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Gemplus Board Resolves Dispute

Dec. 24, 2002 – At a special board meeting last week, Gemplus, the world's largest maker of smart cards, cleared the way for a possible turnaround in 2003. The board confirmed Alex Mandl as chief executive and ousted two members opposed by the company's largest shareholder.



Gemplus' Mandl

Mandl was appointed CEO in September, but was opposed by some board member because of what they felt was an excessive pay package. In addition, the company's leading shareholder, Texas Pacific Group (TPG), wanted to remove the company's founder and former chairman, Marc Lassus, and another member, Ziad Takieddine, from the board.

TPG's previous attempts to oust Lassus and Takieddine failed. But at the meeting last week, the two board members finally decided to resign. Mandl received the support of the board, which also appointed a new chairman, Dominique Vignon. Former interim CEO Ronald Mackintosh remains on the board.

Although Gemplus held on to its position as the No. 1 smart card company this year, it has been forced to cut prices, along with its competitors, due to weak demand for smart cards used in the financial industry and subscriber identity modules, or SIM cards, used in mobile phones.

Mandl has undertaken an aggressive cost-cutting plan in an effort to return the company to profitability. Earlier this month, he announced a plan to lay off 1,000 of the French company's 6,700 employees. He indicated that more job cuts are likely in 2003 as the company struggles to return to profitability. Gemplus' share price, which had fallen to 77 cents in mid-September, has rebounded somewhat to nearly \$2.

While investors have generally favored Mandl's restructuring of the company, some board members were unhappy with his compensation package. In addition to a base salary of EUR600,000 (US\$616,000) per year, Mandl can receive performance bonuses of up to 120 percent of his salary

annually.

The four-year contract also requires Gemplus to cover monthly expenses of \$80,000 for maintenance of Mandl's US home until he is able to sell it. And the company could also wind up paying \$3 million to help offset any loss Mandl suffers on the sale.

While the board turmoil may be resolved, the company still faces a difficult market. Sales of mobile phones, one of the biggest markets for smart card companies, have leveled off. Use of smart cards for financial applications is not growing rapidly, except in Asia. And companies are not investing in new technologies.

After Gemplus reported its financial results for the third quarter, Mandl said 2003 would be a year of "rebuilding and refocusing" (see Gemplus Posts Loss Amid Turmoil). He has not said when he expects the company to return to profitability, but at least he won't have to be looking over his shoulder in 2003.

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