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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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.

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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;

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

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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

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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**
2002 Facial Recognition Gross Profit contribution	54.0%	46.0%	100.0%
Pro forma attributable ownership: Facial Recognition only	32.5%	67.5%	100.0%
Pro forma ownership: overall share distribution	23.9%	76.1%	100.0%

Comparable Company Analysis

Using publicly and privately available information, Windsor compared selected financial information of Viisage and ZN with each other, and with similar data of selected public companies which Windsor considered were engaged in businesses comparable in whole or in part to that of Viisage and ZN. Some of the selected companies are engaged in the facial recognition segment of the biometric solutions market in which Viisage and ZN operate. The remaining selected companies are engaged in other segments of the biometric solutions market, including the development of systems that identify individuals based on physical characteristics such as voice, fingerprint or handwriting or to enable different biometric applications and devices to interact with each other. Windsor noted the range of the enterprise values and trailing twelve month revenues of these companies, but concluded that the variation reflected the maturity level of the biometric solutions industry. Windsor noted qualitative factors responsible for some of this variation, such as each selected company s level of development, proportion of revenues derived from biometric solutions, quality of technology and customer relationships, and overall financial performance, and incorporated the qualitative factors into its analysis. Windsor s review included the following companies:

BIO-key International

Bioscrypt, Inc.

Communication Intelligence Corp.

Identix, Inc.

Imagis Technologies, Inc.

Nexus Group International Inc.

Nuance Communications Inc

SAFLINK Corporation

Sense Holdings, Inc.

SpeechWorks International, Inc.

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For each of the selected companies and Viisage and ZN, Windsor calculated and compared the ratio of the enterprise value (calculated as market value of common equity *plus* debt *plus* value of preferred stock *plus* book value of any minority interest *minus* cash and cash equivalents) to gross revenues for calendar year 2002 or the most recent four quarters ending in 2002 for which financial information was available, which is referred to below as trailing twelve month revenue. For purposes of ZN, Windsor used ZN s 2002 sales revenues and other operating income from reimbursement of research and development costs. Windsor s analysis included a comparison of the enterprise value-to-revenue multiple for Viisage s facial recognition segment and ZN, using both their 2002 facial recognition revenues and their management-estimated 2003 facial recognition revenues. The multiple of Viisage s facial recognition segment was based on the relative contributions of Viisage s facial recognition business and Viisage s secure identification business to the combined Viisage enterprise value and revenues. The average closing share price of each selected company s and Viisage s common stock for the ten trading days prior to March 29, 2003, the date the proposed acquisition of ZN was announced, was used in this analysis to determine each selected company s and Viisage s enterprise value. For purposes of this analysis, the enterprise value for ZN was the value of the consideration to be paid by Viisage to ZN in connection with the proposed acquisition, 22.9 million.

The median and mean ratios of enterprise value to trailing twelve month revenue for the selected companies were 4.7 and 13.1, respectively, as compared to the ratio of ZN s enterprise value to trailing twelve month revenue of 9.9. Windsor noted that the median and mean ratios of enterprise value to trailing twelve month revenue for the selected companies multiplied by ZN s 2002 sales revenues and other operating income from reimbursement of research and development costs totaling 2.317 million resulted in an enterprise value range of 10.9 million and 30.3 million. Windsor further noted that the value of the consideration to be paid by Viisage in connection with the proposed acquisition of approximately 22.9 million was within the value range implied by these strictly quantitative market measurements. Windsor believes such a solely quantitative analysis would be incomplete, and therefore applied qualitative factors such as the quality of ZN s technology as determined through Viisage s due diligence, ZN s attainment of high profile customers and ZN s diversified customer base. Windsor concluded that this qualitative analysis favored the upper end of the implied enterprise value range.

The following table presents the revenue multiples calculated by Windsor:

Table 2: Comparable Company Revenue Multiple
Using 10-day average price on March 28, 2003

	Enterprise Value/Trailing Twelve Month Revenue
ZN	9.9x
Viisage (overall)	2.8x
Viisage (Facial Recognition segment)	10.7x
Mean of Selected Companies	13.1x
Median of Selected Companies	4.7x

There are inherent difficulties in comparing the financial, operating, and market conditions and prospects of Viisage, ZN and the companies selected for comparison which made exclusive reliance on the quantitative results inappropriate. Qualitative factors, such as the quality and nature of revenues and the presence of multiple lines of business within a single company, among others, required Windsor to make judgments as to the comparability of the data. After considering all of these factors, Windsor concluded that such analysis was supportive of 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.

Comparable Transaction Analysis

The comparable transaction analysis provides a market benchmark based on the consideration paid in selected comparable transactions. For this analysis, Windsor reviewed publicly and privately available

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information to determine the purchase prices and multiples paid in the following nine acquisitions of, or significant investments in, small- and medium-sized biometric companies and related businesses since June 2001:

Table 3: Summary of Comparable Transactions

Acquisition of Target by Acquiror

Acquiror	Target	Enterprise Value/Trailing Twelve Month Revenue	Date Announced
Imagis	Briyante Software	12.1x	12/9/2002
3M	AiT Advanced Information Technology	2.8x	5/23/2002
Identix	Visionics	11.3x	2/22/2002
RSA Security	Securant Technologies	11.2x	11/1/2001
Bioscrypt	Biometric Identification	5.7x	1/8/2001
Cisco	Okena	15.4x	2/3/2003

Investment in Target by Acquiror

Acquiror	Target	Enterprise Value/Trailing Twelve Month Revenue	Date Announced
Novar plc	ZN Vision Technologies	17.2x	8/31/2002
Nexus Group	iView Systems	7.3x	4/17/2002
Nexus Group	AcSys Biometrics	52.6x	6/22/2001

The following is an explanation of the material factors that supported Windsor s determination that the above transactions were relevant to its analysis of the Viisage/ZN transaction:

Imagis/Briyante Software Corp. Imagis is a Canadian facial recognition software company. A major application of facial recognition software is currently in the law enforcement market. Both Viisage and Imagis, among other companies, participate in this market. Imagis s purchase of Briyante Software Corp. enabled it to extend its product offering in this market through Briyante s intelligence sharing software application.

3M/AiT Advanced Information Technology. AiT Advanced Information Technology produces hardware devices that automate the scanning/reading of passports at airports. This equipment suite is hardware-, not software-oriented; however, Windsor believed the transaction was relevant because the site of the systems and their mode of operation are similar to those being pursued by Viisage for its facial recognition software.

Identix/Visionics. Visionics was a biometrics company with a facial recognition software product and fingerprint technology. The Visionics facial recognition software has been Viisage s principal competitor in the facial recognition market. Its acquisition by the fingerprint company Identix created a relatively large company with two biometric technologies.

RSA Security/Securant Technologies. RSA is a computer security software firm. Its software authenticates users of computer systems and networks using encryption and digital certificates. Securant s software allows RSA s software to regulate the access and privileges of authenticated users. Windsor believed the transaction to be relevant because it involved software that is similar to the biometric access control function. One of the applications of biometric technology is access control: regulation of physical access to places and logical access to computer systems and accounts. For logical access, once the biometric authentication is performed, that authentication information is processed and utilized by other subsystems of the more mature computer network infrastructure. Thus, Windsor believed it was relevant to monitor transactions involving software that is directly adjacent to the verification technology.

Bioscrypt Inc./Biometric Identification Inc. Bioscrypt is a provider of fingerprint recognition solutions. It acquired Biometric Identification, which provided fingerprint algorithm licensing as well as hardware. Windsor believed this was a typical biometric company acquisition and, accordingly, should be included as a comparable transaction in an analysis of the proposed acquisition of ZN, which is also a biometric company acquisition.

Cisco Systems/Okena. Cisco is a networking solutions company which purchased Okena, a network security software company. Okena produces software which monitors the security of network endpoints, such as desktop and server computers. The software detects and intercepts threats such as malicious behavior and other intrusion attempts. Windsor believed this transaction was relevant for the same reasons as the RSA/Securant transaction.

Novar plc/ZN. Novar is a multi-billion dollar publicly-traded United Kingdom company. Novar made a significant equity investment in ZN less than nine months prior to the announcement of the proposed acquisition of ZN and the time Windsor conducted its analysis, after conducting extensive due diligence. This investment is directly relevant to Windsor s analysis in connection with the proposed acquisition of ZN, as it demonstrates what price an informed and sophisticated third party was willing to pay for an interest in ZN shortly before the proposed acquisition by Viisage.

Nexus Group International/iView Systems. iView produces a proprietary software application for incident reporting in the gaming and financial industries. At the time of acquisition, Nexus Group stated it intended to combine the iView product with its AcSys facial recognition software to provide an integrated solution. Viisage, through its Biometrica acquisition in March 2002, offers a similar product that uses facial recognition to detect fraud in the casino market.

Nexus Group International/AcSys Biometrics Corp. AcSys Biometrics is a facial recognition software joint venture between Nexus Group and AND Corporation, the holder of the patent to the underlying technology. Nexus Group purchased its interest in AcSys through this transaction.

For each transaction, the enterprise value of the consideration was divided by trailing twelve-month revenue prior to announcement to arrive at the multiple. The following table summarizes the revenue multiples:

Table 4: Comparable Transaction Revenue Multiple

	Enterprise Value/Trailing Twelve Month Revenue
ZN proposed transaction	9.9x
Mean of selected transactions	15.1x
Median of selected transactions	11.3x
Low of selected transactions	2.8x
High of selected transactions	52.6x

The circumstances surrounding each acquisition selected for the analysis were diverse and, accordingly, Windsor believed that a purely quantitative analysis obscured salient facts such as the product or service lines acquired, the profitability and stage of development of the target company, the size and growth of the applicable market, and general prospects or distress of the buyer or seller, which materially influenced the pricing of the transaction. Accordingly, Windsor considered these qualitative factors when analyzing the comparability data, notably Novar plc s investment in ZN in August 2002 based on a valuation of ZN comparable to the value Viisage and ZN attributed to ZN in arriving at the consideration for the proposed acquisition. In addition, Windsor applied greater weight to the Novar/ZN, Identix/Visionics and Nexus/AcSys transactions because they involved facial recognition technologies, the technology which is the subject of the proposed acquisition of ZN, within the target companies.

Windsor noted that the mean and median of the ratio of enterprise value to trailing twelve month revenues of these comparable transactions, as set forth in Table 4 above, are higher than the 9.9x implied enterprise value to trailing twelve month revenue multiple of the proposed acquisition of ZN, which indicates that the proposed acquisition is valued below the average of external reference points.

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Windsor concluded that these analyses were supportive of 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.

Note on Other Analyses

Windsor did not perform other customary analyses, including discounted cash flow, pro forma dilution, synergy, comparative stock trading history or premium paid analyses. A discounted cash flow analysis requires long term forecasts that were unavailable from either Viisage or ZN. Analysis of accretion or dilution is not meaningful for companies such as Viisage or ZN, as forecasts for earnings per share in fiscal years 2003 and 2004 were not available from either company. The data necessary to evaluate synergy expectations of the combined companies were not available. While Windsor considered the August 2002 investment in ZN by a third party, Windsor did not perform a conventional premium paid analysis since ZN is not a publicly-held company and, accordingly, has insufficient stock trading history to indicate its volatility or the reference point from which to calculate the premium, if any, paid by Viisage. These conditions reflect the inherent uncertainties of forecasting demand, timing and product margins for facial recognition and other biometric technologies. In general, these conditions are typical for small companies participating in such high-growth, technology-oriented markets, particularly privately held ones such as ZN. Windsor believes that its inability to perform these analyses was neither supportive nor detractive of its opinion.

In reaching its conclusion as to the fairness, from a financial point of view, of the consideration, Windsor did not rely on any single analysis or factor described above, assign relative weights to the analyses or factors considered by it, or make any conclusion as to how the results of any given analysis, taken alone, supported its opinion. Instead, it applied qualitative judgments as to the significance, relevance and appropriateness of the particular circumstances of each analysis and factor. The preparation of a fairness opinion is a complex process and not necessarily susceptible to partial analysis or summary description. Windsor believes that its analyses must be considered as a whole and that selection of portions of its analyses and of the factors considered by it, without considering all of the factors and analyses, would create a misleading or incomplete view of the processes underlying the opinion.

No company or transaction used in any analysis for purposes of comparison is identical to Viisage, ZN or the proposed acquisition of ZN pursuant to the securities purchase agreement. Accordingly, an analysis of the results of the comparisons is not mathematical; rather, it involves complex considerations and judgments about differences in the companies to which ZN and Viisage were compared and other factors that could affect the public trading value of the comparable public companies and Viisage. Windsor s analyses, including without limitation the estimates made in such analyses, and the multiples resulting from any particular analysis are not necessarily indicative of actual values or predictive of future results or values, which may be significantly more or less favorable than those suggested by the analyses. In addition, analyses relating to the value of businesses or securities do not purport to be appraisals or valuations or to reflect the prices at which businesses or securities actually may be sold. Accordingly, Windsor s analyses and estimates are inherently subject to substantial uncertainty.

In arriving at its opinion, Windsor did not perform any appraisals or valuations of any specific properties, assets or liabilities of ZN or Viisage, and was not furnished with any such appraisals or valuations, nor did Windsor conduct any physical inspection of the properties or assets of ZN or Viisage. Windsor expressed no opinion as to the liquidation value of any entity.

For purposes of its opinion, Windsor relied upon and assumed the accuracy and completeness of all the financial and other information that was provided to it or publicly available, relied upon the representations and warranties of ZN and Viisage made pursuant to the securities purchase agreement, and did not assume responsibility for the independent verification of that information. Information, analyses and forecasts prepared by Viisage management for Viisage internal financial planning purposes were not prepared with the expectation of public disclosure. Windsor relied upon the assurances of management of Viisage and ZN that the financial information, analyses and forecasts furnished to it have been reasonably prepared on a basis reflecting the best currently available estimates, reasonable assumptions and good faith judgments of the management of ZN and of Viisage as to the business operations, financial results and condition and future prospects of ZN and Viisage. In arriving at its opinion, Windsor relied upon Viisage s assumptions and estimates relating to strategic, financial and operational benefits from the proposed acquisition of ZN and assumed that such benefits will be realized, although financial benefits arising specifically and exclusively from synergies were not explicitly considered.

In arriving at its opinion, Windsor assumed that all necessary regulatory approvals and consents required for the proposed acquisition of ZN would be obtained in a manner that would not adversely affect Viisage or ZN or the estimated benefits expected to be derived in the proposed acquisition of ZN, or that would affect the terms of the proposed acquisition of ZN. For purposes of its opinion, Windsor further assumed that the proposed acquisition of ZN would be completed as provided in the securities purchase agreement without amendment or waiver of any of the covenants and conditions set forth in the securities purchase agreement, and without any adjustment to the consideration as provided in the securities purchase agreement.

While Windsor s opinion is dated May 12, 2003, it was rendered as of March 28, 2003. Windsor s opinion is based on information available to Windsor and the facts and circumstances, including economic, market and other conditions, as they existed and were subject to evaluation on March 28, 2003. Events occurring after March 28, 2003 could affect the opinion. Windsor has not undertaken to and is not obligated to update, reaffirm or revise its opinion or otherwise comment on any events occurring after March 28, 2003.

Viisage s Board of Directors considered many factors in its evaluation of the proposed acquisition of ZN. Windsor s analyses presented to Viisage s Board of Directors, and its opinion and the financial analyses described above, should not be viewed as determinative of the views of Viisage s Board of Directors or its management with respect to the proposed acquisition of ZN or the consideration to be paid by Viisage.

Windsor is an investment banking firm specializing in mergers and acquisitions and financings in the middle-market.

In 2001, a then affiliate of Windsor was engaged by Viisage as financial advisor in connection with Viisage s effort to acquire the digital imaging division of Polaroid Corporation. As a result of Viisage s prior experience working with this affiliate of Windsor, Viisage s Board of Directors decided to engage Windsor in connection with the acquisition of ZN.

Windsor will receive a fee based on the value of the consideration paid by Viisage in connection with the acquisition of ZN, contingent upon the closing of the proposed acquisition. Windsor will receive 3.5% of the first $10,000,000 of the purchase price paid by us in the proposed acquisition and 2.5% of the remainder of the purchase price paid by us in the proposed acquisition. The purchase price will be determined based on the number of shares issued by us and the average market price of our shares on the ten business days prior to closing and, accordingly, has not yet been determined. Based on our preliminary estimate of the purchase price of $21,955,805 calculated as set forth on page 2 of this proxy statement, Windsor would receive a fee at closing of $648,895, less $200,000 of payments already made to Windsor and offset against the contingent fee, as described below in this paragraph. As of the date of this proxy statement, we have paid Windsor monthly retainer fees of $150,000, in the aggregate. Such retainer fees will not be refunded to us if the acquisition is not completed, but they will be offset against the contingent fee payable upon the closing of the acquisition. Pursuant to its engagement to render an opinion, Viisage agreed to pay Windsor a fee equal to $50,000, which fee has been paid in its entirety. This $50,000 fee will also be offset against the contingent fee. Viisage s Board of Directors was aware of this fee structure and took it into account in considering Windsor s advice and in approving the proposed acquisition. Viisage has also agreed to pay specified out-of-pocket expenses of Windsor, including reasonable fees

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and expenses of Windsor s legal counsel, and to indemnify Windsor with respect to specified liabilities, including liabilities under the federal securities laws, that might arise out of its engagement pursuant to both engagement letters. In 2002, Windsor provided financial advisory services to Viisage in connection with Viisage s acquisition of certain assets from Lau, for which Windsor received a fee of $50,000. Also in 2002, the Windsor affiliate that acted as financial advisor in connection with Viisage s effort to acquire the division of Polaroid Corporation received 40,000 shares of Viisage common stock in consideration of such financial advisory services. All of such shares have since been sold, and Windsor did not receive any benefit from such sale.

Recommendation of Viisage s Board of Directors

After careful consideration, the Board of Directors of Viisage has determined that the acquisition is fair to, and in the best interests of, Viisage, and unanimously recommends that the stockholders of Viisage vote FOR the issuance of shares of Viisage common stock to the ZN shareholders and the participants under the ZN option plan in connection with the acquisition.

Interests of Certain Persons in the Acquisition

None of our directors or executive officers or any of their respective associates has any direct or indirect interest in the acquisition.

Past Contracts, Transactions or Negotiations

In February and March 2003, Viisage and ZN collaborated on two projects in Canada. In particular, Viisage, as a subcontractor of a Canadian company, and ZN, as a subcontractor of Viisage, placed a bid for a contract with one federal and one provincial Canadian government agency. In June 2003, Viisage, together with ZN, was selected by the Government of Alberta for a multi-year contract to provide facial comparison capabilities to the government s drivers license program.

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THE SECURITIES PURCHASE AGREEMENT

This section of the proxy statement provides a summary of the securities purchase agreement, but it may not contain all of the information that is important to you. We urge you to carefully read the securities purchase agreement and the amendments to the securities purchase agreement, which are incorporated by reference into this proxy statement and attached as Annex A-1, Annex A-2 and Annex A-3.

The Acquisition

We have agreed to acquire ZN through the purchase of all of the outstanding share capital of ZN and the assumption of the ZN option plan. Following the acquisition, ZN will be a wholly owned subsidiary of Viisage and will serve as the base of our European operations.

The Closing

We expect to close the acquisition as soon as practicable following the special meeting, which will be held on January 23, 2004.

Consideration Paid to ZN Shareholders; Assumption of ZN Option Plan

As consideration for the share capital of ZN, other than the share capital held under the ZN option plan, we will issue to the ZN shareholders an aggregate of 5,221,454 shares of our common stock and $493 in cash. In addition, we will assume ZN s stock 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 cash to be paid to the ZN shareholders and to ZN MABG as part of the purchase price will come from our working capital. 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. 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.

As of the date of this proxy statement, approximately 33% of the options under the ZN option plan are 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.

Options under the ZN option plan contain limitations regarding the ability of participants to exercise their options and to sell the shares issued to them upon exercise. In particular, no options may be exercised until September 30, 2004, regardless of whether the options are vested prior to that date. In addition, participants may not sell any of their shares until after the second anniversary of the closing of the acquisition. Following the second anniversary of the closing, participants may sell their shares, subject to the following:

prior to the third anniversary of the closing, a maximum of that number of shares may be sold that equals 10% of any remaining options or shares;

prior to the fourth anniversary of the closing, a maximum of that number of shares may be sold that equals 30% of any remaining options or shares;

prior to the fifth anniversary of the closing, a maximum of that number of shares may be sold that equals 60% of any remaining options or shares; and

after the fifth anniversary of the closing, all shares may be sold.

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To the extent options under the ZN option plan are not exercised by the plan participants prior to January 1, 2016, the shares of Viisage common stock reserved in respect of those options following the acquisition shall be issued to the ZN shareholders who initially donated their ZN shares to establish the ZN option plan in proportion to the amount of shares each of them contributed. Those shareholders include:

- Professor Dr. Werner von Seelen, a founder of ZN;
- Professor Dr. Thomas Martinetz, a founder of ZN;
- Professor Dr. Christoph von der Malsburg, a founder of ZN; and
- Odeon Venture Capital AG, a founding shareholder of ZN and a venture capital firm controlled by Marcel Yon, ZN s Chief Executive Officer.

Potential Adjustment to Purchase Price and Option Consideration

ZN stipulated in the securities purchase agreement that its net book value on March 28, 2003, the date the securities purchase agreement was signed, was 1,794,000. 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 if ZN s net book value on the closing date has declined by more than 400,000 for each whole or partial month elapsed between March 28, 2003, the date the securities purchase agreement was signed, and the closing date. Any such reduction will be made on a dollar-for-dollar basis with a deemed value of our common stock of $4.00 per share and a deemed U.S. dollar / Euro exchange rate of 1.06 to 1.00. For an example of the application of this formula, please refer to the section of this proxy statement entitled Summary Term Sheet.

Escrow

Ten percent, or 522,146, of the shares of our common stock to be issued to the ZN shareholders will be deposited into an escrow account with United States Trust Company in accordance with the terms of an escrow agreement that we will enter into with the ZN shareholders and United States Trust Company on the closing date. The shares will be held in escrow for one year and will be used to secure any indemnification obligations of the ZN shareholders under the securities purchase agreement.

Representations and Warranties; Conditions to Closing

The securities purchase agreement contains representations, warranties and covenants made by us and the ZN shareholders. Such representations and warranties include, among others, those related to capitalization, corporate power, the completeness and accuracy of financial statements, authority to enter into the transaction, compliance with laws, the absence of undisclosed liabilities and litigation and intellectual property matters. We also make a representation as to the accuracy and completeness of our public filings. ZN makes a representation as to the accuracy and completeness of all the documents and materials delivered to us in connection with our due diligence review of ZN.

The acquisition is conditioned upon the approval by our stockholders of the issuance of shares of our common stock in connection with the acquisition. In addition, at the closing, we and the ZN shareholders will have to certify that, as of the closing date, our respective representations and warranties in the securities purchase agreement continue to be true and correct, that we and the ZN shareholders have performed all covenants required under the securities purchase agreement and no legal proceeding is pending the result of which might prohibit the completion of the acquisition or might result in the rescission of the acquisition after the closing.

Covenants of the Parties

The securities purchase agreement provides that from March 28, 2003, the date the securities purchase agreement was signed, through the closing date, ZN will continue to operate its business in the ordinary course and in compliance with applicable laws and regulations. Prior to the closing, ZN is prohibited from taking any

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action that would require the approval of its supervisory board or the ZN shareholders assembly without the prior approval of Viisage. In addition, ZN may not change in any material respect its accounting practices, unless required by law. Each party must give the other access to its premises, properties and financial records and must deliver to the other party a copy of each monthly financial statement and management financial report that is delivered to such party s board of directors.

ZN and the ZN shareholders have agreed to inform us if ZN or any of the ZN shareholders are approached by any party with respect to any merger or business combination involving ZN or the sale of ZN s assets or share capital.

Prior to the closing, the ZN shareholders may designate one person to attend all meetings of our Board of Directors in a non-voting, observer capacity. However, the observer will not be entitled to review any materials or attend any portion of a meeting that involves topics that may present a conflict of interest. After the closing of the acquisition, so long as the ZN shareholders continue to hold an aggregate of at least 2,000,000 shares of our common stock, they will be entitled to nominate one member to our Board of Directors for stockholder consideration.

Indemnification

We and the ZN shareholders have agreed to indemnify the other party for damages the other party suffers as the result of any misrepresentation, breach of warranty or nonperformance of any covenant set forth in the securities purchase agreement. No party will have indemnification obligations with respect to losses to the other party that result from the fluctuation in the price of our common stock or from any changes affecting stock markets generally.

The indemnification obligations of each of the ZN shareholders are several, as opposed to joint or joint and several. The aggregate liability of each ZN shareholder cannot exceed such shareholder s net, after tax, proceeds from the sale of our common stock received in connection with the acquisition. Our aggregate liability cannot exceed the aggregate net, after tax, proceeds received by all of the ZN shareholders. No party will be entitled to indemnification until its aggregate damages exceed $250,000, at which point such party will only be able to recover amounts in excess of this threshold amount. Any party may, at its option, satisfy its indemnification obligations in cash or in shares of our common stock, which, for these purposes, the parties have agreed will be valued at $4.00 per share with an applicable U.S. dollar / Euro exchange rate of 1.06 to 1.00. However, if we are entitled to indemnification from the ZN shareholders, we must first proceed against the shares held in the escrow account before we can seek damages directly from them.

The indemnification obligations expire on the earlier of the one-year anniversary of the closing date or December 31, 2004. However, indemnification obligations relating to breaches of representations and warranties relating to capitalization or authority to consummate the transaction or to ZN s payment of taxes will expire thirty days following the expiration of the applicable statute of limitations period.

The indemnification provisions are the parties exclusive remedies for claims arising from the securities purchase agreement, except for claims based on fraud.

Termination

Either party may terminate the securities purchase agreement:

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

- if there is an event or occurrence that could have a material adverse effect on the other party or on the other party s ability to perform its obligations under the agreement; or

- if the closing has not occurred by December 31, 2003 because the other party has failed to deliver a document required to be delivered by it at the closing.

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We may terminate the securities purchase agreement if the difference between ZN s net book value on the closing date is more than 2,000,000 less than the product of 400,000, multiplied by the number of whole or partial months elapsed since the signing date. The ZN shareholders may terminate the securities purchase agreement if our net book value on the closing date is less than $20,000,000.

If the ZN shareholders terminate the securities purchase agreement for any of the reasons described above, we will be obligated to pay to ZN a termination fee of US $500,000.

Expenses

Each party is responsible for its own costs and expenses incurred in connection with the transaction. The fees and expenses incurred by ZN in connection with the transaction will be the liabilities of ZN and not the ZN shareholders.

Shares Held By Officers and Directors of ZN

Marcel Yon, the Chief Executive Officer of ZN and a member of ZN s executive board, is the Chief Executive Officer of Odeon Venture Capital AG, or Odeon. Odeon holds 9,951 shares of the outstanding share capital of ZN. Odeon will receive up to 949,325 shares of our common stock upon the closing of the acquisition.

Dr. Stefan Gehlen, a member of ZN s executive board, holds 974 shares of the outstanding share capital of ZN. Dr. Gehlen will receive up to 92,920 shares of our common stock upon the closing of the acquisition.

Professor Dr. Christoph v.d. Malsburg, a member of ZN s supervisory board, holds 9,951 shares of the outstanding share capital of ZN. Professor v.d. Malsburg will receive up to 949,325 shares of our common stock upon the closing of the acquisition.

Georg Ludwig, a member of ZN s supervisory board, is managing director of Hightech Beteiligungen GmbH & Co UK, or HTB. HTB holds 11,105 shares of the outstanding share capital of ZN. HTB will receive 1,059,147 shares of our common stock upon the closing of the acquisition.

Bernd Heinen, a member of ZN s supervisory board, is a managing director of Novar GmbH, or Novar. Novar holds 15,100 shares of the outstanding share capital of ZN. Novar will receive 1,440,540 shares of our common stock upon the closing of the acquisition.

Accounting Treatment and U.S. Federal Income Tax Consequences

The acquisition is intended to qualify as a purchase for accounting and financial reporting purposes. Accordingly, all of the tangible and intangible assets and the liabilities of ZN will be recorded at their fair value, and the results of operations of ZN will be included in our results of operations following the acquisition.

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

Registration Rights and Re-sales of Viisage Common Stock by the ZN shareholders

The shares of our common stock to be issued to the ZN shareholders upon the closing of the acquisition will be issued pursuant to exemptions from the registration requirements of the Securities Act. Accordingly, such shares may not be resold, unless such re-sales are accomplished:

- in transactions that are exempt from the registration requirements of the Securities Act;
- after the shares have been held for a specified holding period and other conditions have been satisfied; or
- pursuant to an effective registration statement.

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However, pursuant to the securities purchase agreement, we have agreed to file with the Securities and Exchange Commission, or the SEC, a Form S-3 registration statement to register the shares of our common stock received by the ZN shareholders for sale on the public market. In addition, we have agreed pursuant to the purchase agreement that after the first anniversary of the closing of the acquisition we will file a registration statement on an appropriate form to register the re-sale of shares of our common stock issued to beneficiaries under the ZN option plan. Prior to the closing of the acquisition, we plan to file with Nasdaq a form to ensure that the shares of common stock we issue in connection with the acquisition will be eligible for trading on the Nasdaq National Market following the effectiveness of the applicable registration statement.

The ZN shareholders agreed in the purchase agreement that for a period of two years commencing on the date 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, if Lau, our largest single shareholder, sells more shares than the ZN shareholders would be entitled to sell under such restrictions, the ZN shareholders would be entitled to sell an additional number of shares equal to the number of shares sold by Lau in excess of the number of shares that the ZN shareholders would have otherwise been entitled to sell, adjusted pro rata to the relative holdings of Lau and the ZN shareholders. By way of example only, because the ZN shareholders will own approximately 20% and Lau will own approximately 20% of our common stock outstanding after the acquisition, if the ZN shareholders would have been entitled to sell 10,000 shares on a particular trading day due to such restrictions but Lau sold 15,000 shares on that day, the ZN shareholders would be entitled to sell approximately 5,000 additional shares.

In connection with our sale of 3,517,503 shares of our common stock to institutional investors in a private sale on September 8, 2003, or the private placement, each of the ZN shareholders other than ZN MABG entered into lock-up agreements which restrict their ability to sell the shares of our common stock that will be issued to them in the acquisition. The lock-up agreements with the two ZN shareholders that are not affiliated with ZN s management will expire on the later of 60 days after the date that the ZN acquisition closes and the date on which the registration statement covering the shares issued in the private placement is declared effective by the SEC. The lock-up agreements with the four ZN shareholders that are affiliated with ZN s management will expire on the later of 180 days after the date that the ZN acquisition closes and the date on which the registration statement covering the shares issued in the private placement is declared effective by the SEC. However, if either Lau or funds managed by J. & W. Seligman & Co. Incorporated, or Seligman, the principal investor in the private placement, sell more than 15% of their shares of our common stock, the four ZN shareholders that are affiliated with ZN s management will be permitted to sell one share of common stock for each share sold by Lau or Seligman in excess of the 15% threshold.

The lock-up agreements permit the ZN shareholders to sell their shares of common stock in private placements during the applicable lock-up period as long as the purchaser buys the shares subject to the same lock-up restrictions as the selling shareholder. We have agreed that if by the end of the 180-day lock-up period the four ZN shareholders that are affiliated with ZN s management have not sold shares of our common stock in private sales yielding aggregate gross proceeds of $1,000,000, we will repurchase the number of shares of common stock required to provide aggregate gross proceeds to the four ZN management shareholders equal to the difference between $1,000,000 and the aggregate gross proceeds to the ZN management shareholders from any such private sales. The repurchase price for those shares will be the lower of the 30-day average closing price of a share of our common stock on the Nasdaq National Market on the last day of the 180-day lock-up period and $3.40. The maximum number of shares that we could be required to repurchase is 294,118. Cash for any required repurchase would come from our working capital.

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Regulatory Filings Required in Connection with the Acquisition

Other than the requirement that we file this proxy statement with the SEC pursuant to Regulation 14A under the Exchange Act, we are not aware of any federal or state regulatory requirements or approvals that must be complied with or obtained in connection with the acquisition. Prior to the closing of the acquisition, we intend to file an application for the listing on the Nasdaq National Market of the common stock to be issued in connection with the acquisition. Such listing will become effective only after the registration statements referred to under the caption Registration Rights above have been declared effective by the SEC.

Amendments to Securities Purchase Agreement

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.

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.

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SECURITY OWNERSHIP OF BENEFICIAL OWNERS AND MANAGEMENT OF VIISAGE

The following table sets forth, as of December 24, 2003, both before and after giving effect to the ZN acquisition and the sale of 456,007 shares of our common stock in a private sale that will occur following the closing of the acquisition, the beneficial ownership of our common stock by:

each person who is known to us to beneficially own 5% or more of our common stock;

each of our directors;

each of our executive officers; and

all of our executive officers and directors and as a group.

With respect to persons owning 5% or more of our common stock, other than Novar GmbH, we have relied on documents filed with the SEC indicating holdings which are current through approximately December 24, 2003.

Unless otherwise indicated, the address of each of the persons listed below is c/o Viisage Technology, Inc., 30 Porter Road, Littleton, Massachusetts 01460.

	Prior to the Acquisition		After the Acquisition	
Name (and Address of Beneficial Owner of More than 5%)	**Shares Beneficially Owned(1)**	**Percent**	**Shares Beneficially Owned(1)**	**Percent**
Beneficial Owners of 5% or more				
Joanna T. Lau(2)(3)	6,329,596	26.4%	6,329,596	20.6%
Lau Technologies(2)	6,139,867	25.7%	6,139,867	20.0%
Seligman Communications and Information Fund, Inc.(4)	1,787,378	7.5%	1,787,378	5.8%
Novar GmbH(5)			1,600,630	5.2%
Directors and Executive Officers				
Denis K. Berube(6)	6,329,596	26.4%	6,329,596	20.6%
Harriet Mouchly-Weiss(7)	132,802	*	132,802	*
Charles E. Levine(8)	144,672	*	144,672	*
Peter Nessen(9)	70,488	*	70,488	*
Paul T. Principato(10)	91,516	*	91,516	*
Thomas J. Reilly(11)	100,734	*	100,734	*
Iftikhar Ahmad(12)	114,705	*	114,705	*
Bernard C. Bailey(13)	125,000	*	125,000	*
Michael Mazzu(14)	54,051	*	54,051	*
	7,161,564	29.1%	7,161,564	22.8%

All directors and executive officers
as a group (9 persons)(15)

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* Less than one percent of the outstanding common stock.

(1) Unless otherwise noted, each person identified possesses sole voting and investment power over the shares owned, or shares such power with his or her spouse.

(2) The address of Ms. Lau and Lau Technologies is c/o Lau Technologies, 30 Porter Road, Littleton, Massachusetts 01460.

(3) Includes 6,139,867 shares held by Lau Technologies. Ms. Lau is the Chairperson of the Board of Directors of Lau Technologies and, together with her spouse, Dennis K. Berube, the Chairman of our Board of Directors, owns approximately 56% of the outstanding capital stock of Lau Technologies. Also includes 1,000 shares owned directly by Ms. Lau, 80,496 shares issuable to Denis K. Berube, the spouse of Ms. Lau, pursuant to stock options, and 108,233 shares owned by Mr. Berube directly. Ms. Lau disclaims beneficial ownership of the 80,496 shares issuable to Mr. Berube and the 108,233 shares owned by Mr. Berube.

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(4) The address of Seligman Communications and Information Fund, Inc. is c/o J. & W. Seligman & Co. Incorporated, 100 Park Aveneue, New York, NY 10017.

(5) Includes 160,090 shares issuable if all shares are released from escrow under the terms of the securities purchase agreement. The address of Novar GmbH is Dieselstrasse 2, 41469, Neuss, Germany.

(6) Includes 6,139,867 shares held by Lau Technologies. Mr. Berube, together with his spouse, Joanna Lau, the Chairperson of the Board of Directors of Lau Technologies, owns approximately 56% of the outstanding capital stock of Lau Technologies. Also includes 1,000 shares owned directly by Ms. Lau, 80,496 shares issuable to Mr. Berube pursuant to stock options, and 108,233 shares owned by Mr. Berube directly. Mr. Berube disclaims beneficial ownership of the 6,139,867 shares held by Lau Technologies and the 1,000 shares held by Ms. Lau.

(7) Consists of 70,497 shares issuable pursuant to stock options and 62,305 shares owned directly by Ms. Mouchly-Weiss.

(8) Consists of 69,136 shares issuable pursuant to stock options and 73,536 shares owned directly by Mr. Levine.

(9) Consists of 45,000 shares issuable pursuant to stock options and 25,488 shares owned directly by Mr. Nessen.

(10) Consists of 62,167 shares issuable pursuant to stock options and 29,349 shares owned directly by Mr. Principato.

(11) Consists of 80,496 shares issuable pursuant to stock options and 20,238 shares owned directly by Mr. Reilly.

(12) Consists of 110,060 shares issuable pursuant to stock options and 4,645 shares owned directly by Mr. Ahmad.

(13) Consists of 125,000 shares issuable pursuant to stock options.

(14) Consists of 54,051 shares issuable pursuant to stock options.

(15) Consists of 696,903 shares issuable pursuant to stock options and 6,464,661 shares owned directly by the executive officers and directors as a group.

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VIISAGE FINANCIAL INFORMATION

Included in this proxy statement are Viisage s audited financial statements as of December 31, 2001 and 2002 and for each of the three years in the period ended December 31, 2002 and its unaudited financial statements for the nine-month periods ended September 29, 2002 and September 28, 2003.

VIISAGE MANAGEMENT S DISCUSSION AND ANALYSIS OF

FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

We are a leading provider of advanced technology identity solutions. We 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 our inception, we have 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. Our primary customers have been government agencies with particular penetration in Departments of Motor Vehicles. We have captured approximately 32% of the domestic driver s license market. Our systems annually produce more than 23 million identification documents at more than 1,800 locations in 18 states. We have also provided services under subcontracts for projects in Jamaica, the Philippines and for the U.S. Immigration and Naturalization Service. Facial recognition technology is widely recognized as the most convenient, non-intrusive and cost-effective biometric available. In 2002, we completed three acquisitions through which we enhanced our portfolio of facial recognition technologies and acquired customers and distribution channels. Our patented facial recognition technology is focused on three major application areas.

FaceEXPLORER, our technology for image retrieval and analysis. FaceEXPLORER is specifically designed for high performance in real-time and large-database applications, and is deployed in the world s largest facial recognition application with a database of more than 14.5 million enrolled images and is growing by 15,000 new images per day.

FacePASS for physical access control and keyless entry; and

FaceFINDER for surveillance and identification.

Recent Accounting Developments

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. EITF 00-21 governs how to identify whether goods or services, or both, that are to be delivered separately in a bundled sales arrangement should be accounted for separately. Our secure identification contracts typically require us to customize, design, and install equipment and software at customer locations, as well as perform training, supply consumables, maintain the equipment and provide support services. Nonperformance of training, consumables management, maintenance and support services would prevent us from receiving payment for the costs incurred in the customization, design and installation of the system. EITF 00-21 limits the amount of revenue allocable to the customization, design and installation of the system to the amount that is not contingent upon the production of cards. Revenue on our secure identification contracts under EITF 00-21 is earned based on, and is contingent upon, the production of cards from the system. Due to the contingent performance of card production in our secure identification contracts, we defer revenue recognition for the system design and installation phase of our contracts, including customized software and equipment, until cards are produced.

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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 cumulative effect adjustment reflects the reversal of unbilled revenue net of associated costs associated with our secure identification contracts which had been accounted for as a single unit using the percentage-of-completion method of revenue recognition. Historically, we applied the cost-to-cost method of measurement of revenue recognition for our secure identification contracts. We recognized revenue and associated costs during the implementation of the system based on direct labor costs to total labor costs. The adjustment reflects the reversal of the gross margin recognized during the implementation of the system which will be recognized over the contract life under EITF 00-21 due to the contingent performance of the training, consumables management, maintenance and support services. Under EITF 00-21, we capitalize both the hardware and software system assets as property assets and depreciate those assets on a straight-line basis over the term of the contract.

We have determined that our secure identification contracts involve the provision of multiple elements. The first element consists of hardware, system design, implementation, training, consumables management, maintenance and support which is accounted for as equipment and related executory services under lease in accordance with Financial Accounting Standards Board Statement No. 13, or FASB 13. The second element consists of customized software which is accounted for as a long term contract in accordance with AICPA Statements of Position 97-2, *Software Revenue Recognition*, or SOP 97-2, and 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, or SOP 81-1, on a units of delivery method of measurement.

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:

(in thousands, except per share data)	For the Years Ended, Pro forma			Nine Months Ended Pro forma	Nine Months Ended As reported
	2000	December 31, 2001	2002	September 29, 2002	September 28, 2003
Operating results					**(unaudited)**
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

(in thousands)	As Reported				
	December 31, 2002	January 1, 2003	March 30, 2003	June 29, 2003	September 28, 2003

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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Segments

Our business involves two related segments: secure identification and facial recognition. For the nine months ended September 28, 2003 approximately $26.3 million, or 97.0% of our direct revenue was derived within the United States. The remaining $800,000, or 3.0% of revenue was derived in Canada and the United Arab Emirates.

Secure Identification Segment

Our secure identification segment accounted for approximately 97.9%, 90.4% and 84.7% of our revenues in the years ended December 31, 2000, 2001 and 2002, respectively. For the nine-month periods ended September 29, 2002 and September 28, 2003, our secure identification segment accounted for approximately 85.5% and 83.1%, respectively, of our revenues after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. Secure identification involves the design, development, marketing and implementation of integrated software and hardware solutions that produce identification cards utilizing facial recognition and other biometrics.

We provide customized identification systems under service contracts that have five to seven year terms and several optional annual renewals after the initial contract term. These contracts generally provide for a fixed price for each identification card produced. Contract prices vary depending on, among other things, design and integration complexities, the nature and number of workstations and sites, the projected number of cards to be produced, the size of the database, the level of post-installation support and the competitive environment. We retain ownership of the system equipment and must remove it at the end of the contract term.

Facial Recognition Segment

Our facial recognition segment accounted for approximately 2.1%, 9.6% and 15.3% of our revenues in the years ended December 31, 2000, 2001 and 2002, respectively. Approximately 12% of our facial recognition revenues in 2002 were derived from casino surveillance applications; the remaining 88% were derived from applications designed to deter criminal and terrorist activities, including government research and development contracts. For the nine-month periods ended September 29, 2002 and September 28, 2003, our facial recognition segment accounted for approximately 14.5%, and 16.9%, respectively, of our revenues after adjusting the 2002 results on a pro forma basis for the impact of accounting changes.

Within our facial recognition segment, our contracts typically provide for the development, customization and installation of facial recognition systems for government agencies, law enforcement agencies and businesses. These contracts are generally fixed price, and include milestones and acceptance criteria for the various deliverables under the contract. Contract prices vary depending on, among other things, design and integration complexities, the nature and number of workstations and sites, the size of the database, the level of post-installation support and the competitive environment. In certain cases, we provide licenses of off-the-shelf versions of our facial recognition software on a per user basis.

Acquisitions

On January 10, 2002, we acquired the assets of Lau Security Systems, a division of Lau, including all of its intellectual property, contracts and distribution channels. The intellectual property acquired from Lau included, among other things:

- twenty-four U.S. or foreign patent grants or applications for inventions relating to facial recognition technologies or the production of identification cards;
- the patent acquired by Lau from Daozeng Lu and Simon Lu for verifying the identity of an individual using identification parameters carried on an escort memory; and
- numerous invention disclosures that are being considered for patent application.

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The transaction also included an exclusive license of Lau s rights to use the patented facial recognition technology it licensed from MIT for use in the federal access control field. As a result of this transaction, certain obligations on the part of Viisage to license intellectual property to Lau were terminated. We agreed to pay Lau a royalty of 3.1% of the facial recognition revenues over twelve and a half years, up to a maximum of $27.5 million and assume specified liabilities related to the acquired business. As the transaction was between related parties, the assets have been recorded based on a historical cost basis. The estimated excess of the assets acquired over liabilities assumed has been recorded as additional paid in capital. The royalty payments are recorded as an expense as they are incurred and not added to the purchase price, as the royalty contains no minimum amount.

Since the majority stockholder of Lau is the spouse of Viisage s Chairman of the Board, Viisage s independent directors participated in the negotiations with Lau and approved the transaction. The Board also received an opinion from Windsor that the consideration paid by Viisage in the transaction was fair, from a financial point of view, to Viisage and the holders of its common stock.

On March 18, 2002, we acquired the capital stock of Biometrica Systems, Inc., or Biometrica, a former licensee and distributor of Viisage s facial recognition technologies in the casino market for approximately $2.5 million in cash and additional earn-out payments equal to 5% of revenues (as defined) through 2006. Biometrica s assets included, among other things, intellectual property relating to the BiometriCam, a compact camera with built-in facial recognition software. The acquisition was accounted for as a purchase, and accordingly, the operations of Biometrica are included in the financial statements since the effective date, the close of business on March 18, 2002. The purchase price has been allocated to net assets acquired based on their estimated fair values. We have recorded approximately $240,000 in amortization related to the acquired intangible assets from the date of the acquisition through December 31, 2002. Amortization expense for the nine months ended September 28, 2003 was approximately $255,000.

On June 3, 2002, we acquired all of the intellectual property and related assets of the Miros division of eTrue.com, a facial recognition firm with customer installations across the globe, for approximately $275,000 in cash. In addition to acquiring patented technology, including Miros TrueFace® software, we also gained access to an established customer base and new distribution channels.

Impact of Timing of Contract Awards and Contract Performance in Our Secure Identification Segment

Our results of operations are significantly affected by, among other things, the timing of awards and performance on contracts. As a result, our revenues and income may fluctuate from quarter to quarter, and comparisons over longer periods may be more meaningful. Our results of operations are not seasonal since contracts are awarded and performed throughout the year. However, we believe our public sector business is subject to cyclical procurement delays that may be related to election cycles.

Dependence on Significant Customers

We believe for the near future that we will continue to derive a significant portion of our revenues from a limited number of large contracts. For the years ended December 31, secure identification segment customers who accounted for more than 10% of revenues in a given years are as follows:

For 2002, two customers accounted for an aggregate of 22%;

For 2001, four customers accounted for an aggregate of 49%; and

For 2000, four customers accounted for an aggregate of 58%.

No single facial recognition customer accounted for over 10% of total revenue in any one year.

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Critical Accounting Policies

We prepare our financial statements in accordance with generally accepted accounting principles in the United States, or US GAAP. Consistent with US GAAP, we have adopted accounting policies that we believe are most appropriate given the facts and circumstances of our business. The application of these policies has a significant impact on our reported results. In addition, some of these policies require management to make estimates. These estimates, which are based on historical experience and analysis of current conditions, have a significant impact on our reported results and the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements. If actual results differ significantly from these estimates, there could be a material effect on our financial statements.

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. EITF 00-21 governs how to identify whether goods or services, or both, that are to be delivered separately in a bundled sales arrangement should be accounted for separately.

Secure Identification Contract Revenue and Cost Recognition

We have determined that our secure identification contracts involve the provision of multiple elements. The first element consists of hardware, system design, implementation, training, consumables management, maintenance and support which is accounted for as equipment and related executory services under lease in accordance with Financial Accounting Standards Board Statement No. 13, or FASB 13. The second element consists of customized software which is accounted for as a long term contract in accordance with AICPA Statement of Position 97-2, *Software Revenue Recognition*, or SOP 97-2, and Statement of Position 81-1, *Accounting for Performance of Construction-Type and Certain Production-Type Contracts*, or SOP 81-1, on a units of delivery method of measurement.

Costs related to the hardware element of our secure identification contracts are capitalized on the balance sheet and are depreciated over the contract term beginning when the system goes into service. Our secure identification contracts typically require us to customize, design, and install equipment and software at customer locations, as well as perform training, supply consumables, maintain the equipment and provide support services. Nonperformance of training, consumables management, maintenance and support services would prevent us from receiving payment for the costs incurred in the customization, design and installation of the system. EITF 00-21 limits the amount of revenue allocable to the customization, design and installation of the system to the amount that is not contingent upon the production of cards. Revenue on our secure identification contracts under EITF 00-21 is earned based on, and is contingent upon, the production of cards from the system. Due to the contingent performance of card production in our secure identification contracts, we defer revenue recognition for the system design and installation phase of our contracts, including customized software and equipment, until cards are produced.

Costs related to the customized software element of our secure identification contracts are capitalized on the balance sheet during the period in which we are designing and installing the system and are amortized over the contract term beginning when the system goes into service. Costs related to this element of our secure identification contracts incurred after the system is in service are expensed as incurred. Revenue related to this element of our secure identification contracts is recorded as units are produced by the system.

Our secure identification contracts typically provide that the state department of transportation, or similar agency, will pay a fixed price per identification card produced utilizing a system we design, implement and support. Our fixed, per-card pricing includes charges for the use of the system, materials and the data that is stored on the cards. Prices under these contracts vary from contract to contract depending on, among other things:

Design and integration complexities;

The nature and number of workstations and sites installed;

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The projected number of cards to be produced;

The size of the database;

The level of post-installation involvement that will be required of us; and

The competitive environment.

Prior to the adoption of EITF 00-21, we recognized revenue and costs associated with our secure identification contracts as a single accounting element using the percentage-of-completion methodology.

Facial Recognition Segment Contract Revenue and Cost Recognition

Within our facial recognition segment, our contracts typically provide for the development, customization and installation of facial recognition systems for government agencies, law enforcement agencies and businesses. These contracts are generally fixed price, and include milestones and acceptance criteria for the various deliverables under the contract. Contract prices vary depending on, among other things, design and integration complexities, the nature and number of workstations and sites, the size of the database, the level of post-installation support and the competitive environment. In certain cases, we provide licenses of off-the-shelf versions of our facial recognition software on a per user basis.

We recognize revenue under these contracts using the percentage-of-completion methodology in accordance with SOP 81-1. We use the percentage-of-completion methodology to account for revenue under these contracts because:

a high level of certainty exists regarding expected cash flows from these contracts; and

a reliable basis exists for determining the percentage of the contract that will be completed at the end of the accounting period.

We measure the percentage complete as costs are incurred or for contracts based on milestones, revenue is recognized when scheduled performance milestones and customer acceptance criteria have been achieved. These milestones are specific events or deliverables clearly identified in the contract. We recognize revenue based on the total milestone billable to the customer less revenue related to any future maintenance requirements. Billings occur under these contracts when the milestone is delivered and accepted by the customer. These milestones can include customized systems, installation and services as defined by the contract.

We record costs and estimated earnings in excess of billings under these contracts as current assets. We record billings in excess of costs and estimated earnings and accrued contract costs as current liabilities.

Revenue related to software licenses of off-the-shelf facial recognition software is recognized in accordance with SOP 97-2 for these software licenses we recognize revenue when:

- persuasive evidence of an arrangement exists;
- delivery has occurred;
- the sales price is fixed and determinable;
- collection is probable; and
- there are no post delivery obligations.

We adopted EITF 00-21 on a cumulative basis as of January 1, 2003. Based on our evaluation of facial recognition contracts and the application of the new guidance, the adoption of EITF 00-21 did not have an impact on the accounting for revenue from facial recognition systems under long-term contracts.

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Results of Operations

Nine months ended September 28, 2003 and September 29, 2002

Our business involves two related segments: secure identification and facial recognition. Revenues from our secure identification segment are derived principally from multi-year contracts for systems design and implementation, card production and related services. Revenues from our facial recognition segment are derived principally from sales to law enforcement agencies, the federal government, and the gaming industry. Revenues for the first nine months of 2003 increased 18.6% from approximately $22.8 million for the first nine months of 2002 to approximately $27.1 million for the first nine months of 2003 after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. The increase in revenues of approximately $4.3 million for the first nine months of 2003 derives from increases of approximately $3.0 million, or 15.3%, in the secure identification segment and $1.3 million, or 37.9%, in the facial recognition segment related to the inclusion of a full year of Pinellas County revenue signed in October 2002 as well as facial recognition contracts with the United Arab Emirates for the Dubai International Airport and a contract with Alberta Canada in mid 2003. The increase in the secure identification segment revenue was the result of volume increases in five states for additional revenues of approximately $4.0 million. The largest increases were in Maryland and Mississippi which represented $2.0 million of the increase. This increase was offset by decreases in other states of approximately $1.2 million in total.

Gross margins decreased to 24.8% for the first nine months of 2003 compared to 26.0% for the same period in 2002 after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. The overall decrease in gross margin is attributable to lower margin contracts in the secure identification segment beginning card production during 2003. Margins in our facial recognition segment for the nine-month period ended September 29, 2002 were low in comparison to the margins in that division for the corresponding period in 2003 due to our improved efficiency in delivering facial recognition projects in 2003, as well as margin adjustments on selected projects in 2002. As we enhance our facial recognition solutions and systems, we expect that our internal processes around production and sourcing of hardware coupled with improved efficiency in the delivery of the solution should result in improving margins. We realized some of this efficiency in 2003. Gross margins for our secure identification contracts decreased to 20.1% from 30.8% in the prior nine-month period. This decrease in the secure identification margins is due to the impact of lower margin competitive awards won in 2002. The secure identification business is a highly competitive, bid-based business which results in pricing pressure for those systems. In addition, the price of a secure identification system is dictated by the customer s specifications for the solution and its functionality. Some of these customer specifications include hardware, customized software, card volume, number and type of security features on the cards, and biometric identification on the cards. All of these inputs are evaluated in our estimate of the cost of the system and ultimately influence the pricing for the system to be delivered. We are also aware of the customer s budget situation since this affects how much the customer can spend on the system. After all of these factors are considered, we price the contract and determine the gross margin for the system to be delivered. The price and margin fluctuate on a state-by-state basis due to the number of locations, volume of cards, requirements and complexity of the system and competitive environment. Although prices remain fixed for products and services on a contract-by-contract basis, fluctuations in gross margin are attributable to the customer mix, change orders received and contract extensions from quarter to quarter.

Sales and marketing expenses decreased approximately $320,000, from $4.1 million for the first nine months of 2002 to $3.8 million for the first nine months of 2003. As a percentage of revenue, sales and marketing decreased from 18.0% for the first nine months of 2002 to 14.0% for the first nine months of 2003 after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. These decreases are due to a decrease in the level of requests for proposals from state governments within the secure identification segment as a result of delays due to state budgetary constraints. As the volume of proposal activity increases or decreases, we reallocate resources and expenses from other functions with similar skill sets versus increasing or decreasing our sales and marketing headcount and expenses.

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Research and development expenses decreased approximately $433,000, from $3.3 million for the first nine months of 2002 to $2.8 million for the first nine months of 2003. As a percentage of revenue, research and development expenses decreased from 14.3% for the first nine months of 2002 to 10.4% for the first nine months of 2003 after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. These decreases are the result of a restructuring and workforce reduction in the fourth quarter of 2002 as well as a decrease in our internal investment in research and development during the third quarter of 2003, as a result of the anticipated impact of research and development benefit that we will receive from ZN.

General and administrative expenses increased by approximately $490,000, from $3.0 million for the first nine months of 2002 to $3.5 million for the first nine months of 2003. However, as a percentage of revenue, general and administrative expenses decreased from 13.0% for the first nine months of 2002 to 12.8% for the first nine months of 2003 after adjusting the 2002 results on a pro forma basis for the impact of accounting changes. These increases in general and administrative expenses are due to the logistical support required to grow our facial recognition business through acquisitions while continuing to meet the financing requirements created by our expanding operations. The increase includes $430,000 for our newly created strategic development department, and $150,000 of expenses related to pursuing new financing opportunities, offset in part by our continued efforts to reduce and control costs.

For the nine months ended September 28, 2003, we realized a net savings of approximately $800,000 as a result of the workforce reduction that was completed in the fourth quarter of 2002. The anticipated savings of approximately $1.6 million for the nine-month period ended September 28, 2003 was offset by the hiring of personnel for an aggregate annual expense of approximately $600,000, and additional expenses associated with additional employee terminations in 2003 of approximately $200,000.

Interest expense, net of approximately $67,000 of interest income, increased approximately $82,000 for the first nine months of 2003 from the first nine months of 2002. This represents a decrease to 2.4% from 2.7% of revenue for the first nine months of each fiscal year. The increase in interest expense reflects the additional debt financing required to fund performance on 2002 contract awards.

No provision for federal income taxes has been made for the nine-month period ended September 28, 2003 and September 29, 2002 due to the net loss in both periods. For the nine-month period ended September 28, 2003, the provision for state income taxes was approximately $63,000. There was no provision for state income taxes for the nine-month period ended September 29, 2002.

For the nine-months ended September 28, 2003, we incurred a non-cash charge of $12.1 million representing the cumulative effect of a change in accounting principle related to our adoption of EITF 00-21 on a cumulative basis as of January 1, 2003.

Year ended December 31, 2002 and 2001

Revenue increased to $32.3 million in 2002 from $26.3 million in 2001. Revenues in the secure identification segment increased by $4.6 million, or 20.2%, as a result of winning new drivers license contracts. Revenues in the facial recognition segment increased by $1.4 million, or 40%, due to revenues generated from acquisitions and the continued growth of the facial recognition business. The combined facial recognition revenue from the two segments increased by $2.4 million, or 58.7%, from $4.0 million in 2001 to $6.4 million in 2002. After adjusting the 2002 and 2001 results on a pro forma basis for the impact of accounting changes, revenue increased to $31.3 million in 2002 from $28.2 million in 2001. Revenues in the secure identification segment increased by $1.7 million, or 6.8% as a result of increased card volumes from recently implemented drivers license contracts beginning card production in 2002. Revenues in the facial recognition segment increased by $1.4 million, or 40%, due to revenues generated from acquisitions and the continued growth of the facial recognition business.

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Gross margins decreased to 21.9% in 2002 from 25.4% in 2001. The decline in gross margin reflects a change in product mix and contracts that included product development as well as delays in contract awards expected in the facial recognition segment. This is evidenced by the improvement in gross margins from the 1st quarter of 2002 of 20.5% to 29.3% in the 4th quarter of 2002. In 2002, new contracts in the secure identification segment accounted for 29.4% of our revenue and had a combined gross margin of 37.6%. In 2001, new contracts accounted for 16.6% of our revenue and had a combined gross margin of 13.7%. The gross margin excluding new contracts would have been 17.1% for 2002, as compared to 24.9% in 2001. After adjusting the 2002 and 2001 results on a pro forma basis for the impact of accounting changes, gross margins decreased to 17.3% in 2002 from 27.4% in 2001. The decline in gross margin reflects a change in product mix reducing the percentage of revenue recognized on secure identification contracts and included a higher percentage of facial recognition contracts that yielded lower margins in 2002. The facial recognition segment in total averaged margins of 15.0% in 2002 compared to 40% in 2001.

Sales and marketing expenses increased by approximately $4.6 million in 2002 from 2001. This represents an increase to 16.6% from 3.1% of revenue. The increase is due to our investment in pursuing facial recognition opportunities following the events of September 11, 2001 and the pursuit of significant opportunities in the secure identification marketplace. Our expenses resulted from our increased presence and sponsorship at security related trade shows, additional resource allocation to pursue opportunities in the federal government sector and an increase in sales and marketing personnel. The expenses associated with these activities included $1.7 million of compensation expenses for new hires, $1.4 million for the reallocation of resources for sales support, $1.0 million associated with lobbyists and marketing consultants and an increase of $0.4 million in travel expenses to support lobbying and marketing activities. The result of this investment can be seen in the increase to our revenue, backlog, and customer base. We expect to continue this investment in sales and marketing.

Research and development expenses increased by approximately $2.4 million in 2002 from 2001. This represents an increase to 13.8% from 7.8% of revenue. The increase is due to our continued investment in facial recognition technologies and new product development. This included enhancing existing products with the intellectual property that was acquired through the recent acquisitions. Our expenses included $1.9 million of compensation expenses for new hires, $0.4 million for outside research consultants and $0.1 million for additional leased office space for new hires. We expect to continue to invest in product development.

General and administrative expenses increased by approximately $2.6 million in 2002 from 2001. This represents an increase to 15.7% from 9.5% of revenue. This increase was due to additional rental costs of approximately $0.9 million arising from additional leased office space and an increased rental rate on previously occupied space, $1.2 million in compensation expenses including placement fees for new hires, $0.1 million for outside consultants and a write-down of a contract receivable of $0.4 million. As a result of the acquisitions in 2002, and to facilitate the growth of the business, we also increased investment in infrastructure and personnel.

We incurred a one-time restructuring charge of $824,000 in the fourth quarter of 2002. This consisted of approximately $248,000 associated with a workforce reduction of 21 individuals, or approximately 16% of the employee base. In addition, we took a charge for non-cancelable lease costs and capital equipment of approximately $420,000 and $156,000 respectively. Annualized savings associated with the workforce reduction are expected to total approximately $2.2 million.

Interest expense decreased approximately $335,000 in 2002 from 2001. This represents a decrease to 2.8% from 4.6% of revenue. This decrease reflects the impact of our continuing efforts to reduce our overall debt and related interest expense, as well as the ability to pay down a $4,000,000 operating line of credit with the proceeds of the $25 million private placement of common stock in December 2001.

We did not record any tax for fiscal years 2002 and 2001 due to the net loss in each year.

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Year ended December 31, 2001 and 2000

Revenues are derived principally from multi-year contracts for system implementation, card production and related services. Revenue decreased to $26.3 million in 2001 from $27.5 million in 2000. The 4.4% decrease in revenue between the two years was the result of customer delays in system rollouts in the states of Pennsylvania and Maryland. These delays were caused by system configuration and system deployment issues within the states, which created delays in our procurement of system assets to be installed at the individual registry sites. As a result of the delays, costs were deferred until the issues were resolved. Revenue is recognized on a percent complete basis on costs and therefore revenues were negatively impacted. After adjusting the 2001 and 2000 results on a pro forma basis for the impact of the accounting changes, revenue increased to $28.2 million in 2001 from $27.3 million in 2000. The 3.3% increase in revenue between the two years was the result of an increase in revenue in our facial recognition segment of approximately $3.0 million. This increase in revenue was the result of two contracts awarded for facial recognition systems.

Gross margins increased to 25.4% in 2001 from 23.3% in 2000. The increase in gross margins between the two years is due principally to the positive impact of new business with higher margins in the facial recognition segment and the positive effect of contract extensions on the overall revenue mix in 2001. In 2001, new contracts accounted for 16.6% of our revenue and had a combined gross margin of 13.7%. The overall improvement to gross margin was the result of contract extensions in the secure identification segment. These extensions added 2.0% to the gross margin in 2001. In 2000, new contracts accounted for 36.9% of the revenue and had a combined gross margin of 32.0%. The gross margin excluding new contracts would have been 24.9% for 2001, as compared to 18.4% in 2000. After adjusting the 2001 and 2000 results on a pro forma basis for the impact of the accounting changes, gross margins increased to 27.4% in 2001 from 15.9% in 2000. The increase in gross margins between the two years is due principally to the positive impact of new business with higher margins in the facial recognition segment and the positive effect of contract extensions on the overall revenue mix in 2001.

Sales and marketing expenses increased by 2.8% or $0.02 million in 2001 from 2000. The increase is due to our continuing efforts in marketing our patented biometric solutions as we continue to increase our distribution and marketing capabilities for our facial recognition solutions by adding and certifying new system integrators and reseller partners. This allows us to control our costs while increasing our marketing capabilities.

Research and development expenses increased by 198.5% or $1.4 million in 2001 from 2000. This represents an increase to 7.8% from 2.5% of revenue. The increase is due to our continued investment in biometrics. Research and development costs include $1.1 million of additional labor costs and expenses for software development to be later customized for customer delivery. These product enhancements are related to both the facial recognition segment and the secure identification segment. Research and development costs do not reflect the benefits to us under license arrangements from the research and development efforts of Lau and the Massachusetts Institute of Technology for projects that are not directly related to us.

General and administrative expenses remained relatively unchanged between 2001 and 2000. This represents an increase to 9.5% from 9.0% of revenue. The increase as a percentage of revenue is due to the slight decrease in business volume and resulting revenues from 2000 to 2001.

We incurred fourth quarter one-time expenses of $1.6 million related to costs incurred in our attempt to purchase Polaroid Corporation s Identification Systems Business in the fourth quarter of 2001. These expenses related to legal and professional activities for due diligence as well as financing break up fees associated with this unsuccessful acquisition.

Interest expense decreased $0.4 million in 2001 from 2000. This represents a decrease to 4.6% from 5.9% of revenue. This decrease reflects a reduction in borrowings during 2001.

We did not record any tax for the fiscal year 2001 due to the net loss for the year. For the fiscal year 2000, no tax was incurred due to the availability of tax loss carry forwards.

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Liquidity and Capital Resources

Cash and cash equivalents were approximately $11.4 million at September 28, 2003, which consisted entirely of cash. This amount excludes approximately $5.1 million, which is restricted under our term loan agreements and project financing. Cash and cash equivalents at December 31, 2002 were approximately $2.2 million, which consisted entirely of cash. This number excludes approximately $7.4 million, which was restricted under our term loan agreements and project financing.

In the nine-month period ended September 28, 2003, cash provided by operating activities was approximately $2.9 million, after the impact of the cumulative effect of the change in accounting principle, which stems from our net loss of approximately $16.3 million, offset by non-cash charges for depreciation and amortization of approximately $5.3 million, the non cash charge for the change in accounting principle of $12.1 million, and cash provided by the net change in operating assets and liabilities of approximately $1.8 million.

Accounts receivable increased approximately 9.0% from approximately $7.4 million at December 31, 2002 to approximately $8.0 million at September 28, 2003 due to the timing of billings.

Costs and estimated earnings in excess of billings decreased from $5.5 million at January 1, 2003 to $4.5 million at September 28, 2003. This decrease primarily related to an increase of amounts billed on our milestone payment contracts.

Accounts payable and accrued expenses increased approximately 34.6% from $5.8 million at January 1, 2003 to $7.8 million at September 28, 2003 due to the timing of payables.

In May 2003 we entered into a loan agreement with Lau which provided for four term notes aggregating $7.3 million, but not to exceed an outstanding principal balance of $7.0 million at any time. Two of these term notes, in the amounts of approximately $1.6 million and $287,000, replaced existing system finance lease obligations we had with a commercial leasing organization. These finance lease obligations were paid in full with the proceeds of the two new term notes. The remaining two new term notes, totaling $3.0 million and $2.5 million, are additional financing related to two new state contracts. All four new term notes bear interest at a rate of 8.5%. We believe that the terms of this loan agreement are the same as the terms that would have been provided to us by an unaffiliated lender. In particular, the financial covenants under this loan agreement are the same as the financial covenants under our loan agreement with our primary bank lender. We will draw funding on these notes as needed to meet our obligations for equipment purchases on the related state contracts. As of September 28, 2003, we had approximately $4.6 million outstanding under this loan agreement, leaving approximately $2.4 million available for future needs.

In May 2003, we entered into a new loan agreement with Commerce Bank and Trust Company that superceded the original loan agreement for our existing term loans. The following table lists the approximate term note information for the bank and Lau as of the dates indicated (in thousands):

Lender	Original Loan Amount	Monthly Payment Provisions	Date of Loan	Due Date of Loan	Interest Rate	Outstanding Principal Balance	Outstanding Principal Balance	Outstanding Principal Balance

						December 31, 2001	December 31, 2002	September 28, 2003
1	$ 4,000	$ 84	02/07/2001	06/20/2006	8.00%	$ 3,769	$ 3,044	$ 2,462
1	3,200	72	09/11/2001	03/11/2006	6.25%	3,200	2,522	1,985
1	1,800	34	12/12/2002	12/31/2007	5.25%		1,800	1,560
1	1,500	27	12/12/2002	04/24/2008	5.25%		1,500	1,317
1	1,200	24	12/12/2002	06/24/2007	5.25%		1,200	1,023
2	2,040	53	05/30/2003	06/30/2009	8.50%			1,915
2	1,227	51	05/30/2003	05/30/2008	8.50%			1,227
2	1,562	64	05/30/2003	08/30/2005	8.50%			1,345
2	287	42	05/30/2003	12/30/2003	8.50%			125
Total	$ 16,816	$ 451				$ 6,969	$ 10,066	$ 12,959

1. Commerce Bank & Trust Company

2. Lau Technologies

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In accordance with the new loan agreements, all of our term notes are collateralized by certain of our assets and the related contract assets. We are required to maintain 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) 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; and
- 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.

Additionally, in accordance with the new agreement, we must maintain $5.1 million of cash on deposit with Commerce Bank and Trust Company. This amount is recorded as restricted cash in long-term assets.

In April 2003 we entered into an arrangement for approximately $1.5 million of equipment financing with three of our suppliers. These project lease arrangements are accounted for as capital leases. There are no financial covenants associated with these leasing arrangements. As of September 28, 2003 we have utilized $1.1 million under these arrangements. The interest rates are between 6% and 8% and are fixed. The terms of these leases range from 12 months to 60 months.

We also have one capital lease arrangement under which we are also required to maintain the same financial ratios and minimum levels of tangible net worth as set forth in our primary loan agreements. Pursuant to this arrangement, the lessor purchases certain of our digital identification systems and leases them back to us for deployment with identified and contracted customers approved by the lessor. The lessor retains title to the systems and receives an assignment of our rights under the related customer contracts, including rights to use the software and technology underlying the related systems. Under these arrangements, the lessor bears the credit risk associated with payments by our customers, but we bear performance and appropriation risk and are generally required to repurchase a system in the event of a termination by a customer for any reason, except credit default. At September 28, 2003, we had approximately $1.2 million outstanding under this arrangement.

We were in compliance with all debt covenants as of September 28, 2003. While we believe that we will remain in compliance with all debt 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 the lessors could require immediate repayment of outstanding amounts. At September 28, 2003, there was approximately $14.2 million outstanding under these credit facilities.

On September 8, 2003, we sold an aggregate of 3,517,503 shares of our common stock, at a purchase price of $3.775 per share, in a private sale to institutional investors. The gross proceeds were approximately $13.3 million before investment fees and related expenses of approximately $1.0 million. In addition, the purchasers in this transaction have agreed to purchase an additional 456,007 shares of our common stock at $3.775 per share following, and subject to, the closing of the acquisition. The net proceeds of these sales will enable us to meet our 2003 plan and to fund our ongoing operations through 2004. New contract awards may require us to seek additional financing depending on the timing, size and length of the contracts awarded. Our ability to meet our business forecast is dependent on a number of factors, including those described in the section of this proxy statement entitled Risk Factors, beginning on page 19. Our cash liquidity is not immediately impacted, either positively or negatively, by changes to net income (loss) due to timing differences between revenue recognition and cash payments on long term contracts.

Contractual Obligations

The following table sets forth our contractual obligations as of September 28, 2003 (in thousands):

	Total	Less Than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Long Term Debt Obligations	$ 12,959	$ 4,258	$ 7,165	$ 1,536	$
Capital Lease Obligations	2,065	1,830	147	88	
Operating Lease Obligations	846	800	46		

Contingent Obligations

Our principal contractual commitments involve payments under capital leases, term notes and operating leases.

Inflation

Although some of our expenses increase with general inflation in the economy, inflation has not had a material impact on our financial results to date.

Recent Accounting Pronouncements

In April 2002, the Financial Accounting Standards Board, or the FASB, issued SFAS No. 145, Rescission of FASB Statements No. 4, 44, and 64, Amendment of FASB Statement No. 13, and Technical Corrections. SFAS 145 requires that gains and losses from extinguishment of debt be classified as extraordinary items only if they meet the criteria in Accounting Principles Board Opinion No. 30. Applying the provisions of Opinion No. 30 will distinguish transactions that are part of an entity s recurring operations from those that are unusual and infrequent and meet the criteria for classification as an extraordinary item. SFAS No. 145 is effective beginning January 1, 2003. The adoption of SFAS No. 145 did not have a material impact on our financial position or results of operations.

In July 2002, the FASB issued SFAS No. 146, Accounting for Costs Associated with Exit or Disposal Activities. This standard requires companies to recognize costs associated with exit or disposal activities when they are incurred rather than at the date of a commitment to an exit or disposal plan. Examples of costs covered by the standard include lease termination costs and certain employee severance costs that are associated with a restructuring, discontinued operation, plant closing, or other exit or disposal activity. This standard is applied

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prospectively to exit or disposal activities initiated after December 31, 2002. The adoption of SFAS No. 146 did not have a significant impact on our financial position or results of operations. We initiated and executed a restructuring plan in the fourth quarter of 2002 and, accordingly, recorded a restructuring charge in the fourth quarter of 2002 (see Note 12 of notes to consolidated financial statements).

In November 2002, the FASB issued Financial Interpretation No. 45, Guarantor s Accounting and Disclosure Requirements for Guarantees, Including Indirect Guarantees of Indebtedness of Others (FIN 45). The interpretation elaborates on the existing disclosure requirements for most guarantees, including loan guarantees such as standby letters of credit. It also clarifies that at the time a company issues a guarantee, the company must recognize an initial liability for the fair value, or market value, of the obligations it assumes under the guarantee and must disclose that information in its interim and annual financial statements. The provisions related to recognizing a liability at inception of the guarantee for the fair value of the guarantor s obligations do not apply to product warranties or to guarantees accounted for as derivatives. The initial recognition and initial measurement provisions apply on a prospective basis to guarantees issued or modified after December 31, 2002. The adoption of FIN 45 did not have a material effect on our financial position or results of operations.

In December 2002, the FASB issued SFAS No. 148, Accounting for Stock-Based Compensation Transition and Disclosure (FAS 148), which (i) amends FAS Statement No. 123, Accounting for Stock-Based Compensation, to provide alternative methods of transition for an entity that voluntarily changes to the fair value based method of accounting for stock-based employee compensation (ii) amends the disclosure provisions of FAS 123 to require prominent disclosure about the effects on reported net income of an entity s accounting policy decisions with respect to stock-based employee compensation and (iii) amends APB Opinion No. 28, Interim Financial Reporting, to require disclosure about those effects in interim financial information. Items (ii) and (iii) of the new requirements in FAS 148 are effective for financial statements for fiscal years ending after December 15, 2002. We have adopted the increased disclosure requirements of FAS 148(ii) for the fiscal year ended December 31, 2002. We will continue to use the intrinsic value method of accounting for stock-based employee compensation.

In January 2003, the FASB issued Financial Interpretation No. 46, Consolidation of Various Interest Entities (FIN 46), which requires the consolidation of certain interest entities. FIN 46 is applicable to financial statements issued after 2002. There are no entities that will be consolidated with the Company s financial statements as a result of FIN 46.

In April 2003, the FASB issued SFAS No. 149, *Amendment of Statement 133 on Derivative Instruments and Hedging Activities*. SFAS No. 149 amends and clarifies financial accounting and reporting for derivative instruments, including certain derivative instruments embedded in other contracts (collectively referred to as derivatives) and for hedging activities under SFAS No. 133. SFAS No. 149 is effective for contracts entered into or modified after June 30, 2003, and hedging relations designated after June 30, 2003, except for those provisions of SFAS No. 149 which relate to SFAS No. 133 implementation issues that have been effective for fiscal quarters that began prior to June 15, 2003. For those issues, the provisions that are currently in effect should continue to be applied in accordance with their respective effective dates. In addition, certain provisions of SFAS No. 149, which relate to forward purchases or sales of when-issued securities or other securities that do not yet exist, should be applied to both existing contracts and new contracts entered into after June 30, 2003. The adoption of SFAS No. 149 did not have a material effect on our financial statements.

In May 2003, the FASB issued SFAS No. 150, Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity. SFAS No. 150 establishes standards for how an issuer classifies and measures certain financial instruments with characteristics of both liabilities and equity. SFAS No. 150 requires that an issuer classify a financial instrument that is within the scope of SFAS No. 150 as a liability. SFAS No. 150 is effective at the beginning of the first interim period beginning after June 15, 2003, except for mandatorily redeemable financial instruments of nonpublic entities, which are subject to the provisions of this Statement for the first fiscal period beginning after December 15, 2003. The adoption of SFAS No. 150 is not expected to have a material effect on our financial statements.

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Changes in and Disagreements with Accountants on Accounting and Financial Matters

None.

Quantitative and Qualitative Disclosures about Market Risk

We have no material exposure to market risk that could affect our future results of operations and financial condition.

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BUSINESS OF ZN

General Overview

ZN Vision Technologies AG is a leading provider of facial recognition technologies and services in Europe, specializing in hierarchical graph matching technology. ZN s hierarchical graph matching technology is based on the latest advancements in computer vision and artificial intelligence. The core technology has been derived from human neural structures. Based on this technology, ZN developed a facial recognition engine and a comprehensive product portfolio for security and surveillance markets. ZN s technologies and related information systems can be used to permit or deny physical access to secure facilities or conduct identifications in image databases and live video streams. ZN s products provide a range of security solutions in various industry sectors, including border management, law enforcement, identification documents and a multitude of civil markets.

Background of ZN

In 1992, Professor Dr. Christoph von der Malsburg and Professor Dr. Werner von Seelen founded Zentrum für Neuroinformatik GmbH, or Zentrum, as a spin-off of the University of Southern California, Los Angeles and Ruhr Universität-Bochum, Germany. Between 1992 and April 2000, Zentrum s activities primarily consisted of research and development and licensing in the field of computer vision technologies.

ZN commenced operations in April 2000. ZN s founders included Professor Dr. Malsburg, a founder of Zentrum and the vice-chairman of ZN s non-executive board, Marcel Yon, ZN s Chief Executive Officer, Dr. Stefan Gehlen, ZN s Chief Technology Officer, Professor Dr. Thomas Martinetz and Professor Dr. Werner von Seelen. Following its commencement of operations, ZN licensed intellectual property relating to Zentrum s facial recognition technology and other patents from Zentrum. In August 2002, ZN acquired the intellectual property that it had previously licensed from Zentrum. Between April 2000 and December 2001, ZN hired 18 former employees of Zentrum to continue the development of the facial recognition and medical products technology ZN acquired from Zentrum.

Zentrum currently has no business operations other than leasing an office building to ZN and holding passive investments in other companies. ZN does not have any ownership interest in Zentrum, and Zentrum does not have any ownership interest in ZN.

ZN has been primarily funded through venture capital investments. In particular, German venture capital firm High Tech Beteiligungen GmbH & Co KG, or HTB, invested a total of 6.1 million in ZN in exchange for ZN share capital. HTB s investment was made in several installments between June 2000 and August 2001. In August 2002, Novar plc, or Novar, invested 4.0 million in ZN in exchange for ZN share capital. As of the date of this proxy statement, Novar owns approximately 25.2% of ZN s share capital and HTB owns approximately 18.5% of ZN s share capital. If the acquisition is completed, and assuming that all shares held in escrow pursuant to the securities purchase agreement are released to the ZN shareholders, HTB will acquire 1,177,130 shares of Viisage common stock and Novar will acquire 1,600,600 shares of Viisage common stock. In addition, HTB will receive $111 and Novar will receive $151 in cash.

Employees

As of June 30, 2003, ZN had 61 employees (including students, trainees and executive directors), 38 of whom are engaged in research and development, 14 of whom are in sales and marketing and 9 of whom are in administration and finance. Eighteen percent of ZN s employees and management hold a PhD., and more than 70% of ZN s employees hold at least one university degree.

Location and Facilities

ZN leases office space in Bochum, Germany, located in the Rhine-Ruhr region. The offices are located on the campus of the University of Bochum. ZN believes that its properties are adequate for its current business needs. In addition, ZN believes that adequate space can be obtained for its foreseeable business needs.

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Technology

ZN s hierarchical graph matching technology has been derived from the human visual process. ZN s technology and skills are not confined to facial recognition but rather are also suited for object recognition and intelligent video analysis. The technology is suitable for the analysis of both static images and dynamic sequences and can be applied in self-learning and evolutionary systems.

ZN has obtained numerous patents and trademarks and has filed patent and trademark applications in order to protect its proprietary technology in Germany, several other EU countries as well as in the United States, Canada, Australia, Japan and New Zealand. ZN has entered into several research and development contracts with large industrial organizations and research institutions to enhance its technology.

Activities and Current Products

ZN offers a wide range of facial recognition-based products for verification and identification applications, including access control, database searches, management of identification, law enforcement and forensics, border management, passports and identification documents, smart cards, secure ticketing and intelligent video surveillance.

ZN-Face is a facial recognition-based verification solution. Verification takes less than one second and responds well to various environmental conditions, changes in facial expressions and changes in outward appearances due to aging and the addition of beards, wigs and eyeglasses. The solution has been tested and recommended by a number of private organizations and government agencies. Numerous customers in Germany and abroad, including banks, nuclear facilities and government buildings, have been using ZN-Face for a number of years. ZN-Face has been specifically requested in a number of recent tenders in the German market. Product derivatives are available for access control, identification document authentication, passports and boarding passes with integrated biometrics, credit cards or smart cards. ZN-Face is available as a turnkey solution and as an upgrade to existing systems.

ZN-Phantomas and ZN-ID are database solutions for identification applications based on facial recognition. Pictures drawn from surveillance cameras, identikits or identification investigations are compared by these products to image databases. The solutions are available for both criminal and civil identification purposes. Systems are currently being used by several authorities in Germany, Poland, Slovakia and the Czech Republic.

ZN-SmartEye is an intelligent video surveillance solution with integrated facial recognition capabilities for use in real-time or off-line scenarios. Standard closed-circuit television images are analyzed to extract faces. These faces may then be matched in near real time against databases of wanted individuals. ZN-SmartEye has been tested successfully for several government applications and is operational in casinos in Germany and Russia.

ZN-Count enables near real-time counting of people for both security and statistical applications. The first customer for this product is the European Central Bank.

ZN-PrivacyFilter makes use of ZN s hierarchical graph matching technology and facial recognition capabilities to offer privacy to individuals appearing on closed-circuit television images. ZN-PrivacyFilter scans video images for faces and encrypts them in near real time. Faces may be decoded subsequently on a need to-see basis following procedures defined by the customer. ZN-PrivacyFilter may be used in conjunction with facial recognition applications such as ZN-SmartEye or stand-alone with digital closed-circuit television installations. ZN is working alongside privacy lobby groups and government data protection agencies to promulgate this privacy enhancing technology.

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Products, Installation and Maintenance

ZN s core competency is the development of software. ZN mainly relies on standard off-the-shelf hardware components. A limited number of hardware components have been developed by ZN and its partners, particularly in access control. Hardware and software components are typically assembled at ZN s premises in Bochum, Germany before a system is installed at the customers and end-users premises.

A substantial portion of ZN s installed systems have been installed by ZN distributors and partners. Typically, these partners are responsible for first-level support while ZN offers second-level support. However, ZN has also installed a number of systems without any partner involvement and is able to offer first-level support to these customers.

Competition

There are only a few facial recognition companies with their own proprietary technology and an installed base of customers world-wide. However, competition is intense due to the limited number of projects currently available in the market. Factors that affect competition include a company s supplier competency, product functionality, performance and reliability of technology, experience in distribution and operations, ease of implementation, rapid deployment, customer service and price. Key competitors in facial recognition markets are Viisage, Identix Inc. and Imagis Technologies Inc.

Markets

ZN targets the following markets:

Area security

Area security includes access control and intelligent video surveillance applications for airports, banks, government and military facilities and other high security areas. Area security also includes time and attendance applications, annual subscriber checks and casino applications.

Criminal ID

Criminal ID is the market for facial image database applications such as mug matching of suspects against a database of known criminals. It also includes intelligent video analysis for law enforcement purposes.

Civil ID

Civil ID covers the market for issuance of ID documents such as passports, drivers licences and similar documents. Facial image databases are used to find double entries to prevent and discover forgery and fraud.

Border management

Border management is the market for securing and controlling border crossings at airports, seaports and land ports. Travelers ID is verified against the travelers ID document. In addition blacklist searches may be performed.

Distribution Channels

ZN distributes its products and services through a combination of direct sales, value-added resellers and strategic partners.

Direct sales

ZN maintains a sales force. Twenty percent of ZN s sales revenues in 2002 and thirty-two percent in the six-month period ended June 30, 2003 were attributable to direct sales.

Value-added Resellers

ZN has built a number of successful relationships with value-added resellers. These companies have been selected for their expertise, experience and outreach in their fields of operations. The companies considered are usually important players in the field of security and integration of complex security-related solutions. Value

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added resellers bundle and sell the ZN-based services and solutions together with their existing offering to end-users. The key aspect of this route to market is to provide additional revenue opportunities for the resellers while providing increased value to customers. ZN provides the necessary technology, training, sales support and marketing collateral for resellers to be successful. Some of these value-added resellers have committed to market ZN solutions exclusively in certain market segments and/or regions. ZN s value-added resellers include ADT Deutschland GmbH, Bosch Sicherheitssysteme GmbH, Thales Identification, Cegelec France and Siemens AG.

Strategic partners

ZN has built a number of strategic relationships in the field of identification documents, smartcards and access control. Strategic partners are selected due to the fit of their expertise and value preposition with ZN s strategic goals for the future. These companies include large IT integrators, smart card solution providers and secure printing and document security businesses. Strategic partners are leaders or experts in their field providing platform solutions or complementary, peripheral, and integration products to ZN s products and solutions. ZN s strategic partners include Canadian Bank Note Company Ltd., Bundesdruckerei GmbH, Giesecke and Devrient GmbH, Interflex Datensysteme GmbH, Novar plc. and SDU bv.

In the six-month period ended June 30, 2003, Siemens AG, Novar plc and Bosch GmbH each accounted for more than 10% of ZN s sales revenues. In 2002 Siemens AG accounted for more than 10% of ZN s sales revenues. In 2001 ZTC electronic GmbH accounted for more than 10% of ZN s sales revenues. These are the only companies that accounted for more than 10% of ZN s sales revenues for these periods.

Management of ZN

Marcel Yon, Chief Executive Officer and President of the Executive Board

Marcel Yon, 36, has served as ZN s Chief Executive Officer and President of the ZN Executive Board since April 2000. Mr. Yon is responsible for ZN s overall business, strategy and finance and administration. Mr. Yon acquired an ownership interest in Zentrum in 1999 by way of a management buy-in and is the architect behind the formation of ZN. From September 1999 through April 2000, Mr. Yon served as Chief Executive Officer of Zentrum. He previously worked in the field of mergers and acquisitions and strategic consulting for Lazard Brothers & Co., Ltd. in London, England from January 1996 through September 1999. Mr. Yon studied business administration at the University of Göttingen, the University of Southern California at Los Angeles, Berlin University of Technology and Ecole Supérieure de Commerce de Paris. Mr. Yon sits in a number of biometrics working groups and is a frequent speaker at industry conferences on biometrics and identity security.

Hartmuth von Maltzahn, Senior Vice President, Marketing and Sales, Member of the Executive Board

Hartmuth von Maltzahn, 36, has served on the ZN Executive Board with responsibility for marketing and sales since September 2000. Mr. von Maltzahn is responsible for the implementation of ZN s international marketing and sales strategy. From October 1995 through August 2000, he held various positions with ABB Group Ltd. in the United States and Germany relating to corporate planning and strategy and internal management consulting and he was the head of marketing and sales of a German group division. Mr. von Maltzahn studied physics and economics at the University of Heidelberg, Germany, and Berlin University of Technology, Germany.

Dr. Stefan Gehlen, Chief Technology Officer, Member of the Executive Board

Dr. Stefan Gehlen, 41, has served as ZN s Chief Technology Officer since April 2000. Dr. Gehlen oversees ZN s research and development. He joined Zentrum in August 1993 and held various positions with Zentrum until April 2000. He has been instrumental in advancing ZN s technology in the field of organic vision and facial recognition. Dr. Gehlen holds a PhD in electrical engineering from Darmstadt University of Technology, with a specialization in automation technology, artificial intelligence and image processing.

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ZN FINANCIAL INFORMATION

Included in this proxy statement are ZN s audited financial statements in accordance with German GAAP for the two years in the period ended December 31, 2002. Also included are ZN s unaudited financial statements for the six-month periods ended June 30, 2002 and 2003.

ZN OPERATING AND FINANCIAL REVIEW

Overview

ZN started its business activities on April 28, 2000. ZN initially licensed, and subsequently acquired, all relevant patents from Zentrum.

ZN principally developed three applications based on the technology developed by and acquired from Zentrum.

- ZN Face, a facial recognition based access control solution;
- ZN-Smart Eye, a facial recognition identification system for surveillance applications; and
- ZN-Phantomas, a facial recognition identification solution for ID databases.

All three products are currently marketed and contribute to the revenues of ZN. ZN s organizational structure is based on functions (research and development, marketing and sales, general and administration), rather than products.

ZN previously developed computer vision solutions for the medical and healthcare sectors. The medical activities were conducted through Visiomed AG, a subsidiary in which ZN held a 94% interest until Visiomed was sold to Zentrum in July 2002. The divestiture resulted in a non-operating, non-recurring, non-cash loss of 2.3 million in the year ended December 31, 2002.

Changes in financial statements between December 31, 2000 and June 30, 2003 were significant due to the launch and expansion of the business and divestiture of Visiomed in 2002. Sales revenue increased from 20,000 in 2000 to 469,000 in 2001 and 1.4 million in 2002, while other operating income increased from 362,000 in 2000 to 1.6 million in 2001 and 1.6 million in 2002. In 2002, other operating income was mainly made up of cost-reimbursements by Visiomed (650,000) as well as research and development projects with third parties (901,000). The significant changes in operating expenditure also resulted from the growth of the business, in particular personnel expenses, which increased from 469,000 to 2.3 million to 3.3 million in 2000, 2001 and 2002, respectively. Due to the early start-up phase of the business, year-to-year comparisons may not be meaningful and the growth rates are not an indication for future developments. For the six months ended June 30, 2003, ZN s sales revenues were 590,000, which represented a 17% decrease from sales revenues of 715,000 for the same period in the prior year. ZN s other operating income decreased from 883,000 for the six months ended June 30, 2002 to 568,000 for the six months ended June 30, 2003 due to a decrease in reimbursements from Visiomed. ZN s other operating expenses increased from 453,000 for the six months ended June 30, 2002 to 684,000 for the six months ended June 30, 2003. Of this increase, 132,000 was attributable to costs incurred in connection with the proposed acquisition by Viisage.

Critical Accounting Policies

ZN s financial statements are prepared in accordance with the provisions of German commercial law pertaining to stock corporations (German GAAP). Consistent with German GAAP, ZN has adopted accounting policies that ZN believes are most appropriate to its business. The application of these policies has a significant impact on ZN s reported results.

Currency

ZN s financial statements for the year 2001 were prepared in the currency Deutsche Mark. For the financial year 2002, ZN changed its reporting currency to the Euro, as the Euro became the official currency throughout the European Union. For the ease of comparison, all numbers in this Operating and Financial Review were converted to Euros at the official fixed exchange rate of 1.95583 Deutsche Mark per Euro.

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Revenue Recognition and Accounts Receivable

ZN recognizes revenue upon delivery of the product and transfer of risk of ownership to the buyer. All revenues, including revenues with distributors are based on fixed contracts that do not allow the products to be returned. Receivables are stated at the nominal value. Allowances are estimated based on historical experience to cover general bad debt risks and individual customer accounts are adjusted for individual risks.

Research and Development

ZN s research and development activities involve the development of new software modules and product offerings. ZN is also conducting research and market screening to keep abreast of new technologies in the biometrics market and to provide new or enhanced functionalities to its existing product offerings.

As part of its research and development activities, ZN participates in public research and development projects which are initiated and funded by German or European government agencies. The funding agency defines the focus and the objectives of any research and development project. Typically, several companies and/or universities are awarded such grants collectively and each participant has a pre-defined role in the consortium. The funding agency will then reimburse up to 50% of the costs incurred for the specific research and development project by each recipient of the grant. Costs may be claimed for reimbursement on a quarterly basis, at which point other operating income is recognized. Most research and development contracts have terms of between 1 and 4 years. The recipients of the grants are obliged to provide reports and cost statements on a regular basis and the funding agencies reserve the right to audit for appropriate use of funds. If the results of such an audit reveal that the funds have not been used appropriately, the funding agency requires that the company refund any excess funds it receives.

Research and development expenditures were 1,346,000 and 809,000 in the fiscal year ended December 31, 2002 and in the six months ended June 30, 2003, respectively, representing 28% and 35% of total operating expenditures, excluding depreciation and amortization, in those periods.

Research and development costs are expensed as incurred, as required by German GAAP.

Intangible, Fixed and Financial Assets and Securities

Intangible assets are capitalized at acquisition cost and are subject to linear depreciation; additions are subject to *pro-rata-temporis* depreciation.

Fixed assets are capitalized at acquisition cost plus the individual relevant incidental acquisition cost minus the acquisition cost reduction. They are subject to linear depreciation based on the probable service life as set forth by regulations.

Financial assets include ZN s ownership interest in Visiomed AG at December 31, 2001 and at June 30, 2002. They are capitalized at the value of the invested capital. These assets were sold during 2002.

Valuation of securities is based on their current price at the German stock exchange.

Significant Estimates

ZN s management makes estimates related to bad debt provisions, warranty provisions and provisions for potential liabilities and risks arising from research and development projects. In addition, management estimated the value of the equity participation in Visiomed as at December 31, 2000 and 2001 and as at June 30, 2002. These estimates, which are based on historical experience and analysis of current conditions, have an impact on ZN s reported results and the reported amounts of assets and liabilities and disclosure of contingent assets and

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liabilities at the date of the financial statements. If actual results differ significantly from these estimates, there could be a material effect on ZN s financial statements.

Provision for Bad Debt

ZN s operating result includes a provision for bad debt. Bad debt provisions are estimated at 1% of all trade accounts receivable, plus a provision for any specific risks on individual accounts. While the general provision of 1% is based on historical experience, the estimate for specific risks on individual accounts is based on current information on the respective creditors. Risks relating to specific accounts could arise as a result of the inability of a customer to pay.

Total bad debt provisions amounted to 27,000 for the year ended December 31, 2002 and 47,000 for the six months ended June 30, 2003. Of those amounts, 89% and 70%, respectively represented bad debt related to specific accounts.

Warranty Claims

ZN s operating result includes a provision for warranty claims. Warranty claims are estimated at 1% of sales revenues, based on historical experience and industry benchmarks. The estimate for warranty provision amounted to 14,000 for the year ended December 31, 2002 and also for the six months ended June 30, 2003. ZN has never experienced any warranty claims.

Potential Liabilities and Risks Related to Research and Development

ZN s operating results include a provision for potential liabilities related to research and development projects. Potential liabilities related to research and development projects may arise from the funding agency not approving certain expenditures for reimbursement.

ZN estimates such potential liabilities at 3% of other operating income from research and development projects in any year. The estimate is based on experience and industry benchmarks. For the year ended December 31, 2002, the provision was 35,000 and 51,000 for the six months ended June 30, 2003.

Following the completion of a research and development project, the agency that provided the funding conducts an audit to verify the legitimacy and accuracy of any expenditure submitted for reimbursement. If the results of the audit are favorable to ZN, the provision related to that project will be reversed and added to the operating result in the year the audit is completed.

Valuation of Participating Interest in Visiomed

The valuation of the participating interest in Visiomed is based on historical costs, in accordance with German GAAP. As of December 31, 2001, the value of the participating interest in Visiomed was 2.2 million and as of June 30, 2002 it was 2.3 million. Management estimated that this reflected the value of the participating interest in Visiomed. In July 2002, the participation in Visiomed was sold for 47,000 plus an earn-out subject to the future results of Visiomed. Therefore, the value of the equity participation in Visiomed was written-off, resulting in a 2.3 million extraordinary non-recurring, non-cash loss.

The aggregate amount of bad debt provisions, warranty provisions and provisions for potential liabilities and risks arising from research and development projects was 76,000 for the year ended December 31, 2002 and 112,000 as at June 30, 2003.

Trend Information

While general interest in biometric solutions has increased since September 11, 2001, this has not resulted in higher demand for biometric security solutions to date. There is still uncertainly about both the technology that may be deployed in a large scale and the applications to which they may be deployed, if any. While there is a high degree of risk as a result, the biometric sector is also facing the possibility of significant growth potential.

Many customers and potential customers have delayed purchase intentions as a result of uncertainties in global economic markets. Both private sector and government budgets, particularly at state and regional levels, have been or are expected to be reduced notably.

Among other factors, ZN s success is dependent on both the development of demand for facial recognition solutions and economic factors.

Results of Operations

For the Six-Month Periods Ended June 30, 2002 and 2003

Sales Revenues

ZN s sales revenues for the six months ended June 30, 2002 were 715,000, of which 408,000 was attributed to ZN-Face, 151,000 to ZN-SmartEye, 25,000 to ZN-Phantomas and 131,000 to other products and services. ZN s sales revenues for the six months ended June 30, 2003 were 590,000, of which 342,000 was attributed to ZN-Face, 99,000 to ZN-SmartEye, 13,000 to ZN-Phantomas and 136,000 to other products and services. The decrease in sales revenue between these periods is primarily attributable to the timing of projects. For example, although ZN closed a significant contract in June 2003, revenue will not be recognized on that contract until subsequent periods. For the six months ended June 30, 2002, international sales revenues were 155,000, or 22% of total sales revenues, compared with 153,000, or 26% of total sales revenues for the same period in 2003. From April 2000 to date, prices remained constant.

Other Operating Income

For the six months ended June 30, 2002, total other operating income was 883,000, including 262,000 from research and development projects and 621,000 from cross-charges to Visiomed and Zentrum. Other operating income was 568,000 for the six months ended June 30, 2003, including 523,000 from research and development projects and 45,000 from cross-charges to Visiomed and Zentrum. The cross-charges to Visiomed and Zentrum were reduced because both companies incurred their operating expenses directly. The growth in other operating income from research and development projects is attributable to the timing of projects.

Costs of Material

For the six months ended June 30, 2002, costs of material were 189,000, or 26% of sales revenues. For the six months ended June 30, 2003, costs of material were 215,000, or 36% of sales revenues. The increase in costs of material as a percentage of sales revenues is a result of inventory accounting. Per unit margins have remained constant since ZN s inception.

Personnel Expenses

For the six months ended June 30, 2002, personnel expenses were 1.8 million compared to 1.7 million for the six month period ended June 30, 2003. This decrease was due to a decrease in the number of employees from 59 on June 30, 2002 to 54 on June 30, 2003, excluding students, trainees and executive directors, in anticipation of the proposed acquisition by Viisage.

Amortization of Intangible Assets and Fixed Assets

For the six months ended June 30, 2002, amortization of intangible assets and fixed assets was 51,000. For the six months ended June 30, 2003, amortization of intangible assets and fixed assets was 72,000. This increase resulted from the purchase of patents and equipment in the second half of 2002.

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Other Operating Expenses

For the six months ended June 30, 2002, other operating expenses were 453,000, of which 71,000 were attributable to administration costs, 69,000 to external services, 61,000 to rent for the company s office building, 60,000 to travel expenses, 53,000 to trade show expenses, 34,000 to telephone expenses, 27,000 to increases of accruals, 21,000 to legal and consultancy costs and 26,000 of costs that was incurred on behalf of Visiomed AG and cross-charged to Visiomed. For the six months ended June 30, 2003, other operating expenses were 684,000, of which 254,000 was attributable to legal and consultancy costs, 105,000 to travel expenses, 76,000 to other administration costs, 63,000 to rent for the company s office building, 62,000 to external services, 40,000 to telephone expenses, 26,000 to trade show expenses. Of the legal and consultancy costs incurred in the six months ended June 30, 2003, 126,000 are attributable to legal fees relating to the proposed acquisition by Viisage.

For the Years Ended December 31, 2000, 2001 and 2002

Sales Revenues

ZN s sales revenues in 2000 were 20,000, as its operations commenced in April 2000.

ZN s sales revenues in 2001 were 469,000, of which 214,000 was attributed to ZN-Face, 98,000 to ZN-SmartEye, 47,000 to ZN-Phantomas and 110,000 to other products and services. The increase in sales revenues on a year-over-year basis was attributable to the hiring of the first five sales employees between August 2000 and June 2001.

ZN s sales revenues in 2002 were 1.4 million, of which 801,000 was attributed to ZN-Face, 235,000 to ZN-SmartEye, 81,000 to ZN-Phantomas and 300,000 to other products and services. The increase in sales revenues on a year-over-year basis was attributable to increased success in the sales and marketing effort. A significant portion of the increase was attributable to sales outside of Germany. In 2002, international sales revenues were 386,000, or 27% of total sales revenues, compared with 35,000, or 7% of total sales revenues in 2001.

From April 2000 to date, prices remained constant.

Other Operating Income

Other operating income consists to 95% of income from research and development projects and of cross-charges of operating expenditure to Zentrum and Visiomed.

ZN did not recognize any other operating income from research and development projects in 2000.

In the second half of 2001, ZN took over five research and development projects from Zentrum, which resulted in other operating income of 332,000 in 2001.

In 2002, total other operating income from research and development projects was 901,000. This income resulted from the five projects ZN took over from Zentrum in 2001 and from two new research and development projects that ZN initiated in 2002.

In 2000, cross-charges of operating expenditure to Zentrum and Visiomed AG amounted to 360,000, with 236,000 charged to Visiomed and 124,000 charged to Zentrum.

In 2001, these cross-charges increased to 1.2 million, due to an increase in the number of people working on behalf of Visiomed. In order to have a more efficient personnel administration, all new employees recruited for Visiomed were hired by ZN and then cross-charged to Visiomed. The cross-charge to Visiomed amounted to 1,092,000 and Zentrum was charged 106,000.

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In 2002, each of ZN, Visiomed and Zentrum directly incurred a larger portion of its own operating expenditure. As a result, cross-charging among the companies was reduced. In the July 2002, the employees of ZN who had previously been performing work for Visiomed but were employees of ZN became employees of Visiomed, which reduced the level of cross-charging activity to less than 10,000 per month. The cross-charges to Zentrum were 16,000 and 634,000 to Visiomed.

Costs of Material

Costs of material in 2000 amounted to 210,000 components, of which 186,000 resulted from ZN s purchase of computers and hardware components on behalf of Visiomed which were subsequently cross-charged to Visiomed. The remaining 24,000 related to purchases of computer hardware & software components, which were purchased on behalf of ZN.

In 2001, costs of material amounted to 67,000, or 14% of sales revenues.

In 2002, costs of material amounted to 372,000, or 26% of sales revenues. This 12% increase in cost of material relative to sales revenues compared to 2001 is attributable to more products being sold through the partner sales channel that yields lower margins than direct sales. This resulted in an increase of cost of material relative to sales of 9%. The remaining 3% of the increase is attributable to a change in product mix, as ZN-Face, ZN s product with the highest material content, accounted for 56% of sales revenue in 2002, compared with 46% in 2001.

From April 2000 to date, per unit product gross margins remained constant.

Personnel Expenses

ZN commenced operations in April 2000, and most of its employees were hired throughout the second half of the year. Total headcount at December 31, 2000 was 30, but the average number throughout the year was only 5, and total personnel expenses for 2000 amounted to 469,000.

In 2001, personnel expenses amounted to 2.3 million, as the number of employees at year-end increased to 57, excluding students, trainees and executive directors.

In 2002, ZN experienced a slight decrease in the total number of employees to a year-end figure of 52. However, total personnel expenses amounted to 3.3 million, an increase of 1.1 million from 2001. This increase resulted from an increase in the average number of employees from 40 in 2001 to 56 in 2002, excluding students, trainees and executive directors.

Amortization of Intangible Assets and Fixed Assets

Amortization of intangible assets and fixed assets in 2000 amounted to 22,000.

In 2001, amortization of intangible assets and fixed assets was 139,000 because 65,000 of intangible and 176,000 of tangible assets were acquired by ZN. 56,000 of the added intangible assets was purchased commercial software and 149,000 of the added tangible assets was commercial purchased computer hardware, consisting primarily of workstations for newly-hired employees.

In 2002, amortization of intangible assets and fixed assets amounted to 133,000, with 169,000 of intangible and 117,000 of tangible assets being added during the year. 150,000 of the added intangible assets is related to the purchase of patents that had been previously licensed from Zentrum. 78,000 of the added tangible assets resulted from the purchase of equipment for the manufacture of aluminum and plastic parts of ZN-Face.

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Other Operating Expenses

In 2000, total other operating expenses were 427,000, which consisted of 221,000 of start-up-related legal and advisory costs and 64,000 of recruiting costs.

In 2001, other operating expenses were 1.2 million, of which 408,000 were attributable to administration costs, 233,000 to legal and consultancy costs, 138,000 to trade show expenses, 112,000 to travel expenses, 106,000 to research and development costs, 56,000 to rent for the company s office building and 163,000 of costs that was incurred on behalf of Visiomed AG and cross-charged to Visiomed. The significant increase in other operating expenses on a year-over-year basis was due to the expansion of the business throughout the year.

In 2002, other operating expenses amounted to 1,395,000, of which 514,000 was attributable to legal and consultancy costs, 312,000 to other administrative cost, 153,000 to travel expenses, 153,000 to external services, 130,000 to rent for the company s office building, 107,000 to trade show expenses and 26,000 of costs that was incurred on behalf of Visiomed AG and cross-charged to Visiomed. Of the legal and consultancy costs of 514,000, 250,000 was incurred in connection with an equity financing. 141,000 of the 153,000 of external services was incurred in connection with research and development projects and was billed to the project funding agencies. The increase in rent for the office building from 56,000 in 2001 to 130,000 in 2002 is due to fact that ZN has occupied only half the building until October 2001 and with the increase of employees in 2001, the lease was amended so that ZN now leases the entire building.

The 163,000 of other operating expenses incurred on behalf of Visiomed in 2001 and 26,000 in 2002 relates to materials purchased by ZN on behalf of Visiomed. By pooling the purchase power of the two companies, ZN was able to benefit from more favorable terms with suppliers. As the two companies grew, this synergy decreased and ZN ceased to purchase for Visiomed in the second half of 2002.

Interest and Write-Downs on Financial Assets in Current Assets

ZN recorded interest income of 5,000, 73,000 and 38,000 in 2000, 2001 and 2002, respectively. For the six-month period ended June 30, 2003, interest income was 67,000, compared to interest income of 17,000 for the same period in 2002. The 2003 figure includes the total interest generated from an investment in money market funds in August 2002, which matured in February 2003.

In December 2002, ZN recorded a write-down of financial assets of 21,000 in connection with its investment of the equity financing proceeds in money market funds, as the carrying interest rate of these funds during 2002 was approximately 5% above the current market interest rate. For the same reason, ZN recorded a write-down of 2,000 in February 2003 when the fund matured.

Extraordinary Expenses and Absorbed Loss from Participation

As the majority shareholder of Visiomed, ZN committed to absorb losses of Visiomed of up to 511,000. This commitment was satisfied in 2000 in part by absorbing losses from Visiomed of 233,000 and in part by a capital investment in Visiomed of 268,000 in 2001. In 2001, ZN absorbed the remaining 10,000 of these losses.

The extraordinary non-cash expense of 2.3 million was incurred in 2002 as a result of a write-off of the equity interest in Visiomed upon the disposal of Visiomed to Zentrum. The decision to dispose of the participation in Visiomed resulted from ZN s decision to focus on the security and biometrics markets.

Annual Loss

ZN has incurred losses in each year of its operations. The losses in 2000, 2001 and 2002 and the six months ended June 30, 2003 were attributable to the start-up nature of ZN s business. Nevertheless, the 4.5 million loss

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ZN recognized in 2002 was also impacted by an extraordinary, non-recurring, non-cash write-off of 2.3 million related to the divestiture of ZN s equity participation in Visiomed.

US GAAP Reconciliation

ZN s financial statements have been prepared in accordance with generally accepted accounting principles in Germany, or German GAAP. Had ZN s financial statements been prepared in accordance with US GAAP, there would have been four substantive differences:

- the consolidation of Visiomed AG;
- the expensing of costs relating to the capital increase realized in 2002;
- the capitalization and amortization of software development costs; and
- the expensing of compensation cost relating to the ZN option plan.

Summarized below are the details of the four effects:

a) The Company s participating interest in Visiomed AG is carried on the cost basis in accordance with German generally accepted accounting principles. In accordance with U.S. generally accepted accounting principles, Visiomed would be consolidated and its financial position and results of operations would be included in the financial statements of the Company. The Company s ownership percentage in Visiomed was 76.4% in the year ended December 31, 2001 and on June 30, 2002, and 95.1% at the time Visiomed was sold in July 2002. Since the company was sold during the year ended December 31, 2002, Visiomed would be reported as a discontinued operation under U.S. GAAP.

b) In 2002, ZN incurred costs of 250,000 relating to its capital increase. These costs were expensed as other operating costs, while under US GAAP they would have been treated as a deduction from the amount of capital effectively raised.

c) In accordance with German GAAP, ZN is required to expense all its software development costs, while under US GAAP software development costs are required to be capitalized when incurred after the technical feasibility of the software program is reached. The amounts to be capitalized under US GAAP, minus amortization, are 220,000, 296,000, 147,000 and 231,000 for the years 2001 and 2002 and the six-month periods ended June 30, 2002 and 2003, respectively.

d) In accordance with German GAAP, ZN is not required to recognize any compensation expense in connection with options granted under the ZN option plan. However, US GAAP would require that compensation expense be recorded for the intrinsic value of the option for options issued to employees and the fair value for options issued to non-employees. In particular, US GAAP would require that 1.3 million, 2.2 million, 931,000 and 870,000 be expensed in the years ended December 31, 2001 and 2002 and in the six-month periods ended June 30, 2002 and 2003, respectively.

A summary of stock option activity under the ZN option plan is as follows:

	Shares	Exercise Price Per Share	Weighted Average Exercise Price
Options outstanding, December 31, 2000	6,299	1.00	1.00
Granted	1,746	1.00	1.00
Exercised		1.00	1.00
Cancelled	(119)	1.00	1.00
Options outstanding, December 31, 2001	7,926	1.00	1.00
Granted	2,864	1.00	1.00
Exercised	(1,334)	1.00	1.00
Cancelled	(237)	1.00	1.00
Options outstanding, December 31, 2002	9,219	1.00	1.00
Granted	1,138	1.00	1.00
Exercised		1.00	1.00
Cancelled	(40)	1.00	1.00
Options outstanding, June 30, 2003	10,317	1.00	1.00

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The following table summarizes information about outstanding options under the ZN option plan as of June 30, 2003:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	Number Outstanding	Weighted Average Remaining Contractual Life	Weighted Average Exercise Price Per Share	Number Exercisable	Weighted Average Exercise Price Per Share
1.00	10,317	12.64 years	1.00	6,803	1.00

The above items are the only material matters required for the reconciliation of ZN s financial statements from German GAAP to US GAAP.

Significant terms and conditions of the stock options include:

- options vest on a monthly basis over a two to four year period as long as the holder is an employee or director of ZN, however all options will be vested immediately prior to the closing of the acquisition
- options expire if not exercised prior to December 31, 2015
- no options may be exercised until September 30, 2004
- participants may not sell any of their shares until after the second anniversary of the closing of the acquisition
- following the second anniversary of the closing, participants may sell their shares, subject to the following:
  - prior to the third anniversary of the closing, a maximum of that number of shares may be sold that equals 10% of any remaining options or shares;
  - prior to the fourth anniversary of the closing, a maximum of that number of shares may be sold that equals 30% of any remaining options or shares;
  - prior to the fifth anniversary of the closing, a maximum of that number of shares may be sold that equals 60% of any remaining options or shares; and
  - after the fifth anniversary of the closing, all shares may be sold.

neither exercise of stock options nor the sale of the underlying shares is contingent on future service by the optionholder as an employee of ZN.

Liquidity and Financial Resources

Except for income and current liabilities in the ordinary course of business, ZN has been funded exclusively through equity investments. Those investments resulted in gross proceeds to ZN of 10.1 million.

In the six months ended June 30, 2002, ZN s operational activities used 1,008,000 of cash through its net loss of 866,000, offset by non-cash amortization of 51,000 and short-term provisions of 155,000 and cash used by the net increase in operating assets and liabilities of 348,000.

In the six months ended June 30, 2003, ZN s operational activities used 1,398,000 of cash through its net loss of 1,466,000, offset by non-cash amortization of 72,000 and short-term provisions of 96,000 and cash used by the net increase in operating assets and liabilities of 101,000.

Accounts receivable and other assets were 437,000 as at June 30, 2002 and 557,000 as at June 30, 2003. During the six months ended June 30, 2002, accounts receivable increased by 30,000, or 7%, and in the same period of 2003 they increased by 53,000, or 11%. The increase in 2002 resulted from an increase in receivables from the German tax authorities of 82,000 from VAT and wage income tax, offset by a decrease of receivables

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from research and development projects of 60,000. The remaining 8,000 are due to an increase in social security receivables. The increase of 53,000 in 2003 is due to an increase in receivables from research and development projects of 46,000, an increase of 3,000 of tax receivables and an increase of 5,000 from credit notes from suppliers. Investments in tangible and intangible assets used up 28,000 and 21,000 in cash in the six months ended June 30, 2002 and 2003, respectively.

The investment in the participation in Visiomed used cash of 150,000 in the six months ended June 30, 2002. As the participation was sold in August 2002, there was no investment in financial assets in the first six months of 2003.

As at June 30, 2002, ZN had net cash of 531,000. The cash was deposited in interest-bearing bank accounts with major German banks. As at June 30, 2003, ZN had net cash of 906,000 which was deposited in interest-bearing bank accounts with major German banks and 434,000 in short-term money market securities, which can be liquidated on a day-to-day-basis.

In the year ended December 31, 2000, ZN s operational activities used 1,024,000 of cash through its net loss of 973,000, offset by non-cash amortization of 21,000 and short-term provisions of 124,000 and cash used by the net increase in operating assets and liabilities of 196,000.

In the year ended December 31, 2001, ZN s operational activities used 875,000 of cash through its net loss of 1,596,000, offset by non-cash amortization of 139,000 and short-term provisions of 88,000 and cash provided by the net decrease in operating assets and liabilities of 494,000.

In the year ended December 31, 2002, ZN s operational activities used 2,596,000 of cash through its net loss of 4,472,000, offset by non-cash extraordinary loss of 2,291,000, amortization of 133,000 and short-term provisions of 60,000 and cash used by the net increase in operating assets and liabilities of 608,000.

Accounts receivable were 450,000 as at December 31,2000. 386,000 of these receivables are against Zentrum and Visiomed and arise from cross-charges of operating expenses that were billed at the end of the year. During the year ended December 31, 2001 accounts receivable decreased by 43,000 or 10% due to a decrease of receivables against Zentrum and Visiomed to zero, offset by an increase of trade receivables of 217,000 and an increase of receivables from research and development projects of 144,000. The decrease of receivables against Zentrum and Visiomed resulted from the refinancing of Visiomed in which ZN released all its receivables against Visiomed and Zentrum. The increase in receivables from research and development projects is due to initial billings against these projects. In the year ended December 31, 2002, accounts receivable increased by 97,000 or 24%, due to an increase in trade receivables of 28,000 as a result of the increase of sales revenues and an increase of receivables from research and development projects of 55,000 due to increased billing at the end of the fourth quarter at 2002.

Accounts payable increased in the year ended December 31, 2000 from zero to 254,000. Of these payables, 48% were related to start-up costs of legal and recruiting consultancy.

During the year ended December 31, 2001, accounts payable increased by 518,000, or 204%, with 383,000 attributable to a payable position against Visiomed that was granted in the refinancing of Visiomed. The remaining 135,000 resulted from an increase in payables to the German tax authorities of 201,000 from VAT and wage income tax, offset by a decrease of trade payables of 66,000. During the year ended December 31, 2002, accounts payable decreased by 484,000 or 63%. Of this reduction, 383,000 resulted from the elimination of the payable position against Visiomed in the course of the sale of the participation. The payables to the German tax authorities were reduced by 114,000 because cross-charges to Visiomed that generated the VAT payables at the end of 2001 no longer existed at the end of 2002. Trade payables increased by

14,000, or 8%, from 167,000 in 2001 to 181,000 in 2002.

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Inventory did not exist as at December 31, 2000.

During the year ended December 31, 2001, inventory increased to 69,000, and during the year ended December 31, 2002, inventory increased again to 97,000. These increases were necessary to support the ramp-up of product sales during the two years.

Investments in tangible and intangible assets used up 101,000, 276,000 and 269,000 in cash in the years ended December 31, 2000, 2001 and 2002, respectively.

The investment in the participation in Visiomed used cash of 50,000 in the year ended December 31, 2000. During the year ended December 31, 2001, the cash use was 2,138,000, and during the year ended December 31, 2002, the cash use was 103,000.

At the end of 2002, ZN had net cash of 1.8 million. The cash was deposited in interest-bearing bank accounts with major German banks. In addition, ZN held 948,000 in short-term money market securities, which can be liquidated on a day-to-day-basis.

ZN s management believes that the current business plan for 2003 and 2004 indicate that if ZN remained an independent company, it would have to raise new capital in the future to fund the ongoing operations. Management believes that such funding is available to ZN in the market.

Commitments and Contingencies

ZN s only material commitment for operational expenditures is a lease for its principal offices. For the year ended December 31, 2002, ZN paid a total of 120,636 under this lease. The lease may be terminated by either party at the end of each month, provided the terminating party provides the other party with six months prior notice. The monthly rent for the premises is 11,437. Therefore, the commitment from the lease contract is the current month plus six months notice period, or 80,059.

ZN has no lines of credit, no financial debts and no firm commitments for capital expenditures.

Quantitative and Qualitative Disclosures about Market Risk

ZN has no material exposure to market risk, other than to the U.S. dollar, that could affect its future results of operations and financial condition. All sales to foreign-based customers are invoiced and paid in Euro or U.S. dollars. One recent contract, however, for the supply of facial recognition technology to the government of the Province of Alberta, Canada, is in Canadian dollars. The value of this contract to ZN is Can$495,000. However, no revenues for that contract have been recognized for any period presented in this proxy statement. Other than the Canadian contract, ZN is not aware of any material interest rate, foreign currency exchange rate, commodity price, equity price or similar market risks.

Market Price

ZN s stock is not publicly traded; therefore, market price and information regarding price history are not available. All shares of ZN capital stock are privately held. The transfer of shares of ZN capital stock is restricted and subject to approvals of ZN s supervisory board and pre-emptive rights. There is no liquidity of ZN capital stock.

DEADLINE FOR SUBMISSION OF STOCKHOLDER PROPOSALS

FOR THE VIISAGE 2004 ANNUAL MEETING

Viisage stockholders may submit proposals on matters appropriate for shareholder action at subsequent annual meetings of stockholders consistent with Rule 14a-8 promulgated under the Exchange Act. For such proposals to be considered for inclusion in the proxy statement and proxy relating to the 2004 Annual Meeting of Stockholders, such proposals must have been received by the Company for inclusion in the our proxy statement and proxy card relating to that meeting no later than December 17, 2003.

Pursuant to Rule 14a-4(c) of the Exchange Act, if a stockholder who intends to present a proposal at the 2004 Annual Meeting of Shareholders does not notify us of such proposal on or prior to February 21, 2004, then management proxies would be allowed to use their discretionary voting authority to vote on the proposal when the proposal is raised at the annual meeting, even though there is no discussion of the proposal in the 2004 proxy statement.

OTHER MATTERS

Our Board of Directors does not intend to bring any matters before the special meeting other than those specifically set forth in the notice of the meeting and does not know of any matters to be brought before the meeting by others. If any other matters properly come before the special meeting, it is the intention of the persons named in the accompanying proxy to vote those proxies in accordance with the judgment of our Board of Directors.

INDEPENDENT ACCOUNTANTS

Viisage s consolidated balance sheets as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2002, have been audited by BDO Seidman, LLP, independent certified public accountants and have been included herein in reliance upon said firm as experts in auditing and accounting.

ZN s financial statements included herein for the years ended December 31, 2002 and 2001 have been audited by BDO International GmbH and have been included herein in reliance upon said firm as experts in auditing and accounting.

WHERE YOU CAN FIND MORE INFORMATION

Viisage is subject to the informational requirements of the Securities Exchange Act and files reports and other information with the SEC. Such reports and other information filed by Viisage may be inspected and copied at the SEC s Public Reference Room at 450 Fifth Street, N.W., Judiciary Plaza, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the operation of the SEC s Public Reference Rooms. The SEC also maintains an Internet site that contains reports, proxy statements and other information about issuers, like us, who file electronically with the SEC. The address of the SEC s web site is http://www.sec.gov.

FINANCIAL STATEMENTS OF VIISAGE

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REPORT OF INDEPENDENT CERTIFIED PUBLIC ACCOUNTANTS

To Viisage Technology, Inc.:

We have audited the accompanying consolidated balance sheets of Viisage Technology, Inc. and subsidiary as of December 31, 2002 and 2001, and the related consolidated statements of operations, changes in shareholders equity and cash flows for each of the three years in the period ended December 31, 2002. These financial statements are the responsibility of the Company s management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Viisage Technology, Inc. and subsidiary as of December 31, 2002 and 2001, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 2002, in conformity with accounting principles generally accepted in the United States of America.

/s/ BDO Seidman, LLP

Boston, Massachusetts

February 13, 2003,

except for Note 15(a),

which is as of March 28, 2003

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VIISAGE TECHNOLOGY, INC.

CONSOLIDATED BALANCE SHEETS

(in thousands, except share information)

	December 31, 2001	December 31, 2002	September 28, 2003
Assets			(unaudited)
Current Assets:			
Cash and cash equivalents	$ 20,662	$ 2,212	$ 11,423
Restricted cash		1,241	
Accounts receivable	4,821	7,360	8,026
Costs and estimated earnings in excess of billings	23,331	23,372	4,496
Other current assets	302	339	1,136
Total current assets	49,116	34,524	25,081
Property and equipment, net	18,178	16,629	23,104
Intangible assets, net	42	3,147	2,892
Restricted cash		6,163	5,120
Other assets	327	726	2,082
	$ 67,663	$ 61,189	$ 58,279
Liabilities and Shareholders Equity			
Current Liabilities:			
Accounts payable and accrued expenses	$ 6,724	$ 7,017	$ 7,738
Current portion of project financing	4,277	5,263	6,088
Total current liabilities	11,001	12,280	13,826
Obligations under project financing	10,368	9,845	8,936
Total liabilities	21,369	22,125	22,762
Commitments and contingencies			
Shareholders equity:			
Common stock, $0.001 par value; 45,000,000 shares authorized; 19,656,142, 20,250,817 and 23,889,408 shares issued and outstanding at December 31, 2001, 2002 and September 28, 2003, respectively	20	20	24
Additional paid-in capital	61,161	63,461	76,171
Accumulated deficit	(14,887)	(24,417)	(40,678)
Total shareholders equity	46,294	39,064	35,517
	$ 67,663	$ 61,189	$ 58,279

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

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VIISAGE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF OPERATIONS

(in thousands, except per share data)

	For the Years Ended December 31,			Nine Months Ended	
	2000	2001	2002	September 29, 2002	September 28, 2003
				(unaudited)	
Revenues	$ 27,539	$ 26,280	$ 32,302	$ 23,546	$ 27,053
Cost of revenues	21,136	19,602	25,239	19,052	20,344
Gross margin	6,403	6,678	7,063	4,494	6,709
Operating Expenses:					
Sales and marketing	787	809	5,368	4,106	3,786
Research and development	688	2,054	4,457	3,261	2,828
General and administrative	2,489	2,500	5,069	2,964	3,454
Acquisition expenses		1,639			
Restructuring charges			824		
Total operating expenses	3,964	7,002	15,718	10,331	10,068
Operating income (loss)	2,439	(324)	(8,655)	(5,837)	(3,359)
Interest income (expense), net:					
Interest income	31	31	196	169	67
Interest expense	(1,668)	(1,241)	(1,071)	(813)	(793)
Interest expense, net	(1,637)	(1,210)	(875)	(644)	(726)
Other income					18
Income (loss) before income taxes and cumulative effect of change in accounting principle	802	(1,534)	(9,530)	(6,481)	(4,067)
Provision for income taxes					(63)
Income (loss) before cumulative effect of change in accounting principle	802	(1,534)	(9,530)	(6,481)	(4,130)
Cumulative effect of change in accounting principle					(12,131)
Net income (loss)	802	(1,534)	(9,530)	(6,481)	(16,261)
Preferred stock dividends	(327)	(5)			
Income (loss) applicable to common shareholders before cumulative effect	475	(1,539)	(9,530)	(6,481)	(16,261)

Cumulative effect of change in accounting principle	(277)				
Net income (loss) applicable to common shareholders	$ 198	$ (1,539)	$ (9,530)	$ (6,481)	$ (16,261)
Basic income (loss) per share before cumulative effect	$ 0.05	$ (0.09)	$ (0.48)	$ (0.32)	$ (0.20)
Basic income (loss) per share applicable to common shareholders	$ 0.02	$ (0.09)	$ (0.48)	$ (0.32)	$ (0.79)
Weighted average basic common shares outstanding	10,460	16,265	20,046	19,981	20,711
Diluted income (loss) per share before cumulative effect	$ 0.03	$ (0.09)	$ (0.48)	$ (0.32)	$ (0.20)
Diluted income (loss) per share applicable to common shareholders	$ 0.01	$ (0.09)	$ (0.48)	$ (0.32)	$ (0.79)
Weighted average dilutive common shares outstanding	14,504	16,265	20,046	19,981	20,711
Pro forma operating results (for application of EITF 00-21):					
Net loss	$ (1,269)	$ (494)	$ (11,176)	$ (5,033)	$ (4,130)
Basic and diluted loss per share of common stock	$ (0.18)	$ (0.03)	$ (0.56)	$ (0.25)	$ (0.20)

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

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VIISAGE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS EQUITY

(in thousands)

	Common Stock	Preferred Stock	Additional Paid-in Capital	Accumulated Deficit	Total
Balance, December 31, 1999	$ 9	$ 2,782	$ 26,545	$ (13,546)	$ 15,790
Exercise of employee stock options			193		193
Common stock issued for services			85		85
Common stock issued under employee stock purchase plan			57		57
Exercise of warrants			115		115
Private placement of common stock, net of expenses	1		3,686		3,687
Amortization of beneficial conversion feature of preferred stock		218		(218)	
Conversion of preferred stock and accrued dividends	1	(1,980)	2,087		108
Cumulative effect of change in accounting principle			277	(277)	
Preferred stock dividends				(109)	(109)
Net income				802	802
Balance, December 31, 2000	11	1,020	33,045	(13,348)	20,728
Warrants issued for services			994		994
Exercise of employee stock options	1		1,085		1,086
Common stock issued for services			297		297
Common stock issued under employee stock purchase plan			51		51
Exercise of warrants	3		764		767
Conversion of debt and accrued interest	1		1,067		1,068
Private placement of common stock, net of expenses	2		22,750		22,752
Conversion of preferred stock and accrued dividends	2	(1,020)	1,108		90
Preferred stock dividends				(5)	(5)
Net loss				(1,534)	(1,534)
Balance, December 31, 2001	20		61,161	(14,887)	46,294
Exercise of employee stock options and warrants			974		974
Common stock issued for services			699		699
Common stock issued under employee stock purchase plan			51		51
Contributed capital from Lau acquisition			576		576
Net loss				(9,530)	(9,530)
Balance, December 31, 2002	20		63,461	(24,417)	39,064
Exercise of employee stock options			72		72
Common stock issued for services			300		300
Common stock issued under employee stock purchase plan			26		26
Private placement of common stock, net of expenses	4		12,312		12,316
Net loss				(16,261)	(16,261)
Balance, September 28, 2003 (unaudited)	$24	$	$ 76,171	$ (40,678)	$ 35,517

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

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VIISAGE TECHNOLOGY, INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS

(in thousands)

December 31,			Nine Months Ended
			September 29,
2000	2001	2002	2002