

VIISAGE TECHNOLOGY INC

Form 424B4

August 05, 2004

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Filed Pursuant to Rule 424(b)(4)

Registration No. 333-116698

Prospectus

7,500,000 Shares of Common Stock

We are offering 7,200,000 shares of our common stock, par value \$0.001 per share. We will receive all of the net proceeds from the sale of such common stock. The selling shareholders identified in this prospectus are selling an additional 300,000 shares of our common stock. We will not receive any of the proceeds from the sale of the shares by the selling shareholders.

Our common stock is listed on the Nasdaq National Market under the symbol VISG. The last reported sale price of our common stock on August 4, 2004 was \$6.23 per share.

Investing in our common stock involves a high degree of risk. Before buying any of these shares of our common stock, you should carefully consider the risk factors described in Risk Factors beginning on page 7 of this prospectus.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus. Any representation to the contrary is a criminal offense.

	Per share	Total
Public offering price	\$ 5.500	\$ 41,250,000
Underwriting discounts and commissions	\$ 0.316	\$ 2,370,000
Proceeds, before expenses, to us	\$ 5.184	\$ 37,324,800
Proceeds to selling shareholders	\$ 5.184	\$ 1,555,200

The underwriters may also purchase up to an additional 525,000 shares of our common stock from us and up to an additional 600,000 shares from the selling shareholders at the public offering price, less the underwriting discounts and commissions payable by us and the selling shareholders, to cover overallocments, if any, within 30 days from the date of this prospectus. If the underwriters exercise the option in full, the total underwriting discounts and commissions payable by us and the selling shareholders will be \$2,725,500 and the total proceeds, before expenses, to us will be \$40,046,400 and the total proceeds to the selling shareholders will be \$4,665,600.

The underwriters are offering the shares of our common stock as described in Underwriting. Delivery of the shares will be made on or about August 10, 2004.

JPMorgan

UBS Investment Bank

Piper Jaffray

JMP Securities

Janney Montgomery Scott LLC

Roth Capital Partners

August 4, 2004

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You should rely only on the information contained or incorporated by reference in this prospectus. We have not authorized anyone to provide information different from that contained or incorporated by reference in this prospectus. Neither the delivery of this prospectus nor the sale of shares of common stock means that information contained or incorporated by reference in this prospectus is correct after the date of this prospectus. These documents do not constitute an offer to sell or solicitation of an offer to buy in any jurisdiction where offers or sales are not permitted. In this prospectus, Viisage, we, our, us, and the Company refer to Viisage Technology, Inc. and its consolidated subsidiaries, unless the context otherwise requires.

Prospectus

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Our trademarks, service marks and trade names include Viisage, Viisage Technology, FaceEXPLORER, FaceTOOLS, FaceFINDER, FacePASS and SensorMast. This prospectus also contains trademarks, service marks, copyrights and trade names of other companies.

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FORWARD-LOOKING STATEMENTS

This prospectus contains or incorporates forward-looking statements within the meaning of section 27A of the Securities Act of 1933 and section 21E of the Securities Exchange Act of 1934. These forward-looking statements are based on current expectations, estimates, forecasts and projections about the industry and markets in which we operate and management's beliefs and assumptions. In addition, other written or oral statements that constitute forward-looking statements may be made by or on our behalf. Words such as "expect," "anticipate," "intend," "plan," "believe," "seek," "estimate," variations of such words and similar expressions are intended to identify such forward-looking statements. These statements are not guarantees of future performance and involve risks, uncertainties and assumptions that are difficult to predict. We have included important factors in the cautionary statements below under the heading "Risk Factors" that we believe could cause our actual results to differ materially from the forward-looking statements we make. We do not intend to update publicly any forward-looking statements, whether as a result of new information, future events or otherwise.

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PROSPECTUS SUMMARY

*This summary highlights selected information from this prospectus and the documents that we have incorporated by reference and may not contain all the information that is important to you. As a result, it does not contain all of the information that you should consider before investing in our common stock. You should read the following summary together with the more detailed information and financial statements and notes to the financial statements contained elsewhere or incorporated by reference in this prospectus, as described under the heading **Where You Can Find More Information**. To fully understand this offering, you should read all these documents. Unless otherwise indicated, the information in this prospectus assumes the underwriters have not exercised their over-allotment option. All currency amounts in this prospectus are stated in U.S. dollars.*

Viisage Technology, Inc.

We are a leading provider of advanced technology identity solutions that enable governments, law enforcement agencies and businesses to enhance security, reduce identity theft and protect personal privacy. Our identity solutions include secure credential provisioning systems, biometric software and systems and real-time identity databases, as well as systems design, development, integration and support services. These solutions enable our customers to manage the entire life cycle of an individual's identity for a variety of applications including civil identification, criminal identification and border management. Our customers use our solutions to help solve the following four critical problems in identity verification and management:

assurance that the identification document is authentic;

assurance that the document has been issued to the correct person;

confidence that the person holding the identification is uniquely tied to and authorized to use the document; and

verification of the privileges the individual is entitled to at a particular point in time.

Our solutions annually produce more than 30 million secure government-issued credentials at more than 2,000 locations. We are the second largest provider of U.S. drivers' licenses with a 30% market share. We are the sole source provider of passport production capability to the U.S. Department of State. We also are a recognized leader in biometrics in the field of face recognition. Our customers include governments, law enforcement agencies and businesses in more than 15 countries.

As our market has become increasingly complex and more frequently requires the integration of various technologies and capabilities, we have established ourselves as a provider of end-to-end identity solutions. In January 2004, we acquired ZN Vision Technologies AG, or ZN, which solidified our leadership position in face recognition technology. In addition, in February 2004, we acquired Trans Digital Technologies Corporation, or TDT, which provides us with a significant presence in the U.S. federal government market and strengthens our capability and credibility in the border management market worldwide.

We believe that our installed base of secure credential customers together with our leading face recognition technology provide us with a competitive advantage in delivering unified identity solutions for both the physical and digital domains. For example, in April 2004, we were

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selected by the U.S. Department of Defense, or DoD, for the production of secure, smart credentials as part of the agency's Common Access Card, or CAC, program. The CAC is a single means of identification for access to both physical locations and computer networks. We expect the demand for these types of solutions to grow significantly in the future.

We generate revenue through the sale and license of products and services for verifying and managing identities. Our revenues increased from \$8.2 million in the first quarter of 2003 to \$12.3 million in the first

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quarter of 2004. Our net loss during the same periods decreased from \$2.4 million to \$1.6 million, excluding the one-time charge of \$12.1 million in connection with our change in accounting principle as of January 1, 2003.

Market Opportunity

The ability to confirm an individual's identity is playing an increasingly important role in national and international security, personal privacy and commerce. Failure to provide adequate identification can lead to breaches of security and identity theft, the consequences of which can range from national security threats and loss of life to significant economic loss. Within this context, we believe that there is increasing pressure on governments and businesses to accelerate the adoption of advanced technology identity solutions. The concern over homeland security, in which identity solutions play a part, is exemplified by the size of the budget for the U.S. Department of Homeland Security, which was approximately \$31 billion for the fiscal year ended September 30, 2003, and is projected to be approximately \$37 billion for the fiscal year ended September 30, 2004. Furthermore, identity theft is the nation's fastest growing crime, and the Federal Trade Commission has estimated that the total cost of identity theft approaches \$50 billion per year.

Government-issued credentials serve as the primary means for confirming the physical identity of an individual. The effectiveness, however, of these credentials is impaired by the following issues:

the credential can be counterfeited or altered;

the credential can be issued under false pretenses; and

the credential rarely is linked to an identity database.

To address these complex problems, credential issuing agencies are seeking advanced technology identity solutions, which increasingly include secure credential provisioning systems, biometrics and real-time identity databases. We believe the global market for these solutions is driven by the following key trends:

Growth in government-initiated security programs. Budgets for U.S. federal government agencies, such as the Department of Homeland Security, include spending for identity initiatives and we believe that government agencies will continue to be key drivers for the growth and development of the market for advanced technology identity solutions.

Development of industry standards and requirements. Several organizations responsible for standards in a number of our markets have recently implemented requirements for the use of face recognition biometrics. We believe this will help stimulate the development of our target markets.

Growing use of biometrics. Governments are increasingly mandating biometrics as an integral component of identity solutions. This increased demand, coupled with the maturation of the technology, is driving the market adoption of biometrics.

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Increasing cost of identity theft and financial fraud. The growing direct and indirect cost of identity theft and financial fraud is increasing the pressure on businesses and individuals to accelerate the adoption of advanced technology identity solutions.

Convergence of physical and logical security systems. There is a growing need for governments and businesses to provide a highly secure, unified system for user authentication to both physical assets, such as buildings, and digital assets, such as computer networks.

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Our Strategy

Our objective is to be the leading provider of advanced technology identity solutions for governments, law enforcement agencies and businesses. Key elements of our strategy to achieve this objective include:

Focus on customer needs. We are committed to solving our customers' problems and will continue to develop and market solutions to meet their evolving increasingly complex identity security needs.

Continue to enhance and expand our product suite and solutions. We intend to continue to broaden our product and solution offerings to meet our customer needs. We intend to continue to engage in product development activities to expand the scope and enhance the performance of our solutions.

Leverage existing customer base to provide additional advanced technology identity solutions. Many of our customers do not yet use the full range of our total solutions offerings. Accordingly, we will continue to provide thought and product leadership to these customers as they migrate toward more sophisticated identity solutions.

Expand customer base both domestically and abroad. We intend to focus our sales efforts on broadening our customer base in both domestic and international markets.

Pursue strategic acquisitions and alliances. We intend to augment our competitive position through acquisitions and alliances.

Recent Operating Results

On July 21, 2004, we announced our unaudited consolidated financial results for the three and six months ended June 27, 2004. We reported revenue of approximately \$16.3 million for the second quarter of 2004, representing an increase of 85.2% over our revenue of approximately \$8.8 million for the second quarter of 2003. For the six months ended June 27, 2004, our revenue increased 68.4% from approximately \$16.9 million in the first six months of 2003 to approximately \$28.5 million in the first six months of 2004. Gross margins increased to 30.5% in the second quarter of 2004 from 22.3% in the second quarter of 2003. Gross margins increased to 29.2% for the first six months of 2004 from 19.6% for the first six months of 2003. Our net loss during the second quarter of 2004 was \$317,000, or \$0.01 per basic and diluted share, compared to a net loss during the comparable period of 2003 of \$1.4 million, or \$0.07 per basic and diluted share. For the first six months of 2004, our net loss was \$1.9 million, or \$0.06 per basic and diluted share, compared to a net loss during the comparable period of 2003 of \$3.7 million, or \$0.18 per basic and diluted share, excluding the one-time charge of \$12.1 million in connection with our change in accounting principle as of January 1, 2003. As of June 27, 2004 we had approximately \$12.6 million of cash and cash equivalents, and \$29.8 million in total debt obligations. In addition, our backlog was approximately \$171.0 million which will be reduced by \$19.7 million in the third quarter as a result of the settlement with Georgia. Our operating results for the three and six months ended June 27, 2004 include the impact of our acquisitions of ZN and TDT in the first quarter of 2004.

Corporate Information

We were incorporated in Delaware in May 1996. Our principal executive offices are located at 296 Concord Road, Third Floor, Billerica, Massachusetts 01821, our telephone number at that location is (978) 932-2200 and our website address is www.viisage.com. The information contained on, or that can be accessed through, our website is not a part of this prospectus.

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THE OFFERING

Common stock we are offering	7,200,000 shares
Common stock offered by the selling shareholders	300,000 shares
Common stock to be outstanding after the offering	43,070,327 shares
Nasdaq National Market symbol	VISG
Use of proceeds after expenses	We will use the proceeds of the common stock we are offering to repay approximately \$30.3 million of indebtedness and for general corporate purposes. We will not receive any proceeds from the sale of common stock by the selling shareholders. See Use of Proceeds.
Risk Factors	See Risk Factors beginning on page 7 of this prospectus for a discussion of factors you should carefully consider before deciding to invest in shares of our common stock.

The number of shares of common stock to be outstanding after this offering is based on the number of shares of common stock outstanding as of July 15, 2004, assumes no exercise of the underwriters' over-allotment option to purchase an additional 1,125,000 shares of common stock and does not include shares issuable upon the exercise of 4,550,621 options outstanding as of July 15, 2004 with a weighted-average exercise price of \$3.70 per share, or 812,469 shares issuable upon the exercise of warrants outstanding as of July 15, 2004 with a weighted-average exercise price of \$11.94 per share.

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The following table summarizes our consolidated financial data for the periods, and as of the dates, indicated. You should read the summary consolidated financial data set forth below in conjunction with Selected Consolidated Financial Data, Management's Discussion and Analysis of Financial Condition and Results of Operations and the audited consolidated financial statements and the accompanying notes thereto included elsewhere in this prospectus. The historical and as adjusted results presented here are not necessarily indicative of future results.

The as adjusted balance sheet data gives effect to the sale of 7,200,000 shares of our common stock in this offering at an offering price of \$5.50 per share and after deducting underwriting discounts and commissions and estimated offering expenses.

	For the Years Ended			For the	
	December 31,			Three Months Ended(2)	
	2001(1)	2002(1)	2003(2)	March 30, 2003	March 28, 2004
	(unaudited)				
	(dollars in thousands, except per share data)				
Statement of Operations Data:					
Revenue	\$ 26,280	\$ 32,302	\$ 37,371	\$ 8,155	\$ 12,259
Cost of revenue	19,602	25,239	27,844	6,789	8,906
Gross margin	6,678	7,063	9,527	1,366	3,353
Operating expenses:					
Sales and marketing	809	5,368	5,282	1,411	1,493
Research and development	2,054	4,457	3,650	945	959
General and administrative	2,500	5,069	5,110	1,093	2,137
Acquisition expenses	1,639				
Restructuring charges		824			
Total operating expenses	7,002	15,718	14,042	3,449	4,589
Operating loss	(324)	(8,655)	(4,515)	(2,083)	(1,236)
Interest expense, net	(1,210)	(875)	(969)	(219)	(392)
Other income			18		21
Loss before income taxes and cumulative effect of change in accounting principle	(1,534)	(9,530)	(5,466)	(2,302)	(1,607)
Provision for income taxes			(63)	(63)	(25)
Loss before cumulative effect of change in accounting principle	(1,534)	(9,530)	(5,529)	(2,365)	(1,632)
Cumulative effect of change in accounting principle (3)			(12,131)	(12,131)	
Net loss	(1,534)	(9,530)	(17,660)	(14,496)	(1,632)
Preferred stock dividends	(5)				

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Loss applicable to common shareholders	\$ (1,539)	\$ (9,530)	\$ (17,660)	\$ (14,496)	\$ (1,632)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic and diluted loss per share before cumulative effect	\$ (0.09)	\$ (0.48)	\$ (0.26)	\$ (0.12)	\$ (0.05)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Basic and diluted net loss per share applicable to common shareholders (4)	\$ (0.09)	\$ (0.48)	\$ (0.82)	\$ (0.72)	\$ (0.05)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Weighted average basic and diluted common shares outstanding	16,265	20,046	21,445	20,258	31,362
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Pro forma operating loss (for application of EITF 00-21)	\$ (494)	\$ (11,176)	\$ (5,529)	\$ (2,365)	\$ (1,632)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Pro forma net loss per share	\$ (0.03)	\$ (0.56)	\$ (0.26)	\$ (0.12)	\$ (0.05)
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

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	<u>As of March 28, 2004</u>	
	<u>Actual</u>	<u>As Adjusted</u>
Balance Sheet Data:		
Working capital	\$ 2,443	\$ 19,439
Total assets	135,292	142,051
Total debt	31,423	1,112
Shareholders' equity	92,196	129,266

- (1) The results are presented under percentage of completion based on the cost to cost method of measurement.
- (2) The results are presented in accordance with EITF 00-21 applied on a cumulative basis as of January 1, 2003.
- (3) We adopted EITF 00-21 on a cumulative basis as of January 1, 2003. See note 2 in the Notes to Consolidated Financial Statements which discusses the change in accounting principle.
- (4) See note 2 in the Notes to Consolidated Financial Statements for information concerning the computation of basic and diluted net loss per share.

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RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before investing in shares of our common stock. Investing in our common stock involves a high degree of risk. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our common stock could decline and you may lose part or all of your investment.

Risks Related to Viisage and the Industry

We have a history of operating losses.

We have a history of operating losses. Our business operations began in 1993 and, except for fiscal years 1996 and 2000, have resulted in net losses in each fiscal year. At March 28, 2004, we had an accumulated deficit of approximately \$43.7 million. We will continue to invest in the development of our secure credential provisioning capabilities, biometric technologies and other components of advanced technology identity solutions. Accordingly, we cannot predict when or if we will ever achieve profitability.

We may be unable to obtain additional capital required to fund our operations and finance our growth.

The installation of our secure identification solutions requires significant capital expenditures. Furthermore, the continued development of our biometric and other advanced technologies will require additional capital. Although we have been successful in the past in obtaining financing for working capital and capital expenditures, including a \$15 million private placement of our common stock in September 2003 and January 2004 and a new loan agreement with Commerce Bank and Trust Company in February 2004, we will have ongoing capital needs as we expand our business. We may be unable to obtain additional funds in a timely manner or on acceptable terms, which would render us unable to fund our operations or expand our business. If we are unable to obtain capital when needed, we may have to restructure our business or delay or abandon our development and expansion plans.

We derive over 90% of our 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 our business involves providing products and services under contracts with U.S. federal, state and local government agencies 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 becomes 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.

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We derive a significant portion of our revenue from a few customers, the loss of which could have an adverse effect on our revenues.

For the three-month period ended March 28, 2004, the U.S. Department of State, accounted for 13% of our revenue. For the year ended December 31, 2003, the Pennsylvania Department of Transportation and the Office of the Illinois Secretary of State, each accounted for 13% of our revenues. The U.S. Department of Justice has recently issued an i