VIISAGE TECHNOLOGY INC
Form DEFM14A
December 30, 2003
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**UNITED STATES**

**SECURITIES AND EXCHANGE COMMISSION**

**WASHINGTON, D.C. 20549**

## Schedule 14A/A-4

**Proxy Statement Pursuant to Section 14(a) of**

**the Securities Exchange Act of 1934**

Filed by the Registrant x

Filed by a Party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement

¨ Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))

x Definitive Proxy Statement

¨ Definitive Additional Materials

¨ Soliciting Material Pursuant to Section 240.14a-12

**VIISAGE TECHNOLOGY, INC.**

(Name of registrant as specified in its charter)

(Name of person(s) filing proxy statement, if other than the registrant)

Payment of Filing Fee (Check the appropriate box):

¨ No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

1) Title of each class of securities to which transaction applies:

2) Aggregate number of securities to which transaction applies:

3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

4) Proposed maximum aggregate value of transaction:

5) Total fee paid:

x Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

1) Amount Previously Paid:

2) Form, Schedule or Registration Statement No.:

3) Filing Party:

4) Date Filed:

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December 30, 2003

Dear Stockholders of Viisage Technology, Inc.:

I am writing to you regarding the proposed acquisition by Viisage Technology, Inc. of ZN Vision Technologies AG, a leading German provider of facial recognition and computer vision products and services. The acquisition will be accomplished through the exchange of shares of our common stock and cash for all of the outstanding equity interests of ZN. Following the acquisition, ZN will become a wholly-owned subsidiary of Viisage and will serve as the base of our European operations.

We entered into a securities purchase agreement with ZN and each of its shareholders on March 28, 2003. Under the terms of the securities purchase agreement, the ZN shareholders agreed to sell all of the outstanding share capital of ZN, other than the share capital held under the ZN option plan, for an aggregate of 5,221,454 shares of our common stock and $493 in cash. In addition, we agreed to assume ZN s employee share option plan, and accordingly we will pay to ZN MABG, the current trustee and administrator of the ZN option plan, 10,741 in cash (which, based on the December 24, 2003 Euro to U.S. dollar exchange rate of 1.23940 equals approximately $13,312) and we will reserve 1,138,546 shares of our common stock for issuance to the plan participants. The total number of shares of our common stock to be issued to the ZN shareholders and reserved for issuance under the ZN option plan is 6,360,000, and the total amount of cash to be paid to the ZN shareholders and ZN MABG is approximately $13,805. Based on the $3.45 closing price of a share of our common stock on December 24, 2003 on the Nasdaq National Market, the aggregate purchase price (shares and cash) for the acquisition was approximately $21,955,805. This amount does not represent the value of the acquisition for financial accounting purposes. The purchase price payable to the ZN shareholders and the number of shares reserved for issuance under the ZN option plan will be reduced if ZN s net book value on the closing date is less than an amount specified in the securities purchase agreement.

Our common stock is listed on the Nasdaq National Market under the ticker symbol VISG . In compliance with Nasdaq rules, we will hold a special meeting of our stockholders on January 23, 2004 at the offices of Choate, Hall & Stewart, Exchange Place, 53 State Street, Boston, Massachusetts at 10:00 a.m., local time, to seek stockholder approval of the issuance of our common stock in connection with the acquisition.

**Our Board of Directors has unanimously approved the acquisition and recommends that you vote in favor of the issuance of shares of Viisage common stock in connection with the acquisition of ZN.**

**You are not entitled to dissenter s or appraisal rights in connection with the acquisition of ZN. Lau Technologies, the holder of approximately 26% of our common stock outstanding prior to the acquisition, has agreed to vote in favor of the proposal, provided that the securities purchase agreement is not amended or terminated prior to the closing. Following the acquisition, the ZN shareholders will own approximately 21% of our outstanding common stock.**

We urge you to consider carefully all of the information provided in this proxy statement and its attachments, including a copy of the securities purchase agreement attached as Annex A-1 and the amendments to the securities purchase agreement attached as Annex A-2 and Annex A-3. **In particular, you should consider carefully the Risk Factors beginning on page 19 of this proxy statement.**

Your vote is important, regardless of the number of shares you own. If you are a stockholder of record, you may vote by mailing the enclosed proxy card in the envelope provided or by attending the special meeting in person. To approve the proposal submitted to you, vote FOR the proposal by following the instructions in the proxy statement and on the enclosed proxy card. If your shares are held in street name (that is, held for your account by a broker or other nominee), you will receive instructions from the holder of record that you must follow for your shares to be voted.

Sincerely,

/s/ Denis K. Berube

Chairman of the Board of Directors

**Neither the Securities and Exchange Commission nor any state securities regulator has approved or disapproved of this transaction or the securities to be issued or passed upon the adequacy or accuracy of this proxy statement. Any representation to the contrary is a criminal offense.**

This proxy statement is dated December 30, 2003 and is first being mailed to Viisage stockholders on or about January 7, 2004.

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# Viisage Technology, Inc.

**30 Porter Road**

**Littleton, MA 01460**

## Notice of Special Meeting of Stockholders

## to be held on January 23, 2004

To our Stockholders:

A special meeting of stockholders of Viisage Technology, Inc. will be held at the offices of Choate, Hall & Stewart, Exchange Place, 53 State Street, Boston, Massachusetts on January 23, 2004, beginning at 10:00 a.m., local time.

The purpose of the meeting will be to approve the issuance of shares of our common stock to the shareholders, and the participants under the share option plan, of ZN Vision Technologies AG in connection with the acquisition of ZN contemplated by the securities purchase agreement entered into on March 28, 2003 by and among Viisage, ZN and all of the shareholders of ZN, pursuant to which ZN will become a wholly-owned subsidiary of Viisage.

The accompanying proxy statement describes the acquisition in more detail. We encourage you to read the entire document and each of its attachments carefully.

**Our Board of Directors has unanimously approved the acquisition and recommends that you vote in favor of the proposal described above.** Only stockholders of record as of the close of business on December 24, 2003 will be entitled to vote at the special meeting and at any adjournments or postponements of the meeting.

You are cordially invited to attend the special meeting in person. In order to ensure that a quorum is present at the meeting, please date, sign and promptly return the enclosed proxy card whether or not you plan to attend the special meeting. A postage-prepaid envelope is included for your convenience. If you plan to attend the meeting, upon your written request your proxy will be returned to you and you may vote your shares in person.

By Order of the Board of Directors,

/s/ Charles J. Johnson

Secretary

December 30, 2003

Littleton, Massachusetts

**Whether or not you plan to attend the special meeting, please fill in, date and sign the enclosed proxy card and return it promptly in the enclosed return envelope, which requires no postage if mailed in the United States. You can revoke your proxy at any time before it is voted.**

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ANNEXES

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## FORWARD LOOKING STATEMENTS

Some statements made in this proxy statement are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These forward-looking statements include statements as to:

- the benefits expected to result from the acquisition;
- the performance and financial condition of Viisage, ZN or the combined company following the acquisition; and
- the anticipated closing date of the acquisition.

Any statements contained in this proxy statement, including statements to the effect that Viisage or ZN or their respective management believes, expects, anticipates, plans, may, will, projects, continues, or estimates or statements concerning potential or opportunity or ot thereof or comparable terminology or the negative thereof, that are not statements of historical fact should be considered forward-looking statements. Such statements, including statements under the captions Viisage Management s Discussion and Analysis of Financial Condition and Results of Operations and ZN Operating and Financial Review are subject to risk and uncertainties that could cause actual results to differ materially from those projected in the forward-looking statements. In connection with the forward-looking statements appearing in these disclosures, you should carefully consider the matters discussed in this proxy statement under the caption Risk Factors beginning on page 21.

**QUESTIONS AND ANSWERS ABOUT THE ACQUISITION**

**AND THE SPECIAL MEETING**

**Q: What is the acquisition? (See page 34)**

A: In the acquisition, we will acquire all of the outstanding share capital of ZN from the ZN shareholders and assume the ZN option plan in exchange for shares of our common stock and cash, resulting in ZN becoming a wholly-owned subsidiary of Viisage.

**Q: Why are we proposing to acquire ZN? (See page 38)**

A: We believe the combination of our Eigenface technology with ZN s hierarchical graph matching technology will create a new standard in facial recognition technology. ZN s particular strength in one-to-one verification and intelligent video surveillance complements our large database search capabilities. We also believe the combined technologies are more likely to be awarded new contracts with government and other customers than either technology separately. In addition, ZN s established infrastructure of research and development, sales, marketing and strategic partnerships will accelerate our international distribution, particularly in Europe. Finally, our experience in working with ZN has shown that we share the same passion for excellence and a common goal of becoming the global leader in facial recognition, a critical component for identity verification leadership.

**Q: What is the purchase price for the acquisition? (See page 48)**

A: ZN s shareholders will receive an aggregate of 5,221,454 shares of our common stock and $493 in cash. We also will assume ZN s employee share option plan, and accordingly we will pay to ZN MABG, the current trustee and administrator of the ZN option plan 10,741 in cash (which, based on the December 24, 2003 Euro to U.S. dollar exchange rate of 1.23940 equals approximately $13,312), and we will reserve 1,138,546 shares of our common stock for issuance to the plan participants.

**Q: What are the conditions to closing the acquisition? (See page 49)**

A: The acquisition is conditioned upon the approval by our stockholders of the issuance of shares of our common stock in connection with the acquisition. Other closing conditions are described on page 49 under Representations and Warranties; Conditions to Closing and in the copy of the securities purchase agreement attached to this proxy statement as Annex A-1.

**Q: What will Viisage do if stockholders do not approve the issuance of shares to the ZN shareholders? (See page 33)**

A: If the stockholders do not approve the proposal, Viisage will abandon its efforts to acquire ZN. In addition, Viisage will be required to pay a termination fee of $500,000 pursuant to the securities purchase agreement.

**Q: Are there risks you should consider in deciding whether to vote in favor of the issuance of shares in the acquisition? (See page 21)**

A: Yes. You should consider carefully the matters discussed in the section of this proxy statement entitled Risk Factors beginning on page 21.

**Q:**

**Where can you learn more about other important terms of the acquisition? (See page 48, all of Annex A-1, all of Annex A-2 and all of Annex A-3)**

A: To learn more about the other important terms of the acquisition, you should read carefully the section of this proxy statement entitled The Securities Purchase Agreement beginning on page 48, the text of the securities purchase agreement attached to this proxy statement as Annex A-1 and the amendments to the securities purchase agreement attached to this proxy statement as Annex A-2 and Annex A-3.

**Q: Does our Board of Directors recommend voting in favor of the issuance of shares of our common stock to the ZN shareholders in the acquisition? (See page 47)**

A: Yes. After careful consideration, our Board of Directors has determined that the terms of the acquisition are fair to, and in the best interests of, our stockholders and unanimously recommends that our stockholders vote in favor of the issuance of shares of our common stock in connection with the acquisition.

**Q: Who is making this proxy solicitation? (See page 32)**

A: We are making the solicitation at the direction of our Board of Directors.

**Q: Do any directors or executive officers of Viisage have any direct or indirect interest in the acquisition? (See page 47)**

A: No.

**Q: When will the acquisition be completed? (See page 48)**

A: The special meeting of stockholders of Viisage to which this proxy statement relates will be held on January 23, 2004, and we expect to close the acquisition as soon as practicable following the special meeting.

**Q: Who has the right to vote at the special meeting? (See page 32)**

A: Only holders of our common stock of record as of December 24, 2003 may vote at the special meeting.

**Q: What stockholder vote is necessary to approve the issuance of shares in the acquisition? (See page 33)**

A: The affirmative vote of the holders of a majority of shares of common stock of present or represented by proxy at the special meeting is required.

**Q: Is ZN shareholder approval required?**

A: No. Each ZN shareholder signed the securities purchase agreement and thereby approved the acquisition.

**Q: What do you need to do now? (See page 32)**

A: We urge you to read carefully and consider the information contained in this proxy statement. In addition, you should complete, sign and date the attached proxy card and return it to Viisage Technology, Inc., Proxy Services, c/o EquiServe Trust Company, N.A., P.O. Box 8687, Edison, NJ 08818-9247 in the enclosed postage-prepaid return envelope as soon as possible so that your shares of common stock may be represented at the special meeting.

**Q. What is the quorum requirement with respect to the special meeting? (See page 33)**

A: The presence, in person or by properly executed proxy, of the holders of at least a majority of shares of our common stock entitled to vote at the special meeting will constitute a quorum.

**Q: Can you change your vote after you have voted by proxy? (See page 32)**

A: Yes. You can change your vote at any time before your proxy is voted at the special meeting. This can be done in a number of ways. First, you may send in a later-dated, signed proxy card to the corporate secretary of Viisage so that it arrives before the special meeting. Second, you can send a written notice to the corporate secretary of Viisage stating that you would like to revoke your proxy. Third, you may attend the special meeting and vote in person.

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**Q: When and where will the special meeting be held? (See page 32)**

A: The special meeting will be held at the offices of Choate, Hall & Stewart, Exchange Place, 53 State Street, Boston, Massachusetts, beginning at 10:00 a.m., local time, on January 23, 2004.

**Q: Are you entitled to dissenter s or appraisal rights? (See page 33)**

A: No. You are not entitled to dissenter s or appraisal rights in connection with the acquisition.

**Q: If your shares of Viisage common stock are held in street name by a broker, will the broker vote the shares? (See page 33)**

A: A broker will vote shares at the special meeting only if you give the broker instructions on how to vote. Without instructions, those shares will not be voted. If your shares are held by a broker, you should instruct your broker as to how you want your shares to be voted.

**Q: Whom should you contact if you have additional questions?**

A: For more information, you should contact:

William K. Aulet

Senior Vice President and Chief Financial Officer

Viisage Technology, Inc.

30 Porter Road

Littleton, MA 01460

Telephone: (978) 952-2200

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## SUMMARY TERM SHEET

This summary term sheet highlights the material information contained in the proxy statement, but may not contain all of the information that is important to you. You should read carefully this entire document, including the appendices, and the other documents to which we refer you for a more complete understanding of the acquisition that is the subject of this proxy statement.

Throughout this proxy statement, $ indicates amounts denominated in United States dollars, indicates amounts denominated in Euros and DM indicates amounts denominated in Deutsche Marks.

### The Companies

***Viisage Technology, Inc.***

30 Porter Road

Littleton, MA 01460

(978) 952-2200

www.viisage.com

Viisage is a leading provider of advanced technology identity solutions. Viisage began operations as a separate entity in 1996, providing integrated solutions to capture facial images, demographic information and other biological identifiers, produce identification cards and create relational databases containing this information. Since its inception, Viisage has also been acquiring and developing proprietary facial recognition technologies for a variety of applications. Applications can include driver s licenses, voter registration, national identification cards, law enforcement, social services, access control and PC network and Internet access security. Viisage s primary customers have been government agencies, with particular penetration in Departments of Motor Vehicles. Viisage s website address is www.viisage.com. Information contained on Viisage s website does not constitute part of this proxy statement.

***ZN Vision Technologies AG***

Universitaetsstrasse 160

44801 Bochum

GERMANY

Telephone: 49-234-9787-0

www.zn-ag.com

ZN Vision Technologies AG is a leading provider of facial recognition technologies and services in Europe, specializing in hierarchical graph matching technology. ZN s technology is used for access control, image database searches and surveillance. ZN s website address is www.zn-ag.com. Information contained on ZN s website does not constitute part of this proxy statement.

**Acquisition of ZN**

**(Page 48)**

Pursuant to the securities purchase agreement dated as of March 28, 2003 by and among Viisage, ZN and all of the ZN shareholders, Viisage will acquire all of the outstanding share capital of ZN from the ZN shareholders and ZN will become a wholly-owned subsidiary of Viisage.

In exchange for all of the outstanding share capital of ZN, other than the shares held under the ZN option plan, the ZN shareholders will receive an aggregate of 5,221,454 shares of our common stock and $493 in cash.

10%, or 522,146, of the shares issued to the ZN shareholders will be held in escrow for one year to secure indemnification claims we may have against the ZN shareholders under the securities purchase agreement.

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**Assumption of ZN Option Plan**

**(Page 48)**

We have agreed pursuant to the securities purchase agreement to assume the ZN option plan by paying to ZN MABG, the current trustee and administrator of the ZN option plan, 10,741 in cash (which, based on the December 24, 2003 Euro to U.S. dollar exchange rate of 1.23940 equals approximately $13,312), and reserving 1,138,546 shares of our common stock for issuance to the plan participants.

Immediately prior to the closing of the acquisition, all of the options under the ZN option plan, representing approximately 1,138,546 shares of our common stock, will be vested. However, participants in the plan may not exercise their options until September 30, 2004, regardless of whether their options have vested prior to that date. In addition, participants in the plan are prohibited from selling any of their shares until after the second anniversary of the closing of the acquisition. Thereafter, participants may sell only a percentage of their shares each year until after the fifth anniversary of the closing of the acquisition.

**Purchase Price**

**(Page 48)**

The total number of shares of our common stock to be issued to the ZN shareholders or reserved for issuance under the ZN option plan is 6,360,000, and the total amount of cash to be paid to the ZN shareholders and ZN MABG is approximately $13,805 in cash, based on the December 24, 2003 Euro to U.S. dollar exchange rate of 1.23940. Based on the $3.45 closing price of a share of our common stock on December 24, 2003 on the Nasdaq National Market, the aggregate purchase price (shares and cash) for the acquisition was approximately $21,955,805. This amount does not represent the value of the acquisition for financial accounting purposes.

**Source of Cash**

**(Page 48)**

Cash to be paid to the ZN shareholders and to ZN MABG as part of the purchase price will come from our working capital.

**Possible Adjustment to the Purchase Price**

**(Page 49)**

Under the securities purchase agreement, ZN stipulated that its net book value on March 28, 2003, the date the securities purchase agreement was signed, was 1,794,000, calculated in accordance with generally accepted accounting principles in Germany, or German GAAP.

The securities purchase agreement stipulates that that the U.S. dollar to Euro exchange rate for purposes of calculations of potential purchase price adjustments will be deemed to be 1.06 to 1.00. Accordingly, ZN s net book value in U.S. dollars on March 28, 2003 would be deemed to be $1,901,640.

The securities purchase agreement also stipulates that the value of Viisage common stock in connection with any such reduction will be deemed to be $4.00 per share, regardless of the actual price on the closing date.

The number of shares we will be required to issue to the ZN shareholders and reserve for issuance under the ZN option plan will be reduced on a dollar-for-dollar basis if ZN s net book value on the closing date has declined by more than 400,000 (or $424,000) for each whole or partial month elapsed between March 28, 2003, the date the securities purchase agreement was signed, and the closing date.

Assuming the closing of the acquisition occurs on January 23, 2004, the day of the special meeting (or ten whole or partial months after the date the on which the securities purchase agreement was signed):

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So long as ZN s net deficit book value is equal to or less than (2,206,000) (or $(2,338,360)), there would be no adjustment.

However, if ZN s net book value is less than that amount, then the purchase price and the number of shares we would be required to reserve under the ZN option plan would be decreased by an amount equal to the extent by which ZN s net book value was less than that amount.

Therefore, by way of example only, if ZN s net book value deficit is (3,000,000) (or ($3,180,000)) on the closing date, the aggregate value of the purchase price reduction and decrease in option consideration would be 794,000 (or $841,640), the number of shares issued to the ZN shareholders and the number of shares reserved for issuance under the ZN option plan would be reduced by 210,410 shares in the aggregate (or $841,640 divided by $4.00).

**Material Conditions to the Acquisition**

**(Pages 48-52, all of Annex A-1, all of Annex A-2 and all of Annex A-3)**

The material conditions to the completion of the acquisition include:

- approval by the Viisage stockholders of the proposal subject to this proxy statement under the rules of the Nasdaq National Market;
- issuance of shares of Viisage common stock and payment of cash consideration to the ZN shareholders;
- filing of an additional listing of shares application with Nasdaq with respect to the shares being issued to the ZN shareholders;
- execution by Viisage of agreements with the participants in the ZN option plan in connection with the assumption by Viisage of the ZN option plan;
- establishment of an escrow into which 522,146 shares of Viisage common stock will be held to secure the indemnification obligations of the ZN shareholders; and
- delivery by Viisage and the ZN shareholders of certificates at the closing confirming, among other things, that all necessary consents and approvals have been obtained, the representations and warranties of the parties set forth in the securities purchase agreement remain true and correct on the closing date, there are no legal proceedings involving the parties would have an adverse effect on the acquisition.

We do not expect that any of the conditions listed above will be waived by either party.

**Termination of the Securities Purchase Agreement**

**(Pages 50-51)**

The securities purchase agreement may be terminated:

- on December 31, 2003 if the acquisition is not completed prior to that time;
- by any of the parties if the approval of Viisage stockholders solicited by this proxy statement is not obtained; or
- for other customary reasons, as described in the securities purchase agreement.

**Termination Fee**

**(Page 51)**

We could be required to pay a termination fee of $500,000 if the securities purchase agreement is terminated and the acquisition is not completed for any of the following reasons:

- our stockholders do not approve the issuance of shares of our common stock in connection with the acquisition;

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there has been a material adverse effect on us since March 28, 2003, the date we signed the securities purchase agreement;

our net book value is less than $20,000,000 on the closing date; or

the acquisition is not completed by December 31, 2003 by reason of our failure to perform our obligations at the closing.

**Risks Related to the Acquisition and the Business of the Combined Company**

**(Page 21)**

By approving the issuance of shares of our common stock in connection with the acquisition, you will be voting to approve the combination of the businesses of Viisage and ZN, which we refer to as the combined company. You should consider carefully the matters discussed in the section of this proxy statement entitled Risk Factors beginning on page 21.

**Effect of a Negative Vote on the Issuance of Shares to the ZN Shareholders**

**(Page 33)**

If the stockholders do not approve the proposal, Viisage will abandon its efforts to acquire ZN. In addition, Viisage will be required to pay a termination fee of $500,000 pursuant to the securities purchase agreement.

**Recommendation of Our Board of Directors**

**(Page 47)**

Our Board of Directors believes that the acquisition is fair to, and in the best interests of, our stockholders and unanimously recommends that our stockholders vote for the proposal to issue our common stock in the acquisition.

Our Board of Directors considered a number of factors in determining whether to approve the acquisition and the issuance of shares of our common stock in connection with the acquisition. These considerations are more particularly described in the section of this proxy statement entitled The Acquisition Viisage s Reasons for the Acquisition .

None of our directors is affiliated with or has any interest in ZN.

**Voting Commitment by Lau Technologies**

**(Page 33)**

Simultaneously with the execution of the securities purchase agreement, Lau Technologies, or Lau, the holder of approximately 26% of our common stock outstanding prior to the acquisition, entered into an agreement to vote in favor of the issuance of our common stock in connection with the acquisition.

**Opinion of Viisage s Financial Advisor**

**(Page 39)**

Viisage s financial advisor, Windsor Group Securities, LLC, now known as WGS Capital, LLC, or Windsor, delivered a written opinion to the Board of Directors of Viisage as to the fairness, from a financial point of view, to Viisage of the consideration to be paid by Viisage in connection with the acquisition. We paid Windsor a fee of $50,000 in connection with the fairness opinion. The full text of Windsor s opinion is attached to this proxy statement as Annex B. We encourage you to read the text of the opinion in its entirety for a description of the procedures followed, assumptions made, matters considered and limitations on the review undertaken. If the acquisition is completed, Windsor will be entitled to a substantial success fee as described on page 46.

**ZN Shareholders Ability to Nominate a Viisage Director**

**(Page 50)**

Following the closing of the acquisition, for so long as they hold an aggregate of 2,000,000 shares of our common stock, the ZN shareholders will be entitled to nominate one member of our Board of Directors.

Simultaneously with the execution of the securities purchase agreement, Lau, the holder of approximately 26% of our common stock outstanding prior to the acquisition, entered into an agreement to vote for the ZN shareholders nominee to our Board of Directors, so long as the nominee is not a Viisage employee.

**Re-sales of Viisage Common Stock by the ZN Shareholders**

**(Pages 51-52)**

The shares of our common stock issued to the ZN shareholders will not be immediately registered for public sale, but we have agreed to file, promptly following the closing, a Form S-3 registration statement to register those shares for sale on the public market. In addition, the ZN shareholders agreed in the purchase agreement that for a period of two years commencing on the date on which the acquisition is completed:

they will not sell on any trading day an aggregate number of shares of our common stock that equals or exceeds 20% of the prior day s trading volume on the Nasdaq National Market; and

they may not sell our common stock at a price per share that is more than 10% below the prior day s closing price on the Nasdaq National Market.

However, those restrictions will be relaxed to the extent that Lau, our largest single stockholder, sells more shares pro rata than the ZN shareholders would otherwise be entitled to sell. In addition, in connection with our sale of 3,517,503 shares of our common stock to institutional investors in a private transaction on September 8, 2003, each of the ZN shareholders other than ZN MABG entered into an agreement under which they agreed not to sell the shares of our common stock that will be issued to them in the acquisition for periods ranging from 60 to 180 days following the closing of the acquisition. See The Securities Purchase Agreement Registration Rights and Re-sales of Viisage Common Stock by the ZN Shareholders on page 51.

**Accounting and Tax Treatment of the Acquisition**

**(Page 51)**

We intend to account for the acquisition using the purchase method of accounting.

The acquisition is not a taxable event for Viisage or its stockholders.

**Regulatory Filings**

**(Page 53)**

In connection with the acquisition, we will:

- file this proxy statement with the Securities and Exchange Commission, or the SEC, pursuant to Regulation 14A under the Exchange Act; and

- file an application for listing of additional shares on the Nasdaq National Market for the purpose of listing the shares issued in the acquisition.

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## SELECTED FINANCIAL DATA OF VIISAGE

The following tables provide selected financial data for Viisage, which were derived from the audited financial statements of Viisage for each of the five years in the period ended December 31, 2002. The historical results presented are not necessarily indicative of future results. The data should be read in conjunction with the financial statements, related notes and other financial information of Viisage as of December 31, 2002 and 2001 and for each of the three years in the period ended December 31, 2002 appearing elsewhere in this proxy statement, including the discussions appearing in Viisage Management s Discussion and Analysis of Financial Condition and Results of Operations .

The financial data for the nine-month periods ended September 29, 2002 and September 28, 2003 were derived from Viisage s unaudited financial statements included elsewhere in this proxy statement. The unaudited financial statements include all adjustments, consisting of normal recurring accruals, which Viisage considers necessary for a fair presentation of its financial position and results of operations for those periods. Operating results for interim periods are not necessarily indicative of results that may be expected for the entire fiscal year.

The pro forma operating results for the years ended December 31, 2000, 2001 and 2002 and for the nine-months ended September 29, 2002 adjust the operating results for those periods had the application of EITF 00-21 occurred at the beginning of each period. The selected financial position information at January 1, 2003, March 30, 2003, June 29, 2003 and September 28, 2003 are presented to reflect the application of EITF 00-21 on a cumulative basis as of January 1, 2003.

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| | Years Ended December 31, | | | | | Nine Months Ended[3] | |
|---|---|---|---|---|---|---|---|
| | 1998[1][4] | 1999[4] | 2000[4] | 2001[4] | 2002[4] | September 29, 2002[4] | September 28, 2003[5] |
| | (in thousands, except per share amounts) | | | | | | |
| **Statement of Operations Data:** | | | | | | | |
| Revenues | $ 16,259 | $ 19,297 | $ 27,539 | $ 26,280 | $ 32,302 | $ 23,546 | $ 27,053 |
| Cost of revenues | 15,957 | 15,131 | 21,136 | 19,602 | 25,239 | 19,052 | 20,344 |
| Gross margin | 302 | 4,166 | 6,403 | 6,678 | 7,063 | 4,494 | 6,709 |
| Operating expenses: | | | | | | | |
| Sales and marketing | 2,195 | 739 | 787 | 809 | 5,368 | 4,106 | 3,786 |
| Research and development | 358 | 253 | 688 | 2,054 | 4,457 | 3,261 | 2,828 |
| General and administrative | 2,247 | 1,939 | 2,489 | 2,500 | 5,069 | 2,964 | 3,454 |
| Acquisition expenses | | | | 1,639 | | | |
| Restructuring charges | | | | | 824 | | |
| Total operating expenses | 4,800 | 2,931 | 3,964 | 7,002 | 15,718 | 10,331 | 10,068 |
| Operating income (loss) | (4,498) | 1,235 | 2,439 | (324) | (8,655) | (5,837) | (3,359) |
| Interest expense, net | (1,667) | (2,230) | (1,637) | (1,210) | (875) | (644) | (726) |
| Other income | | | | | | | 18 |
| Income (loss) before income taxes and cumulative effect of change in accounting principle | (6,165) | (995) | 802 | (1,534) | (9,530) | (6,481) | (4,067) |
| Provision for income taxes | | | | | | | (63) |
| Income (loss) before cumulative effect of change in accounting principle | (6,165) | (995) | 802 | (1,534) | (9,530) | (6,481) | (4,130) |
| Cumulative effect of change in accounting principle | (1,038) | | | | | | (12,131)[6] |
| Net income (loss) | (7,203) | (995) | 802 | (1,534) | (9,530) | (6,481) | (16,261) |
| Preferred stock dividends | | (1,003) | (327) | (5) | | | |
| Income (loss) applicable to common shareholders before cumulative effect | (7,203) | (1,998) | 475 | (1,539) | (9,530) | (6,481) | (16,261) |
| Cumulative effect of implementing EITF 00-27 | | | (277) | | | | |
| Net income (loss) applicable to common shareholders | $ (7,203) | $ (1,998) | $ 198 | $ (1,539) | $ (9,530) | $ (6,481) | $ (16,261) |
| Basic income (loss) per share before cumulative effect | $ (0.75) | $ (0.23) | $ 0.05 | $ (0.09) | $ (0.48) | $ (0.32) | $ (0.20) |
| Basic net income (loss) per share applicable to common shareholders[2] | $ (0.88) | $ (0.23) | $ 0.02 | $ (0.09) | $ (0.48) | $ (0.32) | $ (0.79) |
| Weighted average basic common shares outstanding | 8,175 | 8,610 | 10,460 | 16,265 | 20,046 | 19,981 | 20,711 |
| Diluted income (loss) per share before cumulative effect | $ (0.75) | $ (0.23) | $ 0.03 | $ (0.09) | $ (0.48) | $ (0.32) | $ (0.20) |

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| Diluted net income (loss) per share applicable to common shareholders[2] | $ (0.88) | $ (0.23) | $ 0.01 | $ (0.09) | $ (0.48) | $ (0.32) | $ (0.79) |
| Weighted average diluted common shares outstanding | 8,175 | 8,610 | 14,504 | 16,265 | 20,046 | 19,981 | 20,711 |
| **Balance Sheet Data:** | | | | | | | |
| Working capital | $ 11,089 | $ 13,549 | $ 15,225 | $ 38,115 | $ 22,244 | $ 30,922 | $ 11,255 |
| Total assets | 46,444 | 44,680 | 45,273 | 67,663 | 61,189 | 59,180 | 58,279 |
| Long-term obligations | 18,058 | 15,721 | 9,526 | 10,368 | 9,845 | 7,020 | 8,936 |
| Shareholders equity | 12,618 | 15,790 | 20,728 | 46,294 | 39,064 | 42,707 | 35,517 |

(1) 1998 amounts reflect the impact of charges of $230,000 for restructuring, $1,321,000 for the early adoption of SOP 98-5, Reporting on the Costs of Start-Up Activities , and $2,322,000 to revise project margins and contract cost-to-complete estimates.
(2) See note 2 of Notes to Viisage s audited financial statements appearing elsewhere in this proxy statement for information concerning the computation of basic and diluted net income (loss) per share.
(3) The results for the nine-month periods ended September 29, 2002 and September 28, 2003 are unaudited.
(4) The results are presented under percentage of completion based on the cost to cost method of measurement.
(5) The results are presented in accordance with EITF 00-21 applied on a cumulative basis as of January 1, 2003.
(6) We adopted EITF 00-21 on a cumulative basis as of January 1, 2003. See footnote 2 in the Notes to Consolidated Financial Statements which discusses the change in accounting principle.

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During the third quarter of 2003, we adopted the provisions of Emerging Issues Task Force 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, or EITF 00-21, on a cumulative basis as of January 1, 2003. The adoption of EITF 00-21 resulted in a non-cash adjustment reported as a cumulative effect of a change in accounting principle of $12.1 million. The following table reflects selected pro forma financial data adjusted for the aforementioned accounting change on January 1, 2003 exclusive of the associated cumulative effect of the change in accounting:

| | For the Years Ended | | | Nine Months Ended | |
|---|---|---|---|---|---|
| | Pro forma | | | Pro forma | As reported |
| | 2000 | December 31, 2001 | 2002 | September 29, 2002 | September 28, 2003 |
| | | | | (unaudited) | |
| | (in thousands, except per share data) | | | | |
| **Operating results** | | | | | |
| Revenues | $ 27,293 | $ 28,172 | $ 31,259 | $ 22,814 | $ 27,053 |
| Cost of revenues | $ 22,961 | $ 20,454 | $ 25,842 | $ 16,871 | $ 20,344 |
| Gross margin | $ 4,332 | $ 7,718 | $ 5,417 | $ 5,942 | $ 6,709 |
| Operating expenses | $ 3,964 | $ 7,002 | $ 15,718 | $ 10,330 | $ 10,068 |
| Operating income (loss) | $ 368 | $ 716 | $ (10,301) | $ (4,388) | $ (3,359) |
| Other income (expense) | $ (1,637) | $ (1,210) | $ (875) | $ (645) | $ (708) |
| Provision for income taxes | $ | $ | $ | $ | $ (63) |
| Net loss | $ (1,269) | $ (494) | $ (11,176) | $ (5,033) | $ (4,130) |
| **Per share data** | | | | | |
| Basic income (loss) per share applicable to common shareholders | $ (0.18) | $ (0.03) | $ (0.56) | $ (0.25) | $ (0.20) |
| Diluted income (loss) per share applicable to common shareholders | $ (0.18) | $ (0.03) | $ (0.56) | $ (0.25) | $ (0.20) |
| **Weighted average shares outstanding** | | | | | |
| Basic | 10,460 | 16,265 | 20,046 | 19,981 | 20,711 |
| Diluted | 10,460 | 16,265 | 20,046 | 19,991 | 20,711 |

| | As Reported | | | | |
|---|---|---|---|---|---|
| | December 31, 2002 | January 1, 2003 | March 30, 2003 | June 29, 2003 | September 28, 2003 |
| | (in thousands) | | | | |
| **Financial position** | | | | | |
| Costs and estimated earnings in excess of billings | $ 23,372 | $ 5,452 | $ 4,411 | $ 5,025 | $ 4,496 |
| Property and equipment, net | $ 16,629 | $ 21,152 | $ 20,616 | $ 21,052 | $ 23,104 |
| Total assets | $ 61,189 | $ 47,792 | $ 43,975 | $ 44,672 | $ 58,279 |
| Accounts payable and accrued expenses | $ 7,017 | $ 5,750 | $ 5,560 | $ 6,378 | $ 7,738 |
| Shareholders equity | $ 39,064 | $ 26,934 | $ 24,603 | $ 23,281 | $ 35,517 |
| Total liabilities and shareholders equity | $ 61,189 | $ 47,792 | $ 43,975 | $ 44,672 | $ 58,279 |

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**SELECTED FINANCIAL DATA OF ZN**

The following tables provide selected financial data for ZN, which were derived from the audited financial statements for the years ended December 31, 2000, 2001 and 2002 and from the unaudited financial statements for the six month periods ended June 30, 2002 and 2003 of ZN prepared in accordance with German GAAP. The historical results presented are not necessarily indicative of future results. The data should be read in conjunction with the financial statements, related notes and other financial information of ZN as of December 31, 2002 and 2001 and for the years then ended and as of June 30, 2002 and 2003 and the six month periods then ended appearing elsewhere in this proxy statement, including the discussions appearing in ZN Operating and Financial Review .

| | Years ended December 31, | | | Six months ended(5) June 30, | |
|---|---|---|---|---|---|
| | 2000(1) | 2001 | 2002(2) | 2002 | 2003 |
| | (in thousands of Euro, except share and per share amounts) | | | | |
| *In accordance with German GAAP:* | | | | | |
| Statement of operations data: | | | | | |
| Sales revenue | 19.6 | 469.2 | 1,417.2 | 715.6 | 589.9 |
| Other operating income | 361.8 | 1,597.2 | 1,599.1 | 883.0 | 568.0 |
| Costs of material | (209.7) | (66.6) | (371.9) | (189.1) | (215.0) |
| Personnel expenses | (468.6) | (2,304.3) | (3,314.2) | (1,787.5) | (1,717.9) |
| Amortization on intangible assets and fixed assets | (21.8) | (138.7) | (133.0) | (50.6) | (71.7) |
| Other operational expenses | (426.7) | (1,214.7) | (1,395.3) | (453.5) | (683.6) |
| Write-downs on financial assets in current assets | 0.0 | 0.0 | (21.1) | 0.0 | (2.3) |
| Other interest and similar income | 5.5 | 73.8 | 39.8 | 16.6 | 67.3 |
| Interest and similar costs | (0.5) | (1.3) | (2.1) | (0.7) | (0.3) |
| Profit (loss) from ordinary operations | (740.4) | (1,585.4) | (2,181.6) | (886.2) | (1,465.6) |
| Extraordinary non-cash loss | 0.0 | 0.0 | (2,290.7) | 0.0 | 0.0 |
| Absorbed loss from subsidiary | (233.3) | (10.2) | 0.0 | 0.0 | 0.0 |
| Annual loss | (973.7) | (1,595.7) | (4,472.3) | (866.2) | (1,465.6) |
| Annual loss per share | (19.47) | (31.91) | (74.54) | (17.32) | (24.43) |
| Shares outstanding December 31 | 50,000 | 50,000 | 60,000(2) | 50,000 | 60,000 |
| Average number of shares outstanding | 50,000 | 50,000 | 52,000(2) | 50,000 | 60,000 |
| Balance sheet data: | | | | | |
| Intangible, fixed and financial assets | 129.0 | 2,403.6 | 349.8 | 2,530.6 | 298.4 |
| Total current assets | 855.2 | 2,193.4 | 3,360.1 | 1,037.0 | 1,993.6 |
| Total assets | 984.2 | 4,597.0 | 3,709.9 | 3,567.6 | 2,292.0 |
| Total provisions and liabilities | 378.0 | 984.8 | 560.0 | 821.6 | 607.8 |
| Total stockholders equity | 606.2 | 3,612.2 | 3,149.9 | 2,746.0 | 1,684.2 |
| Subscribed capital | 50.0 | 50.0 | 60.0 | 50.0 | 60.0 |
| Dividends per share | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| *In accordance with US GAAP:* | | | | | |
| Statement of operations data: | | | | | |
| Sales revenues | 19.6 | 469.2 | 1,417.2 | 715.6 | 589.9 |
| Profit (loss) from continuing operations | (1,253.9) | (2,733.0) | (3,794.9) | (1,649.6) | (2,104.6) |
| Loss from discontinued operations(4) | (233.0) | (1,048.0) | (1,243.0) | (427.0) | 0.0 |
| Annual loss | (1,486.9) | (3,781.0) | (5,037.9) | (2,076.6) | (2,104.6) |
| Annual loss per share from continuing operations | (25.07) | (54.66) | (72.97) | (32.99) | (35.08) |
| Loss from discontinued operations per share(4) | (4.67) | (20.96) | (23.91) | (8.54) | 0.0 |
| Annual loss per share | (29.74) | (75.62) | (96.88) | (41.53) | (35.08) |
| Balance sheet data: | | | | | |
| Total assets | 993.9 | 3,769.5 | 4,226.4 | 2,461.2 | 3,040.0 |
| Net assets | 615.9 | 2,784.7 | 3,666.5 | 1,639.5 | 2,432.3 |
| Subscribed capital | 50.0 | 50.0 | 60.0 | 50.0 | 60.0 |

(1) The results for the year ended December 31, 2000 include the results of operations from the commencement of operations of ZN on April 28, 2000 through December 31, 2000.
(2) New shares were issued November 6, 2002 and they shared in the results for the full fiscal year 2002.
(3) The disposition of the participation in Visiomed in 2002 is reflected in the extraordinary non-cash loss of 2,291,000. The intangible, fixed and financial assets include the increase in the participation of 2,138,000 in the year 2001 and the disposition thereof of 2,188,000 in the year 2002.
(4) The loss from discontinued operations represents the losses of Visiomed recorded in accordance with United States GAAP. The loss in 2002 includes the loss recognized on the disposition of the assets.
(5) The financial results for the six-month periods ended June 30, 2002 and 2003 are unaudited.

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## EXCHANGE RATE INFORMATION

On December 24, 2003, the latest practicable date prior to the filing of this proxy statement, the rate of exchange of Euros for United States dollars was 1.23940.

The following table presents the high and low rates of exchange of Euros for United States dollars for the periods indicated:

| Period | High | Low |
|---|---|---|
| November 1, 2003 through November 30, 2003 | 1.20150 | 1.13740 |
| October 1, 2003 through October 31, 2003 | 1.18600 | 1.15250 |
| September 1, 2003 through September 30, 2003 | 1.16020 | 1.07570 |
| August 1, 2003 through August 31, 2003 | 1.14260 | 1.07870 |
| July 1, 2003 through July 31, 2003 | 1.16080 | 1.11100 |
| June 1, 2003 through June 30, 2003 | 1.19300 | 1.13990 |
| May 1, 2003 through May 31, 2003 | 1.19090 | 1.10600 |
| April 1, 2003 through April 30, 2003 | 1.10860 | 1.05580 |
| March 1, 2003 through March 31, 2003 | 1.10590 | 1.05000 |
| February 1, 2003 through February 28, 2003 | 1.08840 | 1.06650 |
| January 1, 2003 through January 31, 2003 | 1.08580 | 1.03330 |

The following table presents the average rates of exchange of Euros for United States dollars for each of the years indicated:

| Year Ended December 31, | Average Rate of Exchange |
|---|---|
| 1999 | 1.06677 |
| 2000 | 0.92492 |
| 2001 | 0.89650 |
| 2002 | 0.94590 |

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**UNAUDITED PRO FORMA COMBINED FINANCIAL STATEMENTS**

On March 28, 2003, we entered into a securities purchase agreement pursuant to which we will acquire all the outstanding share capital of ZN and assume the obligations under the ZN option plan. The acquisition is expected to close not later than December 31, 2003. Pursuant to the securities purchase agreement, the ZN shareholders agreed to sell, and we agreed to purchase, all of the issued and outstanding share capital of ZN. As consideration for the shares of ZN, we will issue an aggregate of 6,360,000 shares of our common stock, of which 5,221,454 shares will be issued directly to the ZN shareholders and 1,138,546 shares will be reserved for issuance under the ZN option plan. In addition, we will pay directly to the ZN shareholders $493 in cash consideration for their shares and  10,741 (which, based on the December 16, 2003 Euro to U.S. dollar exchange rate of 1.23120 equals approximately $13,224), as part of our assumption of the ZN option plan. Shares used in calculating the purchase price include the shares that will be issued to the ZN shareholders as well as shares reserved for issuance under the ZN option plan. The number of shares we will be required to issue to the ZN shareholders and reserve for issuance under the ZN share option plan will be reduced if ZN s net book value is less than a specified amount on the closing date. Viisage anticipates incurring fees of approximately $2.3 million in connection with this acquisition.

As of June 30, 2003, approximately 33% of the options under the ZN option plan were vested. Immediately prior to the closing of the acquisition, the vesting of all then unvested options under the ZN option plan will be accelerated. Accordingly, immediately following the acquisition, options to purchase 1,138,546 shares of our common stock under the ZN option plan will be vested. However, participants in the plan may not exercise their options until September 30, 2004, regardless of whether their options have vested prior to that date. In addition, participants in the plan are prohibited from selling any of their shares until after the second anniversary of the closing of the acquisition. Thereafter, participants may sell only a specified percentage of their shares each year until after the fifth anniversary of the closing of the acquisition. To the extent that options under the ZN option plan are not exercised, shares of our common stock reserved for issuance under the ZN option plan will be issued to the ZN shareholders who initially donated their ZN shares to establish the ZN option plan.

For purposes of the accompanying unaudited pro forma combined financial statements, amounts denominated in Euros on ZN s financial statements have been converted into United States dollars using the average exchange rate for the appropriate period. In addition, adjustments have been made to present ZN s financial statements in accordance with generally accepted accounting principles in the United States of America.

The accompanying unaudited pro forma combined condensed balance sheet is presented as if the acquisition occurred on September 28, 2003. The unaudited pro forma and combined condensed statements of operations are presented as if the acquisition had occurred on January 1, 2002 for the year ended December 31, 2002 and for the nine-month period ended September 28, 2003. All material adjustments to reflect the acquisition are set forth in the column  Pro Forma Adjustments.  The balance sheet at September 28, 2003 and statement of operations for the nine-months then ended are reported to reflect the application of EITF 00-21 on a cumulative basis as of January 1, 2003. The statement of operations for the nine-months ended September 28, 2003 are reported exclusive of the cumulative effect of the change in accounting principle of $12.1 million.

The pro forma data is for informational purposes only and may not necessarily reflect future results of operations and financial position or what the results of operations or financial position would have been had Viisage and ZN been operating as a combined entity for the periods presented. The unaudited pro forma combined condensed financial statements should be read in conjunction with the historical financial statements, including the notes thereto, of Viisage and ZN included elsewhere in this proxy statement.

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**PRO FORMA CONDENSED CONSOLIDATED BALANCE SHEET**

**(In thousands, except per share data)**

**(Unaudited)**

| | September 28, 2003 Viisage Technology, Inc. | September 30, 2003 ZN Vision Technologies AG | Pro Forma Adjustments | Pro Forma Consolidated |
|---|---|---|---|---|
| **Assets** | | | | |
| Current assets: | | | | |
| Cash and cash equivalents | $ 11,423 | $ 846 | $ (12)[(a)] | $ 13,978 |
| | | | 1,721 [(g)] | |
| Accounts receivable | 8,026 | 765 | | 8,791 |
| Costs & estimated earnings in excess of billings | 4,496 | | | 4,496 |
| Other current assets | 1,136 | 410 | | 1,546 |
| Total current assets | 25,081 | 2,021 | 1,709 | 28,811 |
| Property and equipment, net | 23,104 | 148 | | 23,252 |
| Goodwill | | | 17,110 [(d)] | 17,110 |
| Intangible assets, net | 2,892 | 1,111 | 12,721 [(d)] | 14,728 |
| | | | (1,996)[(c)] | |
| Restricted cash | 5,120 | | | 5,120 |
| Other assets | 2,082 | | 12 [(a)] | 586 |
| | | | 848 [(b)] | |
| | | | 27,475 [(a)] | |
| | | | (29,831)[(d)] | |
| Total assets | $ 58,279 | $ 3,280 | $ 28,048 | $ 89,607 |
| **Liabilities and Shareholders Equity** | | | | |
| Current liabilities: | | | | |
| Accounts payable and accrued expenses | $ 7,738 | $ 1,284 | $ 848 [(b)] | $ 9,870 |
| Current portion of project financing | 6,088 | | | 6,088 |
| Total current liabilities | 13,826 | 1,284 | 848 | 15,958 |
| Project financing | 8,936 | | | 8,936 |
| Total liabilities | 22,762 | 1,284 | 848 | 24,894 |
| Shareholder s equity: | | | | |
| Common Stock | 24 | 69 | (69)[(c)] | 31 |
| | | | 6 [(a)] | |
| | | | 1 [(h)] | |
| Additional paid-in capital | 76,171 | 17,577 | (17,577)[(c)] | 105,360 |
| | | | 27,469 [(a)] | |
| | | | 1,720 [(h)] | |
| Accumulated deficit | (40,678) | (15,650) | 15,650 [(c)] | (40,678) |
| Total shareholders equity | 35,517 | 1,996 | 27,200 | 64,713 |

| | | | | |
|---|---|---|---|---|
| Total liabilities and shareholders equity | $ 58,279 | $ 3,280 | $ 28,048 | $ 89,607 |

See accompanying notes to pro forma condensed consolidated financial statements.

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**PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | Years Ended 12/31/02 Viisage Technology, Inc. | 12/31/02 ZN Vision Technologies AG | Pro Forma Adjustments | Pro Forma Consolidated |
|---|---|---|---|---|
| Revenue | $ 32,302 | $ 1,340 | $ | $ 33,642 |
| Cost of revenues | 25,239 | 547 | | 25,786 |
| Gross margin | 7,063 | 793 | | 7,856 |
| Operating expenses: | | | | |
| Sales and marketing | 5,368 | 1,370 | | 6,738 |
| Research and development | 4,457 | 1,340 | | 5,797 |
| General and administrative | 5,069 | 2,885 | 2,270 (e) | 10,224 |
| Restructuring charges | 824 | | | 824 |
| Total operating expenses | 15,718 | 5,595 | 2,270 | 23,583 |
| Operating loss | (8,655) | (4,802) | (2,270) | (15,727) |
| Interest income (expense) | (875) | 36 | | (839) |
| Loss before income taxes and cumulative effect of change in accounting principle | (9,530) | (4,766) | (2,270) | (16,566) |
| Provision for income taxes | | | | |
| Loss before cumulative effect of change in accounting principle | $ (9,530) | $ (4,766) | $ (2,270) | $ (16,566) |
| Basic and diluted loss per share before cumulative effect of change in accounting principle | $ (0.48) | $ (91.65) | | $ (0.62) |
| | | | (52)(c) | |
| | | | 456 (g) | |
| Weighted average shares outstanding | 20,046 | 52 | 6,360 (a)(f) | 26,862 |

See accompanying notes to pro forma condensed consolidated financial statements.

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**PRO FORMA CONDENSED CONSOLIDATED STATEMENT OF OPERATIONS**

**(In thousands, except per share data)**

**(Unaudited)**

| | Nine Months Ended | | | |
|---|---|---|---|---|
| | September 28, 2003 Viisage Technology, Inc. | September 30, 2003 ZN Vision Technologies AG | Pro Forma Adjustments | Pro Forma Consolidated |
| Revenues | $ 27,053 | $ 1,499 | $ | $ 28,552 |
| Cost of revenues | 20,344 | 831 | | 21,175 |
| Gross margin | 6,709 | 668 | | 7,377 |
| Operating expenses: | | | | |
| Sales and marketing | 3,786 | 1,463 | | 5,249 |
| Research and development | 2,828 | 1,515 | | 4,343 |
| General and administrative | 3,454 | 1,307 | 1,702 (e) | 6,463 |
| Total operating expenses | 10,068 | 4,285 | 1,702 | 16,055 |
| Operating loss | (3,359) | (3,617) | (1,702) | (8,678) |
| Interest income (expense) | (726) | 77 | | (649) |
| Other income | 18 | | | 18 |
| Loss before income taxes and cumulative effect of change in accounting principle | (4,067) | (3,540) | (1,702) | (9,309) |
| Provision for income taxes | (63) | | | (63) |
| Loss before cumulative effect of change in accounting principle | $ (4,130) | $ (3,540) | $ (1,702) | $ (9,372) |
| Basic and diluted loss per share before cumulative effect of change in accounting principle | $ (0.20) | $ (59.00) | | $ (0.34) |
| | | | (60)(c) | |
| | | | 456 (g) | |
| Weighted average shares outstanding | 20,711 | 60 | 6,360 (a)(f) | 27,527 |

See accompanying notes to pro forma condensed consolidated financial statements.

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NOTES TO THE UNAUDITED PRO FORMA CONDENSED

CONSOLIDATED FINANCIAL STATEMENTS

**1. Basis of Presentation**

The accompanying unaudited pro forma condensed consolidated financial statements and related notes are unaudited. In the opinion of management, the pro forma financial statements include all adjustments necessary for a fair presentation of the companies financial position and results of operations for the periods presented. These financial statements should be read in conjunction with the audited financial statements and accompanying notes included in this proxy statement.

In accordance with the rules and regulations of the SEC, unaudited financial statements may omit or condense information and disclosures normally required for a complete set of financial statements prepared in accordance with generally accepted accounting principles. However, management believes that the notes to the financial statements contain disclosures adequate to make the information presented not misleading.

The pro forma financial statements are prepared in conformity with generally accepted accounting principles, which require management to make estimates that affect the reported amounts of assets, liabilities, revenues and expenses, and the disclosure of contingent assets and liabilities. Actual results could differ from these estimates.

The unaudited pro forma financial statements are presented for illustrative purposes only and are not necessarily indicative of the future financial position or future results of operations of the combined company.

The pro forma financial statements have been prepared on the basis of assumptions relating to the allocation of the consideration paid to the acquired assets and liabilities of ZN, based on management s best estimates.

Following is a summary of the preliminary estimate of the total purchase price (in thousands, as of September 28, 2003):

| | |
|---|---|
| Value of 6,360,000 shares of Viisage common stock issued | $ 27,475(1) |
| Liabilities assumed | 1,284 |
| Cash paid | 12 |
| Direct acquisition costs | 2,344 |
| Total purchase price | $ 31,115 |

(1) Calculated assuming a value of Viisage common stock of $4.32 per share, which is the average trading price of Viisage common stock over the five trading days including March 28, 2003, the date on which the securities purchase agreement was signed, and the two trading days immediately preceding and the two trading days immediately following March 28, 2003, as reported on the Nasdaq National Market.

Based upon the preliminary estimate of fair market values of the assets acquired, the purchase price was allocated as follows (in thousands, as of September 28, 2003):

| | |
|---|---|
| Current assets | $ 2,021 |
| Property and equipment | 148 |
| Identified intangible assets | 11,836 |
| Goodwill | 17,110 |
| Net assets acquired | $ 31,115 |

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Set forth in the table below is a list of the intangible assets of ZN, by category, the preliminary value attributable to, and the amortization period applicable to, each such category.

| Intangible Assets | Preliminary Value | Amortization Period |
|---|---|---|
| Patents, trademarks and licenses | $ 5,798 | 7 Years |
| Customer list | 3,000 | 7 Years |
| Contracts | 2,000 | 3 Years |
| Capitalized software and other | 1,038 | 3 Years |
| | $ 11,836 | |

The allocation of the purchase price to specific assets is based, in part, upon management s appraisal of long-lived assets acquired. The allocation is preliminary at this time.

**2. Pro Forma Adjustments**

The following pro forma adjustments have been made to the historical financial statements of the combined company based upon assumptions made by management for the purpose of preparing the unaudited pro forma condensed consolidated statements of operations and the pro forma condensed consolidated balance sheet.

(a) To record the issuance of 5,221,454 shares of Viisage common stock, the value of options to purchase 1,138,546 shares of Viisage common stock (a total of 6,360,000 shares) and cash paid in connection with the acquisition of ZN (see footnote (e) below). This is to account for the cash element of the purchase price.

(b) To accrue the additional acquisition costs:

**ACQUISITION COST SUMMARY**

| | Actual September 28, 2003 | Accrued | Total |
|---|---|---|---|
| Legal and Audit | $ 727,000 | $ 61,000 | $ 788,000 |
| Outside consultants | 101,000 | 21,000 | 122,000 |
| Investment Banker | 668,000 | 666,000 | 1,334,000 |
| Miscellaneous printing, mailing, filing fees | | 100,000 | 100,000 |
| | $ 1,496,000 | $ 848,000 | $ 2,344,000 |

(c) Adjustment to eliminate the existing equity of ZN.

(d) To record the allocation of the purchase price to the estimated fair value of assets acquired and liabilities assumed.

(e) To record amortization expense on acquired identified intangible assets over periods ranging from three to seven years.

(f) Adjustment relates to the following items:

To reflect the increase in weighted average basic and diluted shares and weighted average dilutive shares outstanding for the common stock and common stock options issued and to be issued in connection with the acquisition. Pro forma basic earnings per common share for the period presented were calculated assuming the shares of Viisage common stock issued and to be issued in connection with the acquisition were issued at the beginning of the period presented.

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Common equivalent shares attributable to the common stock options, consisting of 1,138,546 shares of Viisage common stock that will be reserved for issuance under the ZN option plan, were included in determining the weighted average shares outstanding for the year ended December 31, 2002 and the nine months ended September 28, 2003.

The securities purchase agreement provides for a reduction in the number of shares to be issued to ZN shareholders and reserved for issuance under the ZN share option plan. The reduction will occur if the net book value of ZN decreases by more than 400,000 per month or partial month between March 28, 2003 and the date of the closing. No adjustment to the number of shares to be issued in these pro forma financial statements has been made since it is not determinable at this time what the amount of the adjustment, if any, would be. A substantive reduction in the purchase price would depend on the number of shares that were reduced and the effect of a change in the price between the original measurement date and the date when the actual number of shares are known.

(g) To record the sale of 456,007 shares of our common stock to institutional investors in a private sale at $3.775 per share subject to the closing of the acquisition, resulting in gross proceeds of approximately $1.7 million.

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**COMPARATIVE HISTORICAL AND UNAUDITED PRO FORMA PER SHARE DATA**

The following table presents:

historical and unaudited pro forma combined net loss per share and net tangible book value per shares data of Viisage; and

historical and unaudited equivalent pro forma net loss per share and net tangible book value per share data of ZN.

The pro forma combined per share data was derived from financial information of Viisage and ZN appearing elsewhere in this proxy statement. The information in the table below should be read in conjunction with the historical financial statements of Viisage and ZN and the related notes. The pro forma data is not necessarily indicative of amounts which would have been achieved had the acquisition been consummated at the beginning of the periods presented and should not be construed as representative of future operations. The following table contains historical and per share data on an unaudited pro forma basis after giving effect to the acquisition using the purchase method of accounting.

| | Viisage | | | |
|---|---|---|---|---|
| | Year Ended December 31, 2002 | | Nine Months Ended September 28, 2003 | |
| | Historical | Pro Forma | Historical | Pro Forma |
| Loss per share before cumulative effect of change in accounting principle | $ 0.48 | $ 0.62 | $ 0.20 | $ 0.34 |
| Book value per share | $ 1.94 | NA | $ 1.49 | $ 2.11 |

| | ZN[1] | | | |
|---|---|---|---|---|
| | Year Ended December 31, 2002 | | Nine Months Ended September 30, 2003 | |
| | Historical | Pro Forma | Historical | Pro Forma |
| Loss per share before cumulative effect of change in accounting principle | $ 91.65 | NA | $ 59.00 | NA |
| Book value per share | $ 64.06 | NA | $ 33.27 | NA |

(1) The net loss per share was converted from the Euro to United States dollars using the average exchange rate for the period. Book value per share was computed using the exchange rates in effect on December 31, 2002 and September 28, 2003. The above calculations are based on numbers prepared in accordance with generally accepted accounting principles in the United States.

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## MARKET PRICE INFORMATION

The table below sets forth the high and low sales prices of Viisage common stock as reported on the Nasdaq National Market for the periods indicated.

| | High | Low |
|---|---|---|
| **2003:** | | |
| Quarter ending December 31 (through December 24) | $ 4.61 | $ 3.35 |
| Quarter ended September 30 | $ 5.40 | $ 3.85 |
| Quarter ended June 30 | $ 5.78 | $ 3.76 |
| Quarter ended March 31 | $ 5.12 | $ 3.12 |
| **2002:** | | |
| Quarter ended December 31 | $ 5.72 | $ 3.35 |
| Quarter ended September 30 | $ 4.92 | $ 2.82 |
| Quarter ended June 30 | $ 7.05 | $ 3.66 |
| Quarter ended March 31 | $ 9.50 | $ 5.63 |
| **2001:** | | |
| Quarter ended December 31 | $ 15.97 | $ 6.15 |
| Quarter ended September 30 | $ 8.36 | $ 1.75 |
| Quarter ended June 30 | $ 2.70 | $ 1.56 |
| Quarter ended March 31 | $ 3.25 | $ 0.84 |

On March 28, 2003, the last trading day prior to the public announcement of the securities purchase agreement, the reported high and low sales prices per share of our common stock on the Nasdaq National Market were $4.49 and $4.25, respectively. On December 24, 2003, the last practicable trading date for which results were available for inclusion in this proxy statement, the reported high and low sales prices per share of our common stock on the Nasdaq National Market were $3.50 and $3.42, respectively.

As of December 24, 2003, we had 251 record holders of our common stock.

## DIVIDEND POLICY

We presently intend to retain our cash for use in the operation and expansion of our business and, therefore, do not anticipate paying any cash dividends in the foreseeable future. In addition, we are prohibited from paying dividends pursuant to our lending arrangements.

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## RECENT EVENTS

On July 31, 2003 the superior court for Fulton County, Georgia issued a preliminary injunction prohibiting Georgia s Department of Motor Vehicle Safety from continuing to work with us to install a new drivers license system for the State of Georgia. This injunction is the result of a law suit filed in March 2003 by one of our competitors, Digimarc Corporation. The suit claims that the Department of Motor Vehicle Safety did not comply with its own bid process when selecting a vendor for the digital drivers license program. The merits of Digimarc Corporation s claims against the Department of Motor Vehicle Safety are to be addressed in further court proceedings. The Department of Motor Vehicle Safety has confirmed that our contract with them remains in place. However, if the lawsuit is successful and we lose the contract, we could lose up to $19.7 million in revenue that we expected to recognize over the next five and one-half years. In addition, although we expect that the Department of Motor Vehicle Safety would be required to reimburse us for our costs incurred under the contract, if we are unable to obtain reimbursement of those costs, we could be required to recognize a loss of up to approximately $5 million on the Georgia contract.

On September 8, 2003, we sold an aggregate of 3,517,503 shares of our common stock to at $3.775 per share, resulting in gross proceeds of approximately $13.3 million. Our net proceeds were approximately $12.3 million. The shares were sold to funds managed by J. & W. Seligman & Co. Incorporated, or Seligman, and other institutional and accredited investors in a transaction exempt from registration under the Securities Act of 1933 pursuant to Rule 506 of Regulation D thereunder. The securities purchase agreement signed by Seligman includes a binding commitment for Seligman to purchase an additional 456,007 shares of our common stock at $3.775 per share immediately after, and subject to, the closing of the ZN acquisition. We have agreed to file with the SEC a registration statement covering the resale of the shares no later than October 8, 2003, and to use our commercially reasonable efforts to have the registration statement declared effective by the SEC no later than December 7, 2003. For every 15 day period after December 7, 2003 that the registration statement has not been declared effective, we will be required to pay a penalty to the investors equal to 1.5% of the aggregate proceeds from the private placement. At our option, the penalty may be paid in cash or in shares of our common stock. If we elect to pay the penalty in shares of common stock, those shares will be valued at $2.69 per share. In connection with this transaction, each of the ZN shareholders other than ZN MABG agreed not to sell the shares of our common stock that will be issued to them in the ZN acquisition for periods ranging from 60 to 180 days. In addition, we agreed to repurchase shares of common stock from the four ZN management shareholders in certain circumstances. For more information about this arrangement, see the section of this proxy statement entitled The Securities Purchase Agreement Registration Rights and Re-Sales of Viisage Common Stock by the ZN Shareholders on page 49.

On December 17, 2003, the U.S. Department of Justice issued an indictment against former Governor of Illinois George Ryan and an updated indictment against former lobbyist Lawrence E. Warner on bribery and related federal racketeering charges. The indictment against Mr. Ryan alleges that he accepted bribes, awarded state contracts and leases to friends and family members, and lied to federal agents. The indictment against Mr. Warner alleges that he paid bribes and provided other benefits to Mr. Ryan and Mr. Ryan s friends, family and associates; used his influence to obtain contracts for associates and clients; and committed extortion. We had a formal consultative relationship with Mr. Warner s firm, National Consulting Company, from 1997 to 2002 to assist us in understanding the business needs of the State of Illinois, and we paid National Consulting Company fees of approximately $800,000. Upon learning of the initial indictment of Mr. Warner in 2002, we immediately terminated our contract and relationship with National Consulting Company and Mr. Warner. Since the time of Mr. Warner s initial indictment, we have actively complied with all requests on behalf of the authorities during the investigation of Mr. Warner, and there has been no assertion of any impropriety on our part. We have a contract with the State of Illinois to provide the state s drivers license system as well as a facial recognition system.

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## RISK FACTORS

By approving the issuance of shares of our common stock in connection with the acquisition, you will be voting to approve the combination of the businesses of Viisage and ZN, which we refer to below as the combined company. Such a combination involves a high degree of risk. In addition to all of the other information in this proxy statement and its attachments, you should consider carefully the following risk factors.

### Risks Related to the Acquisition

**The number of shares of our common stock to be issued in the acquisition will not be adjusted for fluctuations in the market value of our common stock, which could result in an effective increase in the purchase price we pay to acquire ZN.**

The number of shares of common stock that we will issue in connection with the acquisition will not be adjusted to take into account fluctuations in the market value of our common stock. On March 28, 2003, the date we signed the securities purchase agreement, the closing price of our common stock was $4.40 per share, as reported on the Nasdaq National Market. Accordingly, the aggregate value of the 5,221,454 shares we will issue to the ZN shareholders and the 1,138,546 shares we will reserve for issuance under the ZN option plan was approximately $28.0 million on that date. If the market price of our common stock on the closing date is greater than $4.40 per share, the value of the shares we will issue in the acquisition could increase, which would have the effect of increasing the value of the consideration we have agreed to pay to acquire ZN.

**Our strategy of expanding our facial recognition business through the acquisition of ZN may not be successful, which could adversely affect our business operations and financial condition.**

The acquisition of ZN is part of our strategy to enhance our leadership in facial recognition technology and to expand our operations within our facial recognition business segment. Pursuing this strategy involves risks. For instance, to date, facial recognition security solutions have not gained widespread commercial acceptance. Some of the obstacles to widespread acceptance of facial recognition security solutions include a perceived loss of privacy and public perceptions as to the usefulness of facial recognition technologies. Whether the market for facial recognition security solutions will expand will be dependent upon factors such as:

- the success of marketing efforts and publicity campaigns of the combined company and our competitors; and
- customer satisfaction with the products and services of the combined company, as well as those of our competitors.

We do not know when, if ever, facial recognition security solutions will gain widespread commercial acceptance. In addition, our facial recognition business segment has not achieved profitability, and it may never achieve profitability.

**Integration of the two businesses may be difficult and will consume significant financial and managerial resources, which could have an adverse effect on our results of operations.**

Following the acquisition, the combined company will attempt to integrate Viisage s and ZN s respective facial recognition solutions and will begin to share common systems, procedures and controls. This process will be challenging and will consume significant financial and managerial resources. The challenges involved with this integration include, among others:

- challenges related to technology integration;
- possible difficulty implementing uniform standards, controls, procedures and policies; and
- possible loss of key employees.

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In addition, the differences between U.S. and German business cultures and the geographic distance between the companies could present significant obstacles to the timely, cost-effective integration of the companies.

**The significant direct and indirect costs of the acquisition and integration could adversely affect our financial performance.**

Viisage expects to incur approximately $2.3 million of costs in connection with the acquisition, including:

- costs associated with integrating the businesses of the combined companies;
- financial advisory fees; and
- costs and expenses for services provided by our lawyers and accountants.

The transaction costs and expenses attributable to financial advisory, legal and accounting services incurred by Viisage will be capitalized as a component of the purchase price. Goodwill associated with the acquisition will be required to be tested at least annually for impairment, and we will be required to record a charge to earnings if there is an impairment in the value of such goodwill at a later date. Other intangible assets acquired in connection with the acquisition will be amortized over their estimated useful lives.

We expect to charge the other transaction costs and expenses during the periods in which they are incurred, which will reduce our earnings or increase our losses during those periods. We might not be able to manage these acquisition-related costs effectively, and they could be higher than we currently estimate. If we do not manage these costs effectively, our business operations, financial results and stock price could be adversely effected.

**Failure to complete the acquisition could negatively affect us and the price of our common stock.**

The costs and expenses we incur in connection with the acquisition, other than certain fees payable to our financial advisor as described on page 46, must be paid even if the acquisition is not completed. In addition, we could be required to pay a break-up fee of $500,000 if the acquisition is not completed for any of the following reasons:

- our stockholders do not approve the issuance of shares of our common stock in connection with the acquisition;
- there has been a material adverse effect on us since March 28, 2003, the date we signed the securities purchase agreement;
- our net book value is less than $20,000,000 on the closing date; or

the acquisition is not completed by December 31, 2003 by reason of our failure to perform our obligations at the closing.

In addition, on September 8, 2003, we completed a private sale of 3,517,503 shares of our common stock at $3.775 per share, from which we received gross proceeds of approximately $13.3 million. The purchasers in that sale agreed that they would acquire an additional 456,007 shares of our common stock at $3.775 per share following, and subject to, the closing of the acquisition. The sale of those additional shares would yield gross proceeds to us of approximately $1.7 million. If the acquisition is not completed for any reason, we will not be able to sell those additional shares and, accordingly, will not receive any of proceeds from the sale.

If the acquisition is not completed for any reason, the price of our common stock could be negatively affected.

**Because the exclusivity provision in the securities purchase agreement with ZN has lapsed, ZN could enter into an acquisition agreement with a third party, which could negatively affect us and the price of our common stock.**

The securities purchase agreement previously prohibited ZN and the ZN shareholders from engaging in discussions or negotiations with any other party regarding any merger or business combination involving ZN or any sale of ZN s assets or share capital. This prohibition lapsed on September 30, 2003 and has not been extended. Although ZN and the ZN shareholders must inform us if they are approached by any party with respect to a merger, business combination or acquisition, ZN and the ZN shareholders could conduct discussions or negotiations for such a transaction at any time and, if the acquisition by Viisage is not completed by the December 31, 2003 deadline, could elect to enter into a merger, business combination or sale agreement with a party other than Viisage. The costs and expenses we incur in connection with the acquisition, other than certain fees payable to our financial advisor as described on page 46, must be paid even if the acquisition is not completed. In addition, we may be required to pay a $500,000 break-up fee if the acquisition is not completed for the reasons described above, and we will not be able to sell the additional shares of our common stock to the private placement investor as described above. If the acquisition is not completed for any reason, the price of our common stock could be negatively affected.

**The issuance of shares of our common stock to the ZN shareholders and the participants under the ZN option plan and the subsequent sale of additional shares in a private sale will result in substantial dilution to existing stockholders.**

As of September 28, 2003, there were outstanding 23,892,772 shares of our common stock, and our net book value per share was $1.99. We have agreed to sell 456,007 shares of our common stock to institutional investors in a private sale at $3.775 per share subject to the closing of the acquisition, resulting in gross proceeds of approximately $1.7 million. Assuming the issuance of all of the shares of our common stock that will be reserved under the ZN option plan in accordance with the securities purchase agreement, and taking into consideration the sale of the additional 456,007 shares to the purchasers in the private sale, following the acquisition:

- we will have issued 6,360,000 new shares of common stock to the ZN shareholders and the participants under the ZN option plan;
- the ZN shareholders and the participants under the ZN option plan will hold approximately 20% of our outstanding common stock;
- your percentage ownership of our common stock will be proportionately decreased; and
- the pro forma net book value per share of our common stock will be approximately $2.50.

## Risks Related to the Business of the Combined Company

**If the combined company does not achieve the expected benefits of the acquisition, the price of our common stock could decline.**

We expect that the acquisition of ZN will enhance our leadership in facial recognition technology through the combination of our technologies with those of ZN. Although the results of the initial tests of our combined technologies have been positive, the combination of such technologies might not meet the demands of the marketplace. If our technologies fail to meet such demand, customer acceptance of our facial recognition solutions could decline, which would have an adverse effect on our results of operations and financial condition.

In addition, we expect that the acquisition will enable us to market the products of the combined company on a global scale. Our facial recognition customers are primarily located in the United States, and ZN s customers are primarily located in Europe. The combined company might not be able to market successfully our products and services to ZN s customers or ZN s products and services to our customers. There is also a risk that the combined company will not achieve the anticipated benefits of the acquisition as rapidly as, or to the extent, anticipated by financial or industry analysts, or that such analysts will not perceive the same benefits to the acquisition as we do. If these risks materialize, our stock price could be adversely affected.

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**The combined company will face intense competition, which could result in lower revenues, higher research and development expenditures and adversely affect the combined company s results of operations.**

The events of September 11, 2001 have heightened interest in the use of biometric security solutions, and we expect competition in this field, which is already substantial, to intensify. Competitors are developing and bringing to market biometric security solutions that use facial recognition as well as eye, fingerprint and other forms of biometric verification. The products of the combined company will also compete with non-biometric technologies such as certificate authorities and traditional keys, cards, surveillance systems and passwords. Widespread adoption of one or more of these technologies or approaches in the markets the combined company intends to target could significantly reduce the potential market for the combined company s facial recognition products.

Many competitors of the combined company have significantly more cash and resources than the combined company will have. Competitors of the combined company may introduce products that are competitively priced, have increased performance or functionality or incorporate technological advances that the combined company has not yet developed or implemented.

To remain competitive, the combined company must continue to develop, market and sell new and enhanced products at competitive prices, which will require significant research and development expenditures. If the combined company does not develop new and enhanced products or if it is not able to invest adequately in its research and development activities, its business, financial condition and results of operations could be negatively impacted.

**Unless it keeps pace with changing technologies, the combined company could lose customers and fail to win new customers.**

The future success of the combined company will depend upon its ability to develop and introduce a variety of new products and services and enhancements to these new product and services in order to address the changing needs of the marketplace. The combined company may not be able to accurately predict which technologies customers will support. If the combined company does not introduce new products, services and enhancements in a timely manner, if it fails to choose correctly among technical alternatives or if it fails to offer innovative products and services at competitive prices, customers may forego purchases of the combined company s products and services and purchase those of its competitors.

**The combined company may be unable to obtain additional capital required to fund its operations and finance its growth.**

The development of facial recognition technologies by the combined company will require additional capital. In addition, our secure identification business requires significant capital expenditures. Although we completed a $13.3 million private placement in September 2003 and we and ZN have been successful in the past in obtaining financing for working capital and capital expenditures, the expanded business may increase our capital needs. The combined company may be unable to obtain additional funds in a timely manner or on acceptable terms, which would render it unable to fund its operations or expand its business. If the combined company is unable to obtain capital when needed, it may have to restructure its business or delay or abandon its development and expansion plans.

**Our leverage creates financial and operating risks that could limit the growth of the combined company.**

We have a significant amount of indebtedness. As of September 28, 2003, we had approximately $15.0 million in short and long-term debt and lease financing. Our leverage could have important consequences to the combined company including:

- limiting the combined company s ability to obtain necessary financing for future working capital;

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limiting the combined company s ability to finance the acquisition of equipment needed to meet customer requirements;

limiting the combined company s ability to finance the development of new technologies;

requiring that the combined company use a substantial portion of our cash flow from operations for debt service and not other operating purposes; and

requiring the combined company to comply with financial and operating covenants, which could cause an event of default under our debt instruments.

Our loan agreements with Commerce Bank & Trust Company, Fleet Capital Leasing and Lau Technologies contain the following financial covenants:

in every fiscal year after January 1, 2003, our secure identification segment must have positive net income, excluding income taxes;

in at least three quarters of each of our fiscal years after January 1, 2003, our secure identification segment must have positive net income, excluding income taxes; if the secure identification segment has a net loss, that net loss may not exceed $200,000;

our net loss for the last three fiscal quarters of 2003, excluding income taxes, may not exceed $2,000,000, $2,000,000 and $1,500,000, respectively;

our net loss for the first three fiscal quarters of 2004, excluding income taxes, may not exceed $1,500,000, $1,000,000 and $500,000, respectively;

our net income for the last fiscal quarter of 2004 must be at least $100,000, excluding income taxes;

we must have positive net income, excluding income taxes, beginning with the year ending December 31, 2005 and continuing for each year thereafter;

we must have tangible net worth (as defined in the loan agreements) of at least $30 million at the end of each fiscal quarter beginning with the second fiscal quarter of 2003;

the ratio of our indebtedness (as defined in the loan agreements) to our tangible net worth (as defined in the loan agreements) must not exceed 2.5 to 1;

at the end of each fiscal quarter, the ratio of our secure identification segment s operating cash flow (as defined in the loan agreements) for the four most recent fiscal quarters to our debt service liability (as defined in the loan agreements) shall be at least 1.25 to 1;

our capital expenditures in any fiscal year cannot exceed $1,500,000, and no single capital expenditure can exceed $250,000 without the lender s prior written approval; and as of each fiscal monthly close (as defined in the loan agreements), we must have at least $5 million in unencumbered cash (as defined in the loan agreements) on deposit with Commerce Bank & Trust Company.

We were in compliance with all debt covenants as of September 28, 2003. While we believe that we will remain in compliance with such covenants, we are evaluating whether our adoption of EITF 00-21 will affect our ability to comply with these covenants in future periods, and will discuss modifications to the covenants with our lenders if necessary. Compliance with such covenants also is dependent on achieving our business plan. If we do not remain in compliance with such covenants, the banks and lessors could require immediate repayment of outstanding amounts. As of September 28, 2003, there was approximately $14.2 million outstanding under these credit facilities.

Further, our ability to make principal and interest payments under long-term indebtedness and bank loans will be dependent upon the future performance of the combined company, which is subject to financial, economic and other factors affecting us, some of which are beyond our control.

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**The combined company will derive over 90% of its revenue from government contracts, which are often non-standard, involve competitive bidding, may be subject to cancellation with or without penalty and may produce volatility in earnings and revenue.**

More than 90% of the business of the combined company will involve providing products and services under contracts with U.S. federal, state, local and foreign government agencies. Obtaining contracts from government agencies is challenging, and government contracts often include provisions that are not standard in private commercial transactions. For example, government contracts may:

- include provisions that allow the government agency to terminate the contract without penalty under some circumstances;
- be subject to purchasing decisions of agencies that are subject to political influence;
- contain onerous procurement procedures; and
- be subject to cancellation if government funding become unavailable.

Foreign government contracts generally include comparable provisions relating to termination for the convenience of the relevant foreign government.

Securing government contracts can be a protracted process involving competitive bidding. In many cases, unsuccessful bidders may challenge contract awards, which can lead to increased costs, delays and possible loss of the contract for the winning bidder.

**The combined company will derive a significant portion of its revenue from a few customers, the loss of which could have an adverse effect on the combined company s revenues.**

For the nine months ended September 28, 2003, two customers, Pennsylvania Department of Transportation and Illinois Secretary of State, each accounted for over 10% of Viisage s revenues and an aggregate of 28% of its revenue. The U.S. Department of Justice has recently issued an indictment against former Governor of Illinois George Ryan and an updated indictment against former lobbyist Lawrence E. Warner on bribery and related federal racketeering charges. Viisage had a formal consultative relationship with Mr. Warner s firm pursuant to which Viisage paid that firm fees of approximately $800,000. Upon learning of the initial indictment of Mr. Warner in 2002, Viisage immediately terminated its contract and relationship with Mr. Warner and his firm. There has been no assertion of any impropriety on the part of Viisage. For 2002, two customers, Connecticut Department of Information Technology and Mississippi Department of Information Technology Services, each accounted for over 10% of Viisage s revenues and an aggregate of 22% of its revenue. For 2001, four customers, Illinois Secretary of State, Unisys Corporation (Florida Department of Safety and Motor Vehicles), Kentucky Transportation Cabinet and Pennsylvania Department of Transportation, each accounted for over 10% of Viisage s revenue and an aggregate of 49% of its revenue. Since a small number of customers under Viisage s drivers license contracts account for a substantial portion of Viisage s revenues, the loss of any of Viisage s significant customers would cause revenue to decline and could have a material adverse effect on the business of the combined company.

**Litigation involving our contract with Georgia could result in the cancellation of that contract which could cause us to lose $19.7 million in revenues over the next 5.5 years and could result in a loss of up to $5 million.**

In July 2003, a Georgia court issued a preliminary injunction prohibiting Georgia s Department of Motor Vehicle Safety from continuing to work with Viisage to install the State s new driver s license system. The injunction is the result of a lawsuit filed in March 2003 by one of Viisage s competitors alleging that the Department of Motor Vehicle Safety did not comply with its own bid process when it selected a vendor for its digital drivers license program. The merits of the lawsuit are to be addressed in further court proceedings.

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The Department of Motor Vehicle Safety has confirmed that its contract with Viisage remains in place. However, if the lawsuit is successful and Viisage loses the contract, Viisage could lose up to $19.7 million in revenue that it expected to recognize over the next five and one-half years. In addition, although Viisage expects that the Department of Motor Vehicle Safety would be required to reimburse Viisage for its costs incurred under the contract, if Viisage is unable to obtain reimbursement of those costs, Viisage could be required to recognize a loss of up to approximately $5 million on the Georgia contract.

**The adoption of EITF 00-21 resulted in a non-cash adjustment of $12.1 million and may have an adverse effect on our results of operations in the near term which may depress the market price of our common stock.**

During the third quarter of 2003, we adopted the provisions of Emerging Issues Task Force 00-21, *Accounting for Revenue Arrangements with Multiple Deliverables*, or EITF 00-21, on a cumulative basis as of January 1, 2003. After discussions with the SEC staff regarding the effect of EITF 00-21 on revenue recognition on our secure identification contracts, we have decided to adopt EITF 00-21 via cumulative catch-up as of January 1, 2003 rather than prospectively as reflected in the previously filed Form 10-Q for the quarter ended September 28, 2003. The adoption of EITF 00-21 resulted in a non-cash adjustment reported as a cumulative effect of a change in accounting principle of $12.1 million. The adoption of EITF 00-21 affects the timing of revenue recognition under our secure identification contracts and as a result we may report reduced revenue and an increased net loss for one or more of our fiscal quarters in 2004. This effect on our results of operations could cause our stock price to decline.

**Uncertainties in global economic markets could cause delays in customer purchases.**

Many customers and potential customers have delayed purchase intentions as a result of uncertainties in global economic markets. Government budgets, particularly at state and regional levels, have been or are expected to be reduced notably. Government contracts result from purchasing decisions made by public sector agencies that are particularly sensitive to budget changes and cutbacks during economic downturns, and variations in appropriations cycles. Many U.S. state customers are facing budget cuts, and some international customers are facing debt crises, introducing added uncertainty. Any shift in the government procurement process, which is outside of our control and may not be predictable, could impact the predictability of our quarterly results and may potentially have a material negative effect on our financial position, results of operation or cash flows.

**If the combined company does not successfully expand its direct sales and services organizations and partnering arrangements, it may not be able to increase its sales or support its customers.**

In the fiscal years ended December 31, 2001 and 2002, and nine-month periods ended September 28, 2003 and September 29, 2002, we licensed substantially all of our products through our direct sales organization. The future success of the combined company depends on substantially increasing the size and scope of its direct sales force and partnering arrangements, both domestically and internationally. The combined company will face intense competition for personnel, and we cannot guarantee that the combined company will be able to attract, assimilate or retain additional qualified sales personnel on a timely basis. Moreover, given the large-scale deployment required by some of its customers, the combined company will need to hire and retain a number of highly trained customer service and support personnel. The combined company cannot guarantee that it will be able to increase the size of its customer service and support organization on a timely basis to provide the high quality of support required by its customers. Failure to add additional sales and customer service representatives could result in the inability of the combined company to increase its sales and support its customers.

**The success of the combined company s strategic plan to grow sales and develop relationships in Europe may be limited by risks related to conducting business in European markets.**

Although ZN has experience marketing and distributing its products and developing strategic relationships in Europe, part of the combined company s strategy will be to increase sales and build additional relationships in

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European markets. Risks inherent in marketing, selling and developing relationships in European markets include those associated with;

- economic conditions in European markets, including fluctuations in the relative values of the U.S. dollar and the Euro;
- taxes and fees imposed by European governments that may increase the cost of products and services; and
- laws and regulations imposed by individual countries and by the European Union.

In addition, European intellectual property laws are different than U.S. intellectual property laws and we will have to ensure that our intellectual property is adequately protected in foreign jurisdictions and that ZN s intellectual property is adequately protected in the United States. If we do not adequately protect our intellectual property rights, competitors could use our proprietary technologies in non-protected jurisdictions and put us at a competitive disadvantage.

**If the combined company s products do not perform as promised, the combined company could experience increased costs, lower margins, liquidated damage payment obligations and harm to its reputation.**

The combined company will be required to provide complex systems that will be required to operate on an as needed basis. Although the combined company will deploy back-up systems, the failure of the combined company s products to perform as promised could result in increased costs, lower margins, liquidated damage payment obligations and harm to the reputation of the combined company. This could result in contract terminations and have a material adverse effect on the business and financial results of the combined company.

**Misappropriation of its intellectual property could harm the combined company s reputation, affect its competitive position and cost it money.**

We believe that the intellectual property of the combined company, including its methodologies, will be critical to its success and competitive position. If we are unable to protect this intellectual property against unauthorized use by third parties, the combined company s reputation among existing and potential customers could be damaged and its competitive position adversely affected.

The combined company s strategies to deter misappropriation could be undermined if:

- the proprietary nature or protection of its methodologies is not recognized in the United States or foreign countries;
- third parties misappropriate its proprietary methodologies and such misappropriation is not detected; and

competitors create applications similar to ours but which do not technically infringe on the combined company s legally protected rights.

If these risks materialize, the combined company could be required to spend significant amounts to defend its rights and divert critical managerial resources. In addition, the combined company s proprietary methodologies may decline in value or its rights to them may become unenforceable.

**Others could claim that the combined company is infringing on their intellectual property rights, which could result in substantial costs, diversion of managerial resources and harm to the combined company s reputation.**

Although we believe that the products and services of the combined company do not infringe the intellectual property rights of others, we might not be able to defend successfully against a third-party infringement claim. A successful infringement claim against the combined company could subject the combined company to:

liability for damages and litigation costs, including attorneys fees;

lawsuits that prevent the combined company from further use of the intellectual property;

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- having to license the intellectual property from a third party, which could include significant licensing fees;
- having to develop a non-infringing alternative, which could be costly and delay projects; and
- having to indemnify clients with respect to losses they incurred as a result of the alleged infringement.

Even if we are not found liable in a claim for intellectual property infringement, such a claim could result in substantial costs, diversion of resources and management attention, termination of customer contracts and harm to the reputation of the combined company.

**If the combined company fails to adequately manage its resources, it could have a severe negative impact on its financial results or stock price.**

The combined company could be subject to fluctuations in technology spending by existing and potential customers. Accordingly, the combined company will have to actively manage expenses in a rapidly changing economic environment. This could require reducing costs during economic downturns and selectively growing in periods of economic expansion. If we do not properly manage our resources in response to these conditions, our results of operations could be negatively impacted.

**Future acquisitions of companies or technologies may result in disruptions to the combined company s business.**

The growth strategy of the combined company could include additional acquisitions of companies or technologies that complement those of the combined company. Future acquisitions by the combined company could involve risks inherent in acquisitions, such as:

- challenges associated with integrating acquired technologies and business of operations acquired companies;
- exposure to unknown liabilities;
- diversion of managerial resources from day-to-day operations;
- possible loss of key employees, customers and suppliers;
- higher than expected transaction costs; and
- additional dilution to our existing stockholders if we use our common stock as consideration.

We completed three acquisitions during 2002 for the primary purposes of expanding our market reach and enhancing our technology base. As with the ZN acquisition, we had prior experience in working with some of the companies from which we acquired technology, which aided in the integration. However, these acquisitions created some overcapacity in personnel, which we addressed through a reduction in force in October 2002.

If we fail to manage these challenges adequately, our results of operations and stock price could be adversely affected.

**The loss of key personnel could adversely affect the combined company s ability to remain competitive.**

We believe that the continued service of our executive officers and the executive officers of ZN will be important to our future growth and competitiveness. We have entered into employment agreements with Bernard C. Bailey, our Chief Executive Officer, William Aulet, our Chief Financial Officer, Jack Dillon, our Senior Vice President, Government Solutions, and James P. Ebzery, our Senior Vice President, Sales and Marketing. These agreements are intended to provide the executives with incentives to remain employed by us. However, we cannot assure you that they will remain employed by us. In addition, we believe that the continued employment of key members of our technical and sales staffs will be important to the combined company.

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Most of the employees of the combined company are entitled to voluntarily terminate their relationship with the combined company, typically without any, or with only minimal, advance notice. The process of finding additional trained personnel to carry out the combined company s strategy could be lengthy, costly and disruptive. The combined company might not be able to retain the services of all of its key employees or a sufficient number of them to execute its plans. In addition, the combined company might not be able to continue to attract new employees as required.

**The combined company s quarterly results could be volatile and may cause our stock price to fluctuate.**

Both Viisage and ZN have experienced fluctuations in quarterly operating results and we expect those fluctuations to continue. We expect that the combined company s quarterly results will continue to be affected by, among other things, factors such as:

- the size and timing of contract awards;
- the timing of its contract performance;
- variations in the mix of its products and services; and
- contract losses and changes in management estimates inherent in accounting for contracts.

**Each of Viisage and ZN has had a history of operating losses.**

Each of Viisage and ZN has a history of operating losses. Viisage s business operations began in 1993 and, except for fiscal years 1996 and 2000, have resulted in net losses in each fiscal year. At September 28, 2003, Viisage had an accumulated deficit of approximately $40.7 million. ZN commenced operations in 2000 and has incurred net losses in each fiscal year since then. At September 30, 2003, ZN had an accumulated deficit of approximately $15.7 million, calculated in accordance with US GAAP. The combined company will continue to invest in the development of its facial recognition technologies. Accordingly, we cannot predict when or if the combined company will ever achieve overall profitability.

**The combined company will be subject to significant influence by a single stockholder that will have significant relationships with the combined company, which could result in the combined company taking actions that are not supported by unaffiliated stockholders.**

Following the acquisition, Lau will beneficially own approximately 20.3% of our outstanding common stock. As a result, Lau will have a strong influence on matters requiring approval by our stockholders, including the election of directors and most corporate actions, including mergers and acquisitions. In addition, the combined company will have significant relationships with Lau, including:

- Lau has provided a credit facility to Viisage in an aggregate principal amount of $7.3 million, which is secured by some of Viisage s assets;

Viisage acquired significant intellectual property, contracts and distribution channels through a transaction with Lau under which Viisage agreed to pay Lau a 3.1% royalty on its facial recognition revenues for a period of twelve and one half years, up to a maximum of $27.5 million;

Viisage leases its principal executive offices from Lau; and

the spouse of the Chairman of Viisage s Board of Directors owns a majority of Lau s voting stock.

**Future sales of our common stock by the ZN shareholders or Lau could depress the market price of our common stock.**

As of December 24, 2003, the record date for the special meeting described in this proxy statement, there were 23,892,772 shares of our common stock outstanding. In connection with the acquisition, we will issue up to

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6,360,000 additional shares of common stock, which will, assuming the issuance and sale of 456,007 additional shares of our common stock to the principal investor in the September 8, 2003 private placement that will occur following, and subject to, the acquisition, result in an approximately 26% increase in the number of outstanding shares of our common stock.

In connection with the acquisition, we agreed to file a Form S-3 registration statement promptly following the closing to register the re-sale of shares of our common stock received by the ZN shareholders. While the ZN shareholders will be subject to restrictions on their ability to re-sell shares of our common stock that they receive in connection with the acquisition, they will be entitled to dispose of a significant number of shares in the public market, which could cause the market price of our common stock to decrease significantly. In connection with the private placement, each of the ZN shareholders other than ZN MABG entered into an agreement under which it agreed not to sell the shares of our common stock that will be issued to them in the ZN acquisition for periods ranging from 60 to 180 days. In addition, we agreed to repurchase shares of common stock from some of the ZN shareholders under specified circumstances. For more information about this arrangement, please see the section of this proxy statement entitled The Securities Purchase Agreement Registration Rights and Re-Sales of Viisage Common Stock by the ZN Shareholders on page 51.

Following the acquisition, Lau will own approximately 20% of our common stock. If Lau sells a significant number of shares of our common stock in the open market, our stock price could decline.

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# THE SPECIAL MEETING

**When and Where the Special Meeting Will Be Held**

This proxy statement is furnished to the holders of our common stock as part of the solicitation of proxies by our management, at the direction of our Board of Directors, for use at a special meeting of Viisage stockholders to be held on January 23, 2004, at 10:00 a.m., local time, at the offices of Choate, Hall & Stewart, Exchange Place, 53 State Street, Boston, Massachusetts and any adjournments or postponements of the special meeting. This proxy statement, and the accompanying proxy card, are first being mailed to holders of our common stock on or about January 7, 2004.

**What Will Be Voted on**

At the special meeting, you will be asked to consider and vote on a proposal to approve the issuance of up to 6,360,000 shares of our common stock in connection with the acquisition of ZN Vision Technologies AG, following which ZN will become a wholly-owned subsidiary of Viisage and will serve as the base of our European operations.

**Who May Vote at the Special Meeting**

You can vote at the special meeting all of the shares of Viisage common stock which you owned of record as of December 24, 2003, which is the record date for the special meeting. If you own shares of Viisage common stock that are registered in someone else s name (for example, a broker), you need to direct that person to vote those shares or obtain an authorization from them and vote the shares yourself at the meeting.

As of the close of business on the record date, there were 23,892,772 shares of our common stock outstanding held by approximately 251 stockholders. Each stockholder is entitled to one vote for each share of Viisage common stock held as of the record date.

**How to Vote**

You may vote in person or by proxy. The proxy card accompanying this proxy statement is solicited on behalf of our Board of Directors for use at the special meeting. You are requested to complete, date and sign the accompanying proxy and promptly return it in the accompanying envelope. All proxies that are properly executed and returned, and that are not revoked, will be voted at the special meeting and any adjournment of the special meeting in accordance with the instructions indicated on the proxy card. Executed but unmarked proxies will be voted for approval of the proposal. Our Board of Directors does not presently intend to bring any business before the special meeting other than the specific proposal referred to in this proxy statement and specified in the notice of the special meeting. Our Board of Directors knows of no other matters that are to be brought before the special meeting. If any other business properly comes before the special meeting, it is intended that proxies will be voted in accordance with the judgment of the persons voting the proxies.

**How to Change Your Vote**

If you have given a proxy, you may revoke it at any time before it is exercised at the special meeting by doing one of the following:

- filing a written notice of revocation with the Corporate Secretary, Viisage Technology, Inc., at 30 Porter Road, Littleton, Massachusetts 01460;
- granting a subsequently dated proxy; or
- attending the special meeting and voting in person.

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Attending the special meeting will not, by itself, revoke a proxy. You must also vote at the meeting. If you revoke your proxy in writing you must indicate the certificate number and the number of shares to which such revocation relates and the aggregate number of shares represented by such certificate(s).

**Quorum and Vote Required**

Under our certificate of incorporation and by-laws and under Delaware law, a vote of stockholders is not required to approve the issuance of shares of our common stock in connection with the acquisition. However, because the number of shares we will be issuing in connection with the acquisition exceeds 20% of our common stock outstanding prior to the acquisition, stockholder approval is required under the rules of the Nasdaq National Market.

Each share of our common stock entitles the holder to one vote with respect to each matter submitted to stockholders at the special meeting. The presence, in person or by properly executed proxy, of the holders of at least a majority of shares of our common stock entitled to vote at the special meeting will constitute a quorum. Approval of the proposal described in this proxy statement requires the affirmative vote of the holders of at least a majority of the shares present in person or represented by properly executed proxy, at the special meeting.

Lau, the holder of approximately 26% of our common stock outstanding prior to the acquisition, has agreed to vote in favor of the proposal, provided that the securities purchase agreement is not amended or terminated prior to the closing.

The proposal to be considered at the special meeting is of great importance to our stockholders. Accordingly, you are urged to read and carefully consider the information presented in this proxy statement and to complete, date, sign and promptly return the enclosed proxy in the enclosed postage-paid envelope.

If the stockholders do not approve the proposal, Viisage will abandon its efforts to acquire ZN. In addition, Viisage will be required to pay a termination fee of $500,000 pursuant to the securities purchase agreement.

**Abstentions and Broker Non-Votes**

If an executed proxy is returned and the stockholder has specifically abstained from voting on any matter, the shares represented by that proxy will be considered present at the special meeting for purposes of determining a quorum. If an executed proxy is returned by a broker holding shares in street name which indicates that the broker does not have discretionary authority as to some shares to vote on one or more matters, the shares represented by the broker s proxy will be considered present at the meeting for purposes of determining a quorum.

**Solicitation of Proxies and Expenses of Solicitation**

We will bear the cost of the solicitation of proxies in the enclosed form from our common stockholders. In addition to solicitation by mail, our directors, officers and employees may solicit proxies from stockholders by telephone, telegram, letter, facsimile or in person. Following the original mailing of the proxies and other soliciting materials, we may request that brokers, custodians, nominees, fiduciaries and other record holders forward copies of the proxy and other soliciting materials to persons for whom they hold shares of our common stock and request authority for the exercise of proxies. In those cases, we, at the request of the record holders, will reimburse the record holders for their reasonable expenses.

**Appraisal Rights**

Stockholders who do not vote in favor of the proposal described in this proxy statement will not be entitled to dissenter s or appraisal rights. Accordingly, we will not make special provisions for stockholders to enforce such rights.

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## THE ACQUISITION

The following description of selected aspects of the acquisition does not purport to be complete and is qualified by reference to the complete text of the securities purchase agreement, the amendments to the securities purchase agreement and the opinion of Viisage s financial advisor, which are attached to this proxy statement as Annex A-1, Annex A-2, Annex A-3 and Annex B, respectively, and are incorporated herein by reference.

### Industry Overview

The need for proper identification is more important today than ever before. Growing concerns over security, especially since the terrorist attacks of September 11, 2001, as well as the significant costs of fraud perpetrated through identity theft have become driving forces behind the global need for effective identification solutions. Given the heightened security concerns throughout the world, the inability to verify a person s true identity is a pervasive and fundamental problem that requires a more comprehensive solution than is generally available today.

In an effort to combat fraud and tampering, photographic identification cards encapsulated within laminated pouches were developed. However, photographic identification cards can be replicated using widely available advanced color copiers and printers. With only a fraudulent driver s license, an individual is able to create multiple identities, evade law enforcement, commit fraud and engage in other criminal activities that have significant societal and financial implications. As a result, there has been an increasing demand for more tamper-resistant digital identification systems, which enable information and images to be captured and embedded within the fabric of a card through the use of dye-sublimation techniques, to replace existing systems. Digital systems also facilitate the storage of information in computer databases, and can be networked to enable up-to-date information to be shared and distributed across geographic and organizational boundaries, thereby heightening the level of security and functionality for system users.

Notwithstanding the advances in and acceptance of digital technology for identification purposes, identity verification remains difficult in many applications since, by simply obtaining the appropriate password or identity card, an individual can compromise the integrity of facilities, networks and information protected by password security and identity card systems. As an additional means of improving security and deterring fraud, identification systems have increasingly utilized biometrics. Biometrics involves the use of an individual s unique biological characteristics, which cannot be stolen, lost or misused, for identification and verification. Biometric identifiers include facial images, fingerprints, iris scans, retinal scans, voice data, and hand geometry, among others. The appeal of the facial image as a biometric identifier is that it can be easily verified visually and can be captured in an unobtrusive manner via a photograph. In addition, the infrastructure and databases that store facial biometrics currently exist.

According to the International Biometric Group, the worldwide market for biometrics alone is expected to grow from $601 million in 2002 to approximately $4.0 billion in 2007, representing a compound annual growth rate of approximately 45%. Legislation is now being promulgated in the United States that recommends the incorporation of biometrics into identity verification solutions that permit or deny individuals access to certain information, passage across borders or entry into secure facilities. Revenues associated with digital identification systems and the secure credentials which they produce are not included in the foregoing numbers and materially increase the size of the overall identity verification market opportunity. Applications for digital identity verification systems which incorporate biometrics are increasing as they become more reliable and easier to use.

### Strategy of Viisage

We are a leading provider of advanced technology identity solutions. We focus on identification solutions that enhance security, reduce identity theft, provide access control, and protect personal privacy. Our turnkey solutions integrate image and data capture, create relational databases and incorporate multiple biometrics by combining our proprietary facial recognition technology with fingerprint security solutions that we license from third parties. Applications include driver s licenses, voter registration, national IDs, law enforcement, social services, access control, border management and PC network and Internet access.

Our strategy for advancing our growth and leadership in the identity verification market consists of the following:

*Offer the Leading Facial Recognition Technology on the Market*. The human face is one of the biometric identifiers unique to each individual and has been and will continue to be the most widely used means of identity verification because it can be easily confirmed visually. As new threats to society increase security concerns, the possibility of capturing a facial image through a digital photograph without the subject s awareness or cooperation is a differentiating feature making this biometric identifier the preferred choice for surveillance and other identity verification applications. Our patented Eigenface technology converts facial images into a series of unique numerical identifiers and, as a result, our solutions have been well suited to applications that require rapid comparisons of an individual facial image against large numbers of facial images in a database (one-to-many identification). We offer systems to authorize physical access to keep government, commercial and residential locations secure (one-to-one verification) as well as systems that improve surveillance by identifying individuals inconspicuously (one-to-many identification). We continually seek to improve our technology to make our systems the preferred choice for each of these applications.

*Leverage Strong Position in the Department of Motor Vehicles Customer Base*. The driver s license has become the *de facto* principal identification document in the United States. We currently have multi-year contracts for image capture, secure credentials production and data maintenance with the departments of motor vehicles, or DMVs, in 16 of the 18 states in which our systems produce secure identification documents. We have a backlog of contracts under which we will commence providing these services to several additional states later this year. This installed base of customers is generating a database of millions of visual records using our patented Eigenface technology. Six of the state DMV customers have purchased our *Face*EXPLORER product offering to compare the faces of new applicants for driver s licenses against faces in the database for the purposes of counteracting fraud and identity theft. We believe our ownership of and experience with facial recognition technology offer a significant opportunity to capture this identity verification application in those state DMVs which are already our customers. Conversely, this integrated capability strengthens our opportunities to win additional state DMV contracts as these contracts come up for bid.

*Cross-sell to Other Government Agencies*. Our significant market share in state DMVs creates opportunities for us to offer our identity verification solutions to law enforcement and federal and state government agencies. Our database technology that has been implemented at state DMVs has the potential to be accessed by federal and state government agencies, resulting in a greater probability that our solutions will be adopted by other organizations. The public sector is focusing on the value of sharing databases to avoid redundant data gathering efforts, distribute information in a timely manner, increase efficiency and deter fraud. The use of our systems and databases of facial images can reduce implementation time and deliver the desired crime deterrence and security benefits to new agency users more rapidly. In view of our large installed DMV customer base, our sales force and services personnel are well positioned to succeed in winning new government agency customers and to add value serving them. As we introduce enhancements to our facial recognition technology, cross-selling opportunities will increase.

*Augment the Current Service-Solution Business Model with Technology Product Offerings*. We generate most of our revenue by providing turnkey solutions under multi-year service contracts to state DMVs, which include equipment and computers for image capture and secure credential production as well as software for data enrollment, storage, management and retrieval. Significant upfront capital investment by us is required for the purchase, installation, customization and integration of equipment and software under these contracts. Once our systems are in operation, we recoup our investment over a period of years as drivers licenses are produced. Having developed this substantial installed customer base and data on millions of Americans, we believe we are

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now well positioned to augment this multi-year payback business model with revenues from the sale of technology enhancements as defined products with higher gross margins and lower capital costs. These same products can also be sold in other applications on a stand-alone basis. As revenues from product sales grow, our profit margins will increase.

*Expand into Other Geographical Markets*. We are a market leader in identity verification in the United States. The demand for secure credentials and reliable facial recognition technology, however, exists in all developed economies. In particular, Canada and Europe are geographical markets which we believe provide significant opportunities to sell our products and services both directly and through key partners in those regions.

**Background of the Acquisition**

As part of our ongoing effort to provide our customers with the most advanced technology solutions, our engineers have considered whether our facial recognition results could be enhanced if hierarchical graph matching methods were added to our Eigenface technology. Hierarchical graph matching technology is the latest technological generation in the field of artificial intelligence and computer vision that enables computer vision in natural environments. Eigenface and hierarchical graph matching are generally recognized as the two primary methods for computing facial recognition, and we were aware that ZN had developed proprietary hierarchical graph matching capabilities that extract a multidimensional model of an individual s face from generic information at 1,700 different points in the face. ZN provides facial recognition technologies and related information systems to verify physical access and conduct identifications in image databases and live video streams. ZN s products provide a range of security solutions in various industries including border management, law enforcement, civil identification and facility security. ZN s products are used by banks, nuclear facilities and government agencies, and its customers include Berlin International Airport, Deutsche Bank, Microsoft Deutschland GmbH, Hannover (Germany) Zoo, Bosch Sicherheitssysteme GmbH, Interflex Datensysteme GmbH (Ingersoll Rand Group) and Siemens AG. For these reasons, we approached ZN in October 2002 and proposed that we collaborate on a series of benchmarking tests to measure the performance of our technologies when used together with theirs. During November and December 2002, our engineers worked with their ZN counterparts to conduct tests which showed that the combined technologies produced results that significantly exceeded what each of us could achieve alone. As a result, Bernard C. Bailey, our President and Chief Executive Officer, and Marcel Yon, the Chief Executive Officer of ZN, began discussions in late 2002 about a possible business collaboration, which included management meetings at each of our respective facilities. On December 18, 2002, Mr. Bailey reported these developments to our Board of Directors, which supported further investigation of the ZN opportunity.

On January 1, 2003, we engaged Windsor to provide investment banking services in connection with possible acquisition opportunities. The acquisition services included valuation work on possible acquisition candidates, due diligence and assistance with negotiations.

During January and the first week of February 2003, our management, together with our outside general counsel, Choate, Hall & Stewart, and with the advice of Windsor on certain matters, negotiated a non-binding letter of intent with ZN and its outside legal counsel. The letter of intent set forth many of the principal terms of the acquisition, including transaction structure, price and the treatment of the ZN option plan. In addition, the letter of intent set forth other material terms of the acquisition, such as:

- provisions relating to the resale of shares by the ZN shareholders;
- the ability of the ZN shareholders to nominate a director of Viisage;
- the escrow of a portion of the purchase price;

indemnification obligations of the parties;

the requirement to register the resale of shares to be acquired by the ZN shareholders and the participants in the ZN option plan; and

exclusivity and due diligence arrangements.

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The purchase price of 24 million Euros set forth in the letter of intent was based on the valuation of ZN used for a significant private equity investment in ZN that was completed in August 2002. The amount of that investment was six million Euros for approximately 25% of ZN s share capital. Our management believed that valuation to be a reliable indication of the value of ZN because it was arrived at in a recent transaction that had been conducted on an arm s length basis between sophisticated parties and there had not been any significant intervening events that would suggest a different valuation. During January 2003, we and ZN also worked together to submit joint proposals in response to two international facial recognition projects.

We engaged a German law firm and a German accounting firm to conduct comprehensive legal and financial due diligence on ZN which was largely completed during February 2003. On February 2, 2003, Mr. Bailey updated our Board of Directors at its regular meeting on the proposed terms of the ZN acquisition and the Board continued to support the transaction. During late February and March 2003, our management and Choate, Hall & Stewart conducted extensive negotiations with ZN and its legal counsel which resulted in a proposed definitive securities purchase agreement and related documents. During the negotiation of those documents, the parties discussed at length and agreed to, among other things:

- the scope and parameters of the purchase price adjustment;
- the substance of the representations and warranties to be made by each party; and
- the conditions to closing and the conditions under which either party could terminate the securities purchase agreement.

In addition, although the purchase price was set forth in the letter of intent, the final number of shares to be issued to the ZN shareholders and the participants in the ZN option plan was settled on between Viisage and ZN management in discussions occurring during the week of March 17, 2003. In setting the final share numbers, the parties took into consideration the pricing provisions in the letter of intent as well as the average trading price of Viisage common stock over the five immediately preceding trading days and the Euro to U.S. dollar exchange rate prevailing at such time.

On March 24, 2003, representatives of Windsor presented that firm s analysis and review of their work in connection with the proposed acquisition at a special meeting of our Board of Directors. Windsor agreed that, when requested by our Board of Directors, it would undertake to complete the work required to render a formal written opinion to the Board as to whether the consideration to be paid by us in the acquisition was fair, from a financial point of view, to us. On March 25, 2003, a special meeting of our Board of Directors was held to review the final terms of the securities purchase agreement and related documents. After discussion, and after reviewing the terms of the securities purchase agreement and related documents with representatives of Choate, Hall & Stewart and the various presentations by management, including a summary of Windsor s analysis given at the March 24 meeting, our Board of Directors voted unanimously in favor of the transaction and authorized management to execute and deliver the securities purchase agreement. The securities purchase agreement was executed by the parties on March 28, 2003 and, prior to the commencement of trading on NASDAQ on the next trading day, we issued a press release announcing the signing of the securities purchase agreement.

We subsequently engaged Windsor to render an opinion to our Board of Directors as to the fairness, from a financial point of view, to Viisage of the consideration proposed to be paid by us in connection with the proposed acquisition of ZN pursuant to the securities purchase agreement. Windsor delivered its opinion to our Board of Directors that, as of March 28, 2003, the consideration proposed to be paid by us in connection with the proposed acquisition of ZN pursuant to the securities purchase agreement was fair, from a financial point of view, to us.

On August 20, 2003, we entered into an amendment to the securities purchase agreement in order to:

extend from September 30, 2003 to October 15, 2003 the date after which either party would be entitled to terminate the securities purchase agreement if the conditions to closing are not satisfied; and

extend from July 15, 2003 to September 30, 2003 the date after which ZN would be entitled to engage in discussions and negotiations pertaining to a merger or business combination involving ZN or any sale of ZN s assets or share capital.

The amendment is attached as Annex A-2 to this proxy statement.

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On November 24, 2003, we entered into an amendment to the securities purchase agreement in order to extend from October 15, 2003 to December 31, 2003 the date after which either party would be entitled to terminate the securities purchase agreement if the conditions to closing are not satisfied. The amendment is attached as Annex A-3 to this proxy statement.

**Reasons for the Acquisition**

The acquisition of ZN advances our strategy for the following reasons:

*Technology*. Our Eigenface technology and ZN s hierarchical graph matching technology combine to create a new standard in facial recognition search capability and accuracy. Additionally, ZN s hierarchical graph matching technology positions the combined company better for the long term relative to advancing new technologies in areas such as three-dimensional facial recognition. While we believe that we are a world leader in facial recognition identification and database applications, especially for databases in excess of five million entries, ZN has been very successful in one-to-one verification applications, including applications for access control. In addition, because of its artificial vision skills, ZN is positioned exceptionally well in intelligent video surveillance where it is using facial recognition to identify individuals in real-time. ZN has also developed a unique means to use facial recognition to offer more privacy in closed-circuit television applications.

*Enhanced Offering for Government Agencies*. The high performance scores of hierarchical graph matching technology strengthens our chances of winning contracts with law enforcement and other government agencies for which accurate identification of criminal suspects and perpetrators of fraud is the most important consideration. The acquisition of ZN enables us to incorporate this technology into our systems and product offerings.

*Product Oriented Business Model*. ZN is currently selling its products to customers under a business model which generates high gross margins. We believe this is attributable to the high performance of its technology and the multiple applications which it can serve. In particular, the acquisition of ZN will increase our ability to sell facial recognition products for multiple applications on a stand-alone basis.

*Penetration of Europe and Other Geographical Markets*. The identity verification market in Europe is in the early stages of development and is therefore fragmented among many small companies. ZN has established a foothold as the European market leader in facial recognition and has developed an established infrastructure of research and development, sales, marketing and strategic partnerships. This acquisition will create a substantially more robust facial recognition product suite, and enable us to secure a European base of operations. In addition, ZN has established business relationships in Europe with firms in the security industry and other areas of strategic importance that are expected to provide further channels of distribution for the combined company. We have also recently collaborated with ZN on project proposals in Canada.

*Financial Objectives and Other Considerations*. We believe that the market for facial recognition solutions will grow substantially over the next four years. Our expectation is that the acquisition of ZN and the resulting enhancement of our facial recognition technologies will improve our ability to compete in the marketplace for facial recognition solutions by:

- adding to our suite of facial recognition products ZN s products, which have traditionally generated high gross margins;

enhancing our position as a market leader in facial recognition technology, which we believe will strengthen our chances of winning contracts with law enforcement and other governmental agencies; and

providing a foothold in the European market.

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*Complementary Vision and Philosophy.* Our experience with ZN to date gives every indication that we share the same passion for excellence and a common goal of becoming the global leader in facial recognition, a critical component for identity verification leadership.

Our Board of Directors and management considered the factors described above as well as the negative factors related to the acquisition of ZN, which factors are described under the section of this proxy statement entitled Risk Factors . Neither management nor our Board of Directors assigned relative weights to the positive and negative factors they considered.

**Opinion of Viisage s Financial Advisor**

Pursuant to an engagement letter dated January 1, 2003, Viisage retained Windsor to act as the exclusive financial advisor to Viisage to provide merger and acquisition advisory services. Windsor s services under this engagement included rendering advice to Viisage on the proposed acquisition of ZN. Viisage subsequently engaged Windsor to render an opinion to Viisage s Board of Directors as to the fairness, from a financial point of view, to Viisage of the consideration proposed to be paid by Viisage in connection with the proposed acquisition of ZN pursuant to the securities purchase agreement. Windsor rendered an opinion to Viisage s Board of Directors that, as of March 28, 2003, and based upon and subject to the assumptions, factors and limitations in the written opinion and described below, the consideration proposed to be paid by Viisage in connection with the proposed acquisition of ZN pursuant to the securities purchase agreement was fair, from a financial point of view, to Viisage. The following summary of Windsor s opinion is qualified by reference to Windsor s opinion, rendered as of March 28, 2003, which is attached to this proxy statement as Annex B.

While Windsor provided analyses and rendered its opinion to Viisage s Board of Directors, Windsor was not requested to and did not make any recommendation to Viisage s Board of Directors as to the specific form or amount of the consideration to be paid by Viisage in the proposed acquisition of ZN, which was determined through negotiations between Viisage and ZN. Windsor s written opinion was delivered for the use of Viisage s Board of Directors in connection with the proposed acquisition of ZN. In rendering its opinion, Windsor was not engaged to act, and did not act, as an agent or fiduciary for Viisage s stockholders or any other party. Windsor s opinion is directed only to the fairness, from a financial point of view, to Viisage of the consideration proposed to be paid by Viisage in the proposed acquisition of ZN. It does not address Viisage s underlying business decision to proceed with or effect the proposed acquisition of ZN or any other matter contemplated by the securities purchase agreement, or the merits of the proposed acquisition relative to any alternative transaction or business strategy that may be available to Viisage. In furnishing its opinion, Windsor does not admit that it is an expert within the meaning of the term expert as used in the Securities Act, nor does Windsor admit that its opinion constitutes a report or valuation within the meaning of the Securities Act. Statements to this effect are included in Windsor s opinion.

Windsor s opinion does not address the value of a share of ZN s share capital or Viisage s common stock, or the prices at which shares of Viisage s common stock would trade following announcement or completion of the proposed acquisition of ZN or any dilution resulting from the issuance of shares of Viisage s common stock in connection with the proposed acquisition of ZN, or the market value of the shares of Viisage s common stock before or after completion of the proposed acquisition of ZN. Windsor s opinion does not constitute a recommendation to any stockholder of Viisage as to how any stockholder should vote with respect to any matters related directly or indirectly to the proposed acquisition of ZN, including the issuance of shares of Viisage s common stock, or how such stockholder should otherwise act with respect to the proposed acquisition of ZN or to Viisage s stock or any matters related directly or indirectly to the proposed acquisition of ZN or to Viisage s stock.

In arriving at its opinion, Windsor undertook such review, analyses and inquiries as it deemed necessary and appropriate under the circumstances. Among other things, Windsor:

reviewed, from a financial point of view, the securities purchase agreement;

reviewed business, financial and other information regarding ZN which was furnished to Windsor by Viisage s management or ZN s management, or which was publicly available;

reviewed business, financial and other information regarding Viisage which was furnished to Windsor by Viisage s management or was publicly available;

considered the relative contributions of Viisage s two operating segments (secure identification and facial recognition) to Viisage s historical financial and stock performance, and their relative contribution to Viisage s future financial performance as forecasted by Viisage management;

reviewed the relative contributions of ZN and Viisage to combined historical and management s forecast of future revenues, gross profit, and operating costs prepared by Viisage management on a pro forma basis;

reviewed public information with respect to, and the current and historical trading prices of, the equity securities of public companies engaged in businesses that Windsor believed to be comparable, in whole or in part, to ZN and Viisage;

compared the financial terms of the proposed acquisition of ZN with the financial terms of other public and non-public recent transactions that Windsor deemed relevant;

considered Viisage s financial and strategic objectives and the projected benefits from the proposed acquisition of ZN; and

took into account Windsor s assessment of economic, market and financial conditions generally and within the industry within which Viisage and ZN are engaged.

In addition, Windsor had discussions with members of ZN s senior management with respect to:

the historical and current business operations and financial results and condition and the future prospects of ZN, and

internal financial analyses and forecasts for ZN prepared by ZN s management.

Windsor also had discussions with the senior management of Viisage with respect to:

the historical and current business operations and financial results and condition and the future prospects of ZN and Viisage;

internal financial analyses and forecasts for Viisage, including forecasts regarding the pro forma financial results and condition of Viisage as a result of the proposed acquisition of ZN, prepared by Viisage s management,

strategic implications of the proposed acquisition of ZN; and other benefits and risks of the proposed acquisition of ZN.

The following is a summary of the material financial analyses performed by Windsor in connection with its written opinion rendered as of March 28, 2003. It is not a comprehensive description of all analyses and examinations actually conducted by Windsor. This summary of financial analyses includes information presented in tabular format. To fully understand the financial analysis performed by Windsor, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analysis.

*Contribution Analysis*

This analysis was predicated on an estimation of the relative contribution of Viisage s two lines of business, facial recognition and secure identification, to the overall value of Viisage. Windsor utilized management reports of the historical and projected results for ZN and the facial recognition segment of Viisage to calculate the

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relative contributions of ZN and Viisage s facial recognition segment to the pro forma gross profit of the combined ZN and Viisage facial recognition company for 2002 and 2003. No adjustment was made for synergies of the combined entity as relevant data was unavailable. Windsor then compared the contributions of ZN and the facial recognition segment of Viisage with the pro forma ownership of Viisage (overall) and the facial recognition segment of Viisage. As reflected in the table below, under this analysis ZN contributed a greater percentage to gross profit than the percentage of Viisage or the Viisage facial recognition segment which would be owned by ZN s shareholders after giving effect to the proposed acquisition. Windsor concluded that such analysis supported its opinion as to the fairness, from a financial point of view, to Viisage of the consideration proposed to be paid by Viisage in connection with the proposed acquisition of ZN pursuant to the securities purchase agreement.

The following table sets forth the percentage contribution of Viisage (facial recognition segment) and ZN to pro forma combined company gross profit for 2002 and share ownership:

*Table 1: Contribution Analysis*

| ZN | Viisage (Facial Recognition Segment) | Pro Forma |
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