Quarterly Report Q2 2014

Content

Birdstep enters African IT security market by signing a reseller agreement with CONDYN, an information security focused distributor in South Africa

8

consecutive quarters of year-over-year growth

Strategically important contract

with a multinational mobile & Wi-Fi solutions provider to deliver a Wi-Fi connection management service for a large device manufac-turer

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As results of an increased focus in the Far East region Birdstep signed contracts with two new customers in Southeast Asia

Several expansion orders in different continents proves

customer satisfaction

Birdstep Interim Report

APRIL - JUNE 2014

- Revenue was NOK 19.9 (17.3) million, representing an increase of 15.0% over the same period last year.
- EBITDA ended at NOK -1.2 (-0.6) million, representing an increased loss of NOK 0.6 million over the same period last year.
- Continuing operating earnings per share amounted to NOK -0.03 (-0.04).
- Total net cash flow amounted to NOK 1.0 (-4.4) million.
- Cash balance was NOK 15.1 (7.0) million.

JANUARY – JUNE 2014

- Revenue was NOK 39.2 (35.6) million, representing an increase of 10.2% over the same period last year.
- EBITDA ended at NOK -1.6 (1.1) million, representing an increased loss of NOK 2.7 million over the same period last year.
- Continuing operating earnings per share amounted to NOK -0.05 (-0.03).
- Total net cash flow amounted to NOK -7.2 (-10.0) million.

The CEO update

While we are proud to have registered an eighth consecutive quarter of growth, I am dissatisfied too with our rate of growth slowing in the quarter. However, we feel confident that this is not a long term trend as it has been caused by some potentially large deals taking longer than expected to close and therefore shifting into Q3 or even Q4. We have concentrated all the resources necessary to bring these opportunities to closure as quickly as possible. Meanwhile our pipeline and rate of deal flow continue to increase, indicating that we are gaining further visibility and recognition across multiple targeted markets.

Our market remains strong with exciting new opportunities emerging both in geographies and sectors. For this reason, as we recognized at the beginning of this year, we need to expand our team in order to better address these emerging opportunities. I am happy to confirm that in Q2 we added new sales professionals, as well as a business development professional, to accelerate Birdstep's entry into new and important markets. However, taking into account the temporary slowdown in growth, we have deferred two further planned recruitments for Q3 into Q4 in order to ensure that we continue to manage costs carefully.

In terms of geography The Far East is becoming an increasingly important region for us. Mobile traffic is growing faster there than the rest of the world, driven by rapidly increasing penetration of bandwidth-hungry wireless devices, particularly smartphones and tablets. This is creating substantial business opportunities for Birdstep and as we reported in Q1 the company has several ongoing trials in Japan as well as in other Asian countries. Now I can confirm that we have two new customers in Southeast Asia, both announced in Q2. One is the central IT agency for the Malaysian Government, which is using our Safe Move security products, while the other is a multinational mobile & Wi-Fi solutions provider. These important wins are the results of our increased focus in this region, after hiring sales and support staff over the past year.

We are continuing to focus strongly on our core markets and are spending more time aiding our customers with their strategies to develop greater competitive advantage and services through transparent and seamless heterogeneous networks combining Wi-Fi and cellular. This quarter the company signed a global contract with a multinational mobile & Wi-Fi solutions provider to integrate and implement Birdstep's Smart Mobile Data family of products into the devices of a large international OEM. The company also received a global service order extending its relationship with a multinational information technology corporation that was announced in September 2013.

An important part of our strategy has been to identify new markets that we can take our existing product portfolio into, therefore maximizing our investments into new products and services. Thus far we have identified and are active in the fixed and mobile network sectors, cable TV networks, Wi-Fi Aggregator networks and device OEM's. Over the last year we have been investigating the many sectors of the IoT (Internet of Things) and have identified the new Connected Car sector as an area of opportunity where our products would bring value to a very young, yet potentially global market. In order to offer real-time diagnostics of the vehicle, safety and emergency services to the passengers, navigation and infotainment, the Connected Car will connect to cellular and Wi-Fi HetNet's (Heterogeneous Network), will require a high degree of security and will leverage Big Data analytics to ensure the consumer receives the best available quality of service and Experience Continuity.

One key aspect of the Connected Car will be ownership and control of the data, which is the raw material for delivering applications and services that leverage the platform to deliver value to consumers. This will in turn increase the emphasis on security to protect data generated by the Connected Car and for this reason we believe our product portfolio will be a very compelling proposition for MNOs and car manufacturers as they pursue this market over the coming years.

I would also like to take the opportunity to welcome Ian Jenks as new board member. It is very valuable to have someone with Ian's skills and track record onboard. His extensive and broad experience of growing software businesses will undoubtedly add value to the company

In closing, despite the temporary slowdown in Q2 I am excited about the developments and progress we have made so far in 2014. The Birdstep team continues to work hard opening new opportunities and I look forward to report back to you again next quarter.

Lonnie Schilling
Chief Executive Officer

Business Focus

Birdstep's Smart Mobile Data solutions attract more global customers

This quarter the company signed a global contract with an Asian mobile & Wi-Fi solutions provider to integrate and implement Birdstep's Smart Mobile Data family of products into a large international OEM´s devices. The joint solution provides an enhanced and customized Wi-Fi connection management service for the OEM. The service will be deployed for the purpose of providing their customers with a managed Wi-Fi service. Birdstep's Smart Mobile Data solution provides the OEM a competitive advantage by including out–of-box value added services on their mobile devices.

Birdstep also signed a global service contract extending its relationship with a multinational information technology corporation that was announced in September 2013.

Under this expansion contract, Birdstep will provide products, support and maintenance for the Smart Mobile Data product family in all geographical markets under the existing contract.

The company also continued its focus on broadening the global customer base for its Smart Mobile Data solutions by sponsoring and speaking at the Wi-Fi Offload Summits in Johannesburg, South Africa and in Palo Alto, California.

Secure Mobility continues to make significant strides

Birdstep signed a strategically important SafeMove license contract with the Malaysian Administrative Modernization and Management Planning Unit (MAMPU). This contract, through our reseller Haynik, is a significant win for the company as MAMPU's charge is to modernize and reform the public sector in Malaysia.

Birdstep also signed a new contract with Scottish Water to provide SafeMove software to simplify mobile connectivity for its field engineers. SafeMove improves productivity for Scottish Water's engineers by enabling more reliable communications in challenging environmental conditions.

Additionally, the company extended its relationship with customers and further strengthened its position in various markets;

- The company signed a contract in with a US based OEM (Original Equipment Manufacturer) for their Mobile IP (Mobile Router Toolkit) that handles seamless network handover for trains.
- Birdstep also signed an extension contract with a Finish high security OEM for the SafeMove Crypto IP.
- By providing secure and reliable connectivity for 2,000 community nurses at Staffordshire and Stoke on Trent Partnership NHS (National Health Service) Trust the company strengthen its position in UK.
- Birdstep entered the African IT security market by signing a reseller agreement with CONDYN, an information security focused distributor in South Africa. Through this agreement Birdstep will be able to address the rapidly developing mobile markets of South Africa and neighbouring Sub-Saharan countries.

Highlights / Milestones

> With 19.9 MNOK revenue for the quarter Birdstep delivered its eight consecutive quarter of year-over-year growth.

> As a result of an increased focus in the Far East region Birdstep signed contracts with two new customers in Southeast Asia. One is the central IT agency for the Malaysian Government, which is using our SafeMove security products, the other is a multinational mobile & Wi-Fi solutions provider.

> Birdstep strengthened its position within the NHS (National Health Service) by providing secure and reliable connectivity for 2,000 community nurses at Staffordshire and Stoke on Trent Partnership NHS Trust.

> Birdstep signed a new contract with Scottish Water to provide SafeMove software to simplify mobile connectivity for its field engineers.

> Experienced high-tech industry executive Ian Jenks joined the company's Board of Directors. Ian adds 30 years of board-level experience to support international growth. Read more here.

> The company received recognition and attention by attending and hosting events around the world during the quarter: Wi-Fi Offload Summit in South Africa, Content and Apps for Automotive and Enterprise Mobility Exchange in Europe, Cyber Security & Risk Technology Conference in Asia and Wi-Fi Offload Summit in the US

Market Outlook

Birdstep's fundamental thesis remains solid as mobile data consumption continues to grow rapidly by all measures and crucially MNOs (Mobile Network Operators) are turning increasingly to Wi-Fi to cope with and exploit this proliferation. The MNO sector therefore remains our core market as we provide operators with the smart mobility technology to harness Wi-Fi within a seamless heterogeneous experience and avoid having to deploy millions of dollars on additional radio spectrum.

Now highly promising and substantial new markets are emerging around both Wi-Fi and 4G/LTE, with varying dynamics but a common goal to deliver a high quality and ubiquitous connected experience.

At Birdstep we have identified five key target markets beyond our traditional MNO sector as follows:

Cable TV operators want to expand their footprint and deliver TV Everywhere services that enable their customers to access TV services outside the home wherever they are, but have abandoned the idea of using mobile networks. Instead they are turning to Wi-Fi to reach their customers outside the home, adopting a variety of strategies that include opening up their customers' Home Wi-Fi for sharing or so called Home Spots, partnering with public Wi-Fi providers and deploying Wi-Fi routers in their own street cabinets.

Large screen OEMs (Original Equipment Manufacturer) are recognizing the potential of adding

birdstep TECHNOLOGY

value to notebooks and tablets and are incorporating Wi-Fi network connectivity, sometimes in conjunction with 3G or 4G/LTE, to enable ubiquitous and seamless Internet access.

Enterprises of all sizes are adopting mobile connectivity packages including Wi-Fi and 3G/4G to enhance employee productivity on the move.

The Connected Car market holds particular promise for MNOs and device makers, as well as vehicle manufacturers. This is a new target for Birdstep as we can assist these parties in delivering compelling services that require combined external and in-car connectivity. Huge growth in the Connected Car segment is expected over the next five to ten years as vehicle connectivity reaches down from the luxury sector to embrace even low priced models. By 2020 90% of cars will be connected compared with 10% today, according to Machina Research, a consultancy in emerging M2M and Internet of Things markets. This almost always will involve a HetNet (Heterogeneous Network) connection delivering a range of infotainment, navigation, control, and monitoring for both safety and fault detection.

The IoT (Internet of Things) is an umbrella term for a range of emerging services and apps based around IP connected devices both in and outside the home that will drive continued growth of public and private Wi-Fi. The Connected Car is a branch of IoT but is one that we are treating as a distinct target sector.

There is a common thread uniting all our target sectors, which is that as more and more people continue to consume more and more data as part of their mobile lifestyles, there is simply not enough radio spectrum for the MNOs to cope with the demand. In the near to mid-term, Wi-Fi is the only viable alternative for MNOs to augment existing cellular networks. Operators will increase their use of HetNets to meet demand, while using software solutions to manage these and optimize the customer experience by ensuring Experience Continuity.

Another shared theme among our target sectors is that security will be of greater importance across the mobile ecosystem than ever before. The mobile cellular industry has traditionally relied on the SIM card as the root of security for cellular services, but with growth of HetNets Wi-Fi comes into the equation. Then the Connected Car ratchets up the threat level further in several ways. The most obvious being the potential for malicious attacks targeting a car's braking, speed control or steering systems. These threats can be mitigated but need to be recognized and addressed.

While the Connected Car is still quite embryonic, it shows opportunity of significant growth over the next few years. Therefore, Birdstep is beginning today by laying the groundwork through its combination of Intelligent Network Selection, Smart Data Analytics and also Secure Mobility.

Result of operations

Second quarter

Second quarter revenue was NOK 19.9 (17.3) million, which represents an increase in revenue of 15.0% over the same quarter last year. The increase in revenue compared to the same quarter last year is due to growing usage of our product Easy Smart, specifically in North America.

Salaries and wages were NOK 13.6 (11.0) million. The increase in salaries and wages is due to an increase in headcount as well as a decrease of capitalized development cost. The number of employees ending as at 30.06.2014 were 65 (60).

Other operating expenses for the quarter were NOK 6.2 (6.0) million.

As a result of the above factors, Income (Loss) from continuing operations NOK -2.6 (-3.4) million was recorded in the quarter.

EBITDA ended at NOK -1.2 (-0.6) million which represents an increased loss of NOK 0.6 million compared with the same period last year.

Six months

The first six months revenue was NOK 39.2 (35.6) million, which represents an increase in revenue of 10.2% over the same quarter last year. The increase in revenue compared to the same period last year is due to growing usage of our product Easy Smart, specifically in North America.

Salaries and wages were NOK 26.4 (21.5) million.

Other operating expenses for the quarter were NOK 11.6 (11.5) million.

As a result of the above factors, Income (Loss) from continuing operations NOK -5.3 (-3.0) million was recorded in the quarter.

EBITDA ended at NOK -1.6 (1.1) million which represents an increased loss of NOK 2.7 million compared with the same period last year.

Cash flow

Second quarter

Cash flow for the quarter was positive and our net cash balance increased with NOK 1.0 million to NOK 15.1 million. The second quarter last year the cash balance decreased with NOK 4.4 million.

Net cash flow from operating activities was NOK 0.6 million. The second quarter last year net cash flow from operating activities was NOK -3.0 million.

Six months

Cash flow for the first six months was negative and our net cash balance decreased with NOK 7.2 million to NOK 15.1 million. The same period last year the cash balance decreased with NOK 10.0 million.

Net cash flow from operating activities for the first six month was NOK -5.1 million. The first six month last year net cash flow from operating activities was NOK -6.9 million.

Financial statements

Condensed Consolidated Statements of Operations

(In thousands of NOK, except share and per share data)

	For the three months ended		For the six months ended		For the full year
	30.06.2014	30.06.2013	30.06.2014	30.06.2013	2013
OPERATING REVENUES	19 947	17 340	39 183	35 567	71 185
Cost of Sales	(1 281)	(900)	(2 789)	(1 493)	(4 047)
OPERATING EXPENSES					
Salaries and wages	(13 627)	(11 043)	(26 400)	(21 460)	(44 829)
Other operating expenses	(6 206)	(6 005)	(11 616)	(11 546)	(22 148)
TOTAL OPERATING EXPENSES	(19 833)	(17 048)	(38 017)	(33 006)	(66 977)
Operating income loss before depreciation and amortization (EBITDA)	(1 167)	(608)	(1 623)	1 068	160
Depreciation and amortization	(2 132)	(2 009)	(4 293)	(4 021)	(8 576)
Operating income loss after depreciation and amortization (EBIT)	(3 298)	(2 617)	(5 917)	(2 953)	(8 416)
OTHER INCOME (EXPENSE)					
Interest income, net	80	30	140	61	213
Other financial items, net	660	(849)	455	(147)	67
OTHER INCOME, NET	741	(819)	595	(86)	281
INCOME(LOSS) FROM CONTINUING OPERATIONS BEFORE TAXES	(2 558)	(3 436)	(5 322)	(3 039)	(8 135)
Income taxes	-	-	-	-	(701)
INCOME(LOSS) FROM CONTINUING OPERATIONS	(2 558)	(3 436)	(5 322)	(3 039)	(8 836)
Earnings and diluted earnings per share					
Continuing operations	(0,03)	(0,04)	(0,05)	(0,03)	(0,09)
Total	(0,03)	(0,04)	(0,05)	(0,03)	(0,09)

Condensed Consolidation Statements of Comprehensive Income

(In thousands of NOK, except share and per share date)

	For the three months ended		For the six months ended		For the full year
	30.06.2014	30.06.2013	30.06.2014	30.06.2013	2013
Net income (loss) for the period	(2 558)	(3 436)	(5 322)	(3 039)	(8 836)
OTHER COMPREHENSIVE INCOME					
Currency translation effect	(273)	563	(962)	1 222	1 344
TOTAL COMPREHENSIVE INCOME	(2 830)	(2 874)	(6 284)	(1 817)	(7 492)
Attributable to:					
Equity holder of the parent company	(2 830)	(2 874)	(6 284)	(1 817)	(7 492)
TOTAL COMPREHENSIVE INCOME	(2 830)	(2 874)	(6 284)	(1 817)	(7 492)

Condensed Consolidation Balance Sheets

(In thousands of NOK, except share and per share date)

	As of		As of
	30.06.2014	30.06.2013	2013
NON-CURRENT ASSETS:			
Intangible assets	49 137	50 994	50 111
Tangible assets	395	35	256
Other non-current assets	-	-	-
TOTAL NON-CURRENT ASSETS	49 532	51 029	50 367
CURRENT ASSETS:			
Accounts receivable	20 053	16 445	14 488
Other current assets	2 338	2 566	2 278
Cash & cash equivalents	15 148	6 956	22 331
TOTAL CURRENT ASSETS	37 539	25 968	39 096
TOTAL ASSETS	87 071	76 996	89 463
SHAREHOLDERS' EQUITY:			
Share capital	10 162	9 198	10 012
Share premium fund	38 272	17 159	36 037
Retained earnings, including translation reserves	18 482	30 439	24 767
TOTAL SHAREHOLDERS' EQUITY	66 916	56 797	70 816
NON-CURRENT LIABILITIES			
Deferred tax liabilities	175	-	175
Other liabilities	3 342	3 430	3 285
TOTAL NON-CURRENT LIABILITIES	3 517	3 430	3 460
CURRENT LIABILITIES			
Accounts payable	4 522	3 289	3 126
Deferred revenue	1 418	1 356	1 405
Accrued expenses and other liabilities	10 698	12 125	10 656
TOTAL CURRENT LIABILITIES	16 637	16 769	15 187
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	87 071	76 996	89 463

* Accrued pension cost was in 2013 displayed as a separate line in non-current liabilities. In 2014 this item has been reallocated and is now included in Accrued expenses and other liabilities.

Condensed Consolidated Statements of Cash Flows
(In thousands of NOK)

	For the three months ended		For the six months ended		For the full year
	31.06.2014	31.06.2013	31.06.2014	31.06.2013	2013
OPERATING ACTIVITIES					
Income (loss) from continuing operations before taxes	(2 558)	(3 436)	(5 322)	(3 039)	(8 135)
Depreciation and amortization	2 132	2 009	4 293	4 021	8 576
Write down and impairment of assets	-	-	-	-	-
Change in receivables and payables	1 030	(1 608)	(4 118)	(7 906)	(7 213)
NET CASH FROM OPERATING ACTIVITIES	604	(3 034)	(5 146)	(6 924)	(6 772)
INVESTING ACTIVITIES					
Capitalized development	(1 364)	(1 999)	(3 202)	(3 349)	(6 521)
Change in loan balance with affiliated company	-	-	-	-	-
NET CASH FROM INVESTING ACTIVITIES	(1 364)	(1 999)	(3 202)	(3 349)	(6 521)
FINANCIAL ACITIVITIES					
New Issue	2 385	-	2 385	-	19 692
NET CASH FROM FINANCIAL ACTIVITIES	2 385	-	2 385	-	19 692
Effect of foreign exchange rate changes	(606)	588	(1 220)	308	(990)
Net increase(decrease) in cash & cash equivalents	1 019	(4 445)	(7 183)	(9 965)	5 410
Cash & cash equivalents, beginning of period	14 129	11 401	22 331	16 921	16 921
Cash & cash equivalents, end of period	15 148	6 956	15 148	6 956	22 331

Condensed Consolidated Statements of Changes in Shareholders' Equity
(In thousands of NOK, except share and per share date)

	Share capital	Share premium	Other paid equity	Other equity	Translation reserves	Total equity
Equity as at 31 December 2013	10 012	36 037	61 232	(49 140)	12 675	70 816
Net income (loss)	-	-	-	(5 322)	-	(5 322)
Other comprehensive income for the period						
Displacements between restricted and unrestricted reservs						-
Foreign currency exchange	-	-	-		(963)	(963)
Total comprehensive income	-	-	-	(5 322)	(963)	(6 285)
Transactions with shareholders:						
Net issue of ordinary shares *	150	2 235	-	-	-	2 385
Total transactions with shareholders	150	2 235	-	-	-	2 385
Equity as at 30 June 2014	10 162	38 272	61 232	(54 462)	11 712	66 916

* A completion of a private placement of 1.500.000 shares was made May 20, 2014. The share issue was made pursuant to an agreement entered into in 2011 with the former CEO, which agreement since has been assigned by such former CEO to a third party. The subscription price per share was set in the 2011-agreement.

	Share capital	Share premium	Other paid equity	Other equity	Translation reserves	Total equity
Equity as at 31 December 2012	9 199	17 165	61 232	(40 304)	11 330	58 621
Net income (loss)	-	-	-	(3 040)	-	(3 040)
Other comprehensive income for the period						
Foreign currency exchange	-	-	-		1 222	1 222
Total comprehensive income	-	-	-	(3 040)	1 222	(1 818)
Transactions with shareholders:						
Net issue of ordinary shares	-	-	-	-	-	-
Recognition of share-based payments	-	(6)	-	-	-	(6)
Total transactions with shareholders	-	(6)	-	-	-	(6)
Equity as at 30 June 2013	9 199	17 159	61 232	(43 344)	12 552	56 797

Notes

Accounting Policies

The accompanying consolidated financial statements are prepared under International Financial Reporting Standards (IFRS). Our fiscal year runs from January 1 to December 31.

The accompanying condensed consolidated statements of operations and cash flows cover the six first months of 2014, and the related information on Birdstep included in these notes to the financial statements is unaudited. In the opinion of management, such interim statements include all adjustments, which consist only of the normally recurring adjustments necessary for a fair presentation of the consolidated results of operations, financial position and cash flows for each period presented. The interim consolidated results are not necessarily indicative of results for the full year.

The same accounting policies and methods of computation are followed in the interim financial statements as those of the most recent annual financial statements.

These interim financial statements are presented in Norwegian crowns (NOK). The functional currency of Birdstep's foreign operations is the currency of the country in which the operations are conducted.
The accounts of Birdstep are translated into the reporting currency, NOK, using exchange rates in effect at period-end for assets and liabilities, and at average exchange rates during the period for the results of operations.

EBITDA is equivalent to operating income (loss) excluding both discontinued operations and non-cash charges, such as depreciation and amortization.

Income per share is calculated by dividing net income available to common shareholders for the period by the weighted average number of common shares outstanding during the period.

As of June 30, 2014, the Company has 101.621.627 shares issued and 101.600.572 shares outstanding, the difference of 21.055 representing treasury shares.

Segment Reporting

The Company is divided into two separate operating segments (Smart Mobile Data and Secure Mobility).

	For the three months ended		For the six months ended		full Year
	30.06.2014	30.06.2013	30.06.2014	30.06.2013	2013
Smart Mobile Data					
Operating Revenues	13 704	13 062	27 449	26 989	51 812
EBIT	(2 880)	(1 426)	(4 537)	(782)	(5 884)
Secure Mobility					
Operating Revenues	6 243	4 278	11 734	8 578	19 372
EBIT	(419)	(1 191)	(1 380)	(2 171)	(2 532)

Risks

This report contains statements regarding the future in connection with the company's growth expectations, general and specific market outlook and objectives. All statements about the future are subject to inherent risks and uncertainties, and many factors can lead to actual profits and developments deviating substantially from that which has been expressed or implied in such statements.

Birdstep Technology is exposed to various forms of market, operational and financial risk.

Financial instruments that potentially subject Birdstep to concentrations of credit risk consist primarily of cash and accounts receivable. Birdstep performs ongoing evaluations of customers' financial condition to determine if any reserve for potential uncollectible amounts is needed. As of June 30 2014, no potential uncollectible amounts had been made.

The company's various risks have been described in the Annual Report in further detail and no other risks has been identified.

Responsibility Statement

We confirm to the best of our knowledge that the condensed set of financial statements for the period January 1 to June 30, 2014 has been prepared in accordance with IAS 34 - Interim Financial Reporting, and gives a true and fair view of the Birdstep Group's assets, liabilities, financial position and result for the period. We also confirm to the best of our knowledge that the financial review includes a fair review of important events that have occurred during the first six months of the financial year and their impact on the financial statements, any major related parties transactions, and a description of the principal risks and uncertainties for the remaining six months of the financial year

Tom Nyman
Board member (Chairman)

Kirsten English
Board member

Anna Malm Bernsten
Board member

Arne Aarnes
Board member

Ian Jenks
Board member

Lonnie Schilling
CEO

Financial Calendar 2014

Preliminary financial calendar, with reservations for changes:

Earnings Reports

4. Nov 2014

Q3 2014 - Interim financial report

Birdstep Technology ASA invites shareholders, investors, media and other stakeholders to a phone conference following the announcement of the quarterly earnings reports.

Time and call-in details or place of the events above will be communicated at a later stage via OSE, Oslo Stock Exchange and www.birdstep.com