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PRESS RELEASE  
Gothenburg, February 12, 2010

Fingerprint Cards AB (publ), corp. reg. no. 556154-2381

Year-end report for January – December 2009

**Notable events during the reporting period:**

- Net sales totaled SEK 38.5 M (27.5) for the fiscal year and SEK 13.6 M (8.8) for the fourth quarter.
- Gross profit totaled SEK 8.9 M (loss: 1.0) for the fiscal year and increased to SEK 2.4 M (0.2) for the fourth quarter.
- After financial items, a loss of SEK 24.5 M (loss: 23.3) was recognized for the fiscal year. For the fourth quarter, the loss was SEK 11.6 M (loss: 5.5).
- During the fourth quarter, impairment losses of SEK 5.9 M (-) pertaining to capitalized development costs and SEK 1.9 M (-) for inventory were charged against earnings.
- A downward adjustment of SEK 2.4 M in the inventory value of silicon was implemented during the period. This had an impact on the cost of goods sold and thus on the gross margin but only during the fourth quarter.
- The loss per share was SEK 1.11 (loss: 1.92).
- Cash and cash equivalents amounted to SEK 50.1 M (22.7) on December 31, 2009.
- A new share issue generated SEK 40.7 M, net after issue costs.
- The order backlog on December 31, 2009 was SEK 36.5 M (30.8).
- The orders received value was SEK 43.2 M for full-year 2009 and SEK 8.6 M for the fourth quarter.
- The component shortage and production disturbances affecting sub-suppliers have now been corrected.
- An Advisory Board formed to support initiatives in mobile telephony.

**Significant events after the closing date:**

- The company issued notice of an Extraordinary General Meeting for resolution of the Board of Directors proposal for a warrants program for employees and senior executives.
- As of January 1, Jens Reckman, 46, was employed as CFO and became a member of the management team.

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## **CEO's comments on the year-end report**

The year 2009 was one of change for Fingerprint Cards (FPC). The company replaced its President and two thirds of the management team. The Annual General Meeting elected two new Board members and a new Chairman. A new strategic business plan was formulated. Development of a new swipe sensor began, and a successful, strongly oversubscribed share issue was implemented.

The company's FPC1011F area sensor, which was introduced in the second half of 2008, achieved significant market success during the year, primarily in the Chinese banking market, but also in other market segments and other geographic markets, such as South Korea.

Sales for full-year 2009 totaled SEK 38.5 M (27.5), up 40% compared with 2008. Sales during the fourth quarter were SEK 13.6 M (8.8), a rise of 55% compared with the fourth quarter of 2008.

A downward adjustment of SEK 2.4 M in the inventory value, according to FIFO (First In First Out), of silicon was implemented during the period. This had an impact on the cost of goods sold and thus on the gross margin but only during the fourth quarter.

During the autumn, the company implemented a new share issue that generated SEK 40.7 M after issue costs. Despite the uncertainty in financial markets, the new issue was oversubscribed by 173%, which we interpret as a vote of confidence in the company's strategy, Board of Directors and management. The share issue was implemented to finance the need for greater working capital, expanded sales and marketing initiatives and the development of a swipe sensor primarily intended for the mobile market. The swipe sensor project was launched and is tracking the established development plan. To strengthen the mobile initiative and to ensure continued access to specialist biometrics expertise, the company established an Advisory Board consisting of key representatives of the mobile industry.

## **Sales during the period**

Sales totaled SEK 38.5 M for 2009, up 40% on 2008. The FPC1011F area sensor remained the dominant product, accounting for more than 85% of sales. Other sales comprised biometric modules, processors and area sensors in the form of wafers.

Sales in the fourth quarter amounted to SEK 13.6 M, an increase of 37% compared with the preceding quarter and a 55% increase over the fourth quarter of 2008.

Most of the company's sales in 2009 were to Asia, primarily China. Deliveries of the company's technology were also made to such markets as South Korea, Japan, India, France, Germany and Canada.

The principal product segment still comprises products intended for the Chinese banking and finance sector, for which new solutions were introduced in 2009. In addition to this segment, the company supplied products to developers in such segments as USB memories, biometric keys (tokens) for cash terminals, door locks and safes. New potential volume segments can be discerned for the company's technology. One such segment is card-based solutions in which product developers integrate the company's technology in such products as magnetic or chip-based cards. The company is currently involved in several card projects, and the hope is that one or more of them will enter a production phase during 2010.

Sales primarily take place through nine regional distributors covering 15 countries. In markets where the company is not represented, sales are channeled directly to customers. The company's most successful distributor is Hardware & Software Technologies Co. (HST), with its head office in Taiwan and several regional offices in China.



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Production disturbances in the form of component shortages and machine problems at sub-suppliers for packaging of the company's area sensors had a negative impact on sales during the fourth quarter. These disturbances have now been corrected, and work to minimize risks for future production disturbances were intensified during the period. Sales and deliveries once more correspond to demand levels.

The order backlog value on December 31 was SEK 36.5 M (30.8).



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## Sales and earnings

The Group's net sales amounted to SEK 38.5 M (27.5) for the fiscal year and SEK 13.6 M (8.8) for the fourth quarter. The company's sales are denominated in USD, whose value gradually declined during the year to level off and then increase somewhat toward the end of the year. Sales increased 40% during the fiscal year and by 55% in the fourth quarter. The company reported a loss of SEK 24.5 M (loss: 23.3) for the year and a loss of SEK 11.6 (loss: 5.5) for the fourth quarter.

Gross profit amounted to SEK 9.8 M (loss: 1.0) for the full year and SEK 2.4 M (0.2) for the fourth quarter. The improvement derived from increased volumes and lower production costs.

Net earnings during the fourth quarter were affected by an impairment loss of SEK 5.9 M (-) on capitalized development costs and an impairment loss of SEK 1.9 M (-) on inventories.

As of the end of 2009, currency forward contracts were acquired for an amount corresponding to 90% of estimated net cash flows in USD. Hedge accounting in accordance with IAS 39 is not applied, since the exchange-rate effects when valuing the forward contracts in the year-end accounts are recognized in profit and loss. The operating result for the full-year and for the fourth quarter was thereby negatively affected by SEK 0.8 M (-). Accounting in this way means that this amount will have the corresponding positive effect during 2010 when the forward contracts are redeemed.

The Parent Company's net sales amounted to SEK 38.5 M (27.5) for the fiscal year and SEK 13.6 M (8.8) for the fourth quarter. The Parent Company reported a loss of SEK 24.6 M (loss: 23.3) after net financial items for the full year and a loss of SEK 11.6 M (loss: 5.5) for the fourth quarter.

## Financial position

Shareholders' equity in the Group totaled SEK 74.3 M (58.1) on December 31, 2009. The equity/assets ratio was 88.8% (84.3) on December 31, 2009. Cash and cash equivalents at the Group's disposal, including short-term investments, amounted to SEK 50.1 M (22.7). Other current receivables amounted to SEK 12.0 M (9.9). Working capital totaled SEK 64.0 M (37.1) on December 31, 2009.

The Parent Company's cash and cash equivalents, including short-term investments, amounted to SEK 50.1 M (22.6) on December 31, 2009. A new share issue generated SEK 40.7 M, net after issue costs.

## Fixed assets, investments, depreciation and amortization

During the year, investments in equipment amounted to SEK 0.1 M (0.1) and development costs of SEK 1.5 M (7.7) were capitalized. During the fourth quarter, investments in equipment amounted to SEK 0 M (0), and development costs of SEK 0.7 M (2.9) were capitalized. The principle for amortization of capitalized development costs was changed during the fourth quarter.



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As a result, an impairment loss of SEK 5.9 M (-) was recognized, and the amortization rate for products and platforms was increased from the previous 15% per year (6.66 years) to two to five years. Amortization according to plan amounted to SEK 4.0 M (3.4) for the full year and SEK 1.5 M (0.8) for the fourth quarter.

## Employees

The number of employees on December 31, 2009 was 12 (13), of whom none (none) were women.

## The company's warrants program

The Annual General Meeting on May 31, 2007 resolved to issue 370,000 subscription warrants, of which 155,000 were subscribed by current employees and the remainder were allotted to the subsidiary Fingerprint Security System Databärare AB and reserved for future employees. The term of the warrants is 3.5 years. Following recalculation, the exercise price is SEK 23.60. The personnel costs for the warrants in the subsidiary will not be recognized until they have been transferred to future employees. On full subscription with the support of all warrants in the 2007 warrants program, 462,000 new Class B shares may be issued, corresponding to a dilution effect of 1.1% of the total number of shares and 0.8% of the voting rights.

## Production and technical development

With increased production volumes during the year, the focus was on the company's area sensor. A number of improvements in the production process were introduced, which enable production losses to be reduced and product quality to be improved. During the fourth quarter, resources were devoted to solving component shortages and problems concerning technical production equipment at a sub-supplier. To guarantee production capacity and reduce risks in the production chain, the company placed an order during the fourth quarter for a production machine that will be located with the sub-supplier. The machine is expected to be deployed during the second quarter of 2010.

As of the fourth quarter, the company has a personnel resource on site with the sub-supplier for packaging. The objectives are to guarantee quality and quantity at planned levels and to work to further improve the production outcome. This resource also enables the company to reduce lead times in the delivery chain through direct deliveries to customers.

Technical development in the company during the fourth quarter focused on launching a swipe sensor project based on the company's new sensor platform. The company sees several possible application areas for a swipe sensor, with mobile phones as one of the most important. This application places high demands on performance, power consumption, size and, above all, cost. The swipe sensor project also includes packaging, algorithms and software development. The project will enter a key development phase in spring 2010 with the goal of making prototypes available in the second half of the year.

In addition to the investment in swipe sensor development, the company has devoted resources to supporting a number of customers in their implementation of the company's sensor and processors in card-based solutions. At present, it is difficult to predict a date for a commercial breakthrough for these solutions, but we consider the future market potential to be very attractive.

## Market trend

The global market continued to grow strongly during 2009.

International Biometric Group foresees continued strong and stable growth in the market for biometric technology, with annual growth of 19-25% for the period 2010-2014. Acuity Market Intelligence supports this scenario by forecasting average annual growth of 20% for the period 2009-2017.



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Peter O'Neill, president of the biometrics portal findBIOMETRICS, stated the following in conjunction with the publication of findBIOMETRICS YEAR in REVIEW 2009, which is based on interviews with some 60 decision makers in the biometrics field:

"Two areas stood out quite powerfully this year as being the most significant milestones/announcements for the Biometric Industry:

First, the *growth in the consumer/commercial/public markets* for biometrics. This includes increased use of biometrics to secure Notebooks, use of biometrics in schools and on college campuses, banks and health care facilities, on cell-phones and a variety of other examples of where biometrics are now being deployed.

The second most cited area was *the increased consumer acceptance and understanding of the benefits of biometrics*, especially with the enhanced concern about ID theft by the general public."

Implementation of biometrics in mobile phones is deemed by the company to be one of the most attractive emerging application areas. Mobile phones with fingerprint sensors have been available in Asian markets for several years. The role of mobile phones as a payment terminal is increasing, and the time appears ripe for a broader launch of biometric-enabled mobile phones also outside Asia. A recent example is the new LG eXpo, which was launched exclusively by AT&T in North America.

The company considers that technology for reading fingerprints will be the dominant biometric technology and implemented in an increasing number of applications. Fingerprint reading already has a leading position in the field of biometrics, which the company believes will be strengthened by the technology's reliability and convenience.

### **Future prospects**

As the company has previously stated, and in view of the global financial uncertainty, it is extremely difficult to predict market developments. The company's Board of Directors remains optimistic but has chosen to refrain from providing new forecasts.



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## Uncertainties and risks

Beyond the usual business risks, the following risk areas could be identified as being unique for the company and its business situation.

### \* Dependence on key personnel

Biometrics is still a relatively new area, showing high growth and requiring high technical knowledge and skill from employed personnel. The company has a number of key persons important to the successful development of Fingerprint Cards' operations. The departure of such key persons from Fingerprint Cards could result in operational disruption and increased costs for recruitment of replacements.

### \* Loss of major customers

At present, Fingerprint Cards is very dependent on the Chinese market where the Company has an established reseller with a strong position for the Company's technology. A loss of such an important reseller could severely disrupt the Company's operations.

### \* Suppliers and production

Fingerprint Cards has no production of its own. All manufacture, sales and delivery of the company's technology and products depends on fulfillment of contract requirements with respect to, for example, volume, quality and delivery time. Production and delivery problems affecting Fingerprint Card's suppliers could have a negative impact on the company through delays or quality problems in deliveries to customers. Although production is planned up to six months in advance, binding orders from customers are normally not received that far in advance. Uncertainty in sales forecasts could lead to excessive stock accumulation that could cause liquidity problems.

### \* Significant development projects

Since the end of 2009, the company has been conducting a significant development project regarding a new swipe sensor product for such applications as mobile telephony. The project is conducted in close cooperation with consultants and suppliers. Well-functioning cooperation is essential for success. Since the project is extensive and complex, delays in the time schedule cannot be ruled out. Serious delays, disruptions or unforeseen events could have a negative impact on the company's future operations.

### \* Capital

It cannot be ruled out that further capital may be needed to finance Fingerprint Cards' operations and continued expansion. This need may arise in a less favorable market situation and on terms that are less favorable than the Board considers them to be today. External financing in a more difficult credit and investment climate could affect the company's operations, while borrowing, if at all possible, may entail restrictions that would limit the company's flexibility. It cannot be guaranteed that capital can be raised when the need arises or on acceptable terms.

### \* Exchange rates

Purchasing and sales are largely denominated in USD. Net exposure in USD is hedged to 80-90%. Fluctuations in exchange rates in the remaining portion may affect earnings.



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## Future reporting dates

Interim report January – March 2010  
2009 Annual Report  
Annual General Meeting  
Interim report April – June  
Interim report July – September

April 28, 2010  
To be published in week 21 (May 24-28) 2010  
Planned for June 17, 2010  
August 19, 2010  
October 29, 2010

## Gothenburg, October 30, 2009

Fingerprint Cards AB (publ)

Tommy Trollborg  
Chairman

Géza Fülöp

Anders Hultqvist

Christer Bergman

Urban Fagerstedt



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## **Auditor's review report**

### **Introduction**

We have reviewed this year-end report for Fingerprint Cards AB (publ), Corp. Reg. No. 556154-2381 for the period January 1, 2009 to December 31, 2009. The Board of Directors and the CEO are responsible for the preparation and presentation of this year-end report in accordance with IAS 34 and the Swedish Annual Accounts Act. Our responsibility is to express an opinion on this interim report based on our review.

### **Scope and focus of the review**

We conducted our review in accordance with the Swedish Standard on Review Engagements SÖG 2410, Review of Interim Reports Performed by the Independent Auditor of the Entity, issued by FAR SRS. A review consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review has a different focus and is substantially smaller in scope than an audit conducted in accordance with the Standards on Auditing in Sweden (RS) and other generally accepted auditing standards in Sweden. The procedures performed in a review do not enable us to obtain such assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, a conclusion expressed on the basis of a review does not provide the same level of assurance as a conclusion expressed on the basis of an audit.

### **Conclusion**

Based on our review, nothing has come to our attention that causes us to believe that the year-end report has not been prepared, in all material respects, in accordance with IAS 34 and the Swedish Annual Accounts Act.

Gothenburg, February 12, 2010  
KPMG AB

Jan Malm  
Authorized Public Accountant



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**Consolidated statement of comprehensive income**

(SEK M)	Okt-dec <u>2009</u>	Okt-dec <u>2008</u>	Jan-dec <u>2009</u>	Jan-dec <u>2008</u>
Net Sales	13,6	8,8	38,5	27,5
Cost of goods sold	<u>-11,2</u>	<u>-8,6</u>	<u>-28,7</u>	<u>-28,5</u>
<b>Gross profit/loss</b>	<b>2,4</b>	<b>0,2</b>	<b>9,8</b>	<b>-1,0</b>
Sales expenses	-1,3	-1,2	-5,4	-4,8
Administrative expenses	-2,5	-1,4	-9,6	-6,6
Research and development costs	-9,7	-3,0	-18,6	-11,7
Other operating income/expenses	<u>-0,6</u>	<u>-0,2</u>	<u>-0,8</u>	<u>-0,2</u>
<b>Operating loss</b>	<b>-11,7</b>	<b>-5,6</b>	<b>-24,6</b>	<b>-24,3</b>
Net financial items	0,1	0,1	0,1	1,0
Tax	=	=	=	=
<b>Loss for the period</b>	<b>-11,6</b>	<b>-5,5</b>	<b>-24,5</b>	<b>-23,3</b>
Other comprehensive income	=	=	=	=
<b>Total comprehensive loss for the period</b>	<b>-11,6</b>	<b>-5,5</b>	<b>-24,5</b>	<b>-23,3</b>
Loss for the period attributable to Parent company shareholders	-11,6	-5,5	-24,5	-23,3
Loss for the period before dilution	-0,38	-0,45	-1,11	-1,92
Loss for the period after dilution	-0,38	-0,45	-1,11	-1,92

**Condensed Consolidated balance sheet**

(SEK M)	31 dec <u>2009</u>	31 dec <u>2008</u>
<b>Assets</b>		
Intangible fixed assets	12,3	20,8
Tangible fixed assets	<u>0,3</u>	<u>0,3</u>
Total fixed assets	12,6	21,1
Inventory	9,1	15,4
Prepaid suppliers	0,3	-
Accounts receivables	9,7	8,4
Current receivables	2,0	1,5
Current investments	44,1	-
Cash and cash equivalents	<u>6,0</u>	<u>22,7</u>
Total current assets	71,2	47,9
<b>Total assets</b>	<b>83,8</b>	<b>69,0</b>
<b>Shareholders Equity and liabilities</b>		
Shareholders Equity	74,3	58,1
Current liabilities	<u>9,5</u>	<u>10,8</u>
<b>Total Shareholders equity and liabilities</b>	<b>83,8</b>	<b>69,0</b>

**Change in Equity**

(SEK M)	Jan-dec <u>2009</u>	Jan-dec <u>2008</u>
Equity on the opening date	58,1	67,2
Employee warrants program	0,5	0,5
New issue	40,2	13,7
Loss for the period	<u>-24,5</u>	<u>-23,3</u>
<b>Equity on the closing date</b>	<b>74,3</b>	<b>58,1</b>



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### Condensed Consolidated Cash flow statement

	Jan-dec <u>2009</u>	Jan-dec <u>2008</u>
(SEK M)		
Operating loss	-24,7	-24,3
Adjustments for non-cash items	10,2	2,3
Change in inventory	6,3	4,6
Change in current receivables	-1,8	-3,6
Change in current liabilities	<u>-1,4</u>	<u>3,9</u>
Cash flow from operating activities	-11,4	-17,1
Cash flow from investing activities	-1,5	-7,8
Cash flow from financing operations	<u>40,3</u>	<u>13,7</u>
<b><i>Change in cash and cash equivalents</i></b>	<b><u>27,4</u></b>	<b><u>-11,1</u></b>
Cash and cash equivalents on the opening date	22,7	33,8
Cash and cash equivalents on the closing date	50,1	22,7

### The group's operating segments

	Products		Other		Group total	
	2009	2008	2009	2008	2009	2008
Net sales	38,5	26,9		0,6	38,5	27,5
Segment earnings	-24,6	-23,9		-0,4	-24,6	-24,3
Net financial items					0,1	1,0
Loss for the period					-24,5	-23,3

### Key data

	Jan-dec <u>2009</u>	Jan-dec <u>2008</u>
Net sales growth (%)	40	33
Gross profit margin (%)	neg	neg
Equity per share (SEK)	1,87	4,78
Equity per share after full conversion (SEK) (1)	1,87	4,64
Equity/assets ratio (%)	88,7	92,4
Average number of shares (000s)	22 159	12 153
Average number of shares after full conversion (000s) (1)	22 159	12 522
Number of shares (000s)	39 670	12 153
Number of shares after full conversion (000s) (1)	39 670	12 522

(1) The company has a warrant program from 2007 that extends until November 30, 2010. The subscription price is SEK 23.60. Since the subscription price exceeds the market price, the program was not considered in calculating the number of shares after conversion. On full subscription, the program would result in at most 462,000 new Class B shares.



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**Condensed Consolidated comprehensive  
income statement**

	2009			
	<u>Jan-mar</u>	<u>Apr-jun</u>	<u>Jul-sep</u>	<u>Okt-dec</u>
(SEK M)				
Net sales	7,4	7,6	9,9	13,6
Cost of goods sold	<u>-6,1</u>	<u>-5,4</u>	<u>-6,0</u>	<u>-11,2</u>
<b>Gross profit</b>	<b>1,3</b>	<b>2,2</b>	<b>3,9</b>	<b>2,4</b>
Sales expenses	-1,2	-1,3	-1,6	-1,3
Administrative expenses	-2,0	-2,3	-2,8	-2,5
Research and development costs	-3,2	-2,9	-2,8	-9,7
Other operating income/expenses	<u>0,6</u>	<u>-0,1</u>	<u>-0,8</u>	<u>-0,6</u>
<b>Operating loss</b>	<b>-4,5</b>	<b>-4,4</b>	<b>-4,1</b>	<b>-11,7</b>
Net financial items	0,1	-	-	0,1
Tax	=	=	=	=
<b>Loss for the period</b>	<b>-4,4</b>	<b>-4,4</b>	<b>-4,1</b>	<b>-11,6</b>
Other comprehensive income	=	=	=	=
<b>Other comprehensive loss for the period</b>	<b>-4,4</b>	<b>-4,4</b>	<b>-4,1</b>	<b>-11,6</b>
Losses for the period attributable to Parent Company shareholders	-4,4	-4,4	-4,1	-11,6
Loss for the period before dilution, SEK	-0,24	-0,23	-0,22	-0,38
Loss for the period after dilution, SEK	-0,24	-0,23	-0,22	-0,38

**Income statement, Parent company**

	Jan-dec	Jan-dec
	<u>2009</u>	<u>2008</u>
(SEK M)		
Net sales	38,5	27,5
Cost of goods sold	<u>-28,7</u>	<u>-28,5</u>
<b>Gross profit/loss</b>	<b>9,8</b>	<b>-1,0</b>
Operating expenses	<u>-34,5</u>	<u>-23,3</u>
<b>Operating loss</b>	<b>-24,7</b>	<b>-24,3</b>
Net financial items	0,1	1,0
Tax	=	=
<b>Net profit/loss for the period</b>	<b>-24,6</b>	<b>-23,3</b>

**Condensed parent company balance sheet**

	31 dec	31 dec
	<u>2009</u>	<u>2008</u>
(SEK M)		
<b>Assets</b>		
Fixed assets	12,6	21,1
Inventories	9,1	15,4
Accounts receivable and other receivables	11,9	9,9
Cash and cash equivalents	<u>50,1</u>	<u>22,7</u>
<b>Total assets</b>	<b>83,7</b>	<b>69,1</b>
<b>Shareholder Equity and liabilities</b>		
Shareholders Equity	73,7	57,6
Current liabilities	<u>10,0</u>	<u>11,5</u>
<b>Total Shareholders equity and assets</b>	<b>83,7</b>	<b>69,1</b>



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## Accounting policies

The interim report for the Group was prepared in accordance with IAS 34 Interim Reporting. The term IFRS in this document refers to the application of IAS and IFRS, as well as interpretations of these recommendations published by IASB's Standard Interpretation Committee (SIC) and International Financial Reporting Interpretations Committee (IFRIC). The application of the accounting policies agrees with those found in the annual report for the fiscal year that ended on December 31, 2008 and must be read together with them.

As of January 1, 2009, the company applies the following new or amended IFRS:

- IAS 1 Presentation of Financial Reports. For the Group, the changes primarily concern expansion of the consolidated income statement to include other items in comprehensive income. At present, the Group has no items affected by this change in accounting.

- IFRS 8 Operating Segments. This standard replaces IAS 14 Segment Reporting and contains rules governing how monitoring and presentation of operating segments must be implemented. The information must be presented from the perspective of company management and correspond with internal reporting. The introduction of IFRS 8 did not entail any change, compared with previous reporting.