

Nio Security, Inc.

Q2 2010 Interim Report



Oslo, 27 August, 2010

HIGHLIGHTS

- Nio's development is on track
- Growing order flow, several key contracts secured
- Production ramped up for deliveries in second half 2010
- Successful NOK 4.9 million private placement

OPERATIONAL PERFORMANCE

Nio Security remains on track towards building revenue and provide positive earnings.

The refinancing in December 2009, the private placement in June 2010 and the new multi channel distribution strategy enable the Company to secure a reliable production and expand its market footprint while limiting distribution costs and inventory.

In the second quarter Nio continued its efforts to involve with large security providers and potential OEM partners in addition to 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 enjoys a more than 25 per cent annual growth rate.

The second quarter has been a breakthrough. During the first half year of 2010, Nio's solutions have been tested and approved, and initial orders have been placed by leading security companies in Europe. Companies like Genie (UK Market) and Spain's leading security provider, Euroma Telecom SA, in addition to deliveries to Italian yards prepare the basis for a strong growth in the years to come.

The positive order flow has continued also after the second quarter. In August Nio entered into a dealership agreement with Infratek for the Nordic region. In addition, Nio entered into a distribution agreement with a new distributor focusing mainly on the UK market, and received an additional large order from a US customer.

The dealership agreements are important milestones in developing Nio as a main provider of sophisticated video surveillance equipment in Europe. Nio's current order backlog is significantly higher than the Company's total sales in 2009 and will continue to increase. The order pipeline remains attractive and Nio is currently negotiating further deliveries and dealership agreements with a number of potential customers and distributors.

As part of its new marketing strategy, Nio will implement industry specific solutions for perimeter protection for specific segments, such as the oil and offshore industry, hotels, industrial plants, gas stations and private property. Nio believes that its core products are well suited for such applications and the Company has great expectations to this market approach.

During the first quarter of 2010, the Company discontinued the Tempest DVR product line and closed down the San Diego operations, and is now in the process of dissolving its subsidiary Tempest Microsystems. In this process, Nio is reducing its cost base and will be a significantly more focused company going forward.

The Board of Directors believes that the initiatives taken and the positive sales development will improve the Company's operating performance and strengthen the Company's attractiveness to investors. The Company will continuously investigate new opportunities in the fast growing video surveillance industry in addition to organic growth.

PRODUCTION

Nio's core products are being produced in Germany. During the first six months of 2010, Nio has ramped up production to meet a growing order flow. The Company has secured sufficient capacity to meet deliveries in the second half of 2010 and onwards.

Nio is relying on subcontractors to produce the components assembled in its video surveillance solutions. Some of these products have normal 3 months lead time, and therefore there will be a time lag between confirmed orders and booked revenue.

Nevertheless, Nio is monitoring its production process closely, ensuring that the risks related to a number of subcontractors with a significant product lead time are manageable. All current and expected contracts are well within Nio's delivery capabilities.

FINANCIALS

Sales for the second quarter of 2010 were USD 172,653 compared to USD 277,685 for the second quarter of 2009. The gross margin for the second quarter of 2010 was 57 per cent, compared to 36 per cent for the second quarter of 2009. North America remains the primary market for Nio products, representing 69 per cent of revenues in 2010.

Orders in 2010 will be booked in 3rd and 4th quarter 2010 when products are delivered, however some components and production costs in respect of these orders have been paid, increasing inventory in the 1st and 2nd quarter of 2010.

Operating expenses for the second quarter of 2010 were USD 618,671 compared to USD 649,033 in the second quarter of 2009 and USD 733,506 in the first quarter of 2010. Including an interest expense of USD 22,829, loss from operations was USD 542,769 or the second quarter of 2010 compared to a US\$ 660,984 loss for the same period in 2009.

During the first half of 2010, Nio has entered into short term loan agreements aggregating a balance of NOK 6.25 million per 30 June, 2010, mainly with major shareholders. Finally, the equity compared to 1st half 2009 has been strengthened with USD 3,493,208.

The Company's cash position is considered satisfactory going forward, with sufficient liquidity to cover Nio's planned production and operations in the second half of 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.

RISK

Nio Security faces no significant risks beyond what is considered normal in the industry. The risk related to the production structure and how it is managed is described above. The Company has some exposure to currency fluctuations, with sales in USD and EUR, production costs are in EUR, while operating expenses are in USD and NOK, with USD as the Company's accounting currency.

SHAREHOLDER MATTERS

On 15 June, 2010, Nio completed a successful private placement of 3,500,000 new shares, increasing the number of shares from 35,978,041 to 39,478,041. The placement was subscribed by new and existing shareholders.

At the Company's Annual Meeting of Shareholders on 28 May, 2010, Mr. Espen Brodin (chairman), Mr. Bjarne Støtvig, Mr. Jon Skabo and Mr. Lars Moldestad were re-elected as board members, and it was resolved to increase the Company's number of authorized shares from 70,000,000 to 100,000,000.

No options were granted or exercised under the Company's stock option plans during the second quarter of 2010, and a total of 19,634 options were outstanding at June 30, 2010. In addition, 31,800,000 warrants were outstanding at June 30, 2010.

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 years based on proprietary technology, and during 2010 the products have been accepted and proven by many of the worlds leading players within the security market. Nio has during the last year successfully implemented its strategy to change focus from engineering to sales, resulting in an increasing order flow in 2010.

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.

STATEMENT FROM THE BOARD OF DIRECTORS

The Board of Directors has today approved the half year consolidated financial statements for the first six months of 2010 and the consolidated balance per June 30, 2010 for Nio Security, Inc.

We declare to the best of our belief that the financial statements for the first half of 2009 gives a true and fair view of the Company's assets, liabilities, financial position and results of operations, and that the report is produced according to prevailing accounting standards. We also declare, to the best of our belief, that the half-year report provides a fair view of the information required under §5-6 (4) of the Norwegian Securities Act. We also confirm that the most relevant risks the Company is exposed to as well as any description of transactions with related parties are correct.

27 August, 2010

The Board of Directors of Nio Security, Inc.

Espen Brodin
Chairman & CEO

Bjarne Støtvig
Executive Director

Jon Skabo
Director

Lars Moldestad
Director

Nio Security, Inc.

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Consolidated statements of operations (USD)

	April - June		January - June		
	2010	2009	2010	2009	2009
Sales	172 653	277 685	266 527	541 658	899 171
Cost of sales	73 922	177 539	121 543	340 798	607 406
Gross Profit	98 731	100 146	144 984	200 860	291 765
Operating expenses	618 671	649 033	1 352 177	1 347 040	2 370 128
Interest expense	22 829	112 097	43 583	225 508	443 565
Total operating expenses	641 500	761 130	1 395 760	1 572 548	2 813 693
Results from operations	-542 769	-660 984	-1 250 776	-1 371 688	-2 521 928
Other income/expense	122 396	-193 100	96 543	-314 944	-2 375 655
Net result	-420 373	-854 084	-1 154 233	-1 686 632	-4 897 583
Per share data:					
Basic and diluted loss per share	-0.01	-0.37	-0.03	-0.73	-0.93
Weighted average shares outstanding	36 208 810	2 308 045	36 094 063	2 307 932	5 251 933

Consolidated statements of cash flow (USD)

	April - June		January - June		
	2010	2009	2010	2009	2009
Net results	-420 373	-854 084	-1 154 233	-1 686 632	-4 897 583
Adjustments to reconcile net loss to cash	-258 386	602 419	-460 826	825 507	2 893 877
Net cash used in operating activities	-678 759	-251 665	-1 615 059	-861 125	-2 003 706
Cash flow used in investing activities	-30 186	0	-65 311	12 484	0
Cash flow from financing activities	978 180	139 179	1 598 926	219 047	1 919 709
Net increase (decrease) in cash	269 235	-112 486	-81 444	-629 594	-83 997
Cash and cash equivalents, beginning	270 463	188 031	621 142	705 139	705 139
Cash and cash equivalents, end	539 698	75 545	539 698	75 545	621 142

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Consolidated balance sheets (USD)

	30.06.2010	30.06.2009	31.12.2009
Cash and cash equivalents	539 698	75 545	621 142
Inventory	622 287	698 133	251 589
Other current assets	117 574	113 815	81 421
Total current assets	1 279 559	887 493	954 152
Goodwill	0	669 788	0
Patents & trademarks	0	1 356 051	0
Other assets	332 569	439 827	235 405
TOTAL ASSETS	1 612 128	3 353 159	1 189 557
Accounts payable	350 890	1 151 005	339 371
Accrued expenses/other current liabilities	149 091	1 109 900	182 733
Short term borrowings	1 034 614	3 203 860	167 261
Short term portion of long term debt	0	245 956	0
Total current liabilities	1 534 595	5 710 721	689 364
Long term loans, net of short term portion	0	1 058 113	0
Total long term liabilities	0	1 058 113	0
TOTAL LIABILITIES	1 534 595	6 768 834	689 364
Common stock	3 947 804	230 824	3 597 804
Additional paid-in equity	47 205 951	43 064 539	46 824 378
Accumulated deficit and comprehensive loss	-51 076 222	-46 711 038	-49 921 989
Total shareholders equity	77 533	-3 415 675	500 193
TOTAL LIABILITIES AND EQUITY	1 612 128	3 353 159	1 189 557

Group equity (USD)

	30.06.2010	30.06.2009	31.12.2009
Equity at beginning of period	500 193	-1 755 131	-1 755 131
Sale of stock/share issues	731 573	26 088	7 152 907
Net results	-1 154 233	-1 688 632	-4 897 583
Equity at end of period	77 533	-3 415 675	500 193