

December 1, 2009

Shortage of components and production disruptions at suppliers, combined with impairment losses, adversely impacting earnings in 2009

PRESS RELEASE

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In its interim report for January-September 2009, Fingerprint Cards AB announced that the company would achieve break-even figures during the autumn. However, due to a component shortage at the company's supplier for the packaging of a key product and the breakdown of one of the same supplier's specialized machines for the company's products, Fingerprint Cards will probably not achieve break-even figures during the fourth quarter of 2009. The underlying causes of the component shortage and breakdown have now been resolved, and the company's supplier is doing its utmost to recover the lost production volumes. Although the assessment is that break-even figures will not be achieved during the fourth quarter, the company currently estimates that its deliveries will increase substantially compared with the preceding quarter. Sales for the fourth quarter of 2009 will probably be 50-60% higher than in the year-earlier period and 30-40% higher compared with the third quarter of 2009. During the fourth quarter, the company will also post a nonrecurring impairment loss of SEK 1.8 M on inventories and a nonrecurring impairment loss of SEK 6 M on its capitalized development expenditures to better reflect the technical and commercial potential.

Shortage of components and production disruptions

The production problems experienced by the package assembly and test supplier for the company's FPC1011F fingerprint sensor, were mainly caused by a shortage of the connector component used to link the sensor to other parts of the customer's products. To avoid similar problems in the future, the company's supplier has begun to increase its inventory of the components required for the assembly of Fingerprint Cards' sensors. During the same period, our package assembly and test supplier also experienced a technical fault in the specially developed machine used to package the company's sensors. Fingerprint Cards' supplier has announced that this problem has now been resolved and that production has returned to normal.

"Demand for Fingerprint Cards' products is growing, which is placing pressure on all of the suppliers in the production chain to increase their production volumes without lowering the company's recognized standard of quality. The company has learned from these production problems and is currently updating its production flow and putting additional resources into place to secure the future delivery requirements imposed, for example, by its considerable order backlog," says Johan Carlström, CEO of Fingerprint Cards.

Impairment losses

In its interim report for January-September 2009, Fingerprint Cards warned of a lower gross margin due to the phasing out of certain previously purchased materials. This temporary reduction in the company's gross margin was previously only expected to affect earnings in the fourth quarter of 2009. However, the recent production disruptions will also have a certain adverse impact on the gross margin for the first quarter of 2010.

In consultation with the company's auditors, the company's CEO, Johan Carlström, initiated a stocktaking and a review of the valuation and depreciation methods for capitalized development expenditures. After the completion of this stocktaking, it became evident that there is currently no demand for some products

in the company's inventories and that they should, therefore, be written off. Accordingly, the Board of Directors has decided to post a nonrecurring impairment loss of SEK 1.8 M on inventories, which will be charged against earnings for the fourth quarter of 2009.

The company has also reviewed its valuation and depreciation policies for capitalized development expenditures. After consultation with the company's auditors, the Board of Directors has decided to write down the value of capitalized development expenditures to better reflect their technical and commercial potential by posting a nonrecurring impairment loss of SEK 6 M, which will be charged against earnings for the fourth quarter of 2009.

"The new management has now completed a necessary review of our inventories and the development projects for which the company previously posted insufficient annual depreciation. We have now changed our depreciation policies for the expenditure we capitalize in order to better reflect the technical and commercial potential. Implementation of the impairment losses described above, a healthy order book and robust demand in China and other markets mean that the company is well-equipped for positive performance in 2010," says Johan Carlström.

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Fingerprint Cards AB is listed on the Nordic List of the Nasdaq OMX Stockholm Exchange (FING B).