Spectra Systems Corporation
Interim results for the six months ended 30 June 2014

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 2014.

Financial highlights ($000's):

-Revenue 255% ahead of last year at $9,807 (2013: $2,761)

-Transition into profit with basic earnings before taxation of USD $769 (2013: ($1,292))

-Basic earnings per share of $0.01 (2013: ($0.03))

-Strong, debt-free balance sheet, with cash of $9,637 (2013: $14,231) at 30 June

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

"The Company's revenues have increased by over 255% and losses last year have turned into positive earnings. This strong performance is fuelled by the combination of high demand for our consumables and the ongoing delivery of sensors to a G8 central bank, which underpins the use of our consumables for the next decade. Additionally, strong performances from the now fully integrated acquisitions in both physical and software based technologies continue and are expected to further support our expectation for a satisfactory year-end profit performance.

"In 2013 we introduced a new technology for cleaning soiled banknotes which has the potential to expand our business within the banknote industry through products which reduce cost and environmental disposal issues facing central banks. We have made steady progress working collaboratively with central banks to validate the technology and determine its suitability for various banknote designs and processing scenarios. Based on the continuing interest in the technology, we have selected a partner to develop a commercial product. In parallel, we have continued to file intellectual property to protect the technology and expect to have the first feedback on the earliest patents filed by close of 2014.

"Notwithstanding the strong performance in H1-2014, we have begun a cost cutting initiative which will be completed by year-end. This initiative will allow us to lower operating costs following the conclusion of the sensor manufacturing referred to above, while at the same time maintain our ability to respond to new opportunities.

"The Board believes that the various opportunities available to the Group will offset the sensor manufacturing revenues which are scheduled to conclude in H1-2015.

"The Board therefore believes that the Company, by achieving key business milestones, will continue to perform well for the remainder of 2014 and continues to have excellent prospects."

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

The Company has achieved key commercial milestones in the first half:

- Increased revenues well above 2013 and achieved first half profitability.
- The successful delivery of another large consumables order to a central bank customer and additional orders for this year.
- The delivery of sensors to a G8 central bank has added strong support to the continued longevity of our consumable sales to customers once they adopt our technologies. Delivery of sensors will continue through H1- 2015 contributing to our 2015 financial performance.
- Phosphour sales have returned to their high historical levels and have already exceeded the 2014 full year plan.
- Completed the acquisition of Inksure and fully integrated the operation without additional staffing. Sales of consumables and hand-held readers, as well as licensing revenue from customers we acquired, have been on plan.
- Contract renewals and upselling to our customers in the gaming software security industry.
- The qualification of our manufacturing facility by a major worldwide supplier of banknote printing services and paper, as well as the initiation of the material qualification program by a G8 customer.
- The continuing trials with central banks for our Aeris™ banknote cleaning technology and our selection of a machine development partner, Cool Clean Technologies, to produce a commercial system.

Financial overview ($000's)

Revenue in the first half of the current year amounted to $9,807 (2013: $2,761), which is 255% higher than the prior year. Basic profit for the first half amounted to $769 (2013: ($1,292)).

Operating expenses for the first half of 2014, $3,808, are higher compared with the first half of 2013, $3,008, due to royalties associated with increased material sales, legal fees related to the lawsuit settlement (note 3 to the financial statements), and additional costs related to developing and marketing our Aeris™ technology.

Cash and investments at the period end amounted to $9,637 (2013: $14,231). The Company purchased the assets of Inksure Technologies, Inc. for approximately $1.5M (note 4 to the financial statements), settled the lawsuit for $2M, and transferred $1.5M to restricted cash to comply with the provisions of a major contract.

Strategy

The company's strategy for increasing revenue and earnings is based on:

- Integrating our new generation, fully developed, machine-readable covert authentication materials into public security features for banknote authentication.
- Marketing our new smartphone based TruBrand™ technology for brand protection with a focus on Asia.
- Expanding our Secure Software Transactions group contributions by;
  a. Providing higher value product upgrades to existing customers
  b. Expanding our presence in the growing internet-based gaming sector
  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 the technology for their specific designs and create a market for our Aeris™ banknote cleaning technology. In addition, we have begun work on developing additional banknote related uses for Aeris™ which will require on-going consumables.
- Reducing operating costs through staff reductions on hardware manufacturing while maintaining the ability to respond to new sensor opportunities for our other covert technologies.
- Transitioning our manufacturing of materials to in-house production and increasing margins on our product sales to 18 central banks.

The strategy described has components which have been ongoing and reflect the longer sales cycle of central banks as well as two new products which are disruptive technologies where we believe we have a controlling position. These are the smartphone authentication (TruBrand™) and banknote cleaning technologies. With respect to the former, although several companies, including Inksure, had attempted to provide such authentication in the past, it has not been robust enough to gain traction.

TruBrand™ technology is highly robust and operates in all environments with ease and reliability for the user, which in this case, is the retail consumer. In addition, its value is enhanced to brand owners by the ability of the system to provide them with customer data, such as location and time, for improved marketing of their products.

Aeris™, our banknote cleaning technology, has the potential to save central banks significant amounts of money spent on replacing banknotes every year. Our decade long relationships with central banks, which appreciate the quality and performance of our covert authentication products, have allowed us to rapidly initiate tests with them to assist them in evaluating the business case for Aeris™ within the context of their specific processing methods and equipment. We believe that this technology will be supported by intellectual property protection resulting in a competitor-free business opportunity which is potentially, substantially larger than the authentication business.

Prospects

The Company's prospects have grown through the combination of products from the Inksure acquisition and integration, the completion of the TruBrand™ mobile phone technology, the marketing of our fully developed second generation authentication technology, and the validation of Aeris™ by central banks.

Near term prospects for increased sales of our suite of brand authentication products are in Asia where we have had ongoing discussions with current customers to expand their use of our materials to more of their products. In addition, we have invested over a year of effort into the introduction of TruBrand™ with a major producer of spirits in Asia where we continue to gain traction.

Our new generation covert authentication products that have been developed and tested on a large scale, are under consideration by a number of central banks. These include both substrate and ink borne versions which are compatible with both paper and polymer notes.

Our cooperative testing with central banks, of our Aeris™ technology, which removes soiling substances from banknotes without significantly damaging the costly security features or compromising print, has the potential of changing the economics of banknote production in many central banks. Based on the continued growth in banknote production to the level of nearly 150 billion banknotes per year at a cost approaching $10 billion annually, along with ongoing test programs which will provide us important feedback to allow us to improve the process and refine our understanding of the business potential for the product, we expect that we will be able to install a system within the next two years.

The Board believes that these opportunities will offset the sensor manufacturing revenues which are scheduled to be concluded in H1-2015.

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
September 30, 2014

Statements of income and other comprehensive income
for the half year ended 30 June 2014

	Note	Half Year to 30/6/14 Unaudited USD'000	Restated Half Year to 30/6/13 Unaudited USD'000	Year to 31/12/13 Audited USD'000
Revenue		9,807	2,761	11,572
Cost of sales		(5,266)	(1,125)	(6,007)
Gross profit		4,541	1,636	5,565
Operating expenses		(3,808)	(3,008)	(6,917)
Operating profit / (loss)		733	(1,372)	(1,352)
Investment income		36	80	139
Contingent liability		-	-	(1,789)
Profit / (loss) before taxation		769	(1,292)	(3,002)
Taxation		(308)	-	-
Profit / (loss) for the period		461	(1,292)	(3,002)
Loss per share:				
Basic earnings / (loss) per share	2	0.01	(0.03)	(0.07)
Diluted earnings / (loss) per share		0.01	-	-
Other comprehensive income (loss):				
Unrealized gain on currency exchange		20	11	11
Reclassification for realized amounts included in basic profit (loss)		-	(13)	(13)
Total other comprehensive income (loss)		20	(2)	(2)
Comprehensive income (loss)		481	(1,294)	(3,004)

All of the Group's operations are continuing.

Balance sheets
as at 30 June 2014

	Note	As at 30/6/14 Unaudited USD'000	Restated As at 30/6/13 Unaudited USD'000	As at 31/12/13 Audited USD'000
Current assets				
Inventories		3,338	2,216	2,969
Trade and other receivables		2,397	1,226	2,289
Cash and cash equivalents		9,637	10,931	13,435
Investments		-	3,300	-
Unbilled revenue		-	324	-
Deferred contract costs		-	327	10
Deferred tax asset		36	344	344
Prepaid expenses		221	69	157
Total current assets		15,629	18,737	19,204
Non-current assets				
Intangible assets		4,149	3,170	3,075
Property, plant and equipment		3,027	2,613	2,903
Restricted cash		2,500	1,050	2,500
Other assets		23	32	74
Deferred tax asset		902	902	902
Total non-current assets		10,601	7,767	9,454
Total assets		26,230	26,504	28,658
Current liabilities				
Trade and other payables		1,337	711	1,633
Accrued expenses and other		777	757	927
Deferred revenue		2,295	1,974	3,040
Total current liabilities		4,409	3,442	5,600
Non-current liabilities				
Deferred revenue		348	179	103
Contingent liability	3	-	271	2,000
Total non-current liabilities		348	450	2,103
Total liabilities		4,757	3,892	7,703
Shareholders' equity				
Common stock		453	453	453
Additional paid in capital		54,893	54,803	54,856
Accumulated other comprehensive (loss)		15	(5)	(5)
Accumulated deficit		(33,888)	(32,639)	(34,349)
Shareholders' equity		21,473	22,612	20,955
Total liabilities & shareholders' equity		26,230	26,504	28,658

Statements of cash flows
for the half year ended 30 June 2014

	Half Year to 30/6/14 Unaudited USD'000	Restated Half Year to 30/6/13 Unaudited USD'000	Year to 31/12/13 Audited USD'000
Profit / (loss) before taxation	461	(1,292)	(3,002)
Depreciation and amortisation	350	154	429
Stock compensation expense	40	64	116
Income tax expense	308		
Allowance for Solaris note	-	-	94
Trade and other receivables	(110)	1,723	529
Unbilled revenue on contracts in progress	-	30	355
Deferred contract costs	10	17	334
Inventories	(370)	(1,076)	(1,894)
Other assets	-	-	22
Prepaid expenses	(60)	112	(29)
Trade and other payables	(300)	(1,007)	250
Accrued expenses and other	(137)	(100)	(5)
Deferred revenue	(500)	(224)	783
Contingent liability	(2,000)	-	1,729
Net used in operating activities	(2,308)	(1,599)	(289)
Investing activities			
Increase in restricted cash / investments	-	-	(1,450)
Purchases of property, plant and equipment	(220)	(366)	(772)
Other long-term assets	(60)	63	-
Asset acquisitions	(1,080)	-	-
Payments of patent costs	(140)	(66)	(226)
Sales of investments	-	3,250	6,560
Net cash provided by / (used in) investing activities	(1,500)	2,881	4,112
Effect of exchange rate changes on cash and cash equivalents	10	31	(5)
Net(decrease)/increase in cash and cash equivalents	(3,798)	1,313	3,818
Cash and cash equivalents at start of period	13,435	9,617	9,617
Cash and cash equivalents at end of period	9,637	10,931	13,435

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on 29 September 2014.

The interim results for the half year ended 30 June 2014 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 2014 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2013.

The results for the half year are unaudited. The financial information for the year ended 31 December 2013 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2013 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2013 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 2014 is based on the profit / (loss) attributable to ordinary shareholders of USD 461,000 (2013 half year: USD(1,292,000); 2013 full year: USD(3,002,000) divided by the basic and weighted average number of shares in issue, shown in the table below.

	Half year to 30/6/14		Half year to 30/6/13		Year to 31/12/13	
	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
Share options	6,520,103	6,525,202	-	-	-	-
Weighted average no. of shares		51,776,572		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 2014.

3. Lawsuit settlement

In December 2011, the Company was notified by a corporate shareholder regarding a license agreement between the Company and the shareholder dated March 8, 1999. The shareholder had stated that the Company owes the shareholder approximately $2,100,000 in total for the years 2004 through 2010 based on their interpretation of the license agreement.

In H1-2014, the Company and the shareholder entered into an agreement to settle the dispute for all past amounts due and all future amounts that may be due, the Company agreed to pay $2,000,000 plus the relief of a receivable owed the Company from the shareholder in the amount of approximately $129,000. Accordingly, the Company recorded a contingent liability expense of $1,789,040 in 2013.

4. 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.

5. Prior year restatement

During the year-end financial close process for 2013, the Company discovered an error related to accounting for foreign currency exchange transactions during 2012 and 2011. The Company had accounted for realized gain and losses on such transactions as a charge to Other Comprehensive Income (Loss) which is a component of Total Stockholders Equity. These realized gains and losses should have been included as part of Net Income (Loss) on the Statement of Income. The result of this error had no effect on Total Stockholder's Equity. The Company is restating its financial statements as of and for the period ended 30 June 2013

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