,183
Accounts Receivable Reserve	-	(468)	(2,477)	(4,722)	(4,722)	(26,262)
Inventory - Product	176,228	132,002	193,754	172,756	172,756	548,750
Inventory - Evaluation	105,478	105,478	105,478	105,478	105,478	105,478
Obsolescence Reserve	(10,614)	(10,614)	(10,614)	(10,614)	(10,614)	(10,614)
Subscriptions Receivable	2,500	-	-	-	-	-
Prepays/Other	126,013	126,013	126,013	126,013	126,013	126,013
Total Current Assets	483,849	697,882	2,169,347	2,734,018	2,734,018	10,938,438
PP&E Net	135,895	116,579	90,830	64,757	64,757	(2,537)
Deposits	9,265	9,265	9,265	9,265	9,265	9,265
Intangibles	13,192,654	13,185,836	13,179,018	13,172,199	13,172,199	13,153,573
Total Assets	13,821,663	14,009,562	15,448,461	15,980,239	15,980,239	24,098,739
Line of Credit	0	-	-	-	-	-
Investor Notes	462,027	1,242,027	1,272,027	1,302,027	1,302,027	-
Leases Payable	16,160	12,920	9,680	6,440	6,440	-
Accounts Payable	1,622,146	1,934,224	1,241,383	1,021,373	1,021,373	2,246,539
Accrued Vacation	153,337	180,331	208,093	236,653	236,653	384,588
Accrued 401(k)	76,723	9,855	9,855	10,135	10,135	14,680
Accrued Payroll and Related	225,302	235,302	(0)	(0)	(0)	(0)
Accrued Sales Taxes	6,901	-	-	-	-	-
Deferred Revenues	3,180	3,180	3,180	3,180	3,180	3,180
Other Current Liabilities	15,367	17,117	30,065	43,012	43,012	101,317
Total Liabilities	2,581,143	3,634,956	2,774,283	2,622,820	2,622,820	2,750,304
Common Stock						
Preferred Stock- Class A						
Preferred A Extension						
New Equity	12,500,000	12,900,000	14,100,000	14,100,000	14,100,000	14,100,000
Additional Paid in Capital	1,417,985	1,417,985	1,417,985	1,417,985	1,417,985	2,720,012
Retained Earnings	(2,677,465)	(3,543,378)	(2,843,807)	(2,160,567)	(2,160,567)	4,528,421
Total Capital	11,240,520	10,774,607	12,674,178	13,357,418	13,357,418	21,348,433
Total Liabilities and Capital	13,821,663	14,409,563	15,448,461	15,980,238	15,980,238	24,098,737

Combined - Cash Flow	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
	3 months	6 months	9 months	12 months	12 months	12 months
Cash flows from Operations						
Net Income	(866,465)	(865,913)	699,571	683,240	(349,567)	6,688,988
Plus non-cash items	52,440	70,572	70,572	70,573	264,158	168,352
Changes in Assets/Liabilities	186,755	262,068	(1,622,149)	(485,258)	(1,658,584)	(342,641)
Total Cashflows from operations	(627,270)	(533,272)	(852,005)	268,555	(1,743,992)	6,514,699
Cash flows from Investing Activities						
Issuance of Notes receivable	-					
Purchase of Fixed Assets	98	(14,439)	(8,006)	(7,681)	(30,027)	(82,431)
Purchase of Fixed assets	98	(14,439)	(8,006)	(7,681)	(30,027)	(82,431)
Cash flows from financing activities						
Principal payments Capital Leases	(3,383)	(3,240)	(3,240)	(3,240)	(13,103)	(6,440)
Acquisition		-	-	-	-	(1)
Shareholder Notes Activity	50,000	750,000			800,000	(1,302,027)
Line of Credit Transactions	0					
Proceeds from stock activities		-	1,600,000	-	1,600,000	1,302,027
Total cash flows from financing activities	46,617	746,760	1,596,760	(3,240)	2,386,897	(6,441)
Net increase (decrease) in cash	(580,554)	199,049	736,749	257,634	612,878	6,425,826
Beginning Cash	585,185	4,631	203,680	940,429	585,185	1,198,063
Ending Cash	4,631	203,680	940,429	1,198,063	1,198,063	7,623,889

IQB P&L	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Revenue	45,000	50,000	622,500	1,520,000	2,237,500	6,500,000
COGS	3,200	3,600	78,000	184,160	268,960	947,900
Gross Income	41,800	46,400	544,500	1,335,840	1,968,540	5,552,100
Gross Margin	92.9%	92.8%	87.5%	87.9%	88.0%	85.4%
Administration	160,000	100,000	176,800	243,300	680,100	1,012,128
Engineering	6,330	30,000	178,200	256,500	471,030	1,067,040
Operations	100,000	50,000	137,700	210,600	498,300	876,096
Sales	29,000	30,000	43,625	100,250	202,875	417,040
Marketing						
Total Operating Expenses	295,330	210,000	536,325	810,650	1,852,305	3,372,304
Net Operating Income	(253,530)	(163,600)	8,175	525,190	116,235	2,179,796
Net Operating Margin	-563.40%	-327.20%	1.31%	34.55%	5.19%	33.54%
Depr, Interest and Other	18,068	36,818	36,818	36,818	128,522	18,626
Pretax Income	(271,598)	(200,418)	(28,643)	488,372	(12,287)	2,161,170
Income Taxes	-	-	-	-	-	48,259
Net Income	(271,598)	(200,418)	(28,643)	488,372	(12,287)	2,112,911
Pretax Margin	-603.6%	-400.8%	-4.6%	32.1%	-0.5%	33.2%

IQB - Balance Sheet						
	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Cash	3,632	202,680	79,353	209,261	209,261	2,512,463
Accounts Receivable	3,248	29,400	210,900	656,180	656,180	631,944
Inventory - Product	19,000	19,002	19,004	19,006	19,006	19,028
Prepays/Other	10,950	410,950	410,950	410,950	410,950	410,950
Total Current Assets	36,830	662,032	720,207	1,295,397	1,295,397	3,574,385
PP&E Net						
Intangibles	39,041	32,223	25,405	18,586	18,586	(40)
Total Assets	75,871	694,255	745,612	1,313,983	1,313,983	3,574,345
Line of Credit						
Investor Notes	462,027	1,242,027	1,272,027	1,302,027	1,302,027	-
Leases Payable						
Accounts Payable	266,450	316,450	366,450	416,450	416,450	516,450
Other Current Liabilities	12,007	809	809	808	808	48,259
Total Liabilities	740,484	1,559,286	1,639,286	1,719,285	1,719,285	564,709
Common Stock						
Preferred Stock- Class A						
Preferred A Extension						
New Equity						
Additional Paid in Capital	1,417,985	1,417,985	1,417,985	1,417,985	1,417,985	2,720,012
Retained Earnings	(2,082,598)	(2,283,016)	(2,311,659)	(1,823,287)	(1,823,287)	289,624
Total Capital	(664,613)	(865,031)	(893,674)	(405,302)	(405,302)	3,009,636
Total Liabilities and Capital	75,871	694,255	745,612	1,313,983	1,313,983	3,574,345

IQB - Cash Flow	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY04(E)
	3 months	6 months	9 months	12 months	12 months
Cash flows from Operations					
Net Income	(271,598)	(200,418)	(28,643)	488,372	2,112,911
Plus non-cash items	18,885	36,818	36,818	36,819	18,626
Changes in Assets/Liabilities	113,345	(387,352)	(131,502)	(395,283)	171,665
Total Cashflows from operations	(139,368)	(550,952)	(123,327)	129,908	2,303,202
Cash flows from Investing Activities					
Issuance of Notes receivable					
Purchase of Fixed Assets					
Purchase of Fixed assets	-	-	-	-	-
Cash flows from financing activities					
Principal payments Capital Leases					
Shareholder Notes Activity	50,000	750,000	-	-	(1,302,027)
Line of Credit Transactions					
Proceeds from stock activities		-			1,302,027
Total cash flows from financing activities	50,000	750,000	-	-	-
Net increase (decrease) in cash	(89,368)	199,048	(123,327)	129,908	2,303,202
Beginning Cash	93,000	3,632	202,680	79,353	209,261
Ending Cash	3,632	202,680	79,353	209,261	2,512,463

NSS P&L						
	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Revenue	445,363	468,300	2,008,250	2,245,000	5,166,913	21,540,500
COGS	151,292	234,700	1,009,862	1,077,500	2,473,354	9,857,828
Gross Income	294,071	233,600	998,388	1,167,500	2,693,559	11,682,672
Gross Margin	66.0%	49.9%	49.7%	52.0%	52.1%	54.2%
Administration	227,300	226,556	227,970	261,228	943,054	1,206,177
Engineering	369,245	371,094	374,334	395,673	1,510,345	2,964,153
Operations	67,795	61,224	63,836	71,723	264,578	443,312
Sales	189,528	203,448	266,611	293,240	952,827	2,197,839
Marketing	1,276	-	30,000	41,372	72,648	671,191
Total Operating Expenses	855,143	862,322	962,751	1,063,236	3,743,452	7,482,672
Net Operating Income	(561,072)	(628,722)	35,637	104,264	(1,049,893)	4,200,000
Net Operating Margin	-125.98%	-134.26%	1.77%	4.64%	-20.32%	19.50%
Depr, Interest and Other	154,565	156,946	567,852	36,209	(220,132)	152,758
Pretax Income	(715,637)	(785,667)	(532,215)	68,055	(829,761)	4,047,242
Income Taxes	-	-	-	-	-	-
Net Income	(715,637)	(785,667)	(532,215)	68,055	(829,761)	4,047,242
Pretax Margin	-160.7%	-167.8%	-26.5%	3.0%	-16.1%	18.8%

NSS - Balance Sheet						
	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
Cash	1,000	1,000	861,076	988,802	988,802	5,111,427
Accounts Receivable	76,364	112,391	605,864	490,864	490,864	1,939,239
Accounts Receivable Reserve	-	(468)	(2,477)	(4,722)	(4,722)	(26,262)
Inventory - Product	157,228	113,000	174,750	153,750	153,750	529,722
Inventory - Evaluation	105,478	105,478	105,478	105,478	105,478	105,478
Obsolescence Reserve	(10,614)	(10,614)	(10,614)	(10,614)	(10,614)	(10,614)
Subscriptions Receivable	2,500	-	-	-	-	-
Prepays/Other	115,063	115,063	115,063	115,063	115,063	115,063
Total Current Assets	447,019	435,850	1,849,140	1,838,621	1,838,621	7,764,053
PP&E Net	135,895	116,579	90,830	64,757	64,757	(2,537)
Deposits	9,265	9,265	9,265	9,265	9,265	9,265
Intangibles						
Total Assets	592,179	561,695	1,949,236	1,912,644	1,912,644	7,770,781
Line of Credit	0	-	-	-	-	-
Investor Notes	5,385,721	5,555,893	5,603,627	5,757,431	5,757,431	6,286,264
Leases Payable	16,160	12,920	9,680	6,440	6,440	-
Accounts Payable	1,355,696	1,567,773	901,923	604,923	604,923	1,730,089
Accrued Vacation	153,337	180,331	208,093	236,653	236,653	384,588
Accrued 401(k)	76,723	9,855	9,855	10,135	10,135	14,680
Accrued Payroll and Related	225,302	235,302	(0)	(0)	(0)	(0)
Accrued Sales Taxes	6,901	-	-	-	-	-
Deferred Revenues	3,180	3,180	3,180	3,180	3,180	3,180
Other Current Liabilities	3,360	16,308	29,256	42,204	42,204	53,058
Total Liabilities	7,226,380	7,581,562	6,765,614	6,660,966	6,660,966	8,471,859
Common Stock	5,895	5,895	5,895	5,895	5,895	5,895
Preferred Stock- Class A	714	714	714	714	714	714
Preferred A Extension	2,000,013	2,000,013	2,000,013	2,000,013	2,000,013	2,000,013
New Equity	-	400,000	2,000,000	2,000,000	2,000,000	2,000,000
Additional Paid in Capital	11,293,636	11,293,636	11,293,636	11,293,636	11,293,636	11,293,636
Retained Earnings	(19,934,459)	(20,720,126)	(20,116,636)	(20,048,580)	(20,048,580)	(16,001,336)
Total Capital	(6,634,200)	(7,019,868)	(4,816,378)	(4,748,322)	(4,748,322)	(701,078)
Total Liabilities and Capital	592,180	561,694	1,949,236	1,912,644	1,912,644	7,770,781

NSS - Cash Flow	1Q03(A)	2Q03(E)	3Q03(E)	4Q03(E)	CY03(E)	CY04(E)
	3 months	3 months	3 months	3 months	12 months	12 months
Cash flows from Operations						
Net Income	(715,637)	(785,668)	603,489	68,055	(829,761)	4,047,244
Plus non-cash items						
Depreciation	33,555	33,754	33,754	33,754	134,818	149,726
Income Taxes	-	-	-	-	-	-
Interest on Shareholder Notes	120,770	120,172	97,734	153,804	492,481	528,833
Changes in Assets/Liabilities	73,410	199,419	(1,413,656)	(116,967)	(1,000,854)	(514,307)
Total Cashflows from operations	(487,901)	(432,322)	(678,678)	138,647	(1,460,255)	4,211,496
Cash flows from Investing Activities						
Issuance of Notes receivable	-	-	-	-	-	-
Purchase of Fixed Assets	98	(14,439)	(8,006)	(7,681)	(30,027)	(82,431)
Purchase of Fixed assets	98	(14,439)	(8,006)	(7,681)	(30,027)	(82,431)
Cash flows from financing activities						
Principal payments Capital Leases	(3,383)	(3,240)	(3,240)	(3,240)	(13,103)	(6,440)
Shareholder Notes Activity	383,796	50,000	(50,000)	-	383,796	-
Line of Credit Transactions	-	-	-	-	-	-
Proceeds from stock activities	-	400,000	1,600,000	-	2,000,000	-
Total cash flows from financing activities	380,413	446,760	1,546,759	(3,240)	2,370,692	(6,440)
Net increase (decrease) in cash	(107,389)	(1)	860,075	127,725	880,410	4,122,624
Beginning Cash	108,389	1,000	999	861,074	108,389	988,799
Ending Cash	1,000	999	861,074	988,799	988,799	5,111,423