

**PRESS RELEASE**  
**Gothenburg, October 28, 2005**

**Fingerprint Cards AB (publ), corporate identity no 556154-2381**  
**Interim report for the period January – September 2005**

- **The income for January to September totalled MSEK 1.9 (1.0)**
- **Net financial items amounted to MSEK 0.4 (1.7)**
- **The loss for January to September totalled MSEK -13.1 (-16.5)**
- **Liquid funds as at September 30 totalled MSEK 22.1 (35.1)**
- **Net earnings per share for January to September was SEK -2.06 (-2.60)**
- **Extraordinary General Meeting gives extensive mandate to the Board**

*Late highlights after the end of the third quarter:*

- **Technoimagia, Japan proposed as major new owner**
- **Extraordinary General Meeting on November 3<sup>rd</sup> to decide on new stock issue**
- **Technoimagia launches new product series incorporating FPC technology**

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**Fingerprint Cards** has developed electronic systems that determine personal identity by analysing the unique fingertip patterns of individuals. The systems comprise microchips with algorithms that scan, store and compare fingertip patterns without the help of any PC processor. Two types of capacitive sensors have been developed, an extremely small swipe sensor and a flatbed sensor. Processor ASICs and algorithms have been developed for each type of sensor. By virtue of its smallness, low power consumption and the possibility of very low production costs, the technology can be integrated in volume products such as smart cards and mobile (cell) phones, where the requirements for such features are extremely high. Other applications for the technology include access control systems for buildings and products for log on to computers and IT networks.

Fingerprint Cards has its head office in Gothenburg and is listed on the O-list of the Stockholm Stock Exchange (FING B).

## **Market**

The quarter was a positive one for fingerprint technology in particular; it highlighted the growing demand for biometrics in the practical replacement of passwords and PIN codes, and strengthened this with demonstrations of the market preference for fingerprint solutions over other types of biometric.

From corporate and enterprise users the message was loud and clear that passwords are increasingly unworkable and very poor value for business. An RSA Security survey of nearly 2000 IT user companies in the USA revealed that 88% are suffering extreme frustration from the management of multiple passwords. Separate research reported by the Burton Group in the USA reports that IT help desk calls to solve these problems cost somewhere between \$25 and \$50 each. The cycle of password refreshment threatens to inflate and sustain these costs indefinitely. Frustration with this situation is leading to password security behaviour that could put IT security at risk as well as undermining the legal compliance initiatives that are now expected in a more regulated data climate. The market preference for fingerprint solutions in IT security indicates that opportunities for new products will continue to rise, and many of these will take advantage of the embedded solutions for reasons of stronger security. Laptop manufacturers continued to profile the inclusion of fingerprint sensors and log-on security to their products during the period.

The opinion of the general public on biometrics was also changing in a positive direction. Research conducted by TNS into the views of the American public showed that more than three quarters of those sampled favoured the use of biometrics in existing ID documents – passports, driving licences, social security cards – and that the favoured biometric was the fingerprint. This won more than eighty percent support, contrasted with less than sixty percent for iris biometrics, its nearest rival.

The endorsement of biometrics in the governmental sector continued to be refined in the period, but with some unexpected results. Testing and evaluation by the German government's Federal IT Security Agency (the BSI) revealed that fingerprint technology outperformed other biometrics in border control applications tested at Frankfurt Airport. The tests using members of the public also revealed that there were still important user and false identity acceptance issues to address regarding the deployment of iris technology in such applications. For access control applications in general the market continued with its adoption of fingerprint technology as a means of providing low cost biometric solutions and of developing smaller sized security products.

The linkage between biometrics and identity credentials continued to develop during the period with the launch of the first biometric standards by the International Standards Organisation (ISO). Most of these standards have been developed and tested with the travel document and border control environments but they offer one new platform for systems integrators to press ahead with the development of applications for biometrics that can remain vendor independent and open to the best value-for-money biometric solutions. In Morocco the government announced a new citizens' identity card to feature fingerprint biometrics in the format of a contactless radio-frequency plastic identity card.

## **The Company's business situation**

Near the beginning of the period, on July 28, an extraordinary meeting of shareholders was held where the Board of Directors got an authorisation to sell the Company's business operation or, in the worst case, to wind up the business should there be no other solution available for the Company's future. The Board took this pre-cautionary measure in case none of the ongoing negotiations with industrial investors would lead to any result within a very near future. By the second quarter of the year it was clear that the Company did not have the necessary financial resources to carry on its business in a meaningful long-term way and the prospect of making a new stock issue directed to the shareholders was judged to be too poor and would have been at best a half-measure.

Towards the end of the period the Company was faced with two choices. The choice to sell the business operation to a company in the same trade would have left the Company with cash, a place on the stock exchange and deductible deficiencies. The alternative choice entailed on the other hand that any interested party would make an investment in Fingerprint Cards in return for a substantial ownership stake in the Company. This would also be a company in the same business area, with a good knowledge of Fingerprint Cards' technology. The Board and the present major owner agreed to

concentrate negotiations on this second alternative, which would lead to a continuation of the business.

Later, an agreement was signed with the Japanese company Tecnoimagia, and this was announced on 12 October. Technoimagia is an innovative biometric company, trading in this market for ten years and concentrating on development and sales of biometric end-products and solutions. Examples include Match-on-Card systems, products for logon to computers and physical access solutions. At the Biometrics 2005 exhibition in London last week the company presented a new product series built using Fingerprint Cards' technology; the 'ITube' comprises a USB memory product and a portable ID unit for logon to computers, identification via internet or for encrypted email. The plan is that the two companies, by working closely together, will exploit both technical and market synergies and build an improved platform for future expansion.

The content of the signed agreement is that Technoimagia, via its Swedish subsidiary, will acquire 300.000 A shares and 60.000 B shares from the present major shareholder Mr Lennart Carlson. A condition for that deal is that Technoimagia at the same time will subscribe for 3.000.000 B shares in a directed new stock issue at the price of SEK 7.50 per share. Should both transactions be carried through it would bring SEK 22.5 million to Fingerprint Cards in the new stock issue and Technoimagia would be holding 36% of the capital and 50.3% of the votes in the Company. The Swedish Securities Council has, on September 27 2005, granted Technoimagia an exemption from the mandatory bid rules on condition that the shareholders will be informed in the notice of the extraordinary meeting of the total voting share that Technoimagia would hold following completion of the proposed transactions, and that the decision to issue the new shares should be supported by at least two thirds of the given votes presented at the extraordinary meeting. The Board has therefore called for an extraordinary meeting with the shareholders on November 3 2005.

### **Company sales**

The Company's customers have continued to hold back their orders, waiting for a clarification of the business situation. With a new stock issue carried through Fingerprint Cards will restore its market confidence. A gradual strengthening of the marketing and sales organisation will be commenced. Moreover, projects to render production more effective in the long-term will be initiated. The purpose of these measures is to make the Company more competitive and at the same time improve Company sales margins.

Sales for the first nine months of the year amounted to MSEK 1.9 (1.0).

### **Turnover and earnings**

Consolidated turnover during the period January – September amounted to MSEK 1.9 (1.0). Consolidated earnings for the period January – September amounted to -13,1 (-16.5).

### **Financial position**

Operations are essentially financed by new stock issues in 1998 and 2000, totaling MSEK 205. The consolidated equity/assets ratio as at September 30, 2005 was 94.9 % (96.1). Consolidated available liquid assets including current investments as at September 30, 2005, totalled MSEK 22.1 (35.1). Other current receivables amounted to MSEK 0.8 (1.1). The consolidated working capital amounted as at September 30 to MSEK 25.4 (41.3). The Company option program of 150,000 option certificates gives the bearers the right to purchase an equivalent number of shares on the following terms: 150,000 options at SEK 31 in June 2006. The theoretical maximum dilution is 2 % of the equity and 2 % of the voting rights.

### **Fixed assets, capital expenditure and depreciation**

During the first nine months no investments were done in equipment (0.2). Furthermore no development cost has been set up as an asset during the period (3.4). Development costs were depreciated according to plan by 15 % and equipment is depreciated by 20% annually.

### **Personnel**

The number of employees as at 30 September was eleven (nineteen), of whom none (three) were women.

## **Accounting principles**

From the 1st of January 2005 Fingerprint Cards prepares the consolidated financial statements in full compliance with IFRS (International Financial Reporting Standards). The regulation adopted by the EU's Council of Ministers requires that all exchange-listed companies within the union apply the regulation from the fiscal year 2005. The transition from national accounting standards to IFRS places special demands on the first report submitted in accordance with the new standards. The rules specify the comparison year 2004 shall also be reported in accordance with IFRS. The effect of the transition has shown to be limited for the Company, and that Swedish GAAP corresponds well to IFRS regulations.

## **Important events after the end of the period**

On 12 October the Company announced its calls for an extraordinary shareholder meeting to be held on 3 November 2005, to decide on the proposed directed new stock issue to Technomagia, which would bring MSEK 22.5 to the Company.

At the London exhibition "Biometrics 2005", 21 - 22 of October, Technomagia showed its new product series 'ITube' which is based on Fingerprint Cards' technology. The products include both a USB memory and a "Super token" that can be used for secure logon, identification via internet as well as for encrypted email. Technomagia and the Company co-exhibited and held two seminars during the show.

## **Other reporting dates**

Press release on annual accounts for 2005, February 2006  
Annual report for 2005, April 2006

Gothenburg, October 28, 2005

## **Fingerprint Cards AB (publ)**

## **The Board**

*This press statement on the unaudited figures has been summarily examined by the Company auditor.*

STATEMENTS OF INCOME, THE GROUP (MSEK)	jul-sep <u>2005</u>	jul-sep <u>2004</u>	jan-sep <u>2005</u>	jan-sep <u>2004</u>	jan-dec <u>2004</u>
<b>Operating income</b>					
Net turnover	0,6	0,3	1,9	1,0	2,9
Cost of goods sold	<u>-0,7</u>	<u>-0,2</u>	<u>-1,9</u>	<u>-0,6</u>	<u>-2,3</u>
<b>Gross Margin</b>	-0,1	0,1	0,0	0,4	0,6
<b>Operating expenses</b>					
Administration	-1,5	-1,4	-4,7	-4,9	-6,6
Development costs	-1,8	-1,8	-5,8	-7,0	-8,1
<u>Market costs</u>	<u>-0,9</u>	<u>-1,7</u>	<u>-2,9</u>	<u>-6,6</u>	<u>-9,3</u>
<b>Operating profit/loss</b>	<b>-4,4</b>	<b>-4,8</b>	<b>-13,5</b>	<b>-18,2</b>	<b>-23,4</b>
Net financial items	0,1	1,0	0,4	1,7	1,9
<b>Net profit/loss for the period</b>	<b>-4,3</b>	<b>-3,8</b>	<b>-13,1</b>	<b>-16,5</b>	<b>-21,5</b>

BALANCE SHEETS THE GROUP (MSEK)	30 sep <u>2005</u>	30 sep <u>2004</u>	31 dec <u>2004</u>
<b>Assets</b>			
Intangible assets		14,7	16,8
<u>Tangible assets</u>	<u>0,5</u>	<u>0,8</u>	<u>0,7</u>
<i>Total fixed assets</i>	<i>15,2</i>	<i>17,6</i>	<i>17,3</i>
Inventory	4,7	7,5	5,8
Current receivables	0,8	1,1	2,3
Current investments	5,0	33,8	28,8
<u>Cash and bank deposits</u>	<u>17,1</u>	<u>1,3</u>	<u>2,2</u>
<i>Total current assets</i>	<i>27,6</i>	<i>43,7</i>	<i>39,1</i>
<b>Total assets</b>	<b>42,8</b>	<b>61,3</b>	<b>56,4</b>
<b>Equity and liabilities</b>			
Equity	40,6	58,9	53,8
Current liabilities, non-interest bearing	2,2	2,4	2,6
<b>Total equity and assets</b>	<b>42,8</b>	<b>61,3</b>	<b>56,4</b>

CHANGE IN EQUITY, THE GROUP (MSEK)	jan-sep <u>2005</u>	jan-sep <u>2004</u>	jan-dec <u>2004</u>
Opening equity	53,8	75,4	75,4
<u>Net profit/loss for the period</u>	<u>-13,1</u>	<u>-16,5</u>	<u>-21,6</u>
<b>Closing equity</b>	<b>40,7</b>	<b>58,9</b>	<b>53,8</b>

CASH FLOW ANALYSES, THE GROUP (MSEK)	jan-sep <u>2005</u>	jan-sep <u>2004</u>	jan-dec <u>2004</u>
Earnings for the period	-13,5	-18,2	-23,5
Depreciation	2,2	0,7	1,2
Interest received	0,4	2,1	2,2
Other items	-0,3	-0,3	-0,4
<u>Change in working capital</u>	<u>2,2</u>	<u>-2,2</u>	<u>-4,5</u>
<b>Cash flow from current operations</b>	<b>-9,0</b>	<b>-17,9</b>	<b>-25,0</b>
<b>Cash flow from investment operations</b>	<b>0,0</b>	<b>-3,6</b>	<b>-4,4</b>
<b>Cash flow from financing operations</b>	<b>0,0</b>	<b>0,0</b>	<b>0,0</b>
<b>Change in liquid funds incl. curr. investments</b>	<b>-9,0</b>	<b>-21,5</b>	<b>-29,4</b>

KEY RATIOS, THE GROUP	jul-sep <u>2005</u>	jul-sep <u>2004</u>	jan-sep <u>2005</u>	jan-sep <u>2004</u>	jan-dec <u>2004</u>
Net earnings per share (SEK)	-0,68	-0,60	-2,06	-2,60	-3,40
Net earnings per share after full conversation (SEK)	-0,68	-0,60	-2,06	-2,60	-3,40
Equity per share (SEK)			6,40	9,28	8,48
Equity per share after full conversation (SEK)			6,98	10,26	9,49
Equity/assets ratio (%)			94,9	96,1	95,4
No. of shares average (thousands)			6 348	6 348	6 348
No. of shares after full conversation average (thousands)			6 598	6 715	6 698
No. of shares (thousands)			6 348	6 348	6 348
No. of shares after full conversation (thousands)			6 498	6 498	6 648