

Spectra Systems Corporation
Interim results for the six months ended 30 June 2015

Spectra Systems Corporation, a leading provider of advanced technology solutions for banknote and product authentication, is pleased to announce its interim results for the six months ended 30 June 2015.

Operational highlights:

- Completed the G8 central bank major sensor program
- Phosphour sales tracking at historical levels
- Executed a nine year contract for secure government document authentication materials and readers with an Asian partner
- Various contract renewals and upselling to customers in the gaming software security industry.
- Commenced an Aeris™ banknote cleaning trial with an Asian central bank, as well as high level discussions relating to joint cooperation with major companies in the banknote industry
- Post period end, modified covert material supply contract with European partner to incorporate minimum quantities and higher margins through to 2015

Financial highlights (\$000's):

- Revenue tracking to plan 6,720 (2014: 9,807)
- Operating expenses reduced 14% to 3,344 (2014: 3,808)
- Profit/(loss) before taxation of (758) (2014: 769)
- Basic earnings per share of (\$0.02) (2014: \$0.01)
- Strong, debt-free balance sheet, with cash of \$9,773 (2014: \$9,773) at 30 June

Commenting on the results, Nabil Lawandy, Chief Executive Officer, said:

“The Company’s revenues are in line with our plan. With significant revenues contracted for H2, we expect to meet market expectations.

Following the completion of our sensor deliveries to our G8 customer, we have reduced our staffing. Importantly this contract further extends the likely period of material sales to this important customer.

The securing of a new nine year agreement for our brand and tax document authentication, commencing in June of 2016, will add a new layer to existing long lived revenues with central banks and lottery customers in other areas of our business.

Finally, since the period end on 13 August 2015 we executed a contract modification with a European corporate partner and licensee which stipulates minimum order quantities of covert banknote materials and a 7% price increase for calendar years 2016-2019 together with an order for \$1.2MM for delivery in 2015.

“The Board therefore believes that the Company will continue to perform well for the remainder of 2015 and continues to has ever strengthening prospects for the future.”

Enquiries:

Spectra Systems Corporation

Dr. Nabil Lawandy, Chief Executive Officer

Tel: +1 (0) 401 274 4700

WH Ireland Limited

Tel: +44 (0) 20 7220 1650

Chris Fielding (Head of Corporate Finance)

Chief Executive Officer's statement

Review of Operations

All three of the company's major operating activities have performed to expectations and are on a positive slope to grow our revenues and profits going forward.

- Authentication Systems: The authentication systems revenues are driven by covert material sales to 19 central banks, including two G8 central banks, one of which is a direct customer, with the remaining ones through our licensing agreement with a major banknote supplier and printer. This sector of authentication has performed to expectations and orders slightly exceeded plan. The Company is currently in negotiations with our G8 central bank customer regarding a five-year materials and quality control equipment contract scheduled to commence in 2016.

Since the period end on 13 August 2015 we executed a contract modification with the banknote supplier and printer which stipulates minimum order quantities of covert banknote materials and a 7% price increase for calendar years 2016-2019 together with an order for \$1.2MM for delivery in 2015.

The high margin banknote phosphour business, which contributes significantly to this area, was on track at mid-year and is expected to remain so throughout the rest of 2015.

Another major contributor to this activity's revenues is the brand and tax stamp authentication business which includes technology from an acquisition as well as our new internally developed TruBrand smartphone authentication product (<http://www.spsy.com/trubrand.html>). This segment has performed to expectations and is poised for growth having executed a nine year contract with minimum revenues worth approximately \$5.5MM over the period of the contract which begins in June of 2016.

- Secure Software Transactions ("SST"): SST Internal Control Systems ("ICS") revenues and earnings in the first half were on track in the first half. We successfully supported and launched updated ICS services with our new customers; the Michigan and Arizona State Lotteries, in Q4 of 2014 and in early 2015. We continue to provide updated products and services to these new customers as we foster our relationships with them. We have begun contract discussions with a new State Lottery in support of our i-Lottery ICS offering. Growth is expected from this segment of the market for internet and interactive mobile lottery play and payment methods.

Revenue from our traditional lottery ICS segment remains strong as we executed three lottery contract extensions in H1-2015 for a combined term of 11 years in licence and support revenue. In addition to these extensions, we continue to deliver project revenue as all of the supported lottery jurisdictions introduce additional games, game changes and promotions.

- Banknote Cleaning Technology, Aeris™: During the first half of 2015 we implemented modifications to the production machine focused on simplifying the waste removal process with disposable canisters and software upgrades in response to G8 central bank feedback. The first production machine is now scheduled for delivery to Spectra in September of 2015.

During the first half of the year we also began a long awaited cleaning test with a major Asian central bank targeted for completion in Q1-2016. In addition, we have begun high level discussions with several companies in the banknote equipment business regarding cooperative agreements.

Financial overview (\$000's)

Revenue in the first half of the current year amounted to \$6,720 (2014: \$9,807). H1-2014 revenue was comprised of an unusually high volume of material orders. All of 2015 material orders are anticipated to be delivered in H2. Basic profit/(loss) for the first half amounted to (\$758) (2014: \$769).

Operating expenses for the first half of 2015, \$3,344, are lower compared with the first half of 2014, \$3,808, due to the benefit of the cost cutting initiative that began in 2014 and continued through H1-2015, royalties associated with a large materials order and legal fees related to the lawsuit settlement incurred in 2014. .

Cash at the period end amounted to \$9,773 (2014: \$9,773). The Company transferred \$1.0M from restricted cash due to the achievement of milestones from a major contract.

Strategy

The company's strategy for increasing revenue and earnings continues to be based on:

- Integrating our new generation, fully developed, machine-readable covert authentication materials into public security features for banknote authentication, as well as brand authentication and tax stamps as we did with the recently announced nine year contract in Asia that will go into effect in June of 2016.
- Finding new customers and markets for our high margin phosphour products.
- Marketing our existing portable reader as well as our new smartphone based TruBrand™ technology for brand protection with a focus on Asia. We continue to focus on holograms as they are used both in brand authentication as well as tax stamps
- Expanding our Secure Software Transactions activity contributions by;
 - a. Providing higher value product upgrades to existing customers
 - b. Expanding our presence in the growing internet-based gaming sector, and
 - c. Bundling our software transaction capabilities with our physical security solutions to provide track and trace capabilities to our customers.
- Continuing cooperative work with central banks to evaluate our Aeris™ banknote cleaning technology for their specific designs, thereby creating a market for this banknote cleaning technology. In addition, we have begun work on developing additional banknote related uses for Aeris™, which will require on-going consumables.
- Transitioning Aeris™, to a first central bank customer with reference value to drive sales into other central banks as we did with our covert materials and our first G8 customer. In addition, we are, in parallel, engaging in high level discussions with large companies in the banknote business which have the infrastructure to provide service as possible partners or licensees of the technology.

- Reducing operating costs through staff reductions on hardware manufacturing, while maintaining the ability to respond to new sensor opportunities for our other covert technologies. In addition we are consolidating space resources as the G8 sensor program has come to an end.
- Increasing margins on our product sales to 18 central banks through our corporate licensee. We have accomplished this through a direct 7% increase in contracted margins and expect additional savings of 15% from producing in-house materials for both our direct G8 customer and our licensee.

Prospects

The Company's prospects have grown significantly through:

- The combination of products from the Inksure acquisition and the completion of the development of the TruBrand™ mobile phone technology where we expect additional customers in 2016, primarily in Asia
- The successful testing of our polymer based covert technology by a G8 central bank which is planning large scale testing in Q1 of 2016
- Our participation in the reactivated tender by the Reserve Bank of India (RBI) where three of our covert technologies are included under consideration, one as a direct supplier and two through partnerships with existing suppliers to the RBI
- Recent submission of a new phosphour based product with a corporate partner for a new series of banknotes
- Continued efforts on the acquisition of businesses that produce high margins in our cost structure and which can be further leveraged through our core competencies in optical materials

The Board therefore believes that the Company remains on track to deliver a satisfactory year-end profit performance and continues to have excellent prospects.

Nabil M. Lawandy
Chief Executive Officer
August 28, 2015

**Statements of income and other comprehensive income
for the half year ended 30 June 2015**

| | Note | Half Year to 30/6/15 Unaudited USD'000 | Half Year to 30/6/14 Unaudited USD'000 | Year to 31/12/14 Audited USD'000 |
|--|------|---|---|---|
| Revenue | | 6,720 | 9,807 | 16,906 |
| Cost of sales | | (4,174) | (5,266) | (8,209) |
| Gross profit | | 2,546 | 4,541 | 8,697 |
| Operating expenses | | (3,344) | (3,808) | (7,469) |
| Operating profit / (loss) | | (798) | 733 | 1,228 |
| Investment income | | 40 | 36 | 70 |
| Foreign currency gain | | - | - | 3 |
| Profit / (loss) before taxation | | (758) | 769 | 1,301 |
| Taxation | | - | (308) | (257) |
| Profit / (loss) for the period | | (758) | 461 | 1,044 |
| Loss per share: | | | | |
| Basic earnings / (loss) per share | 2 | (0.02) | 0.01 | 0.02 |
| Other comprehensive income (loss): | | | | |
| Unrealized gain / (loss) on currency exchange | | - | 20 | (53) |
| Reclassification for realized amounts included in basic profit (loss) | | - | - | (2) |
| Total other comprehensive income (loss) | | - | 20 | (55) |
| Comprehensive income (loss) | | (694) | 481 | 989 |

All of the Group's operations are continuing.

Balance sheets
as at 30 June 2015

| | As at 30/6/15 Unaudited USD'000 | As at 30/6/14 Unaudited USD'000 | As at 31/12/14 Audited USD'000 |
|--|--|--|---|
| Current assets | | | |
| Inventories | 2,857 | 3,338 | 4,195 |
| Trade and other receivables, net | 2,040 | 2,397 | 1,753 |
| Cash and cash equivalents | 9,773 | 9,637 | 9,773 |
| Deferred tax asset | 215 | 36 | 215 |
| Prepaid expenses | 151 | 221 | 112 |
| ----- | ----- | ----- | ----- |
| Total current assets | 15,036 | 15,629 | 16,048 |
| ----- | ----- | ----- | ----- |
| Non-current assets | | | |
| Intangible assets, net | 4,218 | 4,149 | 4,092 |
| Property, plant and equipment | 2,637 | 3,027 | 2,824 |
| Restricted cash | 1,500 | 2,500 | 2,500 |
| Other assets | 287 | 23 | 184 |
| Deferred tax asset | 774 | 902 | 774 |
| ----- | ----- | ----- | ----- |
| Total non-current assets | 9,416 | 10,601 | 10,374 |
| ----- | ----- | ----- | ----- |
| Total assets | 24,452 | 26,230 | 26,422 |
| ----- | ----- | ----- | ----- |
| Current liabilities | | | |
| Trade and other payables | 888 | 1,337 | 739 |
| Accrued expenses and other | 983 | 777 | 1,222 |
| Deferred revenue | 1,003 | 2,295 | 2,166 |
| ----- | ----- | ----- | ----- |
| Total current liabilities | 2,874 | 4,409 | 4,127 |
| ----- | ----- | ----- | ----- |
| Non-current liabilities | | | |
| Deferred revenue | 275 | 348 | 293 |
| Contingent liability | 3 | - | - |
| ----- | ----- | ----- | ----- |
| Total non-current liabilities | 275 | 348 | 293 |
| ----- | ----- | ----- | ----- |
| Total liabilities | 3,149 | 4,757 | 4,420 |
| ----- | ----- | ----- | ----- |
| Shareholders' equity | | | |
| Common stock | 453 | 453 | 453 |
| Additional paid in capital | 54,914 | 54,893 | 54,914 |
| Accumulated other comprehensive (loss) | (1) | 15 | (60) |
| Accumulated deficit | (34,063) | (33,888) | (33,305) |
| ----- | ----- | ----- | ----- |
| Shareholders' equity | 21,303 | 21,473 | 22,002 |
| ----- | ----- | ----- | ----- |
| Total liabilities & shareholders' equity | 24,452 | 26,230 | 26,422 |
| ----- | ----- | ----- | ----- |

**Statements of cash flows
for the half year ended 30 June 2015**

| | Half Year to 30/6/15 Unaudited USD'000 | Half Year to 30/6/14 Unaudited USD'000 | Year to 31/12/14 Audited USD'000 |
|--|---|---|---|
| Profit / (loss) before taxation | (758) | 461 | 1,043 |
| Depreciation and amortisation | 393 | 350 | 802 |
| Allowance for doubtful accounts | - | - | 20 |
| Stock compensation expense | - | 40 | 58 |
| Income tax expense | - | 308 | 257 |
| Trade and other receivables | (289) | (110) | 493 |
| Unbilled revenue on contracts in progress | - | - | - |
| Deferred contract costs | - | 10 | 10 |
| Inventories | 1,338 | (370) | (1,226) |
| Other assets | (103) | - | 49 |
| Prepaid expenses | (42) | (60) | 46 |
| Trade and other payables | 149 | (300) | (895) |
| Accrued expenses and other | (239) | (137) | 265 |
| Deferred revenue | (1,173) | (500) | (668) |
| Contingent liability | - | (2,000) | (2,000) |
| ----- | ----- | ----- | ----- |
| Net used in operating activities | (724) | (2,308) | (1,746) |
| ----- | ----- | ----- | ----- |
| Investing activities | | | |
| Increase in restricted cash / investments | 1,000 | - | - |
| Purchases of property, plant and equipment | (32) | (220) | (355) |
| Other long-term assets | - | (60) | - |
| Asset acquisitions | - | (1,080) | (1,042) |
| Payments of patent costs | (232) | (140) | (309) |
| Deposits for property, plant, and equipment | - | - | (162) |
| Net cash provided by / (used in) investing activities | 736 | (1,500) | (1,868) |
| ----- | ----- | ----- | ----- |
| Effect of exchange rate changes on cash and cash equivalents | (12) | 10 | (48) |
| Net(decrease)/increase in cash and cash equivalents | - | (3,798) | (3,614) |
| Cash and cash equivalents at start of period | 9,773 | 13,435 | 13,435 |
| Cash and cash equivalents at end of period | 9,773 | 9,637 | 9,773 |
| ----- | ----- | ----- | ----- |

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on 28 August 2015.

The interim results for the half year ended 30 June 2015 have been prepared in accordance with the AIM Rules for Companies. The Group has not elected to apply IAS 34 Interim financial reporting. This financial information has been prepared using the recognition and measurement principles of US Generally Accepted Accounting Principles.

The principal accounting policies used in preparing the interim results are those the Company expects to apply in its financial statements for the year ending 31 December 2015 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2014.

The results for the half year are unaudited. The financial information for the year ended 31 December 2014 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2014 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2014 was unqualified and did not draw attention to any matters by way of emphasis.

2. Earnings per share

The calculation of earnings per share figures for the half year ended 30 June 2015 is based on the profit / (loss) attributable to ordinary shareholders of USD (758,000) (2014 half year: USD 461,000; 2014 full year: USD 1,044,000) divided by the basic and weighted average number of shares in issue, shown in the table below.

| | Half year to 30/6/15 | | Half year to 30/6/14 | | Year to 31/12/14 | |
|--------------------------------------|-------------------------|---------------------|-------------------------|---------------------|---------------------|---------------------|
| | Number of shares | Weighted average | Number of shares | Weighted average | Number of shares | Weighted average |
| Basic- shares in issue | 45,251,370 | 45,251,370 | 45,251,370 | 45,251,370 | 45,251,370 | 45,251,370 |
| Weighted average no. of shares | | 45,251,370 | | 45,251,370 | | 45,251,370 |

The calculation of diluted earnings per share assumes conversion of all potentially dilutive ordinary shares, all of which arise from share options. A calculation is done to determine the number of shares that could have been acquired at fair value, based upon the monetary value of the subscription rights attached to outstanding share options. Share options are anti-dilutive and are therefore only included at 30 June 2015.

3. Acquisition of certain assets from Inksure Technologies, Inc.

On February 28, 2014, the Company acquired, certain assets from Inksure Technologies, Inc., a leader in brand protection and tax stamp authentication headquartered in New York City, NY. The acquisition was strategic for the Company allowing us to extend our reach into tax stamps and the authentication of commercial product brands. The Company will support the customers with resources existing in its banknote authentication division. The total purchase price was \$1,356,000 in cash with deferred consideration of \$35,000, dependent upon achieving a commercial milestone. The purchase price included Inksure's long-standing customer relationships and authentication technology.

4. Copies of this statement are available to the public from the Registered Office at: 321 South Main Street, Suite 102, Providence, RI 02903 USA.