

Nio Security, Inc.

Q1 2010 Interim Report



Oslo, May 26, 2010

HIGHLIGHTS

- Order intake picking up again; more than 1,000 units for delivery in 2010
- Building revenues following successful refinancing and restructuring
- Well positioned in a fast growing market
- Multi track global distribution strategy being implemented

ABOUT NIO SECURITY

Nio Security, Inc. helps protect life and property through the development and sales of sophisticated video surveillance solutions. The Company's technology is unrivalled and the main products, the CloseView dynamic surveillance system and the SteadyEye sophisticated video stabilising system, are considered the most advanced video surveillance systems available.

Nio's software and hardware have been developed over the last eight years 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. The business is highly scalable, the needs for surveillance are global and the technology can easily be adapted to large or small installations. Nio Security Inc is headquartered in the United States and listed on the Oslo Stock Exchange (ticker: NIO).

GENERAL SUMMARY

After the refinancing and debt repayment in December 2009, Nio is well positioned for revenue growth and profitability in the fast growing world-wide security industry. The current situation enables Nio to rebuild revenue. Recent sales initiatives resulted in the Company's largest contract ever, when in February 2010, Nio and Genie CCTV Ltd. announced a renewal and strengthening of its partnership, including an order for 600 units of Nio's renowned CloseView® product. Nio sees the order as recognition of the Company's technological leadership within Video Analytics.

Subsequent to the first quarter of 2010, Nio has received additional orders, among these are minimum 250 units of CloseView® from Spain's leading security provider, Euroma Telecom SA and minimum 150 units of its SteadyEye® video stabilising system from Genie CCTV Ltd, where a major number of the SteadyEye® units will be used to improve port security in Italy. Including these orders, Nio's order backlog continues to improve and now stands at around USD 1.2 million. This is more than the Company's total sales in 2009. The order pipeline is attractive and Nio is currently negotiating further deliveries with a number of potential customers.

Genie CCTV Ltd. is a privately funded company specializing in the supply of high-quality security equipment, and has been a certified distributor for Nio since December 2006. Founded in 2001, the company has experienced nearly 10 years of continuous growth and is established as one of the favored brands in the CCTV marketplace. Genie's products are available through the established security distribution network in the United Kingdom, the Republic of Ireland, Holland, Denmark and Middle East.

Euroma will become Nio's main distributor in Spain, which is a growing market for sophisticated security products. A growing crime rate, terrorism threats and illegal immigration represent challenges that need to be met. Euroma will, together with Nio and Genie CCTV Ltd, market and support Nio products towards security dealers and integrators throughout Spain.

In the first quarter, Nio started implementing its new multi channel distribution strategy, addressing large security providers and potential OEM partners in addition to its traditional distribution network. NIO's objective is to fast track the Company's access to the global market for sophisticated video surveillance, a market which maintains a more than 25 per cent annual growth rate.

Nio sees numerous sales opportunities through distributors and integrators as well as in direct dialogue with security companies and new OEM and VAR agreements. In March 2010, Nio entered into an alliance with the Chinese company Shenzhen Domenor Technology Co. Ltd (Domenor) for OEM manufacturing of several Nio products. Domenor is one of the world leaders in providing ODM and OEM services, specifically targeting the security market. Through this new partnership, several of Nio's high-quality security cameras and peripherals will be manufactured by Domenor, meeting Nio's quality control standards. Domenor will also sell Nio technology through an OEM agreement.

In the first quarter of 2010, sales were US\$ 93,874, down from US\$ 263,973 for the first quarter of 2009. Due to the Company's financial difficulties during 2009, sales in the first quarter of 2010 were affected by delays in production. After completing the refinancing in 2009, Nio initiated production of its products, but as a consequence of long lead time for electronic components, delivery of larger quantities of products will start in June 2010. During the first quarter of 2010, the Company also discontinued the Tempest DVR product line and closed down the San Diego operations. These initiatives will have a positive impact on operating expenses.

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 orders received so far in 2010, are milestones of proven technology and changed sales strategy, as well as 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 real time correction of instability in video images. Videos from security cameras or cameras mounted on e.g. vehicles or planes often shake, due to wind, vibrations or movement. SteadyEye® digitally stabilizes such video signals real-time, resulting in improved video quality. The unique Nio technology has demonstrated its unprecedented performance in for example military drone planes, harbor surveillance and police cruisers.

Nio will focus on building revenue in the fast growing security industry in America, Europe and Middle East/Asia, and the Company expects to balance its revenues in the main regions US, Europe and Asia within 1-2 years. 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.

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 thousand cameras.

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 first quarter of 2010 were US\$ 93,874 compared to US\$ 263,973 for the first quarter of 2009. North America is the primary market for Nio products, representing 65% of revenues for the first quarter of 2010.

The gross margin for the first quarter of 2010 was 49%, compared to 38% for the first quarter of 2009. Although the Tempest DVR product line was discontinued and the San Diego operations closed down in January 2010, the gross margin has been affected by Tempest expenses, and Nio's gross margin for the first quarter of 2010, excluding these items was 59%.

Operating expenses were US\$ 733,506 in the first quarter of 2010, compared to US\$ 698,007 in the first quarter of 2009. Operating expenses includes around US\$ 60,000 in one-time expenses related to the close down of the Company's San Diego facility.

Including an interest expense of US\$ 20,754 loss from operations was US\$ 708,007 for the first quarter of 2010 compared to a US\$ 710,704 loss for the same period in 2009. After unrealized currency exchange losses, the first quarter of 2010 ended with a US\$ 733,860 net loss compared to a US\$ 832,548 net loss for the first quarter of 2009.

The Company repaid all of its long term debt in 2009, and did not have any long term loans as of March 31, 2010.

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

There were no changes to the number of outstanding shares during the first quarter of 2010, and per March 31, 2010, the number of outstanding shares was 35,978,041, each with a par value of US\$ 0.10. The number of authorized shares is 70,000,000.

No options were granted or exercised under the Company's stock option plans during the first quarter of 2010. 20,990 options expired, and a total of 19,634 options were outstanding at March 31, 2010. In addition, 31,800,000 warrants were outstanding at March 31, 2010.

May 26, 2010

The Board of Directors of Nio Security, Inc.

Espen Brodin
Chairman & CEO

Bjarne Støtvig
Executive Director

Jon Skabo
Director

Lars Moldestad
Director

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Consolidated statements of operations (USD)

	January - March		
	2010	2009	2009
Sales	93 874	263 973	899 171
Cost of sales	47 621	163 259	607 406
Gross Profit	46 253	100 714	291 765
Operating expenses	733 506	698 007	2 370 433
Interest expense	20 754	113 411	443 565
Total operating expenses	754 260	811 418	2 813 693
Results from operations	-708 007	-710 704	-2 521 928
Other income/expense	-25 853	-121 844	-2 375 655
Net result	-733 860	-832 548	-4 897 583
Per share data:			
Basic and diluted loss per share	-0.02	-0.36	-0.93
Weighted average shares outstanding	35 978 041	2 307 980	5 251 933

Consolidated statements of cash flow (USD)

	January - March		
	2010	2009	2009
Net results	-733 860	-832 548	-4 897 583
Adjustments to reconcile net loss to cash	-202 440	223 088	2 893 877
Net cash used in operating activities	-936 300	-609 460	-2 003 706
Cash flow used in investing activities	-35 125	12 484	0
Cash flow from financing activities	620 746	79 868	1 919 709
Net increase (decrease) in cash	-350 679	-517 108	-83 997
Cash and cash equivalents, beginning	621 142	705 139	705 139
Cash and cash equivalents, end	270 463	188 031	621 142

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Consolidated balance sheets (USD)

	31.03.2010	31.03.2009	31.12.2009
Cash and cash equivalents	270 463	188 031	621 142
Inventory	510 221	779 102	251 589
Other current assets	73 748	227 649	81 421
Total current assets	854 432	1 194 782	954 152
Goodwill	0	669 788	0
Patents & trademarks	0	1 378 740	0
Other assets	269 004	519 182	235 405
TOTAL ASSETS	1 123 436	3 762 492	1 189 557
Accounts payable	376 818	997 349	339 371
Accrued expenses/other current liabilities	192 278	971 028	182 733
Short term borrowings	788 007	3 031 399	167 261
Short term portion of long term debt	0	245 958	0
Liability for GmbH insolvency	0	0	0
Total current liabilities	1 357 103	5 245 734	689 364
Long term loans, net of short term portion	0	1 091 393	0
Total long term liabilities	0	1 091 393	0
TOTAL LIABILITIES	1 357 103	6 337 127	689 364
Common stock	3 597 804	230 824	3 597 804
Additional paid-in equity	46 824 378	43 051 495	46 824 378
Accumulated deficit and comprehensive loss	-50 655 849	-45 856 954	-49 921 989
Total shareholders equity	-233 667	-2 574 635	500 193
TOTAL LIABILITIES AND EQUITY	1 123 436	3 762 492	1 189 557

Group equity (USD)

	31.03.2010	31.03.2009	31.12.2009
Equity at beginning of period	500 193	-1 755 131	-1 755 131
Sale of stock/share issues	0	13 044	7 152 907
Net results	-733 860	-832 548	-4 897 583
Equity at end of period	-233 667	-2 574 635	500 193

Nio Security, Inc.
10700 Stringfellow Rd.
Bokeelia, Florida 33922, USA
www.niosec.com