

# ***THE EYESHADE REPORT***

**December 13, 2004**

<u>Company:</u> <b>COGENT, INC.</b>		<u>Address and Phone:</u> 209 Fair Oaks Avenue South Pasadena, California 91030 (626) 799-8090
Ticker: COGT		Shares Out (basic): 80.8 M
Exchange: Nasdaq		Float: 19 M
Market Cap: \$ 2.75 B	EV*: \$ 2.55 B	Short Interest: 327 K
P/S: 36.2	EV/S: 33.5	Closing Price: (12/10/04): \$ 34.03
P/E: 50.8	52 Week Range: \$ 15.50 - \$ 38.25	
Level of Concern: <b>D</b> (Scale: A – E; with “E” the highest level of concern)		

\*Enterprise value – defined as market capitalization plus debt minus cash and equivalents.

*Description of Business: Cogent, Inc. (the “Company” or “COGT”) is a provider of advanced automated fingerprint identification systems (“AFIS”) solutions, which typically consist of Cogent’s Programmable Matching Accelerator, or PMA, servers and other AFIS equipment, including work stations and live-scans, bundled with its proprietary software, and other fingerprint biometrics products and solutions, to governments, law enforcement agencies and other organizations worldwide.*

## **Summary of Comments and Concerns**

- Sixty-four percent (64%) of Q3 04 revenue from one customer: Venezuela.
- Material sequential decline in Q3 04 revenue without the Venezuelan contract.
- Significant customer concentration.
- Concerns with whether COGT recognized a sufficient amount of revenue in Q3 04 from the Venezuelan contract.
- Comments regarding the performance of COGT’s product in Venezuela.
- Concerns with the size of the recent, follow-on contract from the Department of Homeland Security.
- Approximately 60% of Q3 04 net income due to a tax benefit.
- COGT’s current market capitalization already exceeds the estimated size of the entire industry in 2008.

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- Lock-up expires in 3 months (though almost all insider shares are held by one person).
- Positive note – COGT’s technology was highly rated by NIST.

### Background

COGT went public on September 24, 2004 selling 20.7 million shares of its common stock at \$12.00 per share (including the entire 2.7 million share over-allotment). Almost all of the remaining 57.8 million shares are held by COGT’s founder, President and CEO, Ming Hsieh. The IPO was well received as the stock closed up almost 50% (to \$17.98) on its first day of trading. Since that time it has almost doubled in price.

COGT is a biometrics company specializing in automated fingerprint identification systems (“AFIS”) solutions. Biometrics is defined as technology that can identify a person by a biological feature unique to that individual, such as fingerprint, facial recognition, iris scanning, voice verification, hand geometry, keystroke dynamics and signature analysis.

### Review

#### Sixty-four percent (64%) of Q3 04 revenue from one customer: Venezuela

– For the quarter ended September 30, 2004 (Q3 04), COGT reported impressive year-over-year (y-o-y) revenue growth of 688%.

#### **Revenue as Reported**

\$ - 000’s (ex. %’s)	Q3 03	Q3 04	% change
<b>Revenue</b>	2,976	23,448	688%

However, COGT obtained a contract in Q3 04 from the government of Venezuela that accounted for \$15.0 million of revenue in Q3 04.<sup>1</sup> Without the Venezuelan contract, y-o-y revenue growth would have been 184%.

#### **Revenue without Venezuelan Contract**

\$ - 000’s (ex. %’s)	Q3 03	Q3 04	% change
<b>Revenue</b>	2,976	8,448	184%

The remaining revenue from the Q3 04 Venezuelan contract (amounting to \$39 million) will continue to be recognized over the life of the contract (one year). In addition, on October 28, 2004, COGT announced that it has been awarded a one year follow-on \$20 million contract from the National Electoral Council in Venezuela for its Automated Fingerprint Identification Systems (AFIS) solution.<sup>2</sup>

<sup>1</sup> . COGT, 10-Q (9/04), p. 18.

<sup>2</sup> . COGT, press release dated October 28, 2004.

**Material sequential decline in Q3 04 revenue without the Venezuelan contract** – For Q3 04, COGT reported sequential revenue growth of 37%.

**Revenue as Reported**

\$ - 000's	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04
Revenue	3,897	5,256	2,976	20,050	15,398	17,062	23,448

However, had COGT not obtained the Venezuelan contract in Q3 04, revenue in Q3 04 would have **declined sequentially by 50.5%**, the largest percentage sequential decline of any quarter presented in the following table.

**Revenue without Venezuelan Contract**

\$ - 000's	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04
Revenue	3,897	5,256	2,976	20,050	15,398	17,062	8,448

During the Q3 04 conference call, COGT projected full year 2004 revenue of \$84 - \$85 million, which implies \$29.1 million in revenue for Q4 04. If achieved, the company's sequential growth will continue, though the sequential growth rate (24% in Q4 04 v. 37% in Q3 04) and total dollar amount of sequential growth (\$5.7M in Q4 04 v. \$6.4M in Q3 04) will be less than reported in Q3 04. Year-over-year quarterly revenue will grow at 45% in Q4 04 based on the projected revenue versus the 688% y-o-y growth reported in Q3 04.

**Revenue as Reported (Q4 04 – Estimated)**

\$ - 000's	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04	Q4 04
Revenue	3,897	5,256	2,976	20,050	15,398	17,062	23,448	29,100(E)

**Significant customer concentration** – For the quarter ended September 30, 2004 (Q3 04), two customers, the government of Venezuela (“Ven.”) and the U.S. Department of Homeland Security (“DHS”) accounted for 93% of COGT's revenue.

**COGT Revenue**

\$ - 000's	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04
Total Rev.	3,897	5,256	2,976	20,050	15,398	17,062	23,448
Ven. Rev.	0	0	0	0	0	0	15,000
DHS Rev.	0	1,100	0*	14,500* <sup>3</sup>	10,500	6,100	6,881

\* Estimated.

<sup>3</sup> . This is an estimate, as we did not locate an exact figure for Q4 03. The estimate is based on COGT representation: “Revenues were \$32.2 million for 2003 compared to \$16.4 million for 2002, an increase of 96%. Product revenues were \$24.9 million for 2003 compared to \$10.5 million for 2002. The \$14.5 million increase in product revenues resulted primarily from an increase in solutions sold to the DHS, most of which occurred in the fourth quarter of 2003. We recorded product sales of \$15.8 million to the DHS for the US-VISIT program during the year ended December 31, 2003 compared to \$3.2 million during the year ended December 31, 2002.” COGT, Form S-1/A filed 6/29/04, p. 37.

We also note that the DHS revenue is not necessarily steady or increasing on a quarterly basis as DHS revenue declined materially in Q2 04 and Q3 04 from its level in Q4 03 and Q1 04.

**Concerns with whether COGT recognized a sufficient amount of revenue in Q3 04 from the Venezuelan contract** – As we mentioned, in Q3 04, COGT obtained a contract valued at \$54 million with the National Electoral Council (“CNE”) of Venezuela. At one point in its 10-Q, COGT said that it recognized \$7 million of that contract in Q3 04 as the fair value of the lease component of the contract with the remaining \$47 million “...being recognized ratably from the date of acceptance over the **one year maintenance period** of the contracts.”<sup>4</sup> (COGT said during its Q3 04 conference call that it received the entire \$54 million payment in Q3 04 and the portion not included as revenue was added to short-term deferred revenue on its balance sheet).

It appears that the main objective of the CNE contract related to the national referendum on Hugo Chavez’s presidency that was held on August 15, 2004. COGT’s fingerprint technology was used therein to make sure voters only voted once. Thus, assuming acceptance of the contract on August 15, 2004 (and, realistically, it was probably accepted sometime before that), it would appear that maintenance revenue for at least one-half of the quarter should have been recognized in Q3 04 (i.e., \$5.88 million).<sup>5</sup> However, COGT only recorded \$3.5 million in maintenance revenue in Q3 04 (see the following table).

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<sup>4</sup>. COGT stated: “In the third quarter of 2004, the Company entered into contracts with a total value of \$54,000,000 with the National Electoral Council (“CNE”) of Venezuela. The contracts required the Company to provide a full identification solution to the CNE including licensed software, hardware, installation, maintenance and service to be used by the CNE in connection with national and regional elections in Venezuela. The contracts also provided for the short-term lease of equipment to be used by the CNE in connection with the August 15, 2004 Venezuela national election. During the quarter ended September 30, 2004, the Company recognized approximately \$7,000,000 of revenue representing the estimated fair value of the lease component of the contracts. The estimated value of the lease component was based upon an independent valuation. The remaining \$47,000,000 of revenue is being recognized ratably from the date of acceptance over the **one year maintenance period** of the contracts.” COGT, 10-Q (9/04), p. 8 (emphasis supplied).

<sup>5</sup>. Calculated by dividing \$47 million by 4 (as in quarters) and then by 2 (for half a quarter).

COGT defines maintenance revenue and describes its accounting as follows: “Maintenance revenue consists of fees for providing technical support and software updates on a when-and-if available basis. We recognize all maintenance revenue ratably over the applicable maintenance period. We determine the amount of maintenance revenue to be deferred through reference to substantive maintenance renewal provisions contained in a particular arrangement or, in the absence of such renewal provisions, through reference to VSOE [vendor-specific objective evidence] of maintenance renewal rates. We consider substantive maintenance provisions to be provisions where the stated maintenance renewal as a percentage of the software license fee is comparable to our normal pricing for maintenance only renewals. In the event that maintenance included in an AFIS solutions contract does not have VSOE, the entire arrangement fee, including the contractual amount of the maintenance obligation, is included in product revenues and recognized ratably over the term of the maintenance period.” COGT, Form S-1/A filed 9/23/04, p. 36-37.

\$ - 000's	Q3 03	Q3 04
Product Revenue	1,271	19,933
Maintenance & service revenue	1,705	3,515
Total Revenue	2,976	23,448

What is more confusing is that elsewhere in its 10-Q, COGT stated that \$15 million from the Venezuelan contract was recognized as product revenue in Q3 04.<sup>6</sup> This seems to contradict the earlier representation that only \$7 million was recognized as product revenue with the remaining \$47 million recognized as maintenance revenue.

Further, even if only \$39 million remained to be recognized ratably from the date of acceptance of the contract (\$54M - \$15M), there still seems to be a shortfall in maintenance revenue. Once again assuming contract acceptance on August 15, 2004, maintenance revenue from the Venezuelan contract should have been \$4.88 million, more than the total maintenance revenue of \$3.5 million recognized in Q3 04.

Historically, COGT's maintenance revenue has been a smaller percentage of reported total revenue than product revenue. While we do not know any details regarding COGT's other contracts, if \$39 million (or \$47 million) of the Venezuelan contract revenue is being recognized as maintenance revenue, it would appear to be a much larger percentage of the total contract than usual, based upon the historical percentages in the following table.

\$ - 000's	FY 01	FY 02	FY 03	9 mos. - 9/04
Product Revenue	8,716	10,450	24,911	46,248
Main. & Ser. Rev.	4,352	5,907	7,268	9,660
Total Revenue	13,068	16,357	32,179	55,908

We also wonder if even more of the Venezuelan contract should have been realized as revenue in Q3 04. COGT described the Venezuelan contract as follows: "*The contracts required the Company to provide a full identification solution to the CNE including licensed software, hardware, installation, maintenance and service to be used by the CNE in connection with national and regional elections in Venezuela. The contracts also provided for the short-term lease of equipment to be used by the CNE in connection with the August 15, 2004 Venezuela national election.*"<sup>7</sup>

The wording "...in connection with national and regional elections in Venezuela..." suggests that the contract did not just involve the August 15, 2004 referendum vote. However, while we do not know the contract's details, it would seem the bulk of the contract required COGT's performance on or before August 15, 2004. Further, on October 28, 2004, COGT announced a one year follow-on \$20 million contract from the CNE in Venezuela, whereby "...the new order for Cogent's AFIS

<sup>6</sup> . Per COGT: "As discussed above, product sales also included \$15.0 million in revenue recorded on the \$54 million contract with CNE." COGT, 10-Q (9/04), p. 20.

<sup>7</sup> . COGT, 10-Q (9/04), p. 8 (emphasis supplied).

*solution will be utilized, along with the previously installed Cogent AFIS solution, for upcoming mayoral and regional elections in Venezuela on October 31, 2004.”*<sup>8</sup>

Yet if the original \$54 million order were for more than just the August 15, 2004 referendum vote and included “...*regional elections*...” that justified recognizing the majority of the \$54 million ratably over one year instead of all (or a much larger percentage of) the revenue being recognized in Q3 04, why is COGT getting an additional \$20 million for “...*regional elections* ...” on October 31, 2004?

It is possible COGT’s use of the term “maintenance period” in describing the accounting for its remaining \$47 million of the Venezuelan contract was a bit of a misnomer and that, perhaps, additional portions of that contract are being recognized as product revenue. However, COGT states that product revenue associated with its AFIS solutions that require significant modification or customization of its software, or significant initial deployments (as, we believe, Venezuela was) are recognized using the percentage-of-completion method.<sup>9</sup> The percentage-of-completion method requires revenue recognition equal to the ratio of labor effort expended to date relative to the anticipated final labor effort. While we do not have details, we opine that the deployment of the AFIS solutions in time for the August 15, 2004 referendum vote may well have involved a much larger amount of labor as a percentage to the entire estimated project labor than was reflected in COGT’s Q3 04 revenue.

Obviously, there could be (and probably are) nuances to these contracts of which we are unaware. (We did not locate copies of either contract in any SEC filings). However, during the Q3 04 conference call, COGT officials expressed some reservation about their revenue projections for FY 04, as they were not yet sure how to account for the \$20 million follow-on contract from Venezuela. While we do not know how this issue may be resolved, if COGT’s auditors were to insist that more revenue from these Venezuelan contracts be recognized in the period for which the bulk of the services appear to have been rendered (*i.e.*, Q3 04 and Q4 04) rather than stretching them out over one-year, it could make sequential and year-over-year comparisons much more difficult in 2005, absent obtaining continued large contracts like those from Venezuela.

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<sup>8</sup> . COGT, press release dated October 28, 2004 (emphasis supplied).

<sup>9</sup> . With regard to product revenue, COGT states in part: “Revenues associated with AFIS solutions that require significant modification, or customization of our software, are recognized using the percentage-of-completion method as described by SOP 81-1. The percentage-of-completion method reflects the portion of the anticipated contract revenue, excluding maintenance that has VSOE, which has been earned, equal to the ratio of labor effort expended to date to the anticipated final labor effort, based on current estimates of total labor effort necessary to complete the project. Material differences may result in the amount and timing of our revenue for any period if actual results differ from our judgments and estimates. We recognize revenue in this manner from sales of significant initial AFIS deployments, such as those for the NASD and the Ohio Bureau of Criminal Investigation and Identification. Revenue resulting from arrangements for which VSOE of the maintenance element does not exist is recognized ratably over the contractual maintenance period.” COGT, Form S-1/A filed 9/23/04, p. 36.

**Comments regarding the performance of COGT's product in Venezuela** – COGT's press releases touted the performance of its system during the August 15, 2004 referendum vote in Venezuela<sup>10</sup> and, during the Q3 04 conference call, COGT said it was talking with four (4) other Latin America countries about similar contracts.

If COGT were to acquire additional contracts in Latin America, this obviously would be a positive for the Company. However, headline stories from both Dow Jones<sup>11</sup> and the Associated Press reported widespread problems with COGT's fingerprint technology during the August 15, 2004 election. The problems with the machines led to numerous delays, extremely long lines and the government holding open polling stations for hours after they were scheduled to close. Even President Hugo Chavez reportedly had difficulty with the first fingerprint machine he tried. After several attempts, he moved to a second machine that successfully captured his fingerprint.<sup>12</sup>

Apparently, these reported problems were not an impediment to Hugo Chavez's awarding the \$20 million follow-on contract to COGT. However, we have no way of knowing whether the problems may impede COGT in obtaining additional contracts in Latin America.

We also do not know if contracts from any additional Latin American countries would be as large as revenue from Venezuela. During the Q3 04 conference call, COGT officials said the potential contract sizes were in the "tens of millions," but we do not know if they might be as large as the \$74 million COGT has realized from its two engagements with Venezuela.

There were some reports of opposition leaders accusing the Chavez regime of fraud in connection with the referendum vote, though Chavez's supporters accused the opposition of fraud leading up to the election. Former U.S. President Jimmy Carter, who monitored the election with the Organization of American States, said there was "... a clear difference in favor of President Chavez."<sup>13</sup> This seemed to argue against claims of fraud, though it may be interesting to see if incumbents continue to win elections where COGT's services have been retained.

**Concerns with the size of the recent, follow-on contract from the Department of Homeland Security** – On December 3, 2004, COGT said that it received a five-year, \$20 million services contract to continue as a sub-contractor on the US-Visitor and Immigration Status Indicator Technology ("US-VISIT"), a biometric identification

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<sup>10</sup> . COGT stated: "On the day of the National Referendum, over 5.5 million people had their fingerprints captured, searched, and enrolled in 14 hours. The initial contract required Cogent's AFIS solution to return match results for every transaction in less than 20 seconds. Cogent was able to meet this requirement and deliver the system in less than 60 days." COGT, press release dated 10/28/04.

<sup>11</sup> . Millard, Peter, "Venezuela Fingerprint Scheme Flops in Recall Vote," Dow Jones International News, August 15, 2004.

<sup>12</sup> . Toothaker, Christopher, "High-tech thumbprint ID system reportedly causes delays in Venezuela's recall vote," Associated Press, August 16, 2004.

<sup>13</sup> . Forero, Juan, "Triumph for Chavez Angers His Opponents," The New York Times, August 17, 2004.

system implementation for the Department of Homeland Security (“DHS”).<sup>14</sup> This is much less on an annual basis (\$4 million) than COGT recognized in revenue from DHS in 2003 and thus far in 2004, though we do not know whether there is a possibility for additional DHS revenue.

**COGT’s Estimated Revenue from DHS**

\$ - 000’s	Q1 03	Q2 03	Q3 03	Q4 03	Q1 04	Q2 04	Q3 04
DHS Rev.	0	1,100	0	14,500	10,500	6,100	6,881

COGT apparently was awarded a contract from DHS in 2003. Under that contract, visitors requiring visas to enter the United States have their index fingers scanned by a matchbox-size reader from Cross Match Technologies Inc., a private company in Palm Beach Gardens, Florida. The digitized data is linked via a private Homeland Security communications network to a database repository housed at an undisclosed location using COGT's fingerprint technologies, and cross-checked with existing prints of suspected terrorists or criminals. The original program was established at 115 airports and 14 major seaports, with land border processing to be introduced in phases in 2005 and 2006.<sup>15</sup>

In June 2004, Accenture (NYSE: ACN) was awarded a 10-year contract to manage DHS' US-VISIT program. ACN is to provide a wide range of professional services, such as strategic support, design and integration activities, technical solutions, deployment activities, training and organizational change management. ACN chose Raytheon (NYSE: RTN) to handle the biometric portion of the contract<sup>16</sup> and RTN subcontracted the recently announced \$20 million, 5-year contract to COGT. We found nothing in COGT’s press releases or SEC filings as to whether COGT may realize additional revenue from the US-VISIT program. Interested investors may want to make inquiries with the Company.

**Approximately 60% of Q3 04 net income due to a tax benefit** – COGT reported net income on a GAAP basis for Q3 04 of \$19.8 million, or \$0.28 per diluted share, versus net income of \$7.2 million, or \$0.10 per diluted share, for the second quarter of 2004.

However, Q3 04’s GAAP results included \$3.0 million of non-cash charges related to the amortization of stock-based compensation and a net tax benefit of \$11.7 million.<sup>17</sup> Excluding the effects of stock-based compensation and the net tax benefit and using a 38% tax rate, non-GAAP net income was \$6.9 million, or \$0.10 per diluted share,

<sup>14</sup> . COGT, press release dated December 3, 2004.

<sup>15</sup> . “Homeland Security Reveals US-VISIT Details,” CMP TechWeb, October 28, 2003.

<sup>16</sup> . Weisman, Robert, “Boston Area Firms Leap on Biometrics Homeland Security Bandwagon,” The Boston Globe, April 5, 2004.

<sup>17</sup> . This resulted primarily from the September 22, 2004 one-time termination of COGT's Subchapter S election for tax purposes which COGT utilized before it became publicly-traded.

compared to \$6.3 million, or \$0.09 per diluted share, for the immediately preceding period after excluding the effects of similar items.<sup>18</sup>

**COGT’s current market capitalization already exceeds the estimated size of the entire industry in 2008** – There is no question that AFIS and other fingerprint biometrics solutions represent a fast growing market. According to International Biometrics Group (“IBG”), an independent market research firm, the biometrics market was \$719 million in 2003, with AFIS representing 43.0% and other fingerprint solutions representing 27.5% of the market. IBG expects the biometrics market to grow to \$4.6 billion in 2008, with AFIS and other fingerprint biometrics solutions representing an aggregate of 55.8% of the market.<sup>19</sup>

Per this estimate, by 2008 the fingerprint biometrics solutions market should be \$2.57 billion (\$4.6B x 55.8%). COGT’s current market cap of \$2.75 billion already exceeds that estimate for the size of the entire industry in 2008.

One potential problem with these forecast is that, as one commentator noted: “The problem with the biometrics market is that the forecasts and expectations always seem to exceed the actual results.”<sup>20</sup> Reportedly, as of earlier this year, another consultancy, Frost & Sullivan, had a more modest estimate of the growth of the market than IBG, projecting that the fingerprint scanning market will grow to \$1.5 billion by 2009.<sup>21</sup>

While this is not a fair valuation comparison because the transaction took place prior to the terrorist attacks of September 11, 2001, we note that one of COGT’s competitors, Printrak International, was purchased by Motorola (NYSE: MOT) in November 2000 for \$160 million, approximately 1.5 times Printrak’s then annual revenue. That price was a fraction of the current valuation on a price-to-revenue basis of COGT. (Motorola does not break out Printrak’s results separately in its SEC filings and we were unable to ascertain Printrak’s more recent results).

**Printrak (former ticker: AFIS – now a subsidiary of Motorola)**

\$ - 000’s	FY – 3/96	FY – 3/97	FY- 3/98	FY – 3/99	FY – 3/00
<b>Revenue</b>	52,067	65,583	71,876	86,433	109,909
<b>Op. Inc.</b>	728	6,720	(14,580)	7,312	12,555

Judging from the market’s reaction to COGT’s IPO, MOT may be (or ought to be) thinking about ways to monetize Printrak’s value. Other companies are attempting to

<sup>18</sup> . COGT, press release dated November 1, 2004.

<sup>19</sup> . COGT, Form S-1/A filed 9/23/04, p. 48.

<sup>20</sup> . Harbert, Tam, “A market in search of an identity: fingerprint biometrics have yet to find a high-volume application,” *Electronic Business*, January 2004, p. 58.

<sup>21</sup> . Harbert, Tam, “A market in search of an identity: fingerprint biometrics have yet to find a high-volume application,” *Electronic Business*, January 2004, p. 58. Frost & Sullivan issued a new report dated November 3, 2004, entitled “World AFIS and Live-Scan Markets.”

<http://www.frost.com/prod/servlet/search-results.pag?srchid=29373424> However, we have not yet obtained a copy of that report.

capitalize on the biometric trend. In March 2004, STMicroelectronics (NYSE: STM) spun off its biometrics unit, Upek Inc., raising \$20 million in venture funding. Upek's products consist of proprietary chips that integrate fingerprint readings with applications software to authenticate identity. In its SEC filings, COGT lists six (6) additional companies that it considers current principal competitors.<sup>22</sup>

Undoubtedly the industry will continue to grow at a rapid rate and COGT may well participate in, or even exceed, that rate of growth. We wonder, however, if that growth is not already reflected in the current valuation.

**Lock-up expires in 3 months (though almost all insider shares are held by one person)** – COGT came public on September 24, 2004. The 180-day lock-up period preventing insiders from selling additional shares will expire in the third week of March 2005. We note, however, that COGT is a little different than the typical IPO in that all the shares sold in the IPO and almost all the remaining insider shares are held by one person, COGT's founder, President and CEO, Ming Hsieh. (Of the 57.8 million shares not sold in the IPO, Mr. Hsieh owns 57.7 million).

One might think that if Mr. Hsieh were willing to take \$12.00 per share for his 18 million shares sold in September 2004, he might be willing to take three times (3x) that amount (assuming COGT shares are trading at their current level by the end of March 2005). However, the concentration of so many shares with one person is different than the typical IPO where numerous insiders and venture investors own shares. We have no information as to whether Mr. Hsieh plans to sell additional shares when the lock-up expires.

**Positive note – COGT's technology was highly rated by NIST** – Now for a positive note - in a 2003 study (results released in June 2004), the National Institute of Standards and Technology ("NIST") found that the fingerprint matching systems from the three (3) highest rated companies were accurate more than 99% of the time. Those three (3) companies were NEC of Japan, Cogent, Inc. (COGT), and Sagem Morpho, a subsidiary of the French publicly-traded company, Sagem. The NIST tested 34 commercially available systems provided by 18 companies. The test used 48,105 sets of

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<sup>22</sup> . COGT states that its current principal competitors include:

- diversified technology providers, such as NEC, Sagem Morpho, Inc. (a wholly owned subsidiary of Sagem) and Motorola, Inc. (through its Printrak International division) that offer integrated AFIS solutions to government and law enforcement agencies;
- companies that are AFIS component providers, such as Identix;
- prime government contractors such as Northrop Grumman, that develop integrated information technology products and services that include biometrics-related solutions that are frequently delivered in partnership with diversified technology providers and biometrics-focused companies; and
- companies focused on other fingerprint biometrics solutions, such as BioScript and Dermalog.

COGT, Form S-1/A filed 9/23/04, pp. 60-61.

fingerprints from 25,309 people, culled from state and federal sources, resulting in 393,370 distinct fingerprint images. The report is available at: <http://fpvte.nist.gov>.

### 1-Year Stock Chart



Chart courtesy of StockCharts.com (<http://stockcharts.com>).

### 12 Month Short Interest Data\*

<u>Settlement Date</u>	<u>Short Interest</u>	<u>Avg Daily Share Volume</u>	<u>Days to Cover</u>
Nov. 15, 2004	327,008	877,935	1.00
Oct. 15, 2004	197,932	1,539,165	1.00
Sep. 15, 2004	0	0	N/A

\* Source: NASDAQ® website: [www.nasdaq.com](http://www.nasdaq.com). © Copyright 2004, The Nasdaq Stock Market, Inc. All Rights Reserved. Neither The Eyeshade Report nor Forensic Advisors, Inc. is associated with or sponsored by Nasdaq.

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