Spectra Systems Corporation
Interim results for the six months ended 30 June 2011

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 2011.

Financial highlights:

- Revenue in line with expectations at USD2,675,000 (2010: USD3,349,000)

- Loss before taxation of USD636,000 (2010: USD80,000)

- Loss per share of USD0.02 (2010: USD0.01)

- Strong ungeared balance sheet, with net cash of USD1,248,000 (2010: USD1,734,000) at 30 June

- USD20,860,000 (net) raised on admission to AIM on 25 July 2011

Operational highlights:

- Received orders from one of the world's largest security printers for a significantly increased volume of consumable materials for delivery in 2011.

- Revenues from our phosphor business are ahead of plan and significantly outperforming 2010.

- New generation technology evaluation process continuing positively with Reserve Bank of India tender. Final selection of vendors is expected by Q1 2012.

Commenting on the interim results, Nabil Lawandy, Managing Director said:

"I am pleased to report that the Company's first half of the year results are in line with our expectations at the time of our IPO in July. As stated then, our results for the full year will be weighted towards the second half. Reflecting this, I am also pleased to report that Spectra has received consumables orders which were larger than expected, for delivery in the second half of the year, and that phosphor sales continue at the strong levels referred to at the time of our IPO.

I can also report that our ongoing efforts to ensure that our current and new generation products are fully compatible with polymer substrates are proving successful. This will enable our products to offer the same functionality to central banks using polymer substrates or considering switching to them.
The Company is steadily progressing the development of upgraded sensors for a G8 central bank and our new generation technology adoption is advancing with an existing central bank customer.

We continue to explore new high value uses of our core technologies outside of the banknote industry and our acquisition strategy continues to move forward with a focus on US and UK based companies which can fuel faster growth of the overall business."

Enquiries:

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Chief Executive Officer's statement

The Company has performed as anticipated in the first half of the year. The key drivers for success include covert consumables, phosphors, and development contracts relating to new sensors for downstream sales, which have all met plan. Covert consumables enjoyed a significant increase in orders and the phosphor business is on track to meet or exceed historic highs. The revenues from the development phase of the G8 central bank agreement are on schedule, with the first key milestones achieved, and the remaining ones for 2011 continuing to schedule.

The Company has maintained its entire key staff and is planning two additional hires to support the new manufacturing facility for current and new generation consumables, as well as continued advanced sensor development. Without the support and diligent efforts of all our employees, we would not have consummated the new sensor contracts nor been able to achieve our IPO financing goals.

Financial overview

Revenue in the first half of the current year amounted to USD2,675,000 (2010: USD3,349,000), as expected, however, orders for the second half of the year have been placed and are anticipated to significantly amplify our revenue. The loss before and after taxation for the first half amounted to USD636,000 (2010: USD80,000).

The cash position at the period end amounted to USD1,248,000 (2010:USD1,734,000), prior to the net cash proceeds from our successful IPO on 25 July of USD20,860,000. The company has no long-term debt and is poised to execute on its plan with its cash reserves.

Strategy

Focusing on the use of public security products as vehicles for the sale of our current and future products into new central banks continues to be the Company's strategy. This approach is being implemented through strategic partnerships with companies which are already selling products to the central banks and such companies represent the cornerstone of our acquisition strategy. This strategy is supported by a forward looking view to ensure that all our key technologies, current and new, will have full compatibility with all banknote substrates, particularly polymers. In this way, we will be able to both maintain our existing users as well as be competitive when central banks which are already using polymer notes are searching for additional security features.

As part of our organic growth, we are planning on developing products for the banknote processing industry which will help central banks be more efficient in their operations. We also continue to work with partners to help us transfer our core competence in material-sensor combinations to other industries where we can generate appropriate returns.

Finally, we continue to make progress with acquisition targets which support our stated strategy as well as some in related areas of security. We are primarily evaluating companies in the US and the UK which can be seamlessly integrated with our operations, and which are profitable. Management is currently in the process of negotiations with one company which squarely fits into our strategic plans.

Prospects

The prospects for the Company are very positive. We are on schedule with the delivery of engineering development and prototype milestones for the upgraded and new generation sensors and the forecasted delivery of several hundred new sensors for a G8 central bank. Our new generation consumable products, which are interrogated by these sensors, are being developed for this same central bank in-house while the contract negotiations are completed. Execution of this contract has been slightly delayed due to the G8 central bank's desire to structure an agreement which includes all subcontractors in the negotiations. This is expected to be resolved by the end of the year.

The specifications and ordering of capital equipment for the new facility for complete in-house manufacturing of consumables is underway and is on schedule to be operational by the fourth quarter of 2012. This facility is expected to produce cost savings on our materials manufacturing and expected to increase net income from the sale of our consumables.

We have demonstrated the compatibility of our current generation products with polymer substrates to one G8 central bank and larger scale samples are being funded through an agreement with one of the world's largest security printers.

Our submission for a covert security feature, in partnership with an existing supplier, to the Reserve Bank of India (RBI) is continuing to progress. We believe that the RBI will announce the final specification by no later than the first quarter of 2012.

In parallel with the steady progress in new banknote products, we expect to undertake a large scale test of security materials with one of the world's largest plastic film suppliers in the last quarter of this year.

Nabil M. Lawandy
Chief Executive Officer
September 29, 2011

Statements of Income
for the half year ended 30 June 2011

	Note	Half Year to 30/6/11 Unaudited USD'000	Half Year to 30/6/10 Unaudited USD'000	Year to 31/12/10 Audited USD'000
Revenue		2,675	3,349	7,278
Cost of sales		(1,044)	(1,475)	(2,929)
Gross profit		1,631	1,874	4,349
Administrative expenses		(2,274)	(1,957)	(3,990)
Operating profit / (loss)		(643)	(83)	359
Investment income		7	3	6
Profit / (loss) before taxation		(636)	(80)	365
Taxation		-	-	-
Profit / (loss) for the period		(636)	(80)	365
Earnings per share:				
Basic earnings per share	2	(0.02)	(0.01)	0.01
Diluted earnings per share	2	(0.02)	(0.01)	0.01

All of the Group's operations are continuing.

Balance Sheets
as at 30 June 2011

	As at 30/6/11 Unaudited USD'000	As at 30/6/10 Unaudited USD'000	As at 31/12/10 Audited USD'000
Current assets			
Inventories	813	1,224	839
Trade and other receivables	1,259	1,327	232
Cash and cash equivalents	1,248	1,734	3,370
Deferred tax asset	344	272	344
Prepaid expenses	20	46	53
	3,684	4,603	4,838
Non-current assets			
Intangible assets	103	172	138
Property, plant and equipment	278	286	298
Restricted cash	1,000	1,000	1,000
Other assets	22	19	17
Deferred financing costs	414	-	-
Deferred tax asset	902	974	902
	2,719	2,451	2,355
Total assets	6,403	7,054	7,193
Current liabilities			
Trade and other payables	856	861	400
Accrued expenses and other	507	531	650
Deferred revenue	983	1,549	1,471
Total liabilities	2,346	2,941	2,521
Shareholders' equity			
Convertible preferred stock	122	122	122
Additional paid in capital – convertible preferred stock	26,041	26,041	26,041
Common stock	95	95	95
Additional paid in capital – common stock	7,904	7,768	7,882
Accumulated deficit	(30,105)	(29,913)	(29,468)
Shareholders' equity	4,057	4,113	4,672
Total liabilities & shareholders' equity	6,403	7,054	7,193

Statements of Cash Flows
for the half year ended 30 June 2011

	Half Year to 30/6/11 Unaudited USD'000	Half Year to 30/6/10 Unaudited USD'000	Year to 31/12/10 Audited USD'000
Profit / (loss) before taxation	(636)	(80)	365
Depreciation and amortisation	105	97	194
Stock compensation expense	22	104	219
Trade and other receivables	(1,027)	(726)	368
Inventories	26	(396)	(11)
Other assets	(5)	1	(2)
Prepaid expenses	33	4	2
Trade and other payables	456	210	(251)
Accrued expenses and other	(143)	(231)	(112)
Deferred revenue	(488)	(586)	(665)
Net cash provided by / (used in) operating activities	(1,657)	(1,603)	107
Investing activities			
Purchases of property, plant and equipment	(51)	(18)	(92)
Net cash used in investing activities	(51)	(18)	(92)
Financing activities			
Deferred financing costs	(414)	-	-
Net cash used in financing activities	(414)	-	-
Net(decrease)/increase in cash and cash equivalents	(2,122)	(1,621)	15
Cash and cash equivalents at start of period	3,370	3,355	3,355
Cash and cash equivalents at end of period	1,248	1,734	3,370

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on 29 September 2011.

The interim results for the half year ended 30 June 2011 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 2011 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2010.

The results for the half year are unaudited. The financial information for the year ended 31 December 2010 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2010 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2010 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 2011 is based on the profit / (loss) attributable to ordinary shareholders of USD(636,000) (2010 half year: USD(80,000); 2010 full year: USD365,000) divided by the basic and diluted weighted average number of shares in issue, shown in the table below, which assumes that all preferred shares had converted to common shares prior to 1 January 2010.

	Half year to 30/6/11		Half year to 30/6/10		Year to 31/12/10	
	Number of shares	Weighted average	Number of shares	Weighted average	Number of shares	Weighted average
Basic- shares in issue	26,659,050	26,659,050	26,659,050	26,659,050	26,659,050	26,659,050
Share options	5,798,703	5,713,905	5,279,306	5,285,834	5,458,703	5,441,396
Diluted no. of shares		32,372,955		31,944,884		32,100,446

3. Subsequent events

On 25 July 2011, the Company raised USD20,860,000 net on the London Stock Exchange in a placing of 18,592,320 Common Shares at a placing price of 75.3 pence per new Common Share (the “Placing Price”), representing 41.09 per cent. of the enlarged Common Share capital of the Company. As a result of the offering, anti-dilution provisions found in our Articles of Incorporation converted all of the issued and outstanding preferred shares into 17,185,052 common shares giving 26,659,050 common shares in issue at the time of the placing.

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