

Nio Security, Inc.

Q4 2009 Interim Report



Oslo, February 26, 2010

HIGHLIGHTS

- New main shareholders
- Refinancing of balance sheet, no secured or long term debt
- Finally proven technology through sale of 600 units to Genie
- Fast growing market

ABOUT NIO SECURITY

Nio Security, Inc. ("Nio" or the "Company") delivers solutions and products to the security and surveillance industry. Nio's products improve the quality of video surveillance and have been developed based on proprietary technology. Within the security market, Nio offers intelligent video appliances and smart cameras, separately or combined for end-to-end solutions. All products are suitable both for new installations and for the retrofit market.

GENERAL SUMMARY

In November 2009, Nio completed an extensive refinancing, including a private placement of NOK 11 million in combination with a conversion of its NOK 20.2 million secured short term loan into new shares. In addition, the Company entered into agreements with other creditors, resulting in a conversion of additional US\$ 1.3 million of its accounts payable and accrued expenses, as well as a voluntary composition of other payables. Finally, the repayment of the two long term SBA loans on December 31, 2009, resulted in a full repayment of the Company's US\$ 4.8 million secured and long term debt per December 31, 2009.

The Company has through the refinancing and debt repayment during the fourth quarter of 2009, significantly strengthened its balance sheet and is financially well positioned for 2010. This has improved Nio's ability to focus on building new revenue in the fast growing security industry in America, Europe and Asia by selling Nio's existing products and improve Nio's ability to consider mergers and/or acquisitions and investigate new business opportunities.

Due to the Company's financial difficulties during 2009, sales have been hurt, and for the fourth quarter of 2009, sales was US\$ 169,632, down from US\$ 393,149 for the fourth quarter of 2008. For the whole year 2009, sales was US\$ 899,171 compared to US\$ 2,282,383 for the year 2008. The board of directors believes that the refinancing and the subsequent initiatives taken to improve the Company's market position will significantly improve overall sales in 2010. The Company has received an order for 600 units in February 2010 which was a milestone of proven technology, and is a significant first step towards break even operations.

BUSINESS SUMMARY

Nio Security, Inc. has two world leading products within the security market: **CloseView™** and **SteadyEye™**. CloseView™ is an intelligent video surveillance product that makes automatic surveillance possible. The software can detect suspicious objects and follow them with a pan-tilt-zoom camera. In effect it works like a giga pixel camera where you can zoom in and get clear images with high resolution. There is little known competition with comparable performance to follow objects and close in on them. The CloseView technology can operate fully automatically, but will also improve manual surveillance and make it more efficient due to the fact that suspicious objects are pointed out and followed. That is why, for example, the city of London, United States Army, Fed Ex, Airports and Schools/Universities are using our technology.

SteadyEye™ is a world leading product in stabilizing camera movements, no matter if it is in a car, on a pole or in a plane. The uniqueness of this technology guaranteed its usefulness and popularity in for example military drone planes and police cars.

Nio will now focus on building revenue in the fast growing security industry in America, Europe and Middle East/Asia, by selling Nio's existing products, which are based on own patented technology with limited competition. Over the years, the Company has invested around US\$ 30 million in its technology.

The need for surveillance grows faster than the security business growth capacity, resulting in a strong growth for the worldwide market for Video Content Analysis Software. Intelligent surveillance is needed to cope with the enormous amounts of video feed, and this market is now beginning to mature.

The surveillance industry sees a transformation to more automated services and solutions. Nio is working to take advantage of this expected demand and is working together with existing distributors, like Genie CCTV Ltd. in the UK. The fact that a distributor like Genie CCTV Ltd. has ordered more than 700 units for delivery in 2010, proves that our product is right for the market and that the timing for growth is good.

Together with key distribution partners in several countries, Nio will increase sales and create templates towards different industry segments like car dealers, schools, universities, harbors etc. This move will create positive opportunities for streamlining the business. In addition, border surveillance for countries like China, will be pursued as well as city surveillance. China and India are investigating to do city surveillance in several major cities, with a potential for several thousands cameras.

Nio expects the US market to continue to improve in 2010. Having completed a significant cost cutting program for its US operations, Nio aims at becoming cash flow positive in 2010 assuming improved margins and increased sales from Nio's new version of CloseView with e.g. improved image quality as well as easier installation and calibration.

Nio is also expecting to enter Value Added Reseller (VAR) and Original Equipment Manufacturer (OEM) agreements worldwide in order to increase volume through specific partners, with limited increase in operating expenses. Through such agreements, the Company expects to balance the revenues in the main regions US, Europe and Asia within 1-2 years.

Being in the fast growing video surveillance industry, the Company will continuously investigate new opportunities in addition to organic growth within the security industry. The industry sees a transformation to more automatic services and is attractive to many because of the growth potential.

The Board of Directors of Nio believes that the initiatives taken and the change of focus on sales, will improve the Company's operating performance, and strengthen the Company's attractiveness to investors.

FINANCIAL SUMMARY

Sales for the fourth quarter of 2009 was US\$ 169,632 compared to US\$ 393,149 for the fourth quarter of 2008. For the whole year 2009, sales was US\$ 899,171, compared to US\$ 2,282,383 for the year 2008. North America is the primary market for Nio products, representing 81 % of revenues for the fourth quarter of 2009, and 88 % for the whole year 2009.

The gross margin for the fourth quarter of 2009 was 14 %, compared to 30 % for the fourth quarter of 2008. For the whole year 2009, the gross margin was 32 %, and for Nio, exclusive of Tempest's DVR products, the gross margin was 56 % for the year 2009, compared to 39 % for the year 2008 and 70 % for the year 2008 exclusive of Tempest's DVR products and some inventory write downs. Tempest's gross margins were weak due to generally lower margins on the DVR products and the allocation of the production facility's overhead expenses on a limited number of products manufactured. With the discontinuation of the DVR product range from January 2010, the Company expects a gross margin in excess of 50 % going forward.

Operating expenses was US\$ 362,322 in the fourth quarter of 2009, compared to US\$ 928,684 in the fourth quarter of 2008. For the year 2009, operating expenses was US\$ 2,370,433, 64 % down from US\$ 6,590,084 for the year 2008. The reduction in operating expenses is a result of the initiatives taken in the second half of 2008 to significantly reduce the Company's monthly burn rate. With the close down of Tempest and San Diego operations effective in January 2010, operating expenses are expected to continue on a low level.

Including an interest expense of US\$ 50,580, loss from operations was US\$ 388,949 for the fourth quarter of 2009 compared to a US\$2,871,439 loss for the same period in 2008. For the year 2009, loss from operations was US\$ 2,488,524, compared to US\$ 8,122,076 for the year 2008. Including other income and expenses, the fourth quarter of 2009 ended with a US\$ 2,054,273 net loss compared to US\$ 2,462,866 for the fourth quarter of 2008.

Nio entered into a NOK 20,250,365 short term loan agreement in December 2008, with maturity on June 30, 2009. In June 2009, the maturity of short term loan was extended until August 31, 2009 on the same terms, and thereafter the Company had a dialogue with the lenders to secure a refinancing of the Company. In November 2009, the Company finalized a refinancing, whereof the lenders under the short term loan agreement accepted to waive accrued interest and to convert the outstanding principal into share capital of the Company based on a conversion price of NOK 1.92 per share. As a result, liabilities have been reduced by the US\$ 3,629,523 short term loan balance.

In addition to the conversion of the short term loan, the Company entered into agreements with other creditors in November 2009, resulting in a conversion of additional US\$ 1.3 million of its accounts payable and accrued expenses at a conversion price of NOK 1.92 per share, combined with a voluntary composition of other payables and short term debt. As a result, liabilities have been reduced by US\$ 1,327,000, and a US\$ 296,500 settlement gain has been booked under other income in the fourth quarter of 2009.

As a consequence of the board's decision to discontinue the Tempest DVR product line and to close down the Company's San Diego operations, goodwill, patents and trademarks related to the acquisition of Tempest as well as San Diego inventory has been written off in the fourth quarter of 2009, resulting in a US\$ 1,858,412 loss under other expense.

As a result of the acquisition of Tempest Microsystems Inc in 2007, the Company assumed the outstanding loan balance on the two SBA loans entered into in 2004 and 2006 by Tempest. On December 31, 2009, the Company entered into an agreement with California Bank & Trust regarding full prepayment of the Company's two long term SBA loans. As part of the agreement, the Company paid USD 553,500 to the bank on December 31, 2009.

Nio's financial statements include the wholly owned subsidiary Tempest Microsystems Inc. The financial statements are prepared in conformity with US Generally Accepted Accounting Principles (US-GAAP) and on the going concern assumption. As a US registered company reporting in US-GAAP, Nio Security is not required to report in conformity with IFRS. The Company has, however, assessed the possible differences for its financial reporting between US-GAAP and IFRS and to the Company's knowledge, there would not be any significant changes to the financial statements under IFRS.

SHAREHOLDER MATTERS

After the 10 for 1 reversed stock split effective on June 8, 2009, the number of issued and outstanding shares in Nio in the beginning of the fourth quarter of 2009 was 2,308,237, each with a par value of US\$ 0.10. The number of authorized shares is 70,000,000.

In November 2009, the Company completed a refinancing, including a private placement of NOK 11,000,000 at par value (USD 0,10) and a conversion of the NOK 20,250,365 short term loan and other debt at a share price of NOK 1.92. As a result, the Company issued a total of 33,669,804 new shares of its common stock during the fourth quarter of 2009. The number of outstanding shares was 35,978,041 per December 31, 2009. For the listing of the new shares, a prospectus was accepted by the Oslo Stock Exchange on December 17, 2009.

No options were granted or exercised during the fourth quarter of 2009, and 43,754 options were outstanding under the Company's stock option plans at December 31, 2009. In connection with the short term loan, 172,000 warrants were issued to the lenders in December 2008, and these warrants were cancelled in November 2009 in connection with the conversion. As part of the refinancing, the investors in the private placement were granted warrants to purchase 15,000,000 shares at NOK 2.50 per share and 15,000,000 shares at NOK 5.00 per share which expire no later than December 31, 2012. In addition, 1,800,000 warrants to purchase shares at NOK 2.50 per share with expiry not later than December 31, 2012 was granted upon future allocation by the board of directors. As of December 31, 2009, a total of 43,754 options and 31,800,000 warrants were outstanding, whereof 1,800,000 were allocated in February 2010.

In a board meeting on November 18, 2009, Mr. Lars Moldestad and Mr. Jon Skabo was appointed as new board members of Nio, and the current Board of Directors consists of Espen Brodin (Chairman & CEO), Bjarne Støtvig, Lars Moldestad and Jon Skabo.

February 26, 2010
The Board of Directors of
Nio Security, Inc.

Espen Brodin
Chairman & CEO

Bjarne Støtvig
Executive Director

Jon Skabo
Director

Lars Moldestad
Director

Consolidated statements of operations (USD)

	October – December			
	2009	2008	2009	2008
Sales	169 632	393 149	899 171	2 282 383
Cost of sales	145 679	274 926	607 406	1 375 366
Gross Profit	23 953	118 223	291 765	907 017
Operating expenses	362 322	928 684	2 370 433	6 590 088
Goodwill impairment	0	2 000 000	0	2 000 000
Interest expense	50 580	60 978	409 856	439 005
Total operating expenses	412 902	2 989 662	2 780 289	9 029 093
Results from operations	-388 949	-2 871 439	-2 488 524	-8 122 076
Other income/expense	-1 665 324	408 573	-2 409 059	647 081
Net result	-2 054 273	-2 462 866	-4 897 583	-7 474 995
Per share data:				
Basic and diluted loss per share	-0.15	-1.07	-0.93	-3.30
Weighted average shares outstanding	14 019 473	2 307 980	5 251 933	2 265 357

Consolidated statements of cash flow (USD)

	October – December			
	2009	2008	2009	2008
Net results	-2 054 273	-1 355 101	-4 897 583	-7 474 995
Adjustments to reconcile net loss to cash	1 269 008	-87 305	2 893 877	4 300 189
Net cash used in operating activities	-785 265	-1 442 406	-2 003 706	-3 174 806
Cash flow used in investing activities	-12 484	-118 988	0	-12 819
Cash flow from financing activities	1 386 396	1 152 247	1 919 709	3 731 948
Net increase (decrease) in cash	588 647	-409 147	-83 997	544 323
Cash and cash equivalents, beginning	32 495	569 963	705 139	160 816
Cash and cash equivalents, end	621 142	160 816	621 142	705 139

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Consolidated balance sheets (USD)

	31.12.2009	31.12.2008
Cash and cash equivalents	621 142	705 139
Inventory	251 589	791 504
Other current assets	81 421	224 910
Total current assets	954 152	1 721 553
Goodwill	0	669 788
Patents & trademarks	0	1 401 429
Other assets	235 405	643 224
TOTAL ASSETS	1 189 557	2 435 994
Accounts payable	339 371	856 063
Accrued expenses/other current liabilities	182 733	907 599
Short term borrowings	167 261	2 903 032
Short term portion of long term debt	0	245 959
Liability for GmbH insolvency	0	138 581
Total current liabilities	689 364	5 051 234
Other liabilities	0	0
Long term loans, net of short term portion	0	1 139 891
Total long term liabilities	0	1 139 891
TOTAL LIABILITIES	689 364	6 191 125
Common stock	3 597 804	2 307 980
Additional paid-in equity	46 824 378	40 961 295
Accumulated deficit and comprehensive loss	-49 921 989	-45 024 406
Total shareholders equity	500 193	-1 755 131
TOTAL LIABILITIES AND EQUITY	1 189 557	4 435 994

Group equity (USD)

	31.12.2009	31.12.2008
Equity at beginning of period	-1 755 131	3 574 048
Sale of stock/share issues	7 152 907	2 145 816
Net results	-4 897 583	-7 474 995
Equity at end of period	500 193	-1 755 131