INSIDE Secure first-half 2012 results

- **Consolidated revenue of $62.2 million for the first half of 2012, affected in particular by the unfavorable change in RIM mobile handsets deliveries**
- **Adjusted operating loss[1] of $16.2 million**
- **Solid cash position of $95.5 million as of 30 June 2012**

Aix-en-Provence, France, 3 August 2012 – INSIDE Secure (NYSE Euronext FR0010291245 - INSD.PA), a leader in semiconductor solutions and embedded software for secure transactions and applications related to digital security, today reports its consolidated results[2] for the six-month period ended 30 June 2012.

(in thousand of dollars)	**H1-2012**	**H1-2011**
Revenue	62 200	70 360
Gross profit	14 473	19 871
As a % of revenue	*23,3%*	*28,2%*
Adjusted operating income	(16 178)	(7 293)
As a % of revenue	*-26,0%*	*-10,4%*
Adjusted net income	(18 073)	(4 841)
As a % of revenue	*-29,1%*	*-6,9%*

Commenting on these results, Rémy de Tonnac, CEO of INSIDE Secure, said: “The Group posted a decline in revenue over the period, notably impacted by the negative trend in sales of mobile handsets from our main customer in the NFC business, Research In Motion (RIM). Consequently, our earnings for the first half of the year were adversely affected. Against this backdrop, we are continuing to focus on the development of promising value-added products, such as the Group’s own secure element or the NFC Booster, which should have a positive impact on sales as of the fourth quarter of 2012. We also confirm our revised objectives, as announced on 25 May, and are continuing with our efforts to diversify our customer base and enlarge our target markets, while also making sure that we maintain tight control on operating expenses and protect our cash position.”

[1] Certain financial measures and performance indicators are presented on an adjusted basis as defined in Appendix 2 of this press release. These indicators should be considered to be supplementary information, not substitutable for any other indicators of operating and financial performance that are strictly accounting measures, such as those presented in the Group's consolidated financial statements provided in Appendix 1.

[2] The interim consolidated financial statements as of 30 June 2012 were prepared by the Management Board on 2 August 2012 and have been subject to a limited scope review by the statutory auditors.

Financial information for the 2nd quarter of 2012 and 1st half of 2012

Second-quarter 2012 revenue

(in thousand of dollars)	Q2-2012 consolidated	Q2-2011 consolidated	Q1-2012 consolidated	Change % Y-on-Y	Change % Q-to-Q
Mobile NFC	8 348	6 700	14 258	25%	-41%
including chips for mobile NFC	*8 348*	*6 694*	14 258	25%	-41%
including chips for SIM cards	*0*	*6*	0	-	-
Digital Security	12 789	14 929	11 938	-14%	7%
Secure Payment	7 038	10 183	7 828	-31%	-10%
Total	**28 176**	**31 812**	**34 024**	**-11%**	**-17%**
Total excluding chips for SIM cards	*28 176*	*31 806*	*34 024*	*-11%*	*-17%*

At $28.2 million, consolidated revenue for the second quarter of 2012 was down 11% relative to the second quarter of 2011 and 17% relative to the first quarter of 2012.

First-half 2012 revenue

(in thousand of dollars)	H1-2012 consolidated	H1-2011 consolidated	H2-2011 consolidated	Change % Y-on-Y	Change % H-to-H
Mobile NFC	22 606	9 304	38 657	143%	-42%
including chips for mobile NFC	*22 606*	*8 434*	*38 524*	168%	*-41%*
including chips for SIM cards	*0*	*870*	*133*	-100%	*-100%*
Digital Security	24 728	32 481	27 779	-24%	-11%
Secure Payment	14 866	28 575	14 672	-48%	1%
Total	**62 200**	**70 360**	**81 108**	**-12%**	**-23%**
Total excluding chips for SIM cards	*62 200*	*69 490*	*80 975*	*-10%*	*-23%*

Following a very robust second half in 2011, revenue totalled $62.2 million in the first half of 2012, down 12% relative to the first half of the previous year (or 10% excluding sale of chips for SIM cards[3], which is progressively being wound down).

[3] Business discontinued by Atmel Corp. prior to the sale of the secure microcontroller solutions (SMS) business to INSIDE Secure on 30th September 2010 (independent of the sale process) and that now represents only residual sales.

<u>First-half 2012 results</u>

(in thousand of dollars)	**H1-2012**	**H1-2011**
Gross profit	14 473	19 871
As a % of revenue	*23,3%*	*28,2%*
Research and development expenses	(19 314)	(16 382)
As a % of revenue	*-31,1%*	*-23,3%*
Selling and marketing expenses	(9 045)	(9 535)
As a % of revenue	*-14,5%*	*-13,6%*
General and administrative expenses	(4 729)	(5 054)
As a % of revenue	*-7,6%*	*-7,2%*
Other gains / (losses), net	(603)	(49)
Operating income / (loss)	(19 218)	(11 149)
As a % of revenue	*-30,9%*	*-15,8%*
Adjusted operating income	**(16 178)**	**(7 293)**
As a % of revenue	*-26,0%*	*-10,4%*
Financial income, net	(1 846)	2 732
Income tax expense	(49)	(279)
Adjusted net income	**(18 073)**	**(4 841)**
As a % of revenue	*-29,1%*	*-6,9%*
Income / (loss) for the year	(21 113)	(8 696)

Adjusted operating income

Gross profit decreased by $5.4 million due to lower revenue and a less favorable product mix. Gross margin (23.3% of revenue) was down over the first six months of 2012 relative to 2011, mainly as a result of:
- rising sales of SecuRead®, which accounted for most of the segment's business which includes a secure element supplied by Infineon, and Goup's gross margin on it is therefore lower. The Group is also developing its own secure element, which is expected to be in the market in the fourth quarter of 2012;
- the impact of a lack of design wins in the SMS payment business during the period when Atmel Corp was looking for a buyer for this business. Current revenue therefore comes from more mature products generating lower margins.

Operating expenses rose by 8.6% overall in the first half of 2012 relative to the first half of 2011, and by 2.4% relative to the second half of 2011. Research and development expense increased by 17.9% during the first half of 2012 and by 6.4% relative to the second half of 2011. Meanwhile, sales and marketing expenses, as well as general and administrative expenses, fell by 5.6% during the first half of 2012 relative to the same period in 2011 (+2.8% relative to the second half of 2011).

The change in the Euro/Dollar exchange rate had a positive impact on operating income in the first half of 2012 (at constant exchange rates, adjusted operating income would have been lower by around $1.4 million), while the impact of foreign exchange on revenue remained marginal (around 1% at constant exchange rates).

The Group sustained an adjusted operating loss of $16.2 million in the first half of 2012 compared with $7.3 million in the first half of 2011 and $8.8 million in the second half of 2011.

Finance cost and other financial income and expense, net

Net financial items as at 30 June 2012 represented an expense of $1.8 million, compared with a profit of $2.7 million as at 30 June 2011 - the difference coming mainly from the change in the Euro/Dollar exchange rate. The currency loss incurred in the first half of 2012 is mainly due to the impact of the revaluation at the closing rate of bank assets expressed in euros - mainly resulting from the capital increase concomitant with the listing of the Company's shares on NYSE Euronext Paris in February 2012 - generating an unrealised currency loss at 30 June 2012 of $1.3 million. The closing Euro/Dollar exchange rate at 30 June 2011 was particularly favorable, thereby generating unrealised currency gains at closure.

Net income

The Group sustained an adjusted net loss of $18.1 million in the first half of 2012 compared with a loss of $4.8 million in the first half of 2011 and $9.8 million in the second half of 2011.

Consolidated net income (IFRS) attributable to equity holders of the Company for the first half of 2012 represented a loss of $21.1 million, with net earnings per share of -$0.70 compared with -$0.40 in the first half of 2011.

Cash position

The INSIDE Secure shares have been listed on the NYSE Euronext regulated market in Paris since 17 February 2012. With its IPO, the Group realized a capital increase of $98.7 million (€75.0 million) after deduction of IPO fee and expense paid in 2012.

The Group's available cash stood at $95.5 million as of 30 June 2012.

Key elements by division

(in thousand of dollars)	Mobile NFC	Digital security	Secure Payment	Common unallocated	Total H1-2012
	Halfyear ended June 30, 2012				
Revenue	22 606	24 728	14 866	-	62 200
Contribution to revenue	*36%*	*40%*	*24%*	-	*100%*
Operating income	(17 053)	2 428	(3 101)	(1 491)	(19 218)
Adjusted operating income	(16 386)	4 110	(2 410)	(1 491)	(16 178)
As a % of revenue	-	*16,6%*	*-16,2%*	-	*-26,0%*

(in thousand of dollars)	Mobile NFC	Digital security	Secure Payment	Common unallocated	Total H1-2011
	Halfyear ended June 30, 2011				
Revenue	9 304	32 481	28 575	-	70 360
Contribution to revenue	*13%*	*46%*	*41%*	-	*100%*
Operating income	(10 675)	5 741	(5 178)	(1 038)	(11 149)
Adjusted operating income	(10 087)	8 066	(4 235)	(1 038)	(7 293)
As a % of revenue	-	*24,8%*	*-14,8%*	-	*-10,4%*

Note: Unallocated expenses correspond to unused capacity not allocated to business segments

Mobile NFC

The Mobile NFC business achieved a 143% increase in revenue in the first half of 2012 relative to the first half of 2011. However, revenue was down 42% relative to the second half of 2011, which was boosted by updates to RIM's range of mobile handsets, INSIDE Secure's main client in the NFC segment. This fall was mainly due to the seasonal nature of the business, but above all to disappointing sales of RIM's Blackberry 7 mobile handsets. An unexpected acceleration in RIM's poor performance has had a considerable impact on the Group's sales.

In addition, the decline in adjusted operating income for the mobile NFC segment was mainly a result of acceleration in research and development costs with a view to supporting the development of this line of business, and in particular the launch of new products offering a high level of added value, such as the NFC Booster and the Group's own secure element.

From an operational viewpoint, the collaboration with INTEL is continuing, and at this stage still consists primarily of providing intellectual property and reference designs. In April, Nokia announced it would launch a new Lumia 610 handset at the start of the third quarter of 2012, equipped with NFC technology supplied by INSIDE Secure. The handset has been on sale since July and therefore did not impact the Group's revenue during the second quarter of 2012.

In June, the NFC Forum, an association of major global industry players driving forward the roll-out of NFC technology, recognised the excellence of INSIDE Secure's products by certifying its NFC MicroRead® solution, the first NFC controller on the market to obtain this recognition.

Lastly, on 21 June, the Group - which intends to capitalize on its position as a pioneer and long-standing market leader in NFC technology - announced the launch of a near field communication (NFC) patent licensing program with France Brevets, the first investment fund dedicated to patent promotion and monetization in Europe. This program, which will be managed by France Brevets, will make the INSIDE Secure NFC patents available to device manufacturers building the next generation of products that will support a wide range of contactless payment, transit, access control, loyalty, ticketing, and other services. On 19 July, Orange announced that it had joined the program as a strategic partner, contributing a portfolio of patents.

Digital Security

The Digital Security business generated revenues of $24.7 million in the first half of 2012, in line with expectations. The decrease in sales of secure modules in some non-recurring businesses and of identification products was partly offset by gains of new customers, in particular in pay-TV.

Adjusted operating income came to +$4.1 million in the first half of 2012, equal to 16.6% of revenue for the segment.

The Group is pursuing with marketing and sales efforts in view to broaden its digital security product and service offering to serve promising markets (such as anti-counterfeiting, smart metering and machine-to-machine).

Secure Payment

As the Group had anticipated, revenue in this segment was down relative to 2011. This was due primarily to the downturn in the U.S. market for contactless payment solutions. The market was holding off in anticipation of migration towards a new EMV-type standard, with issuers only renewing existing contactless payment card portfolios and no longer rolling out new portfolios. Furthermore, sales of contact chips for the SMS payment (EMV standard) market fell further, as a result of the lack of design wins during the period when Atmel Corp. was seeking a buyer for its SMS business, the effects of which were felt as of the first half of 2011 and have continued since.

As stated previously, the Group has reallocated some of its research and development and sales and marketing resources to the NFC segment and is focusing its efforts on developing a semiconductor platform in order to be ready to position itself in the U.S. secure payments market when the roll-out of smart card technology begins in 2013. Consequently, and as expected, the adjusted operating loss for this segment was contained at $2.4 million in the first half of 2012, half the loss sustained in the second half of 2011 and down 43% relative to the first half of 2011.

Outlook for 2012

INSIDE Secure is pursuing its efforts to consolidate its position as a pioneer in the NFC market and diversify its client base, while also stepping up its innovation efforts to get design wins with tier-one mobile handset manufacturers. In this respect, the Group confirms its target of achieving the first sales of "NFC booster" on a SIM card during the fourth quarter of 2012. It also confirms the launch of its own secure element in the fourth quarter of 2012 and believes that the impact on gross margin should be felt by the end of the third quarter of 2013.

INSIDE Secure also confirms its revised objectives announced on 25 May.

Conference call

Management will comment on its first-half 2012 results during a conference call to be held on 3 August 2012 at 8:30 a.m. CET (Paris). Access to the call will be by dialing one of the following numbers: +33 (0)1 70 77 09 47 (France) or +44-20 3367 9456 (United Kingdom) or + 1 866 90 75 923 (USA).

The presentation will be available on our website: www.insidesecure.com. An audio webcast of the presentation and the Q&A session will be available on the INSIDE Secure website approximately three hours after the end of the presentation and will remain posted there for one year.

Financial calendar

Third-quarter 2012 revenue will be released on 25 October 2012 (before market opening).

INSIDE Secure also announces that it has made available to the public and submitted to the AMF its **interim financial report to 30 June 2012** (“rapport financial semestriel”). The report can be viewed on the Company's website:
(http://www.insidesecure.com/eng/Investors/Financials-Documents).

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About INSIDE Secure

INSIDE Secure (NYSE Euronext FR0010291245 – INSD.PA) is a leading designer, developer and supplier of semiconductors, embedded software and platforms for secure transactions and digital security. INSIDE Secure mobile NFC, secure payment and digital security products provide security for a wide range of information processing, storage and transmission applications. The Group’s customers are found in a wide range of markets including mobile payment, identification documents, access control, transit, electronic device manufacturing, pay television and mobile service operators. For more information, visit www.insidesecure.com.

Forward-looking statements

This press release contains certain forward-looking statements concerning the INSIDE Secure group. Although INSIDE Secure believes its expectations to be based on reasonable assumptions, they do not constitute guarantees of future performance. The group’s actual results may accordingly differ materially from those anticipated in these forward-looking statements owing to a number of risks and uncertainties. For a more detailed description of these risks and uncertainties, please refer to the “Risk Factors” section of the annual financial report of 27 April 2012, available on www.insidesecure.com.

Appendix 1 - Consolidated income statement, balance sheet and cash flow statement (IFRS)

The following tables form part of the condensed interim consolidated financial statements, prepared in accordance with IFRS, as included in the interim financial report to 30 June 2012, which are available on the Company's website.

Consolidated income statement

In thousands of US$	**6-month period ended**	
	June 30, 2011	**June 30, 2012**
Revenue	70 360	62 200
Cost of sales	(50 490)	(47 726)
Gross profit	**19 871**	**14 473**
Research and development expenses	(16 382)	(19 314)
Selling and marketing expenses	(9 535)	(9 045)
General and administrative expenses	(5 054)	(4 729)
Other gains / (losses), net	(49)	(603)
Operating loss	**(11 149)**	**(19 218)**
Finance income, net	2 732	(1 846)
Loss before income tax	**(8 417)**	**(21 064)**
Income tax expense	(279)	(49)
Loss for the period	**(8 696)**	**(21 113)**
Attributable to:		
Equity holders of the Company	(8 696)	(21 113)
Non-controlling interests	-	-
Earnings per share attributable to the equity holders of the Company during the period		
Basic earnings per share	(0,40)	(0,70)
Diluted earnings per share	(0,40)	(0,70)

Consolidated balance sheet- Assets

In thousands of US$	December 31, 2011	June 30, 2011
Goodwill	3 251	3 403
Intangible assets	6 877	8 889
Property and equipment	16 812	14 800
Other receivables	7 287	10 516
Non-current assets	**34 227**	**37 608**
Inventories	23 276	25 155
Trade receivables	18 711	19 594
Other receivables	10 474	9 940
Derivative financial instruments	216	-
Cash invested in short term securities	-	30 048
Cash and cash equivalents	20 940	65 445
Current assets	**73 618**	**150 182**
Total assets	**107 845**	**187 790**

Consolidated balance sheet – Equity and liabilities

In thousands of US$	December 31, 2011	June 30, 2011
Ordinary shares	11 369	17 243
Share premium	133 021	226 150
Other reserves	9 772	9 527
Retained earnings	(73 535)	(96 568)
Income / (loss) for the period	(23 033)	(21 113)
Equity attributable to equity holders of the Com	**57 594**	**135 239**
Non-controlling interests	-	-
Total equity	**57 594**	**135 239**
Intangible liabilities - Non-current portion	11 711	11 173
Borrowings	963	6 675
Repayable advances	852	2 761
Retirement benefit obligations	1 183	1 249
Non-current liabilities	**14 708**	**21 859**
Intangible liabilities - Current portion	1 168	1 375
Financial instruments	1 348	2 241
Trade and other payables	29 977	22 449
Borrowings	357	364
Provisions for other liabilities and charges	318	390
Unearned revenues	2 372	3 872
Current liabilities	**35 542**	**30 692**
Total liabilities	**50 251**	**52 550**
Total equity and liabilities	**107 845**	**187 790**

Consolidated cash flow statement

In thousands of US$	6-month period ended June 30, 2011	6-month period ended June 30, 2012
Loss for the period	**(8 696)**	**(21 113)**
Adjustments for:		
Depreciation of tangible assets	3 398	3 081
Depreciation of intangible assets	1 423	959
Impairment of receivables	(5)	(4)
Impairment of inventories	500	169
Impairment of grants and research tax credit	-	-
(Profit) / loss on disposal of property and equipment	-	-
Share-based payment	1 025	963
Change in retirement benefit obligation	72	78
Finance income, net	186	1 422
Unrealized exchange gains and losses, net	(811)	(436)
Income tax	279	49
Variation in provisions for risks	(305)	76
Cash generated used in operations before changes in working capital	**(2 934)**	**(14 754)**
Changes in working capital		
Inventories	(12 698)	(1 979)
Trade receivables	1 662	6 039
Trade receivables sold	-	(6 880)
Other receivables	(2 554)	(268)
Research tax credit and grants	(4 138)	(2 222)
Trade and other payables	6 609	(5 084)
Cash used in changes in working capital	**(11 120)**	**(10 394)**
Cash generated from operations	**(14 053)**	**(25 148)**
Interest received, net	(186)	(58)
Income tax paid	(194)	(74)
Net cash used in operating activities	**(14 433)**	**(25 280)**
Cash flows from investing activities		
Acquisition of business, net of cash acquired	-	-
Purchases of property and equipment	(2 422)	(1 298)
Purchases of intangible assets	(849)	(2 663)
Research and development capitalized costs	-	(357)
Payments corresponding to intangible liability	(767)	(621)
Disposal of assets	-	-
Net cash used in investing activities	**(4 038)**	**(4 939)**
Cash flows from financing activities		
Proceeds from issuance of ordinary shares, net of issuance costs	413	104 950
Direct costs paid related to the IPO	(926)	(5 840)
Repayable advances	-	1 909
Proceeds from / (Repayment of) borrowings, net of issuance costs	-	5 852
Principal repayment under finance lease	407	(202)
Treasury shares	-	(582)
Net cash generated by / (used in) financing activities	**(105)**	**106 087**
Net increase / (decrease) in cash and cash equivalents	**(18 576)**	**75 868**
Cash and cash equivalents at beginning of period	41 178	20 940
Exchange gains / (losses) on cash and cash equivalents	(5)	(1 315)
Cash, cash equivalents and cash invested in short term securities at end of period	**22 598**	**95 493**
included Cash and cash equivalent	22 598	65 445
included Cash invested in short term securities		30 048

Appendix 2 - Non-GAAP measures – Reconciliation of IFRS results with adjusted results

The performance indicators presented in this press release that are not strictly accounting measures (adjusted operating result, and adjusted income /(loss)) are defined below. These indicators are not defined under IFRS, and do not constitute accounting elements used to measure the Group's financial performance. They should be considered in addition to, and not as a substitute for, any other operating and financial performance indicator of strict accounting nature, as presented in the Group's consolidated financial statements and the corresponding notes. The Group uses these indicators because it believes they are useful measures of its operating performance and of its operating cash flow generation. These indicators are not necessarily directly comparable to those of other companies, which may have defined or calculated their indicators differently than the Group, even though they use similar terms.

Adjusted operating income/(loss) is defined as operating income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense and (iv) non-recurring costs associated with business combinations carried out by the Group.
Adjusted net income/(loss) is defined as net income/(loss) before (i) the amortization of intangible assets and masks related to business combinations, (ii) any potential goodwill impairment, (iii) share-based payment expense, and (iv) non-recurring costs associated with business combinations carried out by the Group, and also takes into account the tax expense adjustment recorded in the income statement and related to restated elements.

The tables below present reconciliations between the income statement figures in this document and the adjusted financial aggregates as defined above, for the interim periods ended 30 June 2011 and 2012:

(in thousand of dollars)	June 30, 2012 IFRS	Business combination	Sharebased payment	Other non-recurring costs	June 30, 2012 adjusted
Revenues	62 200	-	-	-	62 200
Cost of sales	(47 726)	1 077	69	-	(46 581)
Gross profit	14 473	1 077	69	-	15 619
As a % of revenue	*23,3%*				*25,1%*
R&D expenses	(19 314)	835	182	-	(18 297)
Selling & marketing expenses	(9 046)	-	264	-	(8 782)
Genaral & administrative expenses	(4 729)	-	448	-	(4 281)
Other (losses)/gains, net	(603)	-	-	166	(437)
Operating result	**(19 218)**	**1 912**	**963**	**166**	**(16 178)**
As a % of revenue	*-30,9%*				*-26,0%*
Finance income, net	(1 846)	-	-	-	(1 846)
Income tax expense	(49)	-	-	-	(49)
Income	**(21 113)**	**1 912**	**963**	**166**	**(18 073)**
	-33,9%				*-29,1%*

(in thousand of dollars)	June 30, 2011 IFRS	Business combination	Sharebased payment	Other non-recurring costs	June 30, 2011 adjusted
Revenues	70 360	-	-	-	70 360
Cost of sales	(50 489)	1 268	93		(49 128)
Gross profit	19 871	1 268	93	-	21 232
As a % of revenue	*28,2%*				*30,2%*
R&D expenses	(16 382)	797	137		(15 447)
Selling & marketing expenses	(9 535)	716	514		(8 305)
Genaral & administrative expenses	(5 054)	-	281		(4 773)
Other (losses)/gains, net	(49)	-		49	-
Operating result	**(11 149)**	**2 781**	**1 025**	**49**	**(7 293)**
As a % of revenue	*-15,8%*				*-10,4%*
Finance income, net	2 732				2 732
Income tax expense	(279)				(279)
Income	**(8 696)**	**2 781**	**1 025**	**49**	**(4 841)**
As a % of revenue	*-12,4%*				*-6,9%*