

## CONTEXTVISION AB SECOND QUARTER 2013

### Q2 HIGHLIGHTS

- New major ultrasound customer signed
- ContextVision wins important court ruling regarding patent litigation against Sapheneia.

### Q2 FINANCIAL DATA

- Sales of 14.0 MSEK (16.0)
- Operating result of -1.9 MSEK (-3.0) and operating margin of -13.3% (-18.7%).
- Earnings per share of -0,18 (-0,37) SEK



## MANAGEMENT COMMENT

### ANITA TOLLSTADIUS, THE COMPANY'S CEO COMMENTED:

Our second quarter 2013 came in weaker than we had originally anticipated. We see no issues that have emerged and that will be negatively affecting our business longer term. This quarter, however, several factors coincided and cumulatively affected our sales negatively, which came in at 14 MSEK. This is below last year's as well as the previous quarter.

The reported sales drop of 13% is partly explained by the strong SEK currency rate. Cleared from currency effects, the sales drop would be 8%. Such a figure is disappointing, but with a strong position and new customers in the pipeline we have good reasons to believe that our sales will normalize during the 3<sup>rd</sup> and 4<sup>th</sup> quarter.

We would like to comment on the most important source of sales weakness for the quarter: We experienced an almost 20 percent drop in ultrasound-sales to our Asian customers. There are three key reasons for our temporary drop in ultrasound sales:

- First of all, a major customer delayed the renewal of a contract during the second quarter which resulted in a full quarter sales loss. However the contract was renewed in the beginning of July and we are again shipping high volumes to this customer.
- A second factor that influenced our sales is a direct result of shifts in our customer's production cycles. Our sales are dependent on our customers' production cycles. This is normal and cause fluctuations in ordering of licenses which we are used to, but this time several such delays occurred simultaneously.
- Third: In today's economic situation some of our customers are now affected by the cuts in health budgets in many European countries. On the other hand, health spending increases in the Asia -Pacific region, in Russia and in Brazil and ultrasound equipments are of fundamental importance to assist diagnostic procedures. Most of our sales are generated from global companies, domiciled in advanced economies. We believe their ordering pattern has been delayed as they refocus and optimize their product offering to be more competitive in the emerging economies. Product wise, emerging economies tend to purchase more mid-end products than high-end products. Our present product portfolio has been designed to meet these new demands and we therefore believe in future sales growth as we broaden our product offerings to multinational customers.

We continue to benefit from a strong product portfolio and our market leadership as we have generated many new customers during this first half of 2013. It is particularly encouraging that we recently signed another new major ultrasound company in Asia. This new Asian OEM customer will implement ContextVision's flexible ultrasound products. We are very encouraged by both the speed of implementation as well as the number of licenses this customer is signaling to us.

We also have a near-term pipeline of important new products and product upgrades, addressed to meet demands from customers changing their technical platforms. Our technology has once again proved its flexibility to adapt to different technical environment. Our modular product range allows us to offer customization – and thus optimization - for which ContextVision is very much appreciated as a supplier of image enhancement software.

In May, court proceedings were held regarding the ownership of a patent application filed by Sapheneia in September 2006, with former ContextVision employees stated as inventors. The Stockholm District Court ruled that ContextVision is the rightful owner of the patent application, in accordance with ContextVision's claim that the technology within the patent is a result of work the two filing inventors conducted during their time at ContextVision. Sapheneia has filed a preliminary appeal, which motivations will have to be specified very soon. However, it is yet unclear if Sapheneia will pursue the appeal. The legal fee specified by the court is well overdue for payment and has not yet been paid by Sapheneia. The company appears to be insolvent.

As mentioned before we are broadening our core competence within the areas of image quality and image analysis. We strongly believe in the importance of investing in the development of ContextVision. We are therefore dedicated to develop our research projects in order to add more business opportunities.

The ultrasound market is expected to grow by 27% over the next five years and we see a great potential for ContextVision both on growing markets and in growing segments. These market dynamics allows us to gain both from our image enhancement product portfolio in the short term, and also from adding new products in the longer term.

## SECOND QUARTER 2013

### NET SALES AND OPERATING PROFIT

#### NET SALES

- Quarter two sales for ContextVision were 14.0 MSEK, compared to 16.0 MSEK last year. 5 % drop is explained by currency exchange rate differences. On an equal currency basis the year to year sales drop is calculated to be 8 %. The remaining sales drop is mainly explained by lower sales of ultrasound on the Asian market.

#### OPERATING PROFIT AND MARGIN

- The operating result was -1.9 MSEK (-3.0) with an operating margin of -13% (-19%).
- Other external cost during Q2 2013 includes a cost of 1.9 MSEK regarding the main hearing at the Stockholm City Court, in the case of ownership of a patent application submitted by Sapheneia.

### CASH-FLOW AND FINANCING

- Cash flow for the period represented a negative change of -3.6 MSEK (-6.1).
- Cash amounted to 23.8 MSEK (17.9) at period end.
- The change in cash during the quarter is mainly explained by lower sales during the quarter.
- Equity at period end amounted to 40.4 (38.2) MSEK giving an equity ratio of 74% (74%).

### EMPLOYEES AND MANAGEMENT

- At period end the company had 36 (37) employees of which 15 are dedicated to research and development. One employee is located in the United States of America and one in China.

### CONTEXTVISION GROUP

- The group consists of ContextVision AB (publ), company registration number 556377-8900 as the parent company, and ContextVision Inc Corp registration number 36-4333625 State of Illinois, USA, as the wholly owned subsidiary.

## SAPHENEIA LITIGATION

- The main hearing in the ongoing litigation between ContextVision AB and Sapheneia Commercial Products AB regarding the case of ownership of a patent application submitted by Saphenia, was held in May 2013.
- The patent application, which was filed by Sapheneia in its own name in September 2006, identifies two former employees of ContextVision as inventors. ContextVision has claimed that the invention is the result of work performed by the two inventors during their employment with ContextVision and, consequently, that ContextVision is the owner of the patent application.
- On July 12, the Stockholm District Court ruled that ContextVision is the real owner of the patent application.

### Background

- In 2006 five employees left ContextVision. Together with two Americans who had been engaged as consultants to ContextVision, they set up a new company, Sapheneia Commercial Products AB (SCP). Immediately after having left ContextVision, SCP started its business that directly competes with ContextVision.
- In 2007 SCP and its American parent company as well as the American consultants and one company belonging to one of the consultants initiated legal proceedings before Linköping District Court requesting a declaratory judgment to the effect that they have not infringed ContextVision's copyrights and that they are not liable in damages to ContextVision as a consequence of any use or disclosure of trade secrets. In return, ContextVision has requested a declaratory judgment to the effect that SCP is liable in damages due to its use and disclosure of trade secrets.
- The main hearing in these cases was held in April 2012 and the judgment was rendered by the District Court on June 12, 2012. The court decision was not in favor of ContextVision and the decision is under appeal.
- In March 2013, the Court of Appeal ordered Sapheneia to submit substantial documentation and materials to the court in accordance with ContextVision's request.
- In 2008 ContextVision initiated legal proceedings against SCP at the Stockholm City Court requesting a declaratory judgment to the effect that ContextVision is the owner of a patent application submitted by SCP and which states

two of ContextVision's former employees as inventors. The main hearing in this case was held in May 2013.

- On July 12, 2013, the Stockholm District Court ruled that ContextVision is the owner of the patent application, and ordered Sapheneia to pay the legal costs of ContextVision amounting to MSEK 2.9. The amount is due for immediate payment; but has not been paid as per today (Aug 21). The legal costs of 2,9 MSEK have during Q2 2013 and earlier periods been expensed in ContextVision's current accounts. Thus any default in payment will not affect the result for future periods.
- Sapheneia has appealed the court decision, but has not yet provided the full documentation regarding the appeal. The time limit for this action is Sept 6.

## RISKS & UNCERTAINTIES

- ContextVision's major risk factors include business risks connected to the general financial situation, to the level of healthcare investment on different markets, currency exchange risks, the company's ability to recruit and keep qualified employees and the effect of political decisions.
- The company's risk factors are described in the annual report 2012. No significant new risks have originated since then.
- This quarterly report provides a fair and true overview of the company's and the Group's activities, position and results, and describes the risks and uncertainties of significance faced by ContextVision and by the companies in the Group.

The Board of Directors of ContextVision AB  
Stockholm 2013-08-21

*This report has not been reviewed by the company's auditors.*

## PRESENTATION AND REPORTING DATES

This quarterly report will be published on the company's website on the 22:nd of August, 2013.

There will be a video presentation released on the 23:rd of August, at 09.00 CET.

Please follow the link:

[www.abiliteam.se/contextvisionQ22013](http://www.abiliteam.se/contextvisionQ22013)

Please visit [www.contextvision.com](http://www.contextvision.com) for further information, or use [shareholderinfo@contextvision.se](mailto:shareholderinfo@contextvision.se) to send a question directly to management.

## REPORTING DATES

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Q2 result 2013	August 22, 2013
Q3 result 2013	October 24, 2013
Q4 and annual result 2013	February 20, 2014

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## FOR MORE INFORMATION PLEASE CONTACT:

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## CONTEXTVISION FAST FACTS

- ContextVision is a spin-off from the Image Processing Laboratory at Linköping University, Sweden. The corporate identity was established in 1983 with the first OEM agreement in radiology in 1987. ContextVision is traded on the Oslo Stock Exchange since 1997.
- ContextVision enhances significant information in digital images using proprietary technology based on GOP.

## THE COMPANY OFFERS:

- 30 years of successful experience in OEM business
- Unprecedented image enhancement for ultrasound, X-Ray, MRI, CT, mammography and iRV.
- Long standing corporate commitment to R&D that ensures timely and rewarding upgrade paths
- Strong customer relationships to ensure their success
- Expert training in image processing for our customers
- Compatibility across different image formats and major computer platforms
- ContextVision's technology enables the company's customers to provide superior digital imaging solutions for hospitals and clinicians. Such solutions promise more rapid and accurate diagnoses, reduced operator eye fatigue, and ultimately, a greater return-on-investment for medical imaging users.

## CONSOLIDATED INCOME STATEMENT (SEK 1000)

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
Net sales	13 985	16 037	29 928	31 252	67 115
<b>Total revenues</b>	<b>13 985</b>	<b>16 037</b>	<b>29 928</b>	<b>31 252</b>	<b>67 115</b>
Goods for resale	-326	-456	-621	-1 095	-2 148
Other external costs	-6 077	-8 935	-10 980	-14 042	-23 192
Personnel costs	-8 549	-9 047	-17 274	-17 465	-37 370
Depreciation assets	-888	-595	-1 779	-1 200	-3 040
Write-down of intangible assets	-	-	-	-	-745
<b>Operating results</b>	<b>-1 855</b>	<b>-2 995</b>	<b>-726</b>	<b>-2 549</b>	<b>620</b>
Interest income	30	66	64	131	257
Interest costs and similar profit/loss items	-	-20	0	-21	-16
<b>Results after financial items</b>	<b>-1 825</b>	<b>-2 949</b>	<b>-662</b>	<b>-2 439</b>	<b>861</b>
Tax	394	108	170	3	-241
<b>Net results</b>	<b>-1 431</b>	<b>-2 841</b>	<b>-492</b>	<b>-2 436</b>	<b>620</b>
Earnings per share after tax (SEK)	-0,18	-0,37	-0,06	-0,31	0,08

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (SEK 1000)

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
Effect of currency hedging	-448	218	-214	218	152
Translation difference	53	79	47	12	-153
<b>Total other comprehensive income</b>	<b>-395</b>	<b>297</b>	<b>-167</b>	<b>230</b>	<b>0</b>
Net result for the period	-1 431	-2 841	-492	-2 436	620
<b>Total comprehensive income for the period</b>	<b>-1 826</b>	<b>-2 544</b>	<b>-659</b>	<b>-2 206</b>	<b>620</b>

## FINANCIAL HIGHLIGHTS

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
Earnings per share after tax (SEK) before/after dilution	-0,18	-0,37	-0,06	-0,31	0,08
Average number of shares	7 736 750	7 736 750	7 736 750	7 736 750	7 736 750
Operating margin (per cent)	-13,3	-18,7	-2,4	-8,2	0,9
Solidity (per cent)	74,0	74,5	74,0	74,5	75,0

## SALES BY REGION (MSEK)

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
Asia	5,0	7,0	12,1	14,5	28,3
Europe	5,1	5,4	10,8	10,0	24,9
USA	3,9	3,6	7,0	6,8	13,9
<b>Total</b>	<b>14,0</b>	<b>16,0</b>	<b>29,9</b>	<b>31,3</b>	<b>67,1</b>

## SALES BY PRODUCT (MSEK)

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
XR	2,4	2,0	4,6	3,9	8,8
US	9,0	11,4	19,5	22,0	46,4
MR	1,8	1,5	3,7	3,4	7,7
Others (iRV, CT, Mammo)	0,8	1,2	2,1	2,0	4,2
<b>Total</b>	<b>14,0</b>	<b>16,0</b>	<b>29,9</b>	<b>31,3</b>	<b>67,1</b>

## CONSOLIDATED BALANCE SHEET (SEK 1000)

	Q2 2013	Q2 2012	2012
Intangible fixed assets	11 257	13 409	12 361
Tangible assets	624	965	780
Other financial assets	1 095	4 084	1 095
Inventories	875	470	280
Current receivables	17 295	14 512	15 494
Cash and bank	23 588	17 867	24 719
<b>Total assets</b>	<b>54 734</b>	<b>51 307</b>	<b>54 729</b>
Equity	40 387	38 219	41 045
Provisions	32	119	113
Current liabilities	14 315	12 969	13 571
<b>Total equity and liabilities</b>	<b>54 734</b>	<b>51 307</b>	<b>54 729</b>

## CHANGE IN EQUITY (SEK 1000)

	Q2 2013	Q2 2012	FULL YEAR 2012
Opening balance	41 274	40 763	40 425
Total comprehensive income for the period	-1 826	-2 544	-2 026
<b>Closing balance</b>	<b>40 387</b>	<b>38 219</b>	<b>38 219</b>
			<b>41 045</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (SEK 1000)

	Q2 2013	Q2 2012	SIX MONTHS 2013	SIX MONTHS 2012	FULL YEAR 2012
<b>Result after financial items</b>	<b>-1 825</b>	<b>-2 949</b>	<b>-663</b>	<b>-2 439</b>	<b>861</b>
Depreciation and write-down of assets	888	595	1 779	1 200	3 785
Unrealized gain/loss on current investments	227	218	17	218	-169
Changes in provisions	-	78	-	78	-
Income tax paid	-518	-538	-967	-1 066	-1 361
Others	-	-3 871	-	-3 871	-
<b>Cash flow from operating activities before change in working capital</b>	<b>-1 228</b>	<b>-6 467</b>	<b>-166</b>	<b>-5 880</b>	<b>3 116</b>
<b>Change in working capital</b>					
Increase (-)/decrease (+) inventories	-211	70	-595	-278	-88
Increase (-)/decrease (+) current receivables	-3 700	-2 664	-929	908	86
Increase (+)/decrease (-) liabilities	1 829	3 621	745	4 657	5 340
<b>Cash flow from operating activities</b>	<b>-3 310</b>	<b>-5 441</b>	<b>-613</b>	<b>-594</b>	<b>8 454</b>
<b>Investing activities</b>					
Investments in intangible assets	-315	-603	-495	-1 009	-2 304
Investments in tangible assets	-	-22	-24	-47	-66
Short-term investments	-	-	-	-163	-
Other financial assets	-	-	-	-	-1 045
<b>Cash flow from investing activities</b>	<b>-315</b>	<b>-625</b>	<b>-519</b>	<b>-1 219</b>	<b>-3 415</b>
<b>Financing activities</b>					
<b>Cash flow from financing activities</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>Cash flow for the period</b>	<b>-3 625</b>	<b>-6 065</b>	<b>-1 132</b>	<b>-1 812</b>	<b>5 039</b>
<b>Change of liquid assets</b>					
Liquid assets at beginning of period	27 213	23 931	24 719	19 680	19 680
<b>Liquid assets at period end</b>	<b>23 588</b>	<b>17 867</b>	<b>23 588</b>	<b>17 867</b>	<b>24 719</b>

## BASIS OF PREPARATION

The interim condensed consolidated financial statements for the 2:nd quarter ended June 30, 2013 have been prepared in accordance with IAS 34 Interim Financial Reporting. The interim condensed consolidated financial statements do not include all the information and disclosures required in the annual financial statements, and should be read in conjunction with the Group's annual financial statements as of 31 December 2012.

## GLOSSARY

### **CAD (COMPUTER AIDED DETECTION)**

Computer assisted support for Radiologists, that highlights abnormalities in medical images, after radiologist has review the images. Can basically be considered as a second reader.

### **CT (COMPUTED TOMOGRAPHY)**

A diagnostic device through which a two-dimensional cross-sectional image of the studied tissue is obtained using X-rays.

### **DFE (DIRECTED FOCUSED ENHANCEMENT)**

A specific tuning capability that enables the manufacturer to enhance specific structures in the medical images, without affecting the rest of the image.

### **DR (DIRECT RADIOGRAPHY)**

A detector that converts X-ray photons into digital signals, replacing the need for X-ray films.

### **FLUOROSCOPY**

An X-ray imaging technique that produces real-time images of a patient's internal structures on a TV monitor. Fluoroscopy allows the study of dynamic processes within the body and can be used for guidance in interventional procedures.

### **GOP® (GENERAL OPERATOR PROCESSOR)**

A term for ContextVision's methodology in detecting structures in an image and relating them to their wider context in order to increase visualization accuracy.

### **GOPICE® (IMAGE CUBICLE ENHANCEMENT)**

GOPICE® is the family name for ContextVision's real-time 3D volumetric image enhancement product, for OEM embedded software.

### **GOPVIEW®**

The family name for ContextVision's product lines of OEM-embedded software.

### **HCU (HAND CARRIED ULTRASOUND)**

A portable, battery-powered ultrasound machine no larger than a briefcase.

### **IMAGE ANALYSIS**

Processing a digital image in order to describe/classify its contents or to extract quantitative measurements.

### **IMAGE PROCESSING**

A generic term used to describe the computation of digital images, typically to enhance or analyze them.

### **IMAGE ENHANCEMENT**

To improve the visual quality of a digital image by increasing the visibility of relevant structures, as in edge/contrast enhancement and the suppression of noise or artifacts.

### **MAMMOGRAPHY**

An X-ray method used to examine the human breast.

### **MODALITY**

A device that generates internal images of the body, such as X-ray, ultrasound, magnetic resonance imaging, and computed tomography.

### **MRI (MAGNETIC RESONANCE IMAGING)**

A non-invasive procedure, generated by variations in strong magnetic fields, that produces a two-dimensional view of an internal organ or structure, especially the brain and spinal cord.

### **OEM**

The acronym for Original Equipment Manufacturer.

### **US (ULTRASOUND)**

A procedure in which high-energy sound waves are bounced off internal tissues or organs to create echoes. The echo patterns are displayed on the screen of an ultrasound machine, forming a picture of body tissues called a sonogram.

### **X-RAY**

A diagnostic device in which radiation is used to create images for examination of soft and hard tissue, such as muscle and bone.

ContextVision is a leading provider of image enhancement software to the global medical imaging industry since 1983, with the versatile GOP® technology at its core. We play a key role in helping manufacturers by offering clinicians unparalleled diagnostic image quality, ultimately providing patients with better care. ContextVision continues to offer the latest software and expertise within ultrasound, x-ray, magnetic resonance imaging, mammography, fluoroscopy and computed tomography. Our groundbreaking technology and lengthy expertise have granted us a pioneer position within 2D/3D/4D image enhancement across multiple modalities.

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