

L-1 IDENTITY SOLUTIONS, INC.

Form 10-K

March 14, 2007

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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Fiscal Year Ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES  
EXCHANGE ACT OF 1934

For the Transition Period from \_\_\_\_\_ to \_\_\_\_\_.

Commission File Number 000-21559

L-1 IDENTITY SOLUTIONS, INC.  
(Exact name of registrant as specified in its charter)

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Delaware	04-3320515
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
177 Broad Street, 12 <sup>th</sup> Floor, Stamford, CT	06901
(Address of principal executive offices)	(Zip Code)

Registrant's telephone number, including area code: (203)-504-1100

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act: Common Stock \$.001 par value

Indicate by a check mark if the Registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by a check mark if the Registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was

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required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference into Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by a check mark whether the Registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer" and "large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

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

The aggregate market value of the voting stock held by nonaffiliates of the registrant as of March 14, 2007, was approximately \$936.1 million.

As of March 14, 2007, the registrant had 72,577,549 shares of Common Stock outstanding.

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PART I

Item 1.

Business

L-1 Identity Solutions, Inc. (“L-1”), a Delaware corporation, was formerly known as Viisage Technology, Inc. (“Viisage”). Upon completion of Viisage’s merger with Identix Incorporated (“Identix”) in August 2006, Viisage changed its name to “L-1 Identity Solutions, Inc.” Our principal executive offices are located at 177 Broad Street, Stamford, CT 06901, Tel. (203) 504-1100. When we refer to “we”, “our” and “Viisage” in this Annual Report on Form 10-K, we mean L-1 Identity Solutions, Inc. (“L-1”) as well as all of our consolidated subsidiaries, unless the context otherwise requires.

Overview

We are the trusted provider of technology, products, systems and solutions that protect and secure personal identities and assets. Together, our growing portfolio of companies deliver a full range of offerings targeted to manage human identity. These offerings are the cornerstone for building convenient and secure identification (“ID”) solutions. L-1 companies have a 20-year history of serving domestic and international governments, law enforcement and border management agencies, military branches and commercial businesses.

Because of threats to national security and significant economic loss resulting from identity-based fraud and theft, the market is requiring a more secure and tamper-proof means of validating a claimed identity as well as issuing credentials that grant privileges for travel, physical and logical access to facilities and networks, and performing financial transactions. We believe that the best means available today is through an end-to-end, integrated multi-biometric (finger, face, iris) recognition solution.

Through our corporate research center and ongoing development efforts, we remain at the forefront of the latest advances in multi-modal (finger, face and iris) biometric recognition, imaging and document authentication technology. When used together to form an end-to-end solution, the modular products, services and solutions from L-1 stand apart as a comprehensive approach to protecting and securing identities. We are not aware of any other company that competes with us directly on the basis of an integrated and multi-modal identity solution, covering the entire identity lifecycle from proofing to issuance. As a complement to our R&D efforts, our strategy includes the continuing evaluation of potential acquisitions of technologies and companies participating in the biometric industry.

Our products and services offer proven reliability and scalability and are deployed in some of the most demanding applications and environments around the world. With our solutions, states can better protect their citizens against identity theft and decrease the incidence of fraudulent ID cards, including drivers' licenses. Additionally, with our solutions credentialing standards for government and corporate employees are more robust, borders, airports, seaports and other critical infrastructure are better managed and law enforcement and military personnel gain powerful tools to solve more crimes and identify terrorist suspects. In addition, our solutions help customers respond to critical federal legislation and international mandates aimed at fighting global terrorism and crime.

We provide products and services through a global network of partners, such as leading system integrators, defense prime contractors and original equipment manufacturers ("OEMs"), serving a broad range of markets including government, law enforcement agencies, military, finance, gaming, commercial business and healthcare. Customers in each of these markets have their own specific needs, and we work with them to provide tailored solutions.

The markets for identity protection solutions are large and continue to develop. In particular, consumers of identity protection solutions are demanding end-to-end solutions with increased functionality that can solve their spectrum of needs across the identity cycle. Our objective is to meet those growing needs by continuing to broaden our product and solution offerings, leveraging our

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existing customer base to provide additional products and services, expanding our customer base both domestically and internationally, and augmenting our competitive position through strategic acquisitions. As an expanding company, we believe that one of our greatest challenges is choosing the right markets and best opportunities to pursue that will enable us to successfully grow our business.

### Recent Acquisitions and Financing Activities

Understanding the growth potential that the identity solutions market represents, L-1 sought to close the gap between the need (a better method of securing and protecting personal identities) and the ability for current industry participants to provide it due to a lack of professional management, infrastructure and capital resources. The intent was to use Viisage as the platform upon which to build an end-to-end identity solution provider to integrate multi-modal technologies into products and services to serve the need for biometric technologies by local, state, federal and international agencies.

In December 2005, we issued and sold to Aston Capital Partners, L.P. ("Aston"), approximately 7.6 million shares of Viisage common stock resulting in gross proceeds to us of \$100 million. Aston is an investment fund managed by an entity controlled by certain of our current senior executives. Under the investment agreement with Aston, \$85 million of the proceeds was used to finance acquisitions subject to approval by Viisage's board of directors.

In December 2005, we acquired Integrated Biometric Technology LLC ("IBT"), a leader in providing fingerprinting products, services and solutions to government, civil, and commercial customers that require criminal background checks and screening. Also in December 2005, we acquired the AutoTest division of Openshaw Media Group, a provider of automated web-based applicant testing technologies for state departments of motor vehicles and other credential issuing agencies.

In February 2006, we acquired SecuriMetrics Inc. (“SecuriMetrics”) which develops, customizes and sells biometric solutions using principally iris recognition technology, typically consisting of biometrics capture devices bundled with proprietary software, as well as sales of devices and software.

In August 2006, we acquired Iridian Technologies, Inc. (“Iridian”) which owns and licenses an extensive portfolio of intellectual property related to iris recognition technology.

Also in August 2006, we merged with Identix, a provider of fingerprint, facial and skin biometric technologies, and related system components as well as fingerprinting services, that individually and collectively empower the identification of individuals and are critical to biometric capture and knowledge discovery in large scale identification management problems. The fingerprint services business of Identix has been integrated into the business of IBT.

In October 2006, we acquired SpecTal LLC, (“SpecTal”) which provides comprehensive security and intelligence solutions primarily to the U.S. government agencies.

Also in October 2006, we entered in a revolving credit agreement pursuant to which we can borrow up to \$150 million, with the potential of up to \$50.0 million of additional borrowings.

In February 2007, we acquired ComnetiX Inc., a Canadian company providing biometric identification and authentication technologies and solutions to private and public sector customers creating an important presence for us in the Canadian market and adding a highly-complementary base of customers to our portfolio, particularly within the law enforcement community.

All acquired companies continue to deliver their individual branded products and services to customers. Additionally, the companies come together to provide integrated solution sets for a variety of customers across federal, civil, criminal and commercial markets, and to border management agencies.

#### Segment and Geographic Information

We operate in two reportable segments, the Identity Solutions Segment and the Services Segment. The Identity Solutions Segment comprises the operations of our historical Viisage business, our

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Identix business (excluding the fingerprint services business), and our SecuriMetrics and Iridian businesses. Our Services Segment consists of our fingerprint services operations and our government security and consulting operations. (See Note 11 to the Consolidated Financial Statements included in the Annual Report on Form 10-K for additional information.)

#### Industry Overview

#### Markets

The ability to confirm an individual’s identity is playing an increasingly important role in national and international security, personal privacy and commerce. Government-issued credentials serve as the primary means for confirming the physical identity of an individual.

The effectiveness, however, of these credentials can be impaired because they can be counterfeited or altered, issued under false pretenses and are rarely linked to an identity database. Failure to provide adequate identification protection can lead to breaches of security and identity theft, the consequences of which can range from national security threats and loss of life to significant economic loss. Within this context, we believe that there is increasing pressure on governments and businesses to accelerate the adoption of advanced technology identity solutions.

To address these issues, government-issued identity credentials such as passports and drivers' licenses increasingly are incorporating more sophisticated security features. For example, pigment ink printing, security laminates, holograms, ultra violet printing, micro printing, security fonts, half tone portraits, physical or digital watermarks and 2D barcodes have become common security features for passports and drivers' licenses. Smart technologies are also expected to play a significant role in securing these credentials.

In addition to upgrading their security features, we believe that monitoring authorities at places like border entry points will increasingly embrace the use of automated document authentication technology to confirm the authenticity of presented credentials. Issuing authorities are increasingly incorporating biometrics to verify personal identities and deter fraud. Biometrics is a means of identifying a person using biological features unique to that individual. Biometric identifiers include facial images, fingerprints, iris scans, retinal scans, voice data and hand geometry.

While identity credentials are becoming more secure, the ability to obtain them under false pretenses continues to be a major weakness of the credential issuing process. As a result, issuing authorities are now focusing on improving their ability to verify the identity of a person requesting an identification credential prior to issuing that credential. As part of this effort, many authorities also have recognized the need to have secure and accurate audit trails of the issuance process and supporting documents for each credential.

Finally, as secure identity credentials, automated document authentication and biometrics become more prevalent, we believe the additional security generated by cross-checking the credential to a readily accessible identity database will grow in importance. This capability allows a higher level of identity assurance and real-time privilege management. With recent events surrounding the security of these source databases, we expect the standards for collecting and handling identity data to become more rigorous.

Internationally many countries have established or are establishing national identification and/or passport programs to help ensure that only qualified citizens are able to avail themselves of the benefits to which a country's citizens are entitled, and many of these systems are expected to utilize biometric technologies. Some of these programs and potential programs are also aimed at helping to secure a country's borders by tracking entry and exit of both citizens and visitors. The United States established legislation requiring biometric identifiers to be included in the passports of current Visa Waiver countries (countries where citizens are not required to obtain a Visa prior to entering the U.S.). We offer a range of solutions, products and technologies that can be utilized in national identification, and/or passport and border crossing programs to enroll and verify citizens and visitors for receipt of benefit purposes and/or to add biometric identifiers to national identification and/or passport programs. Accordingly we believe that international markets provide an opportunity for revenue growth.

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Market Drivers and Trends

We believe the global market for advanced technology identity solutions is growing rapidly and is driven by the following key trends:

- Government-initiated security programs. We believe that the U.S. Federal Government and government agencies will continue to be key drivers for the growth and development of the market for advanced technology identity solutions by increasingly recommending, and in some cases mandating, the use of secure authentication as a key component of identity verification through such programs as:
  - the U.S. Visitor and Immigrant Status Indicator Technology program (“U.S. VISIT”), which uses biometric data as part of new screening procedures for non-U.S. citizens entering the United States;
  - the Transportation Workers Identification Credential (“TWIC”), which is a credentialing program that may eventually cover an estimated 12 million national transportation workers;
  - the U.S. Department of State’s planned introduction of “contactless chips” in passports, which are electronic chips that hold the bearer’s biographic and photographic data;
  - the Transportation Security Administration’s (“TSA”) Hazardous Material Threat Assessment Program (“HAZMAT”), mandating fingerprinting and security threat assessment of commercial truck drivers applying for, renewing or transferring the hazardous materials endorsement (“HME”) on their state-issued commercial drivers licenses (“CDL”);
  - the TSA’s Registered Traveler Program (“RT”) under which the TSA will conduct a security assessment to determine eligibility of an individual for an expedited screening process at TSA security checkpoints. RT participants provide both fingerprint and iris biometrics, allowing either biometric to be used for positive identity verification at the airport;
  - Homeland Security Presidential Directive 12 (“HSPD-12”), which mandates that a common identification card be utilized by all Federal government employees and contractors. In 2004, the U.S. Federal Government issued the Federal Information Processing Standard for Personal Identity Verification of Federal Employees and Contractors as part of HSPD-12. HSPD-12 includes a requirement for document authentication in connection with the issuance of secure credentials to federal government employees; and
  - The REAL ID Act, signed into law in May 2005, which mandates authentication of a person’s identity before they are issued a driver’s license.
- Development of industry standards and requirements. Several organizations responsible for standards in a number of our markets have implemented requirements for the use of face recognition biometrics. For example, in May 2003, the International Civil Aviation Organization, which sets recommended travel document standards for its member states, selected face recognition as the biometric to be used in passport documentation. Moreover, in February 2003, the National Institute for Standards and Testing, which is part of the U.S. Department of Commerce, recommended that a dual system of fingerprint and face recognition technology be used to verify the identities of visa holders at points of entry in the United States.
- Growing use of biometrics. Governments are increasingly mandating biometrics as an integral component of identity solutions. Global biometric revenue is projected to grow significantly driven by large-scale government programs and dynamic private-sector initiatives. Fingerprint is expected to have the largest share followed by face recognition and iris recognition.

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- Increasing demand for background screening. Demand is growing from civil, state, federal and commercial fronts for background screening for applicants seeking a new job or individuals who provide services that require their identity to be vetted.
- Rising cost of identity theft and financial fraud. The growing direct and indirect cost of identity theft and financial fraud is increasing the pressure on businesses and individuals to accelerate the adoption of advanced technology identity solutions. Identity theft is the nation's fastest growing crime.
- Convergence of physical and logical security systems. We believe that there is a growing need for governments and businesses to provide a highly secure, unified system for user authentication to access both physical assets, such as buildings, and digital assets, such as computer networks. For example, the U.S. Department of Defense's, or DoD, Common Access Card Smart Card program provides identity verification for approximately four million DoD employees and military personnel to enable access to military property and DoD computer networks. We believe that this program represents the model for identity protection solutions that will be implemented by governments and businesses in the future.

## Our Identity Solutions Offerings

Our identity solutions are intended to provide our customers with the products and services necessary to achieve the particular objective or address a specific need. An individual solution may include hardware, equipment, consumables, software, right to additional software products, when and if available, related hardware maintenance, software maintenance, hardware repair or replacement, technical support services, training, installation and consulting services under a single arrangement. Our identity solutions incorporate modular components and services, including the following:

**Multi-Biometric Capture and Live Scan Systems** — Provides high quality images for multi-biometric recognition in the industry. We estimate that more than 10,000 systems are deployed worldwide for criminal and applicant processing, border management and enrollment into civil ID programs.

**Multi-Biometric ABIS Systems** — Supports finger, face and iris on a single platform. This biometric matching engine is used to eliminate duplicates and aliases in the U.S. State Department's visa issuance system.

**Mobile Identification Systems** — Uses finger, face and iris biometrics for identifying subjects in the field. Our rugged and portable iris devices are deployed by the U.S. Department of Defense for overseas missions in Iraq, Bosnia, Afghanistan and other harsh combat zones.

**Facial Screening Systems** — Alerts customs and passport control agents when an individual on a watchlist attempts to enter the country.

**Information Security Software Solutions** — Protects against unauthorized access to computers and networks. Our solutions are widely used by financial and health-care organizations around the world.

**High-Quality Card Production Systems** — Provides long-lasting, tamper-proof capabilities. Each year, we estimate that we enroll and produce more than [35 million individual credentials], such as U.S. passports and drivers' licenses, at more than [3,000] locations.

**Document Authentication and Credentialing Systems** — Encompasses proofing, vetting, enrollment, biometrics, identity database management, card production and authentication components required to establish the authenticity of



IDs in a large-scale secure credentialing program.

Fingerprinting Service Centers — Handles processing for employment and licensee applicants. We maintain the largest enrollment network in the country and process nearly one million applicants annually.