

L-1 IDENTITY SOLUTIONS, INC.

Form 10-K

February 26, 2010

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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, 2009

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 001-33002

L-1 IDENTITY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware

(State or other jurisdiction of
incorporation or organization)

02-0807887

(I.R.S. Employer
Identification No.)

177 Broad Street, 12th Floor, Stamford, CT

(Address of principal executive offices)

06901

(Zip Code)

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

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

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

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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 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 check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company. See the definitions of large accelerated filer, accelerated filer and smaller reporting company in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer Accelerated filer Non-accelerated filer Smaller reporting company
(Do not check if a smaller reporting company)

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 non-affiliates of the registrant as of June 30, 2009, was approximately \$579.6 million.

As of February 25, 2010, the registrant had 92,266,210 shares of Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

Certain information contained in the Proxy Statement for the 2010 Annual Meeting of Stockholders of the registrant is incorporated by reference into Part III of this Form 10-K.

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PART I

ITEM 1. BUSINESS

In this Annual Report on Form 10-K, the words "L-1" and the "Company" refer to L-1 Identity Solutions, Inc. and, except as otherwise specified herein, to L-1 subsidiaries. L-1's fiscal year ended on December 31, 2009.

BUSINESS OVERVIEW

L-1 Identity Solutions, Inc. ("L-1" or the "Company") is a provider of technology, products, systems and solutions, and services that protect and secure personal identities and assets. Through its divisions, L-1 delivers the full range of offerings required for solving complex problems associated with managing identity.

The Company operates in two reportable segments: **Solutions and Services**.

Solutions

The Solutions segment consists of the Secure Credentialing and Biometrics / Enterprise Access Divisions. Solutions from these divisions are marketed to Federal agencies, State and Local government agencies (including law enforcement and department of corrections), foreign governments, and commercial entities (such as financial and health care institutions and casinos).

Solutions revenue includes products and related services, which comprise hardware, components, consumables and software, as well as maintenance, consulting and training services.

Services

The Services segment includes the Enrollment Services Division and Government Consulting Services Group.

Enrollment Services perform fingerprinting and process background checks for civilians at centers across the U.S. and Canada.

Government Consulting Services includes the businesses of Advanced Concepts (Information Technology Solutions), McClendon (Engineering & Analytical Solutions), and SpecTal (Intelligence Services).

Government Consulting Services offer comprehensive consulting, program management, information analysis, training, security, technology development, and information technology solutions to the U.S. intelligence community.

Depending upon customer needs, L-1 services can be bundled with identity solutions, product and services offerings to create an integrated solution.

**The L-1 Portfolio of Identity Management
Solutions and Services**

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SECURE CREDENTIALING SOLUTIONS

The Secure Credentialing division provides solutions that protect and secure identities and assets by helping customers produce the most secure credentials possible.

The division builds and maintains an end-to-end secure process for ID production starting with identity proofing, vetting, and enrollment; incorporating biometric-based recognition and identity database management; card design and production; and inspection and authentication.

There are more than 6,500 L-1 systems in more than 20 countries used for large-scale credentialing programs around the world. L-1 systems are used to produce more than 80 percent of U.S. driver's licenses (including Enhanced Driver's Licenses), the U.S. Passport, U.S. Passport Card and Border Crossing Card, and other citizen credentials such as National and Voter IDs, passports and more. More than two billion cards have been produced to date using L-1 solutions.

During 2009, L-1 was awarded 19 of 20 competitive credentialing procurements and booked approximately \$289 million in global driver's license extensions and new contracts. The contracts awarded in 2009 had a price-per-card increase on average of 50 percent over prior contracts due to the inclusion of more value-added services and security technologies as part of the credential issuance process.

L-1 believes that Department of Motor Vehicle bureaus across the U.S. are increasingly turning to L-1 to enhance their issuance systems and establish more secure end-to-end processes for license production.

This is evidenced by the following:

- Revenue growth from L-1 online skills testing in excess of 68 percent year-over-year in 2009.

- Demand for workflow re-engineering and upgrades to ID card structures and features.

- Addition of facial recognition technologies used today in 31 States to prevent persons from establishing duplicate identities.

- Use of document authentication in 11 States as part of the driver's license issuance process.

L-1 has introduced new self service kiosks and value-added services in 2009 which offer further opportunity for growth independent from, and additive to, that generated from State driver's license production contracts.

At the Federal level, in 2009 the Department of State reiterated its commitment to L-1 with a five-year sole source contract award for U.S. Passport printing valued at up to \$195.0 million and continued to enhance Passport Cards and Border Crossing Cards produced by L-1.

International demand continued to build with opportunities for large scale National and Voter ID programs in Latin America, Africa, India and the Middle East.

Finally, L-1 is expected to be the exclusive provider of secure credentialing services and technologies to Alclear LLC, the winning bidder, for the assets of Verified Identity Pass (VIP), a private Company which was engaged in the airport passcard program authorized by the TSA.

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BIOMETRIC / ENTERPRISE ACCESS SOLUTIONS

The Biometric Division of L-1 provides solutions that protect and secure personal identities and assets by providing state-of-the art technologies that capture, store, manage and distribute biometric data for positive, rapid ID and tracking of persons of interest as part of large-scale identity management programs.

Customers include State, Local, Federal and international government agencies and ministries, and commercial businesses. The solutions are part of civilian and criminal identification management programs in border management, credentialing, law enforcement and military applications.

Solutions and products include multi-modal automated biometric identification and matching systems (ABIS), finger and palm print scanners, integrated multi-biometric (finger, face and iris) devices including HIIDE™ and PIER™ automated facial recognition systems both static (digital photo or mug shot) and dynamic (video) and automated iris recognition systems (AIRS). L-1 also manufactures multi-biometric-based readers used to secure buildings and restricted areas, available through more than 400 partners worldwide.

The division's revenue in 2009 included more than \$95 million of combined software and hardware solutions delivered to customers.

Development highlights in 2009 include:

A new eGate solution using L-1 facial recognition is facilitating self service border crossings at the Frankfurt International Airport.

A new middleware platform was developed in partnership with European customers that enables HIIDE to integrate with ID systems of foreign Defense Ministries in NATO countries.

A next generation technology transformed the access control device into a smart security appliance. New devices built on the platform are deployed for employee access control at several international airports and as part of several U.S. port project evaluations.

A new live scan fingerprint product, Agile TP, was introduced for high-volume civil identification programs. The system is capable of capturing a full set of fingerprints in less than ten seconds.

At the Federal level, L-1's facial recognition technology was incorporated into the U.S. Passport program in 2009, an extension beyond its current use in the U.S. Visa program (the largest facial database in the world with more than 80 million records). The Department of Defense (DoD) next generation ABIS system is running 28 times faster and finding hundreds of thousands more matches than the legacy DoD system according to DoD reports.

Internationally, a Middle Eastern customer expanded its contract with L-1 to take advantage today of system integration capabilities and customized functionality made possible through technological advances in HIIDE 5 due

out in 2010. L-1 iris technology is performing nearly half a billion cross-comparisons per second on the largest iris database in the world.

Other new international contracts included facial recognition for customs police, narcotics and e-passport customers across Asia Pacific, and multi-modal search for civil and criminal applications in Canada, Qatar, Egypt, New Zealand, Mexico and the UK.

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ENROLLMENT SERVICES

The Enrollment Services division provides services that protect and secure identities and assets by performing fingerprinting and processing background checks for civilians at centers across the U.S. and Canada.

With more than 1,000 locations today, L-1 believes it is the largest network of enrollment centers in the U.S. and Canada. The centers processed more than two million individuals in 2009.

The centers use enrollment stations, live scan systems and software to fingerprint and process background checks for civilian applications.

Enrollment Services revenue growth exceeded 47 percent for the year as compared to the prior year period. Growth is coming in part from new contracts, such as those in New York and Indiana, which encompass more than 170 sites and dozens of agencies. Growth is also occurring through the expansion of existing contracts such as in Texas where 688,000 applicants were printed in 2009.

Today the division has established a nationwide scalable network that L-1 believes is capable of expanding to capitalize on new revenue opportunities. These include:

Expanding beyond fingerprints to capture additional biometrics.

Performing background checks for non-employment licenses, such as handgun permits.

Servicing more than 5,000 schools and school districts throughout the U.S. with customers across State Agencies, public school districts, private schools, colleges and universities.

Serving the healthcare community by processing checks required for nurses, doctors, home health care and nursing facility workers, and more.

Supporting individuals requiring Financial Industry Regulatory Authority (FINRA) registration and others employed as mortgage brokers, insurance agents and other positions within financial services.

The infrastructure behind L-1's network enables the centers to support Local, State and Federal enrollments. This ranges from checks against a State AFIS (Automated Fingerprint Identification System) to processing directly through the FBI channel.

Approximately one-third of all L-1 centers process applicants for Federal programs (TWIC, HAZPRINT). L-1 also is one of only 15 approved FBI channels.

In 2009, the TWIC program was fully transitioned to L-1 from its partner at the end of 2009. L-1 expects the program to continue to grow as new initiatives are added to print other transportation-related employees.

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GOVERNMENT CONSULTING SERVICES

The Government Consulting Services Group provides services that protect and secure personal identities and assets by providing highly specialized solutions and services that address critical concerns in national security and intelligence.

The group includes the businesses of Advanced Concepts (Information Technology), McClendon (Engineering & Analytical), and SpecTal (Intelligence Services).

Advanced Concepts (Information Technology (IT))

Advanced Concepts delivers IT solutions and services that help customers assure information superiority over any enemy, help make critical information systems and infrastructure more secure, and ensure that Federal sector processes and transactions move at maximum speed.

Advanced Concepts' core competencies include:

- IT Infrastructure Engineering
- Systems Engineering and Integration
- Software Development
- Information Assurance

McClendon (Engineering & Analytical)

McClendon delivers engineering and analytical services to the Department of Defense and Intelligence Community. L-1 believes that McClendon is distinguished by highly qualified experts in the areas of its core competencies. When combined with proven procedures and best practices policies, McClendon (Engineering & Analytical) ensures prompt and quality work within budget.

McClendon's core competencies include:

- Systems Engineering & Integration
- GEOINT and MASINT Science
- Intelligence Analysis & Operations

- SETA, PMO & Acquisition
- IT & Software Development

SpecTal (Intelligence Services)

SpecTal provides government and corporate clients with specialized security and intelligence consulting, going beyond assessments to present results-oriented solutions. Building on its employees' intelligence careers marked by achievement in demanding assignments, SpecTal offers clients a broad range of experience and expertise. L-1 believes that its results have earned the group a reputation for service, responsiveness, and integrity.

SpecTal's core competencies include:

- Intelligence Analysis and Operations
- IT and Physical Security
- Linguists

In 2009, Government Consulting Services group benefited from the emergence of cyber security related initiatives and renewed demand for counterterrorism technologies across the intelligence community.

L-1 is playing an important role in government contracts related to transportation issues and Homeland Security. In addition, the Government Consulting Services group is on several cybersecurity related task orders and provides direct support to customers under the Comprehensive National Cybersecurity Initiative (CNCI) and other established Information Assurance (IA) programs.

Resources continue to grow in all areas of cybersecurity, including operational Computer Security Incident Response Center (CSIRC)/Computer Emergency Response Team (CERT) analytic support, Computer Network Defense (CND) strategy & tactics, and IA architecture development and policy analysis.

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INDUSTRY OVERVIEW

MARKETS AND TRENDS IN CREDENTIALING AND BIOMETRIC SOLUTIONS

Government-issued breeder documents (such as birth certificates and social security cards) and IDs granted based on these documents (such as driver's licenses or passports) serve as the primary means for confirming the identity of an individual. The integrity, however, of these documents and credentials can be compromised because they can be counterfeited or altered, issued under false pretenses and historically have rarely been 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, L-1 believes that there is increasing pressure on governments and businesses to accelerate the adoption of advanced technology identity solutions to validate identities.

A core element to the L-1 identity management value proposition is biometrics. Biometrics are unique, individual physiological or behavioral characteristics, such as fingerprints, palm prints, facial characteristics, iris and voice patterns, hand geometry and handwriting patterns, which can be used to determine or verify an individual's identity. Technology digitally captures and encodes these individual biometric characteristics and then compares that uniquely personal characteristic against previously encoded biometric data to determine or validate an individual's identity.

Each biometric is unique to each person, making it the best means possible today to verify that a person is whomever he/she claims to be. Furthermore, biometric technology provides improved accuracy and security of the credential, as well as convenience and cost-effectiveness for the individual, overcoming the limitations inherent in traditional identification and authentication processes such as paper credentials, passwords, PIN codes and magnetic access cards.

Governments and their agencies were the early adopters of biometrics and today remain the primary customers for the industry. For law

enforcement, biometric technology permits more efficient criminal booking and processing and also allows officers in the field to identify potential suspects more reliably and efficiently. Within the military, biometrics are used for the verification and identification of military personnel and contractors and collection and processing of biometrics from non-military personnel for the purpose of identifying potential hostile persons. At the national level, governments throughout the world have taken steps to improve security in response to heightened concerns over public safety from the threat of terrorism. National governments have mandated increased spending on security measures, implemented new regulations and placed greater emphasis on technology to address growing security concerns.

L-1 believes that the market for biometrics will continue to grow significantly. L-1 believes that this growth is a function of customer demand and the ability for the industry to meet the demand. L-1 believes that major drivers of biometric growth in the future will include:

- Implementation of biometrics in national security-related applications broadly characterized as anti-terror, such as border management, national ID, immigration control and critical infrastructure applications such as employee authentication and access control.

- Integration into commercial access control solutions that grant entry and confirm presence in buildings and restricted areas based on biometric recognition.

Expansion of biometrics within law enforcement to enroll, verify and ID suspects, detainees and prisoners and confirm if the individual is wanted, incarcerated or has a criminal history.

Inclusion of biometrics as a component of solutions that address identity theft.

Incorporation of biometrics into licensing processes and background checks required for people employed in licensed positions, such as daycare workers, insurance agents and those employed in education-related fields.

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In addition, L-1 believes that identity-related mandates within the government will increase demand for biometric solutions. The Company anticipates the government will recommend and in some cases mandate the use of secure authentication, such as biometrics, as a key component of identity verification. Some of the programs include 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; Department of State (DoS) Western Hemisphere Travel Initiative (WHTI) Passport Card and Border Crossing Card (BCC) programs that issue limited use passports in a wallet size format for use in crossing U.S. borders; Transportation Workers Identification Credential (TWIC) for transportation workers; Transportation Security Administration (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 State-issued Commercial Driver's Licenses (CDL); Homeland Security Presidential Directive 12 (HSPD-12), which mandates that a common identification card be utilized by all Federal government employees and contractors; 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.

While fingerprints are expected to continue to be the most prevalent biometric technology in the U.S. in the near term, iris, face, palm and other technologies are being adopted and combined with fingerprinting in multi-biometric applications to provide an additional level of security and accuracy and to allow for increased flexibility for applications where fingerprints are not suitable.

Automated Biometric Identification Systems (ABIS) and Live Scan Systems are the largest market space for biometrics. These are large scale and highly complex systems used in law enforcement, background checks, and civil identification programs. Live scans are deployed as a front end to most ABIS systems and include hardware and software that captures and processes fingerprint images prior to submission. The ABIS and Live Scan market is

considerably more mature than any other biometric market sector. Increasingly, multiple biometrics are also being incorporated into these systems, augmenting fingerprints with hand/palm prints, facial images and iris patterns.

Internationally, many countries have established or are establishing more secure national identification, driver's license, passport, border crossing control and voter registration programs and many of these systems are expected to utilize biometric technologies. In addition to protecting citizens, some of these programs are also aimed at helping identify potential terrorist threats. The U.S. 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.). L-1 offers 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, visitors and potential threats and/or to add biometric identifiers to national identification and/or passport programs. Accordingly the Company believes that international markets provide an opportunity for revenue growth.

While L-1 anticipates consistent opportunities for revenue growth, the following may adversely affect the rate of this growth:

The global economic slowdown and its impact on government funding and procurements related to security.

Dependence on complex government programs with elongated procurement, sales and implementation cycles.

Competition from non-biometric technologies that provide more affordable, but less robust, authentication (such as tokens and smart cards).

Privacy and legal challenges relating to biometric identifiers by private citizens and advocacy groups.

The potential for changes in government policy relating to privacy issues.

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MARKETS AND TRENDS FOR GOVERNMENT SERVICES

The Federal government is the largest consumer of information technology services and solutions in the United States. L-1 believes that the Federal government's spending on information technology and services will continue to increase in the next several years, driven by the expansion of National Defense and Homeland Security programs, the continued need for sophisticated intelligence gathering and information sharing, increased reliance on technology service providers due to shrinking ranks of government employee technical professionals, and the continuing impact of Federal procurement reform and Office of Management and Budget mandates regarding IT spending. Federal government spending on information technology has consistently increased in each year since 1980.

L-1 believes the following trends will continue to impact spending and dependence on technology and support contractors among the Company's core intelligence community customers.

The emphasis on counter-terrorism, irregular warfare, Homeland Defense, and combating the spread of weapons of mass destruction remain overarching guiding principles for current and out-year funding priorities. L-1 believes Intelligence Agencies will increase demand for data and text mining solutions to enable them to extract, analyze, and present data gathered from the massive volumes of information available through open sources such as the Internet. This increased focus on National Security, Homeland Security, and intelligence has also reinforced the need for interoperability among the many disparate information technology systems throughout the Federal government. L-1 believes the Department of Defense, Department of Homeland Security and the intelligence community will continue to be interested in systems that strengthen the coordination within and among agencies and departments.

Demand for technology service providers is expected to increase due to the need for Federal agencies to maintain core operational functions while the available technical workforce shrinks. L-1 believes this trend will continue, despite the fact that certain

agencies within the Intelligence community have indicated a goal of reducing reliance on contractors. Given the difficulty the Federal government has experienced in hiring and retaining skilled technology personnel in recent years, L-1 believes the Federal government will continue to rely on technology service providers that have experience with government systems, can sustain mission-critical operations and have the required government security clearances to deploy qualified personnel in classified environments.

Alternative choices of contract acquisition vehicles have created market-based environments in government procurement. In recent years, Federal agencies have had increased access to alternative choices of contract acquisition vehicles-such as indefinite delivery/indefinite quantity (ID/IQ) contracts, Government Wide Acquisition Contracts (GWACs), the General Services Administration (GSA) schedule and agency specific Blanket Purchase Agreements (BPAs). These choices have created a market-based environment in government procurement that has increased contracting flexibility and provided government agencies access to multiple channels to contractor services. Contractors' successful past performance, as well as technical capabilities and management skills, remain critical elements of the award process. L-1 believes that the increased flexibility associated with the multiple channel access, such as ID/IQ contracts, GWACs, GSA schedule contracts and BPAs, will result in the continued utilization of these contracting vehicles in the future, and will facilitate access to service providers to meet the demand for, and delivery of, required services and solutions.

An emphasis on addressing cyber-security is expected to drive greater demand for a variety of L-1 government services. The Comprehensive National Cyber Security Initiative of 2008 has a dozen components intended to better

protect computer systems and networks from cybercrime and improve information technology processes and policies within the government. Specific improvements aimed at cyber counter intelligence, situational awareness, and implementation of information technology will have the most impact on L-1.

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The current strategic environment dictates the need for more dependencies in the form of alliances and partnerships. Alliances with large and small companies that have agency mission knowledge and/or established credentials related to specific solutions and services are critical in winning large contracts.

CUSTOMERS

Over 95 percent of L-1 sales are to Federal, State, Local and foreign governments and government agencies. Contracts with governments and agencies generally allow the customer to terminate the contract for convenience or failure of the government to appropriate funds.

For the year ended December 31, 2009, U.S. Federal government agencies accounted for 59 percent of L-1 s consolidated revenues. Historically, L-1 has experienced minimal customer turnover and the Company believes this is a result of its strong solutions and emphasis on customer service and support.

L-1 customers include:

Most Federal agencies and branches of the U.S. military.

More than 29 international governments.

Many State and Local Public Safety Organizations across the U.S., including Department of Motor Vehicles and law enforcement agencies.

Many of the traditional large systems integrators.

Several commercial enterprises including those in gaming, finance, healthcare and more.

L-1 Growth in International Sales of Products and Solutions

As a percentage of L-1 revenue, excluding the domestically focused service businesses, L-1 s international sales in products and solutions have grown from 12 percent in 2006 to 14 percent in 2007 to 16 percent in 2008 to 17 percent in 2009. The trend reflects an increased international marketing focus, which we expect to continue.

COMPETITION

The market for L-1 solutions and services is extremely competitive. L-1 s ability to differentiate from the competition is predicated on a number of factors, the most significant of which are described below.

State-of-the-art technologies and solutions that encompass every major biometric modality. L-1 is the only Company that directly offers Fingerprint and Palm print (AFIS/APIS), facial and iris recognition technologies. Accordingly, L-1 can provide a complete turnkey solution. Because of L-1 s in depth knowledge of the core identity technologies, L-1 can offer customers speed of operation and value for identity solutions. Furthermore, L-1 remains at the forefront of innovation through its strong and focused internal development team.

The flexibility to use products and services together as a complete solution or as modular components within an existing solution. A customer-focused solution set approach enables L-1 to customize and integrate its products and services to solve the unique identity challenges of customers in Federal,

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civil, State and Local, criminal, border management and commercial markets.

Strong and tenured relationships with customers and partners. Today L-1 customers include most Federal agencies and branches of the U.S. military, more than 29 international governments, the majority of U.S. State Departments of Motor Vehicle (DMV) and local law enforcement agencies, and other commercial customers. The pervasiveness of L-1 relationships makes the Company a trusted choice for customers and partners seeking relationships with proven vendors. L-1 is on several teams for Biometric Operations Systems and Services (BOSS) program.

L-1 believes its ability to offer multi-modal identity solutions incorporating finger, face, palm/hand and iris technologies, together with search and matching software to work with large databases, is a significant differentiator for the Company.

The comprehensive nature of L-1 solutions, products and services encompass the full spectrum of identity management needs, including:

- Delivering the effective means of uniquely identifying individuals through advanced multi-modal biometric recognition technologies.

- Producing the most highly secure credentials that serves as proof of identity.

- Providing biometrically-enabled access control for buildings and secure areas.

- Offering enrollment service centers for fast, accurate electronic civilian fingerprinting and background checks.

- Delivering government consulting services that address the most important areas of security and intelligence in the U.S. today.

L-1 faces competition from a number of companies that are actively engaged in developing and marketing identity management related solutions and services. Many of L-1's competitors have greater financial resources than L-1, including large system integrators who may enter markets L-1 competes in.

The markets for L-1 solutions and services are characterized by rapid technological change as a result of technical developments exploited by competitors, the changing technical needs of the customers, and frequent introductions of new features. L-1 expects competition to increase as other companies introduce products that are more price competitive, may have increased performance or functionality, or that incorporate technological advances not yet developed or implemented by L-1. To compete effectively in this environment, L-1 must continually develop and market new and enhanced products at competitive prices, and have the resources to invest in significant research and development activities.

L-1 competes based on technology (with particular emphasis on speed and accuracy), service and support, product quality, price, reliability, capability to work with large database systems and flexibility in accommodating customer technical and business needs.

BUSINESS DEVELOPMENT, MARKETING AND SALES, BIDS AND PROPOSALS

Marketing and Sales

L-1 solutions and services are marketed through a direct sales force, channel partners, and strategic partnerships and alliances.

The direct sales force markets and sells the entire identity solutions and services portfolio. The worldwide sales force delivers solutions and services to markets in North and South America, Europe, the Middle East, Africa, Russia, India and Asia Pacific. A dedicated U.S. Federal sales team in Washington, D.C. markets and sells to U.S. government agencies such as the Department of Defense, Department of State, Department of Justice and Department of Homeland Security, among others. A dedicated team of sales and services professionals operating from locations in Germany, the United Kingdom, Hong Kong, Australia, India, UAE and Switzerland strengthen global sales coverage and access to the international markets.

L-1 s marketing efforts were realigned in 2009 to improve coordination of State and Local offerings across L-1 businesses. The Company also adopted a coordinated team approach to

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pursuing intelligence agency opportunities to provide broader and stronger service offerings.

Sales plans are developed by market by division focusing on Federal, State and Local, international and commercial. The emphasis is on maintaining responsibility within the divisional profit and loss centers for accountability of performance.

The sales organizations are supported by functional groups which architect solutions or services and/or design, engineer, source manufacture, market, fulfill and support market-specific offerings. Sales teams are further supported by a professional service group which customizes solutions for each market and a field service group that ensures ongoing performance of L-1 systems.

At the end of 2009, L-1 employed 140 professionals in business development, sales and marketing.

Strategic Partnerships