

L-1 IDENTITY SOLUTIONS, INC.

Form 10-Q

July 29, 2010

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**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549
FORM 10-Q**

**QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES
EXCHANGE ACT OF 1934
For the Quarterly Period Ended June 30, 2010.**

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)

(203) 504-1100

Registrant's telephone number, including area code

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 whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T 232.405 of this chapter during the preceding 12 months or for such shorter period that the registrant was required to submit and post such files. Yes No

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 of the Exchange Act) Yes No

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

Class

**Outstanding at
July 28, 2010**

Common stock, \$.001 par value

93,126,315

**L-1 IDENTITY SOLUTIONS, INC.
FORM 10-Q FOR THE QUARTER ENDED JUNE 30, 2010
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PART 1 FINANCIAL INFORMATION
ITEM 1 UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
L-1 IDENTITY SOLUTIONS, INC.
Condensed Consolidated Balance Sheets
(in thousands)
(Unaudited)

	June 30, 2010	December 31, 2009
Assets		
Current assets:		
Cash and cash equivalents	\$ 2,828	\$ 6,624
Accounts receivable, net	120,163	116,353
Inventory, net	29,517	29,384
Deferred tax asset, net	11,410	11,514
Other current assets	10,500	9,249
Total current assets	174,418	173,124
Property and equipment, net	123,496	115,500
Goodwill	888,091	889,814
Intangible assets, net	102,192	102,375
Deferred tax assets, net	29,154	26,733
Other assets, net	16,410	16,279
Total assets	\$ 1,333,761	\$ 1,323,825
Liabilities and Equity		
Current liabilities:		
Accounts payable and accrued expenses	\$ 97,365	\$ 110,089
Current portion of deferred revenue	16,081	19,890
Current maturities of long-term debt	34,953	27,062
Other current liabilities	7,731	6,680
Total current liabilities	156,130	163,721
Deferred revenue, net of current portion	5,629	6,676
Long-term debt, net of current maturities	432,592	419,304
Other long-term liabilities	4,421	3,663
Total liabilities	598,772	593,364
Equity:		
Common stock, \$0.001 par value; 125,000,000 shares authorized; 93,357,570 and 91,745,135 shares issued at June 30, 2010 and December 31, 2009, respectively	93	92
Additional paid-in capital	1,449,322	1,432,898
Accumulated deficit	(637,713)	(627,449)
Pre-paid forward contract	(69,808)	(69,808)

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Treasury stock, 368,843 shares of common stock, at cost	(6,173)	(6,173)
Accumulated other comprehensive (loss) income	(1,041)	622
Noncontrolling interest	309	279
Total equity	734,989	730,461
Total liabilities and equity	\$ 1,333,761	\$ 1,323,825

The accompanying notes are an integral part of these condensed consolidated financial statements.

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L-1 IDENTITY SOLUTIONS, INC.
Condensed Consolidated Statements of Operations
(in thousands, except per share data)
(Unaudited)

	Three Months Ended		Six Months Ended	
	June 30,	June 30,	June 30,	June 30,
	2010	2009	2010	2009
Revenues	\$ 164,135	\$ 168,053	\$ 312,285	\$ 318,242
Cost of revenues:				
Cost of revenues	115,473	117,235	222,044	221,478
Amortization of acquired intangible assets	2,091	2,037	4,106	4,393
Total cost of revenues	117,564	119,272	226,150	225,871
Gross profit	46,571	48,781	86,135	92,371
Operating expenses:				
Sales and marketing	9,566	9,719	20,076	19,610
Research and development	5,141	5,664	10,525	11,565
General and administrative	22,297	24,509	45,848	47,342
Strategic alternative costs	1,719		1,749	
Acquisition related expenses and amortization of intangible assets	329	455	778	1,093
Total operating expenses	39,052	40,347	78,976	79,610
Operating income	7,519	8,434	7,159	12,761
Financing costs:				
Contractual interest	(7,127)	(6,832)	(14,012)	(14,229)
Other financing costs	(2,741)	(2,555)	(5,978)	(5,808)
Other income (expense), net	23	(120)	(150)	(4)
Loss before income taxes	(2,326)	(1,073)	(12,981)	(7,280)
(Provision) benefit for income taxes	(404)	(176)	2,747	2,245
Net loss	(2,730)	(1,249)	(10,234)	(5,035)
Net income attributable to noncontrolling interest	(10)		(30)	
Net loss attributable to L-1 s shareholders	\$ (2,740)	\$ (1,249)	\$ (10,264)	\$ (5,035)
Basic and diluted net loss per share attributable to L-1 s shareholders	\$ (0.03)	\$ (0.01)	\$ (0.12)	\$ (0.06)
	87,637	85,451	87,246	84,992

**Basic and diluted weighted average common
shares outstanding**

The accompanying notes are an integral part of these condensed consolidated financial statements.

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L-1 IDENTITY SOLUTIONS, INC.
Condensed Consolidated Statements of Changes in Equity
(In thousands)
(Unaudited)

	Common Stock	Series A Convertible Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Pre-paid Forward Contract To Purchase Common Stock	Treasury Stock	Accumulated Other Comprehensive Income (Loss)	Non- Controlling Interest	Total
Balance, January 1, 2009	\$ 87	\$ 15,107	\$ 1,393,763	\$ (623,251)	\$ (69,808)	\$ (6,161)	\$ (1,257)		\$ 708,480
Reclassification of noncontrolling interest								84	84
Exercise of employee stock options			87						87
Common stock issued for directors' fees			208						208
Common stock issued under employee stock purchase plan	1		3,351						3,352
Deferred tax charge of stock options exercised			(845)						(845)
Retirement plan contributions paid in common stock	2		8,468						8,470
Stock-based compensation expense	1		12,941						12,942
Conversion of Series A convertible preferred stock	1	(15,107)	15,106						
Foreign currency translation gain							1,391		1,391
Unrealized gain of financial							488		488

instruments, net of tax									
Net loss			(4,198)				195		(4,003)
Other		(181)			(12)				(193)
Balance, December 31, 2009	\$ 92	\$	\$ 1,432,898	\$ (627,449)	\$ (69,808)	\$ (6,173)	\$ 622	\$ 279	\$ 730,461
Exercise of employee stock options			289						289
Common stock issued for directors fees			900						900
Common stock issued under employee stock purchase plan			1,646						1,646
Retirement plan contributions paid in common stock	1		7,995						7,996
Stock-based compensation expense			5,594						5,594
Foreign currency translation loss						(1,825)			(1,825)
Unrealized gain of financial instruments, net of tax							162		162
Net loss			(10,264)				30		(10,234)
Balance, June 30, 2010	\$ 93	\$	\$ 1,449,322	\$ (637,713)	\$ (69,808)	\$ (6,173)	\$ (1,041)	\$ 309	\$ 734,989

The accompanying notes are an integral part of these condensed consolidated financial statements.

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L-1 IDENTITY SOLUTIONS, INC.
Condensed Consolidated Statements of Cash Flows
(in thousands)
(Unaudited)

	Six Months Ended	
	June 30, 2010	June 30, 2009
Cash Flow from Operating Activities:		
Net loss	\$ (10,234)	\$ (5,035)
Adjustments to reconcile net loss to net cash provided by operating activities:		
Depreciation and amortization	20,353	18,286
Stock-based compensation costs	12,194	10,898
Benefit for non-cash income taxes	(2,747)	(2,400)
Amortization of deferred financing costs and debt discount	5,978	5,808
Other non-cash items	(40)	
Change in operating assets and liabilities, net of effects of acquisitions:		
Accounts receivable	(3,831)	(11,957)
Inventory	728	3,935
Other assets	(1,423)	4,512
Accounts payable, accrued expenses and other liabilities	(4,468)	14,354
Deferred revenue	(4,831)	(7,876)
Net cash provided by operating activities	11,679	30,525
Cash Flow from Investing Activities:		
Acquisitions, net of cash acquired	(3,638)	(1,125)
Capital expenditures	(25,045)	(22,304)
Additions to intangible assets	(3,714)	(3,531)
Decrease in restricted cash	(423)	(48)
Net cash used in investing activities	(32,820)	(27,008)
Cash Flow from Financing Activities:		
Borrowings under revolving credit agreement	42,158	
Debt and equity issuance costs	(2,011)	(151)
Principal payments on term loan	(8,702)	(7,500)
Principal payments on borrowings under revolving credit agreement and other debt	(15,597)	(443)
Proceeds from issuance of common stock to employees	1,300	1,024
Proceeds from exercise of stock options by employees	290	44
Net cash provided by (used in) financing activities	17,438	(7,026)
Effect of exchange rate changes on cash and cash equivalents	(93)	(9)
Net decrease in cash and cash equivalents	(3,796)	(3,518)
Cash and cash equivalents, beginning of year	6,624	20,449
Cash and cash equivalents, end of period	\$ 2,828	\$ 16,931

Supplemental Cash Flow Information:

Cash paid for interest	\$ 15,156	\$ 12,996
Cash paid for income taxes	\$ 261	\$ 973

The accompanying notes are an integral part of these condensed consolidated financial statements.

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L-1 IDENTITY SOLUTIONS, INC.
Notes to Condensed Consolidated Financial Statements
(Unaudited)

1. DESCRIPTION OF BUSINESS

Operations

L-1 Identity Solutions, Inc. and its subsidiaries (L-1 or the Company) provide solutions and services that protect and secure personal identities and assets and allow international governments, federal and state agencies, law enforcement and commercial businesses to guard the public against terrorism, crime and identity theft.

In January 2010, L-1 announced that one of its strategic goals and objectives for 2010 was to explore strategic alternatives to enhance shareholder value. At this time, there can be no assurance that the exploration of strategic alternatives will result in any sale transaction, moreover, both the timing of such a sale transaction and whether a significant premium to current market trading prices for L-1 s common stock can be obtained as part of any such transaction are uncertain. The accompanying financial statements do not reflect the impact of any possible transaction, except for approximately \$1.7 million reflected in the second quarter of 2010 for costs incurred related to exploration of strategic alternatives.

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

The Solutions segment includes Secure Credentialing and Biometrics/Enterprise Access. Secure Credentialing solutions span the entire secure credentialing lifecycle, from testing through issuance and inspection. This includes driver s licenses, national IDs, ePassports and other forms of government-issued proof of identity credentials. Biometric solutions capture, manage and move biometric data for positive, rapid ID and tracking of persons of interest. Biometric solutions also encompass access control readers that enable businesses and governments to secure facilities and restricted areas by preventing unauthorized entry.

The Services segment includes Enrollment Services, SpecTal/McClendon and Advanced Concepts. Enrollment Services performs fingerprint-based background checks necessary for federal and state licensed employment in the banking, finance, insurance, healthcare, legal, real estate, education and other industries. SpecTal/McClendon and Advanced Concepts provide services to the most important areas of national security and intelligence in the U.S. today, including information technology, engineering and analytics, and intelligence.

Customers, depending on their needs, may order solutions that include hardware, equipment, consumables, software products or services or combine hardware products, consumables, equipment, software products and services to create multiple element arrangements.

Reorganization

On May 16, 2007, the Company adopted a new holding company organizational structure to facilitate the issuance of its convertible senior notes (the Convertible Notes or Notes) and the structuring of acquisitions. Pursuant to the reorganization, L-1 Identity Solutions, Inc. became the sole shareholder of its predecessor, L-1 Identity Solutions Operating Company (L-1 Operating , previously also known as L-1 Identity Solutions, Inc.).

The Company has no operations other than those carried through its investment in L-1 Operating and the financing operations related to the issuance of the Convertible Notes. A summary balance sheet of the Company (Parent Company only) is set forth below (in thousands):

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	June 30, 2010	December 31, 2009
Assets:		
Deferred financing costs	\$ 1,945	\$ 2,506
Investment in L-1 Operating	902,841	894,988
	\$ 904,786	\$ 897,494
Liabilities and equity:		
Accrued interest	\$ 825	\$ 825
Deferred tax liability	5,200	5,200
Convertible debt	163,772	161,008
	169,797	167,033
Equity	734,989	730,461