

VIISAGE TECHNOLOGY INC  
Form DEF 14A  
September 07, 2005

**SCHEDULE 14A**

**(RULE 14a-101)**

**INFORMATION REQUIRED IN PROXY STATEMENT**

**SCHEDULE 14A INFORMATION**

**PROXY STATEMENT PURSUANT TO SECTION 14(a) OF THE SECURITIES**

**EXCHANGE ACT OF 1934 (AMENDMENT NO. )**

Filed by the Registrant

Filed by a Party other than the Registrant

Check the appropriate box:

- |  |   |
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| <input type="checkbox"/> Preliminary Proxy Statement           | <input type="checkbox"/> Confidential, For Use of the Commission Only |
| <input checked="" type="checkbox"/> Definitive Proxy Statement | (as permitted by Rule 14a-6(e)(2))                                    |
| <input type="checkbox"/> Definitive Additional Materials       |   |
| <input type="checkbox"/> Soliciting Material Under Rule 14a-12 |   |

**Viisage Technology, Inc.**

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(Name of Registrant as Specified in Its Charter)

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(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

No fee required.

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- (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:
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- (1) Amount previously paid:
- (2) Form, Schedule or Registration Statement No.:
- (3) Filing Party:
- (4) Date Filed:

September 7, 2005

Dear Shareholder:

You are cordially invited to attend the 2005 Special Meeting in Lieu of Annual Meeting (the Meeting) of the Shareholders of Viisage Technology, Inc. (Viisage), to be held on Friday, September 30, 2005. The Meeting will begin at 10:00 a.m. at Viisage's corporate headquarters. Your Board of Directors and management look forward to greeting those of you who are able to attend.

Our 2004 Annual Report is enclosed. I hope you will read it carefully. I also have enclosed our Notice of the 2005 Special Meeting in Lieu of Annual Meeting, Proxy Statement, and proxy card.

At the Meeting, your Board of Directors will be asking you to elect three Class III directors, approve the adoption of Viisage's 2005 Long-Term Incentive Plan, and to ratify the selection of Viisage's independent public accountants, as described more fully in the enclosed Proxy Statement. For the reasons set forth in the Proxy Statement, your Board of Directors recommends votes FOR each of the items described above.

Whether or not you plan to attend the Meeting, it is important that your shares be represented and voted. Accordingly, please read the enclosed material and mark, date, sign, and return the enclosed proxy card at your earliest convenience. You may revoke your proxy at any time before it is exercised at the Meeting, or vote your shares in person if you attend the Meeting.

Sincerely,

Denis K. Berube

Chairman of the Board of Directors

**YOUR VOTE IS IMPORTANT.**

**PLEASE MARK, DATE, SIGN, AND RETURN YOUR PROXY CARD.**

**296 Concord Road**

**Third Floor**

**Billerica, Massachusetts 01821**

**NOTICE OF THE 2005 SPECIAL MEETING IN LIEU OF ANNUAL MEETING OF SHAREHOLDERS**

The 2005 Special Meeting in Lieu of Annual Meeting of the Shareholders of Viisage Technology, Inc. ( Viisage ) will be held at 10:00 a.m. on Friday, September 30, 2005 at Viisage s corporate headquarters, 296 Concord Road, Third Floor, Billerica, Massachusetts. The Meeting is being held for the following purposes:

1. To elect three Class III directors for three year terms;
2. To approve the adoption of Viisage s 2005 Long-Term Incentive Plan;
3. To ratify the selection of BDO Seidman, LLP as independent public accountants for Viisage for the year ending December 31, 2005; and
4. To transact such other business as may properly come before the Meeting.

Shareholders of record at the close of business on August 5, 2005, the record date for the Meeting, are entitled to receive notice of and to vote at the Meeting.

The enclosed proxy card, Proxy Statement, and Viisage s 2004 Annual Report are being sent to you along with this Notice.

By Order of the Board of Directors

Charles J. Johnson

Secretary

September 7, 2005

**VIISAGE TECHNOLOGY, INC.**

**PROXY STATEMENT**

**FOR THE**

**2005 SPECIAL MEETING IN LIEU OF ANNUAL MEETING OF SHAREHOLDERS**

**TO BE HELD ON SEPTEMBER 30, 2005**

**INFORMATION ABOUT SOLICITATION AND VOTING**

**General**

This Proxy Statement is provided in connection with the solicitation of proxies by the Board of Directors of Viisage Technology, Inc., a Delaware corporation (the Company or Viisage), for the 2005 Special Meeting in Lieu of Annual Meeting of Shareholders to be held at 10:00 a.m. on Friday, September 30, 2005, at Viisage's principal executive offices, 296 Concord Road, Third Floor, Billerica, Massachusetts, and at any adjournment thereof (the Meeting). This Proxy Statement and the accompanying proxy card are expected to be mailed on or about September 7, 2005 to all shareholders entitled to vote at the Meeting.

Viisage's Board of Directors (the Board of Directors or the Board) is soliciting proxies for the following purposes: (i) to elect three Class III directors, comprising the class of directors to be elected for the term expiring in 2008; (ii) to approve the adoption of Viisage's 2005 Long-Term Incentive Plan; and (iii) to ratify the selection of BDO Seidman, LLP as independent public accountants for Viisage for the year ending December 31, 2005.

**Shareholders Entitled to Vote**

At the close of business on August 5, 2005, the record date for the Meeting, there were outstanding and entitled to vote 48,126,672 shares of the Company's common stock, \$0.001 par value per share (the Common Stock). Only shareholders of record at the close of business on August 5, 2005 are entitled to vote at the Meeting. Each outstanding share of Common Stock is entitled to one vote on each matter to be voted upon at the Meeting.

**Quorum and Voting**

The representation, in person or by proxy, of at least a majority of the outstanding shares of Common Stock entitled to vote at the Meeting is necessary to establish a quorum. Assuming the presence of a quorum, directors are elected by a plurality vote, which means that the three nominees receiving the most votes will be elected to fill the seats on the Board. All other actions considered at the Meeting, including an adjournment, may be taken upon the favorable vote of a majority of the votes present in person or represented by proxy at the Meeting. Shares of common stock represented in person or by proxy (including broker non-votes (as defined below) and shares that abstain or do not vote with

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respect to one or more of the matters to be voted upon) will be counted for the purpose of determining whether a quorum exists. If a quorum is not present, the Meeting will be adjourned until a quorum is obtained.

### **Voting Shares Held in Street Name**

If the shares you own are held in street name by a bank or brokerage firm, your bank or brokerage firm, as the record holder of your shares, is required to vote your shares according to your instructions. In order to vote your shares, you will need to follow the directions your bank or brokerage firm provides you. Many banks and brokerage firms also offer the option of voting over the Internet or by telephone, instructions for which would be provided by your bank or brokerage firm on your vote instruction form.

If your shares are held in street name, you must bring an account statement or letter from your brokerage firm or bank showing that you are the beneficial owner of the shares as of the record date in order to be admitted to the Meeting on the record date. To be able to vote your shares held in street name at the Meeting, you will need to obtain a proxy card from the holder of record.

### **Broker Non-Votes**

If your shares are held in street name, your bank or brokerage firm will be prohibited under applicable regulations from using its discretion to vote your shares on the proposal to approve the adoption of the 2005 Long-Term Incentive Plan. If your broker instructs us that you have not provided instructions on how to vote on that proposal, your shares will be treated as broker non-votes with respect to that proposal. However, even if you do not give your broker instructions as to how to vote on the other proposals described in this proxy statement, your broker may be entitled to use its discretion in voting your shares in accordance with industry practice.

### **Vote Required**

*Election of directors.* The three nominees receiving the highest number of votes cast at the Meeting will be elected, regardless of whether that number represents a majority of the votes cast. Abstentions and broker non-votes will have no effect on the outcome of this proposal.

*Approval of Adoption of 2005 Long-Term Incentive Plan.* The affirmative vote of the holders of a majority of the shares present or represented by proxy at the Meeting is needed to approve the adoption of this plan. Abstentions will have the effect of negative votes on this proposal. For shares held in street name, broker non-votes will have no effect on the outcome of this proposal because your bank or broker does not have the authority to vote your shares on this proposal absent instructions from you.

*Ratification of Selection of Independent Public Accountants.* The affirmative vote of the holders of a majority of the shares present or represented by proxy at the Meeting is needed to approve the ratification of the selection of our independent public accountants. Abstentions will have the effect of a negative vote on this proposal. For shares held in street name, broker non-votes will also have the effect of a negative vote on this proposal because your bank or broker does have the authority to vote your shares on this proposal absent instructions from you.

### **Revocability of Proxies**

A shareholder who returns a proxy card may revoke it at any time before the shareholder's shares are voted at the Meeting by written notice to the Secretary of the Company received prior to the Meeting, by executing and returning a later-dated proxy, or by voting by ballot at the Meeting.

### **Householding of Annual Meeting Materials**

Some banks, brokers and other nominee record holders may be participating in the practice of householding proxy statements and annual reports. This means that only one copy of our proxy statement and annual report to stockholders may have been sent to multiple stockholders in your household. We will promptly deliver a separate copy of either document to you if you contact us at Viisage Technology, Inc., 296 Concord Road, Billerica, MA 01821, Attn: Investor Relations or by calling Investor Relations at (978) 932-2200. If you want to receive separate copies of the proxy statement or annual report to stockholders in the future, or if you are receiving multiple copies and would like to receive only one copy per household, you should contact your bank, broker, or other nominee record holder, or you may contact us at the above address or telephone number.

**PROPOSAL 1 ELECTION OF DIRECTORS**

**General**

Pursuant to the Company's Restated Certificate of Incorporation and By-Laws, the Board has fixed the number of directors at nine. In addition, the Restated Certificate of Incorporation also provides that directors shall be divided into three classes of approximately the same number of directors; the Board has fixed the number of Class I directors at three, Class II directors at three and Class III directors at three.



Three Class III directors are to be elected at the Meeting to serve three-year terms expiring at the 2008 Annual Meeting of Shareholders and until their successors have been elected and duly qualified. Unless instructed otherwise, the proxy holders will vote the proxies received by them for the Company's nominees: Robert Gelbard, Peter Nessen and Thomas J. Reilly. In the event that the nominees of the Company are unable or decline to serve as directors at the time of the Meeting, the proxies will be voted for any nominee who shall be designated by the present Board of Directors to fill the vacancy (unless another nominee is indicated in any particular proxy), or we may choose to leave the seat vacant. Messrs. Gelbard, Nessen and Reilly have consented to serve as directors of the Company, and the Board of Directors has no reason to believe that they will be unavailable for service.

Certain Viisage shareholders who were the former shareholders of ZN Vision Technologies AG ( ZN ), a company which Viisage acquired in January 2004, have the right to appoint one director as long as such shareholders hold at least an aggregate of 2,000,000 shares of Viisage common stock. Marcel Yon is the director who has been appointed by the former ZN shareholders. The former shareholders of ZN no longer own the requisite 2,000,000 shares and therefore no longer have the right to appoint one director. As a result, at a meeting of our Board of Directors on March 1, 2005, in accordance with our Restated Certificate of Incorporation, our Board of Directors nominated Mr. Gelbard to fill the Class III director seat currently occupied by Mr. Yon. The other two nominees, Messrs. Nessen and Reilly, are currently directors of the Company.

The Board recommends a vote **FOR** the proposed nominees to the Board.

### **Composition of the Board**

The Company's Restated Certificate of Incorporation provides that directors shall be divided into three classes and that each director shall serve for a term of three years and until his or her successor is elected and qualified or until his or her earlier resignation, death, or removal. One class of directors is elected at each annual meeting for a three-year term.

The Class I directors (whose terms expire in 2006) are Denis K. Berube, Charles E. Levine and B.G. Beck. The Class II directors (whose terms expire in 2007) are Bernard C. Bailey, Harriet Mouchly-Weiss and Paul T. Principato. There are no family relationships between any of the directors or executive officers of the Company.

The following sets forth the names of and certain information about the persons nominated as directors and the directors whose terms do not expire at the Meeting. Information regarding their beneficial ownership of shares of the Company's Common Stock is reported in the section entitled Security Ownership of Certain Beneficial Owners, Directors and Management.

### **Nominees for Class III Directors**

*Robert Gelbard*, 61, was nominated for election as a director of Viisage in March 2005. Ambassador Gelbard has been Chairman of Washington Global Partners, LLC, an international business consulting firm, since April 2005. Prior to that, he was a self-employed international business consultant beginning in October 2002. From March 2002 to September 2002, he was Senior Vice President of International Affairs and Government Relations for ICN Pharmaceuticals, Inc, a global pharmaceuticals company. From February 1967 to January 2002, Ambassador Gelbard held various senior level positions in the U.S. Department of State, including serving as Ambassador to Indonesia from 1999-2001, President Clinton's Special Representative for the Balkans from 1997-1999, Assistant Secretary of State from 1993-1997, and Ambassador to Bolivia from 1988-1991. In 2002, Ambassador Gelbard received the Distinguished Service Award, the State Department's highest commendation, which was conferred by Secretary of State Colin Powell.

*Peter Nessen*, 69, has served as a director of Viisage since its incorporation in May 1996. Since July 2003, Mr. Nessen has served as the President of Nessen Associates Ltd., a non-profit consulting company. From January 2003 to July 2003, Mr. Nessen served as an adviser to the Governor of the Commonwealth of Massachusetts on education matters. Mr. Nessen has been Chairman of the Board of NCN Financial, a private banking firm, since January 1995. From June 1993 through December 1994, Mr. Nessen was Dean for Resources and Special Projects at Harvard Medical School.

*Thomas J. Reilly*, 66, has served as a director of Viisage since its incorporation in May 1996. Mr. Reilly has been a self-employed financial consultant since December 1994. From June 1966 through November 1994, Mr. Reilly was with Arthur Andersen LLP, a public accounting firm, where he became a partner in 1975.

**Directors Whose Terms Expire at the 2006 Annual Meeting (Class I Directors)**

*Denis K. Berube*, 62, has been the Chairman of the Board of Directors of Viisage since the Company's incorporation in 1996. Mr. Berube is Executive Vice President and Chief Operating Officer of Lau Technologies (Lau), an investment company. Lau is one of the largest holders of Viisage Common Stock, directly owning approximately 11.4% of its issued and outstanding Common Stock. Mr. Berube has been employed at Lau since 1990.

*B.G. Beck*, 68, was the President and Chief Executive Officer of Trans Digital Technologies Corporation from 1998 until its acquisition by Viisage in February 2004, at which time he joined the Board of Directors of Viisage. Mr. Beck currently serves as a consultant to Viisage and also serves as a member of the Board of Directors of Cardinal Financial Corporation, a provider of comprehensive individual and corporate banking services.

*Charles E. Levine*, 52, has served as a director of Viisage since 1998. Mr. Levine retired in September 2002 from his position as President of Sprint PCS, a cellular telephone provider, a position he had held since 2001. Mr. Levine joined Sprint PCS as Senior Vice President of Marketing in January 1997. Before joining Sprint PCS, Mr. Levine served as Senior Vice President of Octel Services, a provider of voice systems services, from October 1994 through September 1996. Mr. Levine currently also serves as a member of the Boards of Directors of At Road, Inc., a wireless applications provider; Sierra Wireless Inc., a provider of a broad range of wireless products, including data modems, embedded modules and mobile phones; Somera Communications, a provider of telecommunications operators with equipment and deployment services; and Lexar Media, Inc., a provider of digital media such as compact flash and other flash memory products.

**Directors whose terms expire at the 2007 Annual Meeting (Class II Directors)**

*Bernard C. Bailey*, 51, joined Viisage in August 2002 as Chief Executive Officer and was appointed a director of Viisage in April 2004. From January 2001 through August 2002, Mr. Bailey served as the Chief Operating Officer of Art Technology Group, a provider of software applications for commerce and customer self-service. Between April 1984 and January 2001, Mr. Bailey served in various capacities at IBM Corporation, including several executive positions. A graduate of the US Naval Academy, Mr. Bailey served for eight years as an officer in the US Navy.

*Harriet Mouchly-Weiss*, 62, has served as a director of Viisage since its incorporation in May 1996. Ms. Mouchly-Weiss founded Strategy XXI Group, an international communications and consulting firm, in 2002 and has served as its managing partner since that time. Ms. Mouchly-Weiss currently also serves as a member of the Board of Directors of American Greetings Corporation, a company engaged in the design, manufacture and sale of everyday and seasonal greeting cards and other social expression products.

*Paul T. Principato*, 51, has served as a director of Viisage since May 2001 and as Chief Financial Officer of Lau since its incorporation in March 1990. Prior to 1990, Mr. Principato served as Controller at Barry Wright Corp.

**Board Independence**

The Board has determined that a majority of its members do not have a relationship with Viisage (either directly or as a partner, shareholder or officer of an organization that has a relationship with Viisage) which, in the Board's opinion, would interfere with their exercise of independent judgment. The Board has further determined that a majority of its members are independent within the meaning of the independence standards of the Nasdaq Stock Market, Inc., as currently in effect. Each of the three nominees for election as directors at the

Meeting is independent within the meaning of the foregoing standards. The Board has determined that each of the members of each of the committees of the Board of Directors has no material relationship with Viisage (either directly or as a partner, shareholder or officer of an organization that has a relationship with Viisage) and is independent within the meaning of the independence standards of the Nasdaq Stock Market, Inc., as currently in effect, other than Mr. Beck who is a member of the Compensation Committee.

### **Meetings of the Board of Directors and Committees**

The Company's Board of Directors held 16 meetings during 2004, and each director attended at least 75% of all meetings of the Board and any committee on which he or she served. Seven members of the Board attended Viisage's 2004 Annual Meeting of Stockholders. Board members are encouraged but not required to attend the annual meeting. The Board has established a Compensation Committee, an Audit Committee, and a Nominating and Corporate Governance Committee, all of the members of which are independent directors.

The Compensation Committee, comprised of Mr. Reilly (chair), Mr. Beck, Ms. Mouchly-Weiss, and Mr. Nessen, reviews senior management performance, recommends executive compensation, and administers the Amended and Restated 1996 Directors Stock Option Plan, the Second Amended and Restated 1996 Management Stock Option Plan, and the 1997 Employee Stock Purchase Plan. This committee also will administer the 2005 Long-Term Incentive Plan if this plan is approved by the shareholders.

The Audit Committee, comprised of Messrs. Nessen (chair), Reilly, and Levine, meets at least quarterly to review the Company's quarterly financial releases. Each member of the Audit Committee is independent within the meaning of Section 4200 of the National Association of Securities Dealers' Marketplace Rules and as required pursuant to Rule 10A-3 under the Securities Exchange Act of 1934, as amended (the Exchange Act). The Audit Committee performs the functions described in the report included in this proxy statement under the caption Board Audit Committee Report. The Board has determined that Messrs. Nessen and Reilly are each qualified as an audit committee financial expert within the meaning of applicable regulations issued under the Exchange Act. The Board of Directors has adopted a written charter for the Audit Committee, a copy of which is attached as Appendix A to this proxy statement.

The Nominating and Corporate Governance Committee, comprised of Messrs. Levine (chair) and Nessen and Ms. Mouchly-Weiss, proposes nominees for election to the Board, assists the Board in its annual review of director performance, and develops and recommends corporate governance guidelines for Viisage. The Nominating and Corporate Governance Committee has adopted a written charter, a copy of which was attached as an appendix to the proxy statement for the 2004 annual meeting of shareholders.

During 2004, the Compensation Committee met seven times, the Audit Committee met seven times, and the Nominating and Corporate Governance Committee met three times.

### **Compensation of Directors**

Pursuant to the Company's 2001 Stock in Lieu of Cash Compensation for Directors Plan (the Director Compensation Plan), each non-employee director serving for a full year received aggregate compensation valued at \$60,000 for his or her service as a director in 2004. Three of the directors, Messrs. Berube, Beck and Levine elected, in accordance with the Director Compensation Plan, to take all of this compensation in shares of the Company's Common Stock valued at the closing price of \$5.45 on the Nasdaq National Market on February 23, 2004. Accordingly, each of such directors received 11,009 shares of Common Stock. Four directors, Messrs. Nessen, Principato and Reilly and Ms. Mouchly-Weiss, elected, in accordance with the Director Compensation Plan, to take \$40,000 of this compensation in Common Stock and \$20,000 of this compensation in cash. Accordingly, each of these four directors received 7,339 shares of Common Stock. Directors did not receive any

additional cash or fees for attending Board or committee meetings. However, the Company reimburses directors for their out-of-pocket expenses incurred in connection with any Board or committee meetings.

Non-employee directors serving for a full year also receive grants of nonqualified options under the Company's 1996 Directors Stock Option Plan, as amended (the "Director Option Plan"). In February 2004, the Company granted each of the seven non-employee directors then serving on the Board an option to purchase 10,000 shares of Common Stock pursuant to the Director Option Plan, which options were fully vested upon grant. On March 8, 2005, the Company granted each of Messrs. Berube, Beck, Levine, Nessen, Principato and Reilly and Ms. Mouchly-Weiss an option to purchase 10,000 shares of Common Stock pursuant to the Director Option Plan, which options were fully vested upon grant.

### Securities Authorized for Future Issuance under Equity Compensation Plans

The following table sets forth information about the Company's Common Stock that may be issued upon the exercise of options outstanding under its stock option plans and the number of shares that have been issued under all of its other equity compensation plans as of December 31, 2004.

Plans	Number of Shares Subject to Outstanding Options/Shares Issued under Plan	Weighted- Average Exercise Price of Outstanding Options/Shares Issued under Plan	Number of Securities Remaining Available for Future Issuance Under Equity Compensation Plans (excluding securities reflected in first column)
1996 Management Stock Option Plan	3,229,614	\$ 4.62	968,803
2005 Long-Term Incentive Plan			5,000,000
1996 Directors Stock Option Plan	428,462	\$ 5.62	555,000
1997 Employee Stock Purchase Plan			60,147
2001 Stock in Lieu of Cash Compensation for Directors Plan	497,671	\$ 2.55	302,329
1996 Imaging Automation, Inc. Stock Option Plan	3,414	\$ 63.51	
2003 Imaging Automation, Inc. Employee, Director and Consultant Stock Plan	316,181	\$ 0.06	
ZN Vision Technologies AG Share Option Plan	1,080,034	\$ 0.01	
<b>Total:</b>	<b>5,555,376</b>	<b>\$ 3.39</b>	<b>6,886,279</b>

Each of the plans listed above was approved by the stockholders of the Company, other than the two Imaging Automation plans and the ZN plan, which were approved by the stockholders of those companies, and the 2005 Long-Term Incentive Plan, which is being put before the shareholders for their approval at the Meeting. Options outstanding under the Imaging Automation and ZN plans automatically converted into options to purchase shares of Company Common Stock upon the Company's acquisition of the outstanding capital stock of those two companies. No further grants of options may be made under the Imaging Automation or ZN plans. The options granted under the Imaging Automation plans have a ten year term and the options granted under the ZN plan expire on December 31, 2015.

### Compensation Committee Interlocks and Insider Participation

The Compensation Committee consists of Mr. Reilly (chair), Mr. Beck, Ms. Mouchly-Weiss, and Mr. Nessen, none of whom are officers or employees of the Company. No interlocking relationship exists between our board or compensation committee and the board of directors or compensation committee of any other company, nor has any such interlocking relationship existed in the past.

#### **Consideration of Director Nominees**

##### *Shareholder Nominees*

As adopted in February 2004, the policy of the Nominating and Corporate Governance Committee (the Nominating Committee ) is to consider properly shareholder nominations for candidates for membership on the



Board as described below under Identifying and Evaluating Nominees for Directors. In evaluating such nominations, like all nominations, the Board's criteria will include business experience and skills, independence, judgment, integrity, the ability to commit sufficient time and attention to Board activities and the absence of potential conflicts with the Company's interests. Any shareholder nominations proposed for consideration by the Nominating Committee should include the nominee's name and qualifications for Board membership and should be addressed to Nominating and Corporate Governance Committee c/o General Counsel, Viisage Technology, Inc., 296 Concord Road, Third Floor, Billerica, Massachusetts 01821.

In addition, the Company's by-laws permit shareholders to nominate directors for consideration at an annual meeting of shareholders for election by the shareholders of the meeting. Under the Company's by-laws, nominations for election of directors may be made by the Board or by any shareholder entitled to vote in the election of directors provided that no shareholder may nominate a person for election as a director unless written notice of such nomination is presented to the Company not later than 75 days nor more than 120 days prior to the anniversary date of the preceding year's annual meeting. No notice has been given by a shareholder with respect to the election of directors. As a result, no other nominees for election as director will be considered at the annual meeting except nominations made by the Board in the event one of the nominees named in the proxy statement should unexpectedly be unavailable.

#### *Identifying and Evaluating Nominees for Directors*

Pursuant to the policy set forth in its charter, the Nominating Committee will utilize a variety of methods for identifying and evaluating nominees for director. The Nominating Committee's policy is to assess the appropriate size of the Board, and whether any vacancies on the Board are expected due to retirement or otherwise. In the event that vacancies are anticipated, or otherwise arise, the Nominating Committee will consider various potential candidates for director. Candidates may come to the attention of the Nominating Committee through current Board members, shareholders or other persons. These candidates will be evaluated at regular or special meetings of the Nominating Committee, and may be considered at any point during the year. As described above, the Nominating Committee will consider properly submitted shareholder nominations for candidates for the Board. Following verification of the shareholder status of persons proposing candidates, recommendations will be aggregated and considered by the Nominating Committee at a regularly scheduled meeting. If any materials are provided by a shareholder in connection with the nomination of a director candidate, such materials will be forwarded to the Corporate Governance and Nominating Committee. There are no specific, minimum qualifications that must be met for any nominee.

We have not paid, to date, any third party a fee to assist in evaluating and identifying nominees. During 2004, no candidate was recommended to us by any beneficial owner of more than 5% of our common stock.

#### **Executive Sessions**

The Board has a practice of meeting in executive sessions without the presence of any members of the Company's management. The independent members of the Board meet in executive sessions at least twice a year.

#### **Communications with the Board**

Shareholders may communicate with the Board by writing to Board of Directors of Viisage Technology, Inc. c/o General Counsel, 296 Concord Road, Third Floor, Billerica, Massachusetts 01821. All such communications will be forwarded to the Chairman of the Board of Directors as promptly as practicable after receipt.

**Code of Ethics**

The Company has adopted a *Code of Business Ethics and Standards of Conduct* that applies to its directors, executive officers (including its principal executive, financial and accounting officers) and to all of its other

employees. A copy of the *Code of Business Ethics and Standards of Conduct* will be provided to any person, without charge, upon receipt of a written request addressed to Chief Financial Officer, Viisage Technology, Inc., 296 Concord Road, Third Floor, Billerica, MA 01821 or an e-mail request addressed to investor@viisage.com.

## **PROPOSAL 2 APPROVAL OF THE 2005 LONG-TERM INCENTIVE PLAN**

On March 1, 2005, our Board of Directors adopted, subject to stockholder approval, the Viisage Technology, Inc. 2005 Long-Term Incentive Plan (the 2005 Plan). The following summary of the 2005 Plan does not purport to be complete and is qualified in its entirety by reference to the full text of the 2005 Plan, which is attached as Appendix B to this proxy statement.

### **Purposes**

The purposes of the 2005 Plan are to attract and retain the best available personnel for positions of substantial responsibility, to provide additional incentive to employees and directors, and to promote the success of our business. Options, stock purchase rights and other stock-based awards may be granted under the 2005 Plan. This will give the Company greater flexibility in providing stock-based incentive compensation to our employees and directors than is currently available under the Company's existing stock option plans.

### **Administration**

The 2005 Plan is administered by the Board, which may delegate its powers under the 2005 Plan to one or more committees or sub-committees of the Board. Subject to the provisions of the 2005 Plan, the administrator of the 2005 Plan has authority in its discretion to: (1) determine fair market value of our common stock; (2) select employees and directors to whom awards may be granted; (3) determine the number of shares covered by awards; (4) approve forms of agreement for use under the 2005 Plan; (5) determine the terms and conditions of awards; (6) determine whether and under what circumstances an option may be settled in cash instead of common stock; (7) prescribe, amend or rescind rules and regulations relating to the 2005 Plan; and (8) construe and interpret the terms of the 2005 Plan and awards granted pursuant to the 2005 Plan. While we expect that the plan administrator will make awards from time to time under the 2005 Plan, it has no current plans, proposals or arrangements to make any specific grants under the 2005 Plan.

### **Shares Subject to the 2005 Plan**

The stock subject to options and awards under the 2005 Plan is authorized but unissued shares of our common stock or shares of treasury common stock. Any shares subject to an option that for any reason expires or is terminated unexercised as to such shares and any restricted stock that is forfeited and repurchased by us at not more than its exercise price as a result of the exercise of a repurchase option may again be the subject of an option or award under the 2005 Plan. The number of shares of common stock that may be issued under the 2005 Plan may not exceed 5,000,000 shares, subject to adjustment, as described below. On August 5, 2005, the closing sale price of our common stock was \$5.20 per share.

### **Section 162(m) Limitations**

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Section 162(m) of the Internal Revenue Code generally disallows a tax deduction to public companies for compensation in excess of \$1 million paid to the chief executive officer or any of the four other most highly compensated officers. Certain performance-based compensation is specifically exempt from the deduction limit if it otherwise meets the requirements of Section 162(m). One of the requirements for equity compensation plans is that there must be a limit to the number of shares granted to any one individual under the plan. Accordingly, the 2005 Plan provides that no participant may receive, over the term of the 2005 Plan, awards for more than an aggregate of 1,000,000 shares of common stock with respect to which awards may be granted under the 2005 Plan. Stockholder approval of this proposal will constitute stockholder approval of this limitation for Section 162(m) purposes.

## **Eligibility**

Nonstatutory stock options, or NSO s, stock purchase rights and other stock-based awards (other than incentive stock options) may be granted to employees and directors. Incentive stock options, ISO s, may be granted only to employees. Each option will be designated in the stock option agreement as either ISO or an NSO. As of August 5, 2005, we estimate that approximately 195 employees, as well as our eight non-employee directors, were eligible to participate in the 2005 Plan. Notwithstanding the terms of any award under the 2005 Plan, in the event of certain misconduct by a participant, all awards to that participant will be terminated and all shares acquired by the participant under the 2005 Plan will be subject to repurchase by us at any time within 180 days after we have knowledge of such misconduct.

## **Terms and Conditions of Options**

*Exercise Price.* The exercise price for shares issued upon exercise of options will be determined by the 2005 Plan administrator. The exercise price of ISO s may not be less than 100% of the fair market value on the date the option is granted. The exercise price of ISO s granted to a 10% or greater stockholder may not be less than 110% of the fair market value on the date of grant.

*Form of Consideration.* The means of payment for shares issued upon exercise of an option will be specified in each option agreement. The 2005 Plan permits payment to be made by cash, check, promissory note of the participant, wire transfer, other shares of our common stock (with some restrictions), consideration received by us under a cashless exercise program implemented by us in connection with the 2005 Plan, or any combination of the foregoing.

*Term of Options.* The term of an option may be no more than ten years from the date of grant, except that the term of an option granted to a 10% or greater stockholder may not exceed five years from the date of grant.

*Termination of Employment.* No option may be exercised more than three months following termination other than by reason of the participant s death or disability, or such other period as set forth in the option agreement. If, on the date of termination, a participant is not fully vested, the shares covered by the unvested portion will revert to the 2005 Plan.

*Death or Disability.* An option is exercisable for 12 months following death of the participant or termination for a disability or such other period as set forth in the option agreement. If, on the date of death or termination, a participant is not fully vested, the shares covered by the unvested portion will revert to the 2005 Plan.

*Other Provisions.* The stock option agreement for each option grant may contain other terms, provisions and conditions not inconsistent with the 2005 Plan, as may be determined by the 2005 Plan administrator.

## **Terms and Conditions of Stock Purchase Rights**

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*Rights to Purchase.* Stock purchase rights may be issued either alone, in addition to, or in tandem with, other awards granted under the 2005 Plan and/or cash awards made outside of the 2005 Plan. The offer to purchase stock under the 2005 Plan will be accepted by execution by the participant of a stock purchase agreement.

*Right of Repurchase.* Unless the 2005 Plan administrator determines otherwise, the stock purchase agreement will grant us the right to repurchase the stock sold upon the termination of the participant's service to us or upon the failure to satisfy any performance objectives or other conditions specified in the stock purchase agreement. The repurchase price will be the purchase price paid by the participant or such other price as set forth in the stock purchase agreement. The repurchase right will lapse upon such conditions or at such rate as the 2005 Plan administrator may determine and set forth in the stock purchase agreement.

### **Other Stock-Based Awards**

The 2005 Plan administrator will have the right to grant other awards based upon our common stock, having such terms and conditions as the 2005 Plan administrator may determine, including the grant of shares based upon certain conditions, the grant of securities convertible into common stock, the grant of stock appreciation rights and the grant of dividend equivalent rights.

### **Adjustments**

*Changes in Capitalization.* In the event of a stock split, reverse stock split, stock dividend, recapitalization, combination of shares, reclassification of shares, spin-off or other similar change in capitalization or event, or any distribution to holders of common stock other than a normal cash dividend, (1) the number and class of securities available under the 2005 Plan, (2) the per-participant limit, (3) the number and class of securities and exercise price per share subject to each outstanding award, (4) the price per share at which outstanding restricted shares may be repurchased, and (5) the terms of each other outstanding award shall be appropriately adjusted (or substituted awards may be made, if applicable) to the extent that the administrator of the 2005 Plan shall determine, in good faith, necessary and appropriate.

*Dissolution or Liquidation.* The 2005 Plan administrator in its discretion may provide for a participant to have the right to exercise his or her award until 15 days prior to any dissolution or liquidation of the Company. To the extent not previously exercised, an award will terminate immediately prior to the consummation of any proposed dissolution or liquidation.

*Sale of the Company.* Except as otherwise provided in any stock option agreement or stock purchase agreement or other document evidencing such rights, in the event a third party acquires a majority of the voting power of the Company, whether through the sale of substantially all of our assets, the sale of our voting securities or a merger or consolidation, the 2005 Plan administrator, in its discretion, may provide for the assumption, substitution or adjustment of each outstanding award, accelerate the vesting of options and terminate any restrictions on stock awards, or cancel awards for a cash payment to the participant.

### **Limits on Transferability**

An incentive stock option granted under the 2005 Plan may not be transferred during a participant's lifetime and will not be transferable other than by will or by the laws of descent and distribution following the participant's death. Nonstatutory stock options, stock purchase rights or shares granted under the 2005 Plan may be assigned during a participant's lifetime to members of the participant's family or to a trust established for such family members or the participant's former spouse pursuant to the participant's estate plan or pursuant to a domestic relations order.

### **Amendment and Termination**

Our Board may at any time amend, alter, suspend or terminate the 2005 Plan. The Board will obtain stockholder approval of any 2005 Plan amendment to the extent necessary and desirable to comply with applicable laws. No amendment, alteration, suspension or termination of the 2005 Plan shall impair the rights of any participant, unless mutually agreed in writing.

**Federal Income Tax Consequences**

*Incentive Stock Options* A participant who receives an ISO will recognize no taxable income for regular federal income tax purposes upon either the grant or the exercise of such ISO. However, when a participant exercises an ISO, the difference between the fair market value of the shares purchased and the option price of those shares will be includable in determining the participant's alternative minimum taxable income.



If the shares are retained by the participant for at least one year from the date of exercise and two years from the date of grant of the options, gain will be taxable to the participant upon sale of the shares acquired upon exercise of the ISO, as a long-term capital gain. In general, the adjusted basis for the shares acquired upon exercise will be the option price paid with respect to such exercise. We will not be entitled to a tax deduction arising from the exercise of an ISO if the employee qualifies for such long-term capital gain treatment.

*Nonstatutory Stock Options* A participant will not recognize taxable income for federal income tax purposes at the time an NSO is granted. However, the participant will recognize compensation taxable as ordinary income at the time of exercise for all shares that are not subject to a substantial risk of forfeiture. The amount of such compensation will be the difference between the option price and the fair market value of the shares on the date of exercise of the option. We will be entitled to a deduction for federal income tax purposes at the same time and in the same amount as the participant is deemed to have recognized compensation income with respect to shares received upon exercise of the NSO. The participant's basis in the shares will be adjusted by adding the amount so recognized as compensation to the purchase price paid by the participant for the shares.

The participant will recognize gain or loss when he or she disposes of shares obtained upon exercise of an NSO in an amount equal to the difference between the selling price and the participant's tax basis in such shares. Such gain or loss will be treated as long-term or short-term capital gain or loss, depending upon the holding period.

As of August 15, 2005, no stock options or other awards had been granted, and no shares of Common Stock had been issued, under the 2005 Plan. Further, the Company has not committed or designated any shares of Common Stock for grants under the 2005 Plan.

The affirmative vote of at least a majority of the outstanding shares of Common Stock present in person or by proxy at the Meeting and entitled to vote is required for approval of the 2005 Plan.

**The Board of Directors recommends that you vote FOR the approval of the Viisage Technology, Inc. 2005 Long-Term Incentive Plan, and proxies solicited by the Board will be voted in favor of the 2005 Plan unless a stockholder has indicated otherwise on the proxy.**

### **PROPOSAL 3 RATIFICATION OF SELECTION OF INDEPENDENT PUBLIC ACCOUNTANTS**

The Board of Directors has selected the accounting firm of BDO Seidman, LLP ( BDO Seidman ) as the Company's independent public accountants for the year ending December 31, 2005.

Shareholder ratification of the selection of BDO Seidman is not required by the Company's By-laws or otherwise. The Board of Directors, however, is submitting the selection of BDO Seidman to the shareholders as a matter of good corporate practice. If the shareholders fail to ratify the selection, the Audit Committee and the Board of Directors will reconsider whether or not to retain such firm. Even if the selection is ratified, the Audit Committee, in their discretion, may direct the appointment of a different independent public accounting firm at any time during the year if they determine that such a change would be in the best interest of the Company and its shareholders.

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BDO Seidman representatives are expected to be present at the Meeting and available to respond to appropriate questions. They will have an opportunity to make a statement if they desire to do so.

During the fiscal years ended December 31, 2003 and December 31, 2004, fees for services provided by BDO Seidman were as follows:

#### Audit Fees

	Year Ended	
	December 31,	
	2003	2004
Audit Fees	\$ 178,500	\$ 809,875
Audit-Related Fees	\$ 321,445	
Tax Fees	\$ 12,000	\$ 22,500
All Other Fees		
<b>Total</b>	<b>\$ 511,945</b>	<b>\$ 832,375</b>

Audit Fees consisted of fees billed for professional services rendered by BDO Seidman for the audit of Viisage's annual financial statements for the years ended December 31, 2003 and 2004, and the reviews of Viisage's financial statements included in the Company's quarterly reports on Form 10-Q during the years ended December 31, 2003 and 2004, and other services normally provided in connection with statutory and regulatory filings. Audit-Related Fees consisted of fees billed for due diligence procedures in connection with acquisitions and consultation regarding financial accounting and reporting matters. Tax Fees consisted of fees billed for tax payment planning and tax preparation services. The Audit Committee must pre-approve all audit and permitted non-audit services for which our independent auditors may be engaged. All audit and non-audit services provided by BDO Seidman in 2003 and 2004 were approved in advance by the Audit Committee, and no fees were paid in 2003 or 2004 under a *de minimis* exception that waives pre-approval for certain non-audit services.

The Audit Committee has determined that BDO Seidman's provision of services other than for its audit and reviews of Viisage's financial statements is compatible with maintaining the independence of BDO Seidman.

**The Board recommends a vote FOR the ratification of BDO Seidman as the Company's independent public accountants for the year ending December 31, 2005.**

**SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS,  
DIRECTORS AND MANAGEMENT**

The following table sets forth information known to us with respect to the beneficial ownership of our outstanding Common Stock as of August 15, 2005 by:

each person known to the Company to be the beneficial owner of 5% or more of the Company's Common Stock;

each director and director nominee;

each executive officer of Viisage for whom information is given in the Summary Compensation Table in this annual report; and

all directors and executive officers of the Company as a group.

The percentage of the Company's Common Stock beneficially owned in the following table is based on 48,126,672 shares of Common Stock outstanding on August 15, 2005. Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission. In computing the number of shares beneficially owned by a person and the percentage ownership of that person, shares of Common Stock subject to options held by that person which are exercisable as August 15, 2005 or will become exercisable within 60 days thereafter are deemed outstanding, while such shares are not deemed outstanding for purposes of computing percentage ownership of any other person.

Unless otherwise indicated in the footnotes to this table, the address of each beneficial owner is c/o of Viisage Technology, Inc., 296 Concord Road, Third Floor, Billerica, MA 01821.

Name of Beneficial Owner	Shares Beneficially Owned(1)	Percent
<b>Beneficial Owners of 5% or more</b>		
Joanna T. Lau(2)	5,673,850	11.8%
Lau Technologies	5,490,454	11.4%
Bahram Akradi(3)	2,982,000	6.2%
<b>Directors, Nominees and Executive Officers</b>		
Denis K. Berube(4)	5,673,850	11.8%
B.G. Beck(5)	5,744,202	11.9%
Harriet Mouchly-Weiss(6)	127,190	*
Charles E. Levine(7)	145,510	*
Peter Nessen(8)	104,156	*
Paul T. Principato(9)	125,602	*
Thomas J. Reilly(10)	124,402	*
Bernard C. Bailey(11)	375,000	*
Robert Gelbard	20,481	*
Marcel Yon(12)	149,168	*
Iftikhar Ahmad(13)	174,152	*
James P. Ebzery(14)	133,332	*
William K. Aulet(15)	133,332	*
John J. Dillon(16)		*

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All directors, nominees and executive officers as a group (15 persons)(17)	13,115,641	26.5%
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- \* Indicates holdings of less than one percent of the 48,126,672 shares issued and outstanding as of August 15, 2005.
- (1) Unless otherwise noted, and subject to applicable community property laws, each person identified possesses sole voting and investment power over the shares beneficially owned by such person.

- (2) The address of Ms. Lau and Lau Technologies is c/o Lau Technologies, 30 Monument Square, Suite 220, Concord, Massachusetts 01742. Includes 5,490,454 shares held by Lau Technologies. Ms. Lau and Denis K. Berube, the spouse of Ms. Lau, own approximately 56% of the outstanding capital stock of Lau Technologies. Also includes 1,000 shares owned directly by Ms. Lau, 60,000 shares issuable to Denis K. Berube, the spouse of Ms. Lau, pursuant to stock options, and 122,396 shares owned by Mr. Berube directly. Ms. Lau disclaims beneficial ownership of the 60,000 shares issuable to Mr. Berube and the 122,396 shares owned by Mr. Berube.
- (3) Based on Schedule 13G filed with the Securities and Exchange Commission on April 27, 2005. The address of Mr. Akradi is 6442 City West Parkway, Eden Prairie, MN 55344.
- (4) Includes 5,490,454 shares held by Lau Technologies. Also includes 1,000 shares owned directly by Ms. Lau, 60,000 shares issuable to Mr. Berube pursuant to stock options, and 122,396 shares owned by Mr. Berube directly. Mr. Berube disclaims beneficial ownership of the 5,490,454 shares held by Lau Technologies and the 1,000 shares held by Ms. Lau.
- (5) Includes 500,000 shares held in a charitable trust of which Mr. Beck and his wife are the trustees. Also includes 20,000 shares issuable pursuant to stock options.
- (6) Includes 74,167 shares issuable pursuant to stock options.
- (7)