Spectra Systems Corporation
Interim results for the six months ended 30 June 2013

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 2013.

Financial highlights:

-Revenue ahead of last year at USD2,761,000 (2012: USD2,712,000)

-Loss before taxation of USD1,429,000 (2012: USD1,294,000)

-Basic loss per share of USD0.03 (2012: USD0.03)

-Strong ungeared balance sheet, with cash and investments of USD14,231,000 (2012: USD18,426,000) at 30 June

Operational highlights:

Orders in place to meet market expectations for the full year

Major development milestone payments for the New Gen G-8 central bank materials totalling $718K

Sensor contract has been separated into Current Gen upgrade and New Gen sensors to align with New Gen materials development timeline

Current Gen upgraded sensors worth $8MM passed Field Acceptance Testing and are in Production Acceptance Testing. Manufacturing is expected to begin this year, with a target of delivering 15% of the sensors this year

$10MM G-8 central bank order, our largest yet, over 12 months received and on target for delivery of 50% of this year

Manufacturing facility completed, full security clearance by a G-8 central bank

Fully completed and tested consumer product lock and key solution has been postponed until next product revision cycle which remains unspecified

Contract on polymer banknote security feature development has been completed and additional options are being explored for funding

Phosphour sales to currency suppler are down 33% compared to 2012, and continue to be significantly lower than historical levels, most likely due to a shift in manufacturing of certain denominations from May 2012 to July 2013

Discussions with Asian central bank and its affiliates have gained traction since visits in February

Acquisition in the related areas of tax stamps and brand authentication is at an advanced stage of negotiations

New breakthrough technologies for banknote cleaning is attracting central bank interest from the European Central Bank and the Federal Reserve Bank of the United States

Secure Transactions Group is exceeding financial plan

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

“We have the orders in place to deliver a strong second half of the year performance and meet market expectations in spite of a continued slowdown of our high margin phosphour sales which, we believe is due to our customer’s shift in production of certain denominations.

We are on track to deliver half of the Company’s largest ever order from a G-8 central bank and to begin manufacturing and selling sensors relating to the $10MM contract executed in 2011.

This strong second half performance is further bolstered by the better than projected performance of our Secure Transactions Group that has recently sold the first version of our upgraded Premier software solutions product and support package.

In summary, we are confident the group will meet market expectations for 2013 and that our diligent efforts at expanding the scope of our products will result in continued and sustained growth in the future.”

Enquiries:

Spectra Systems Corporation

Dr. Nabil Lawandy, Chief Executive Officer Tel: +1 (0) 401 274 4700

WH Ireland Limited

Chris Fielding (Head of Corporate Finance) Tel: +44 (0) 20 7220 1650

Chief Executive Officer's statement

Although revenue for the first half was behind expectations, we have the contracts in place to meet market expectations for the full year. Our losses for the first half of the year are slightly higher than in 2012 due primarily to new research and development activities. These activities are part of our strategy to significantly expand our business in the banknote fitness and replacement segment of the industry. Excluding this increased R&D activity, we have a lower loss this first half of the year ($917K) as compared to the loss in the first half of 2012 ($986K).

We have achieved significant progress on the G-8 central bank funded development of materials for the New Gen technology and have passed the Field Acceptance Test for the upgraded Current Gen sensor. A review of our sensor manufacturing plan, facilities and readiness, has resulted in a positive report from the G-8 central bank and we are optimistic that we will be selling sensors in the second half of 2013. Our materials manufacturing facility has received security clearance from the G-8 central bank customer, and material and ISO 9001:2008 qualification is expected in 2014.

Although we have experienced lower than expected revenue from the sale of phosphours due to the continued delays associated with the release of a new denomination banknote, we believe this will be offset by the receipt of the Company's largest ever Current Gen materials order, 50% of which we will deliver during the second half of 2013. Furthermore, with the first adoption of our Premier software package for gaming security (ICS), we expect our Secure Transactions Group to exceed plan for 2013.

Our R&D efforts on polymer banknote security as well as the expansion of the palette of Current Gen materials are expected to be successful in growing our revenues in partnership with one of the world's largest banknote suppliers.

The Company's breakthrough process for cleaning soiled banknotes has enormous potential for creating a new and long term revenue stream which leverages the continued growth in banknote production worldwide, the potential for significant savings to central banks, and the positive ramifications for the environment impact of not disposing of unfit banknotes. We have received immediate interest in this technology and will be refining its capabilities and the economic model for the Company's patent pending technology over the next year.

Financial overview

Revenue in the first half of the current year amounted to USD2,761,000 (2012: USD2,712,000), however, orders for the second half of the year have been placed and will significantly increase our revenue. The loss before and after taxation for the first half amounted to USD1,492,000 (2012: USD1,294,000).

Administrative expenses for the first half of 2013 are higher compared with the first half of 2012 due to the operating requirements of the acquisitions made in the second half of 2012.

Cash and investments at the period end amounted to USD14,231,000 (2012:USD18,462,000). The company has no long-term debt and continues to execute on its plan with its cash reserves.

Strategy

The Company's strategy has been modified to aggressively enter the areas associated with the fitness of banknotes and the overall, nearly $10 billion, banknote replacement cycle. This area of the industry is not subject to the shroud of secrecy which accompanies creating high level authentication technologies for central banks and, from this perspective, complements the ICS gaming acquisition, which allows us to create more news flow about our activities.

We continue to combine public security features with machine-readable security features at all levels for applications from banknotes to tax stamps, passports, and consumer applications. We have had success with this approach with the New Gen technology created for one of our G-8 central bank customers and continue to work with two UK based companies to sell our products to customers they already serve. We are in advanced negotiations concerning an acquisition in the tax stamp and brand authentication area which will further drive this approach by bringing us customers we can up-sell with technology we have already developed.

Spectra has embarked on creating a paradigm shift in the banknote industry which we believe will create significant value for shareholders in the future. Over the past year, we have been developing a technology which will potentially allow central banks to clean their banknotes and return a percentage of them back into circulation.

Most banknotes are rejected by fitness sensors primarily for being soiled whilst still being fit in all other categories such as limpness, tears, graffiti and tape. Our work on using recycled supercritical fluids, such as CO2, to clean or launder banknotes has shown that we can effectively remove sebum (oils deposited by handling banknotes) which has been shown by the De Nederlandsche Bank to be the primary cause of soiling without damaging the costly security features we and other companies provide. A 15% reduction in replacement banknote orders can result in a global savings of over $1 billion annually. Complementing this major breakthrough are a number of new fitness sensor technologies which can more effectively detect tears and porosity in banknotes. We have had serious interest in co-development of these new sensors from Xinda, a major supplier of banknote processing equipment to the Chinese Banknote Printing and Minting Corporation.

Many countries outsource the manufacture of their banknotes and we expect that their suppliers will be opposed to this approach. That said however, enormous savings we believe will win the day. Furthermore, many countries manufacture some or all of their own paper such as India and China, and we expect therefore to find more fluid acceptance of the technology in those and similar central banks. From the strategic side, this technology may be what some paper manufacturers need to save their business from being lost to polymer notes and to coins at lower denominations. Beyond the compelling economic potential of this disruptive technology, we will be able to help central banks reduce the environmental impact of the nearly 150,000 tons of shredded banknote waste that is produced worldwide each year.

Patents have been filed for our technology and, once issued; they will offer us protection and help us to maintain our position as the sole supplier of this technology. We expect to have large scale statistics in the next year from both our internal testing as well as collaborative work with central banks which will put the actual business case on a detailed analytical base.

Prospects

The Company's prospects have both expanded and solidified in tangible and demonstrable ways. The steady progress with the New Gen technology materials development contract continues with payments being received and increasing commitment from the central bank. The separation of the two sensors, the Current Gen upgraded sensor and the New Gen technology sensor further supports the commitment to make this two sided program a success.

The successful completion of the Field Acceptance Test and the ongoing Product Acceptance Testing we believe could potentially culminate in the manufacturing and sale of sensors as early as this year. This would guarantee the Current Gen material sales to this G-8 central bank for the next decade as is further evidenced by the receipt of the largest ever single order worth $10MM over 12 months.

Our Current Gen materials will, we believe, experience a resurgence in growth based on new variants we are developing to expand the customization potential to central banks. We believe our partner, one of the largest banknote suppliers in the world, will support this effort both financially and through more aggressive marketing in the coming years.

We are optimistic in closing an acquisition in the tax stamp and brand authentication area imminently and will utilize this as a vehicle to further expand our customer base for all levels of machine-readable security features.

Based on the release of the new $100 USA banknote in October of this year, we believe that the typical mix of denominations will be restored and our phosphours sales will return to their historical levels.

The recent introduction of our new ICS Premier platform for Lottery and Gaming will allow us to win long term renewable contracts and expand the revenue from this diversification in our security products.

We are at the beginning of a new era of banknote economics which we have made possible and control. The disruptive technology of banknote cleaning or *Money Laundering,* which we have demonstrated and filed for patent protection, has potentially enormous implications economically and environmentally for central banks. We expect to share in the savings realized by central banks and governments in a significant way. As we gather more data through in-house testing and with central bank partners such as the ECB and the USA FRB, we will be able to refine the economic model, which may in some geographical areas, extend to commercial banks.

With banknote production expected to reach 150 billion notes annually by 2017, our prospects based on the growth of our authentication business remain exciting and revenues and earnings will rephase once delays have become history. The prospects for our disruptive banknote cleaning technology are huge and will be fully quantified in the coming year. We have just begun to unveil this technology and have received immediate interest from the European Central Bank and the Federal Reserve Bank of the United States of America.

In summary, we are confident the group will meet market expectations for 2013 and that our diligent efforts at expanding the scope of our products will result in continued and sustained growth in the future.

Nabil M. Lawandy
Chief Executive Officer
September 27, 2013

Statements of Income
for the half year ended 30 June 2013

	Note	Half Year to 30/6/13 Unaudited USD'000	Half Year to 30/6/12 Unaudited USD'000	Year to 31/12/12 Audited USD'000
Revenue		2,761	2,712	9.379
Cost of sales		(1,125)	(1,499)	(4,814)
Gross profit		1,636	1,213	4,565
Administrative expenses		(3,145)	(2,650)	(5,767)
Operating profit / (loss)		(1,509)	(1,437)	(1,202)
Investment income		80	143	228
Contingent liability		-	-	(271)
Profit / (loss) before taxation		(1,429)	(1,294)	(1,245)
Taxation		-	-	-
Profit / (loss) for the period		(1,429)	(1,294)	(1,245)
Loss per share: Basic and diluted	2	(0.03)	(0.03)	(0.03)

All of the Group's operations are continuing.

Balance Sheets
as at 30 June 2013

	As at 30/6/13 Unaudited USD'000	As at 30/6/12 Unaudited USD'000	As at 31/12/12 Audited USD'000
Current assets			
Inventories	2,216	1,311	1,075
Trade and other receivables	1,226	2,119	2,912
Cash and cash equivalents	10,931	18,426	9,617
Investments	3,300	-	6,550
Unbilled revenue	324	-	355
Deferred contract costs	327	72	344
Deferred tax asset	344	344	344
Prepaid expenses	69	67	128
Total current assets	18,737	22,339	21,325
Non-current assets			
Intangible assets	3,170	2,128	3,123
Property, plant and equipment	2,613	608	2,285
Restricted cash	1,050	1,050	1,050
Other assets	32	314	97
Deferred tax asset	902	902	902
Total non-current assets	7,767	5,002	7,457
Total assets	26,504	27,341	28,782
Current liabilities			
Trade and other payables	711	1,096	1,384
Accrued expenses and other	757	901	933
Deferred revenue	1,974	1,603	2,190
Total current liabilities	3,442	3,600	4,507
Non-current liabilities			
Deferred revenue	179	300	162
Contingent liability	271	-	271
Total non-current liabilities	450	300	433
Total liabilities	3,892	3,900	4,940
Shareholders’ equity			
Common stock	453	453	453
Additional paid in capital – Common stock	54,803	54,671	54,739
Accumulated other comprehensive (loss)	(365)	(781)	(497)
Accumulated deficit	(32,279)	(30,902)	(30,853)
Shareholders’ equity	22,612	23,441	23,842
Total liabilities & shareholders’ equity	26,504	27,341	28,782

Statements of Cash Flows
for the half year ended 30 June 2013

	Half Year to 30/6/13 Unaudited USD'000	Half Year to 30/6/12 Unaudited USD'000	Year to 31/12/12 Audited USD'000
Profit / (loss) before taxation	(1,429)	(1,294)	(1,245)
Depreciation and amortisation	166	128	348
Stock compensation expense	64	58	127
Trade and other receivables	1,686	(1,452)	(2,236)
Unbilled revenue on contracts in progress	31	-	(355)
Deferred contract costs	17	(8)	(280)
Inventories	(1,141)	(498)	(262)
Other assets	-	-	(17)
Prepaid expenses	59	40	(48)
Trade and other payables	(673)	(49)	(97)
Accrued expenses and other	(176)	16	191
Deferred revenue	(199)	(616)	(191)
Contingent liability	-	-	271
Net used in operating activities	(1,595)	(3,675)	(3,794)
Investing activities			
Purchases of property, plant and equipment	(368)	(285)	(1,822)
Other long-term assets	65	(297)	-
Advance payments to suppliers	-	-	(37)
Asset acquisitions	-	(1,225)	(2,151)
Payments of patent costs	(170)	-	(221)
(Purchases) / sales of investments	3,250	5,906	(644)
Net cash provided by / (used in) investing activities	2,777	4,099	(4,875)
Effect of exchange rate changes on cash and cash equivalents	132	141	425
Net(decrease)/increase in cash and cash equivalents	1,314	565	(8,244)
Cash and cash equivalents at start of period	9,617	17,861	17,861
Cash and cash equivalents at end of period	10,931	18,426	9,617

Notes to financial information

1. Basis of preparation

This report was approved by the Directors on 26 September 2013.

The interim results for the half year ended 30 June 2013 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 2013 and are unchanged from those disclosed in the Company's Annual Report for the year ended 31 December 2012.

The results for the half year are unaudited. The financial information for the year ended 31 December 2012 does not constitute the full statutory accounts for that period. The Annual Report and financial statements for the year ended 31 December 2012 have been filed with the Registrar of Companies. The Independent Auditors' Report on the financial statements for the year ended 31 December 2012 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 2013 is based on the profit / (loss) attributable to ordinary shareholders of USD(1,429,000) (2012 half year: USD(1,294,000); 2012 full year: USD(1,245,000) divided by the basic and weighted average number of shares in issue, shown in the table below.

	Half year to 30/6/13		Half year to 30/6/12		Year to 31/12/12	
	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	-	-	-	-	-	-
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 not included above.

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