

VIISAGE TECHNOLOGY INC
Form 10-Q/A
February 14, 2006

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-Q/A

(Amendment No. 1)

x QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended July 3, 2005.

OR

.. TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the Transition Period from _____ to _____.

Commission File Number 000-21559

VIISAGE TECHNOLOGY, INC.

(Exact name of registrant as specified in its charter)

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| | |
|-------------------------------------------------------------------------------------------------|--------------------------------------------------------------|
| Delaware (State or other jurisdiction of incorporation or organization) | 04-3320515 (I.R.S. Employer Identification No.) |
| 296 Concord Road, Third Floor, Billerica, MA (Address of principal executive offices) | 01821 (Zip Code) |

(978) 932-2200

Registrant's telephone number, including area code

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes No

Indicate by a check mark whether the Registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act) Yes No

Indicated by check mark whether the Registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act) Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer Accelerated filer Non-accelerated filer

Indicate the number of shares outstanding of each of the registrant's classes of common stock, as of the latest practicable date.

| <u>Class</u> | <u>Outstanding at August 10, 2005</u> |
|--------------------------------|---------------------------------------|
| Common stock, \$.001 par value | 48,126,672 |

Explanatory Note

Viisage Technology, Inc. (the Company) is filing this Amendment No. 1 to Form 10-Q to amend its Form 10-Q for the quarterly period ended July 3, 2005, filed with the Securities and Exchange Commission on August 12, 2005 (the Original Filing), in order to amend Item 4, Controls and Procedures. The description of the Company s controls and procedures in Item 4 has been amended in response to comments made by the Staff of the Securities and Exchange Commission.

Except for the matters disclosed in Item 4 and Exhibit 31.1 and 31.2, which are filed herewith pursuant to the requirements of Rule 12b-15 under the Securities Exchange Act of 1934, this Amendment No. 1 to Form 10-Q continues to speak as of the date of the Original Filing and does not modify, amend or update in any way the financial statements or any other item or disclosures in the Original Filing.

ITEM 4 CONTROLS AND PROCEDURES

(a) *Evaluation of disclosure controls and procedures.* We maintain disclosure controls and procedures that are designed to ensure that information required to be disclosed in our reports under the Securities Exchange Act of 1934, as amended, or the Exchange Act, is recorded, processed, summarized and reported within the time periods specified in the SEC's rules and forms, and that such information is accumulated and communicated to management, including our Chief Executive Officer, or CEO, and Chief Financial Officer, or CFO, as appropriate, to allow timely decisions regarding required disclosure. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, as ours are designed to do, and management necessarily was required to apply its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

In connection with the preparation of this Quarterly Report on Form 10-Q, an evaluation was performed under the supervision and with the participation of our management, including the CEO and CFO, of the effectiveness of the design

and operation of our disclosure controls and procedures (as defined in Rule 13a-15(e) under the Exchange Act) as of July 3, 2005. In performing this evaluation, management reviewed our internal controls over financial reporting, noting that there were two that had significant deficiencies that constituted material weaknesses in our control processes. The first of these is with regard to insufficient personnel resources and technical accounting expertise within the accounting function to effect timely financial close process and to effectively evaluate and resolve non-routine and/or complex accounting transactions. The second is with regard to inadequate or ineffective control processes around information technology systems, including inadequate security, inadequate restricted access to systems, inadequate segregation of duties within systems, lack of appropriate system documentation, ineffective change management processes and insufficient disaster recovery plans. Based on that evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of July 3, 2005. As described below, we took a number of remedial actions in the fiscal quarter ended July 3, 2005, addressing these material weaknesses. Nonetheless, based on their evaluation, our CEO and CFO concluded that our disclosure controls and procedures were not effective as of July 3, 2005. Additional remedial actions that management believes we need to implement to address these material weaknesses are described below.

(b) *Changes in internal controls.* As described below, management has identified and begun implementing the steps they believe necessary to address the material weaknesses described above.

Prior to our fiscal quarter ended July 3, 2005, management took the following steps it believed necessary to help address the material weaknesses described above:

Hired an experienced Accounting Manager with 17 years experience in three public companies who started in January 2005;

Hired an Assistant Controller who is a Certified Public Accountant with eight years of experience who started at the beginning of April 2005;

Hired an experienced Business Systems Administrator with eight years of experience working on the same financial management and accounting system currently being implemented company-wide who started at the beginning of March 2005;

Identified gaps in IT policies and procedures as noted above in November 2004;

Developed a detailed plan to remediate identified deficiencies which was completed in November 2004;

Completed policy and procedure documentation of all key processes in December 2004;

Implemented a series of IT policies detailing backup procedures, system access requirements, firewall and virus protection, and system performance; and

Hired a full-time IT manager with seven years experience who started at the beginning of March 2005.

During our fiscal quarter ended July 3, 2005, management took the following additional steps they believed necessary to help address the material weaknesses described above:

Enhanced the physical security of the Company's IT environment; and

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Reassigned and restricted system access to help ensure appropriate segregation of duties and limit access to appropriate levels of Company personnel and management.

Please see Item 2, Management's Discussion and Analysis of Financial Condition Results of Operations General and Administrative Expenses for a discussion of increased operating expenses, which, in part, relate to the remedial actions described above.

There were no material changes to any reported financial results that have been released by us in this or any other filing as a result of these identified deficiencies. The impact of the above conditions was relevant to the fiscal year ended December 31, 2004 and the six months ended April 3, 2005 and July 3, 2005 only and did not affect the results of any prior periods. In particular, with respect to our lack of accounting resources, management believes that we needed to hire additional accounting and finance personnel, to continue to streamline our financial close process through enhanced implementation of our existing financial management and accounting system and to continue to standardize internal processes. With respect to our information technology, or IT, systems, management believes that we needed to hire external advisors to review our internal control environment, including our IT environment, plan to complete implementation of all identified general IT controls, including enhance systems monitoring and change management procedures and related documentation, and continue to change responsibilities to help ensure appropriate access to our IT systems by consultants and authorized personnel. Management believes that the steps taken to date, along with certain other remediation plans it is currently undertaking, will address the material weaknesses that affected our internal controls over financial reporting in fiscal year 2004 and the first two quarters of fiscal 2005. Management will continue with its on-going evaluation and will improve our internal controls over financial reporting as necessary to assure their effectiveness. Notwithstanding, the effectiveness of our system of internal control over financial reporting is subject to certain limitations, including the exercise of management's judgment in evaluating the same. As a result, there can be no assurance that our internal controls over financial reporting will prevent all errors.

All of the remedial actions described above taken during our fiscal quarter ended July 3, 2005 were changes to our internal control over financial reporting that have materially affected, or are reasonably likely to materially affect our internal control over financial reporting.

