

## CONTEXTVISION AB SECOND QUARTER 2014

### Q2 HIGHLIGHTS

- Further positive sales development
- New major long term ultrasound customer signed
- All cases in long lasting legal dispute finally closed

### Q2 FINANCIAL DATA

- Sales of 15.8 MSEK (14.0)
- Operating result of 2.6 MSEK (-1.9) and operating margin of 16.6% (-13.3%).
- Earnings per share of 0,28 (-0,18) SEK



## MANAGEMENT COMMENT

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

Following a strong first quarter, the second quarter has continued to develop very well. We have been able to add another global ultrasound manufacturer to our customer base and we have also managed to move our projects forward according to plan.

In June, we signed a long term contract for our 2D and 3D product range with a new major ultrasound customer. This long-term multimillion dollar contract proves the value of our unique product portfolio and our strategy to offer the best image enhancement for 2D and 3D ultrasound on the market. Our technology has again been tested in a new demanding environment and found robust and trustworthy. Our modular product portfolio has allowed us to customize the software for both the high-end and the mid-end product range and our skilled application specialists have optimized the image quality for different clinical applications. The ultrasound company will benefit from these products by being able to deliver systems with superb image quality.

Our 3D filter, GOPiCE, is the industry's first ultrasound real-time 3D filtering product, and it provides cutting-edge image enhancement of ultrasound volumes. We are very pleased that our new contract includes 3D filtering. This is clearly a reflection of the growth of this segment. There is a significant increase in clinical use of 3D ultrasound around the world and clinical evaluations have shown that enhancement by GOPiCE is crucial for detecting subtle lesions or fetus abnormalities.

Sales continued to develop well during the second quarter, reaching 15.8 MSEK, which was 13% higher than last year.

In the US, sales were very stable and the revenues increased during the first half year compared to last year. In the US we are particularly strong in veterinary XR and we also generate sales within ultrasound Point of care, another growing segment.

In the Asian region we had strong first quarter and a 52% increase over the second quarter last year. We did have a weak second quarter last year but we also see an effect of our increased presence in China since April. This has resulted in several new contracts including one with a customer that returned to ContextVision and our GOP technology.

Although sales were lower in Europe during the second quarter 4,4 (5,1) the result from the first 6 months is in line with last year. The weak sales during the second quarter are mainly related to the problematic business environment in Russia and Ukraine, which affects several of our customers in Europe.

This quarter our product development has focused on ultrasound and on 3D processing in particular, including visualization of baby faces. We do have a strong position in 3D enhancement and foresee further potential for our unique 3D portfolio. The 3D segment is growing and the visualization software is introduced to broaden our portfolio and to boost sales of our image enhancement product.

We have also finalized the new mammography product. In fact we have already signed a contract for the new mammography product which was developed to suit all market as it has the capacity to enhance images also from dense breasts, which is a challenge particularly in Asia.

All legal processes related to Sapheneia and individuals linked to the company have finally come to an end. Overall we are very satisfied with the outcomes against the Sapheneia companies. In March this year, the parent company, Sapheneia LLC admitted our claims and last year the Stockholm District Court ruled that ContextVision is the owner of the patent application submitted by Sapheneia.

The last process, held in May, was related to the violation of a confidentiality agreement by two Sapheneia employees. The court decided not to evaluate the evidence but concluded instead that these individuals were not to be held responsible for the actions in question as the responsibility rests upon the company they represent. After this last court decision we have no further ongoing legal processes.

We are pleased that all cases are now settled and we strongly believe that it has been important to defend our product rights.

We have continued to invest in innovative research and in evaluating potential future products and markets. New algorithms have been developed and tested with good results and we have been able to prove an important hypothesis in our pre-study for the first product based on our new product platform.

In conclusion after the first half of 2014 we have increased sales by 12%, our product development is running according to plan and the research projects are moving forward above expectation. We have entered on a new phase of development and we have proved that we are able to keep focus on generating sales on the present business whilst turning resources also into new research an exciting projects for the future. Following the developments during the first half of this year we can conclude that we have really embarked upon our transformation into a company with new innovative research and product ideas.

## SECOND QUARTER 2014

### NET SALES AND OPERATING PROFIT

#### NET SALES

- Quarter two sales for ContextVision were 15.8 MSEK, compared to 14.0 MSEK last year. Part of the recorded sales increase is explained by favorable currency exchange rates

#### OPERATING PROFIT AND MARGIN

- The operating result was 2.6 MSEK (-1.9) with an operating margin of 17% (-13%).
- Other external cost during Q2 2013 includes a cost of 1.2 MSEK regarding the main hearing at the Goeta Cort of Appeal, in the case of two individuals who had been engaged by ContextVision during 2005 and 2006, but who later turned to work for Sapheneia.
- The total of 2.4 MSEK recorded as "other income" relates to repayments of legal costs evolving from earlier periods (mainly year 2012). The amount has been repaid by different Sapheneia companies following court decisions during Q1.
- ContextVision has intensified its investments in early pilot R&D projects and also ordinary product development. Product developments that meet the requirements for capitalization are recorded as intangible fixed assets. Capitalized costs for development of three different products (total 2.4 MSEK) have been recorded during the quarter.  
Pilot research costs amounted to 0.9 MSEK during Q2 and for the first half year 1.7 MSEK. In addition, a pilot research project covered by governmental grant has been conducted.
- Further investments in R&D projects are planned for the year, and will affect the future operational margin.

### CASH-FLOW AND FINANCING

- Cash flow for the period represented a negative change of -2.6 MSEK (-3.6).
- Cash amounted to 29.9 MSEK (23.6) at period end.
- The change in cash during the quarter is partially explained by a delay in customer payments. The payments have been collected during July.
- Equity at period end amounted to 49.0 (40.4) MSEK giving an equity ratio of 77% (74%).

#### EMPLOYEES AND MANAGEMENT

- At period end the company had 37 (36) employees of which 18 are dedicated to research and development. One employee is located in the USA and two 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

- During Q2, COV has received repayments of 2.4 MSEK related to decisions rendered by the Appeal Court (Göta hovrätt) during Q1.
- The main hearing in the two last open cases was held before the Appeal Court in late May. The cases include the two individuals who were engaged as consultants by ContextVision in 2005 and 2006, and who were later employed by Sapheneia.
- The Appeal Court submitted its decision on July 31. The Appeal Court decided not to evaluate the evidence but concluded instead that these two individuals were not to be held responsible for their actions, as the responsibility rests upon the company they represent (the company in question was dissolved in 2009).
- The court decision means that ContextVision will have to pay the legal costs of the individuals (net 1,1 MSEK together). ContextVision will record the amount during Q3.
- This last court decision means that all legal cases between the two parties are now finally settled, and there are no open litigations any longer.

### Background

- In 2006 five employees left ContextVision. Together with two American individuals who had been engaged as consultants by 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 individuals and one company belonging to one of the individuals 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 was appealed.

- Late December 2013, the Appeal Court ordered Sapheneia Development AB to disclose substantial documentation and materials in accordance with ContextVision's request (a form of discovery).
- Faced with the court order to disclose evidence, the parent company of the Sapheneia Group, Sapheneia LLC, admitted ContextVision's claims. As a consequence, the Appeal Court ruled in favor of ContextVision on March 27. Sapheneia LLC was ordered to pay ContextVision's legal costs.
- In 2008 ContextVision initiated legal proceedings against Sapheneia Commercial Products at the Stockholm District 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 2.9 MSEK.

Shortly after the decision, Sapheneia Commercial Products changed its name and filed for bankruptcy, thus avoiding payment of legal costs.

### Summary

- Despite seven years of litigation, none of the Sapheneia group companies have been able to prove that they have not infringed ContextVision's copyrights or made use of or disclosed ContextVision's trade secrets.
- All legal cases between the two parties are now finally settled, and ContextVision is no longer involved in any legal cases.

## 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 2013. 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 2014-08-20

*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 21:st of August, 2014.

There will be a video presentation released on the 22:nd of August, at 09.00 CET.

Please follow the link:

<http://webbtv.nu/contextvisionq22014>

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

Q2 result 2014	August 21, 2014
Q3 result 2014	October 23, 2014
Q4 and annual result 2014	February 19, 2015

### 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 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
Net sales	15 801	13 985	33 373	29 928	61 277
<b>Total revenues</b>	<b>15 801</b>	<b>13 985</b>	<b>33 373</b>	<b>29 928</b>	<b>61 277</b>
Goods for resale	-494	-326	-1 011	-621	-1 706
Other external costs	-4 805	-6 077	-10 442	-10 980	-17 399
Personnel costs	-9 235	-8 549	-17 809	-17 274	-32 461
Depreciation assets	-1 001	-888	-2 000	-1 779	-3 543
Other income <sup>1/</sup>	2 361	-	2 361	-	-
<b>Operating results</b>	<b>2 627</b>	<b>-1 855</b>	<b>4 472</b>	<b>-726</b>	<b>6 167</b>
Interest income	217	30	278	64	176
<b>Results after financial items</b>	<b>2 844</b>	<b>-1 825</b>	<b>4 750</b>	<b>-662</b>	<b>6 343</b>
Tax	-656	394	-1 052	170	-1 462
<b>Net results</b>	<b>2 188</b>	<b>-1 431</b>	<b>3 699</b>	<b>-492</b>	<b>4 880</b>
Earnings per share after tax (SEK)	0,28	-0,18	0,48	-0,06	0,63

## CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME (SEK 1000)

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
Effect of currency hedging	-62	-448	-43	-214	-404
Translation difference	-	53	-	47	9
<b>Total other comprehensive income</b>	<b>-62</b>	<b>-395</b>	<b>-43</b>	<b>-167</b>	<b>-395</b>
Net result for the period	2 188	-1 431	3 699	-492	4 880
<b>Total comprehensive income for the period</b>	<b>2 127</b>	<b>-1 826</b>	<b>3 656</b>	<b>-659</b>	<b>4 486</b>

## FINANCIAL HIGHLIGHTS

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
Earnings per share after tax (SEK) before/after dilution	0,28	-0,18	0,48	-0,06	0,63
Average number of shares	7 736 750	7 736 750	7 736 750	7 736 750	7 736 750
Operating margin (per cent)	16,6	-13,3	13,4	-2,4	10,1
Solidity (per cent)	78,6	74,0	78,6	74,0	79,50

## SALES BY REGION (MSEK)

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
Asia	7,6	5,0	14,9	12,1	25,1
Europe	4,4	5,1	10,5	10,8	21,3
USA	3,8	3,9	8,0	7,0	14,9
<b>Total</b>	<b>15,8</b>	<b>14,0</b>	<b>33,4</b>	<b>29,9</b>	<b>61,3</b>

## SALES BY PRODUCT (MSEK)

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
XR	2,2	2,4	4,8	4,6	9,1
US	12,2	9,0	24,2	19,5	41,4
MR	0,9	1,8	2,8	3,7	6,3
Others (iRV, CT, Mammo)	0,5	0,8	1,6	2,1	4,5
<b>Total</b>	<b>15,8</b>	<b>14,0</b>	<b>33,4</b>	<b>29,9</b>	<b>61,3</b>

## CONSOLIDATED BALANCE SHEET (SEK 1000)

	Q2 2014	Q2 2013	2013
Intangible fixed assets	13 789	11 257	12 358
Tangible assets	852	624	459
Other financial assets	822	1 095	1 143
Inventories	301	875	372
Current receivables	17 626	17 295	13 812
Cash and bank	29 184	23 588	29 163
<b>Total assets</b>	<b>62 574</b>	<b>54 734</b>	<b>57 307</b>
Equity	49 187	40 387	45 531
Provisions	363	32	363
Current liabilities	13 024	14 315	11 413
<b>Total equity and liabilities</b>	<b>62 574</b>	<b>54 734</b>	<b>57 307</b>

## CHANGE IN EQUITY (SEK 1000)

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
Opening balance	47 061	42 213	45 531	41 045	41 045
Total comprehensive income for the period	2 127	-1 826	3 656	-659	4 486
<b>Closing balance</b>	<b>49 187</b>	<b>40 387</b>	<b>49 187</b>	<b>40 387</b>	<b>45 531</b>

## CONSOLIDATED STATEMENT OF CASH FLOWS (SEK 1000)

	Q2 2014	Q2 2013	SIX MONTHS 2014	SIX MONTHS 2013	FULL YEAR 2013
<b>Result after financial items</b>	<b>2 844</b>	<b>-1 825</b>	<b>4 749</b>	<b>-663</b>	<b>6 342</b>
Depreciation and write-down of assets	1 001	888	2 072	1 779	3 543
Unrealized gain/loss on current investments	-62	227	-42	17	213
Changes in provisions	-	-	-	-	-
Income tax paid	-299	-518	-671	-967	-664
Others	-	-	-	-	-
<b>Cash flow from operating activities before change in working capital</b>	<b>3 484</b>	<b>-1 228</b>	<b>6 108</b>	<b>166</b>	<b>9 434</b>
<b>Change in working capital</b>					
Increase (-)/decrease (+) inventories	-15	-211	71	-595	-92
Increase (-)/decrease (+) current receivables	-4 490	-3 700	-3 142	-929	687
Increase (+)/decrease (-) liabilities	1 212	1 829	559	745	-2 366
<b>Cash flow from operating activities</b>	<b>191</b>	<b>-3 310</b>	<b>3 596</b>	<b>-613</b>	<b>7 663</b>
<b>Investing activities</b>					
Investments in intangible assets	-2 277	-315	-3 365	-495	-3 195
Investments in tangible assets	-458	-	-531	-24	-24
Short-term investments	-	-	-	-	-
Other financial assets	-29	-	321	-	-
<b>Cash flow from investing activities</b>	<b>-2 764</b>	<b>-315</b>	<b>-3 575</b>	<b>-519</b>	<b>-3 219</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>-2 573</b>	<b>-3 625</b>	<b>21</b>	<b>-1 132</b>	<b>4 444</b>
<b>Change of liquid assets</b>					
Liquid assets at beginning of period	31 757	27 213	29 163	24 719	24 719
<b>Liquid assets at period end</b>	<b>29 184</b>	<b>23 588</b>	<b>29 184</b>	<b>23 588</b>	<b>29 163</b>

**1/ Other income**

Repayment of legal cost 2,361 from different Sapheneia Companies. The legal costs are evolving from earlier periods.

**BASIS OF PREPARATION**

*The interim condensed consolidated financial statements for the 2:nd quarter ended June 30, 2014 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 2013.*

## 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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