

15 September 2015

**HaloSource, Inc.**

**(“HaloSource” or the “Company”)**

**Interim results for the six months ended 30 June 2015**

HaloSource, Inc. (HAL.LN, HALO.LN), the global clean water technology solutions company trading on London’s AIM, today announces its unaudited interim results for the six months ended 30 June 2015.

**Highlights**

During the period the Company delivered revenue growth, margin expansion and reduced cash-burn all being fuelled by the Company’s strategy of continuing to partner with industry leaders in each of its business segments and geographies.

- Total revenue increased 3% to \$7.5 million (H1 2014: \$7.3 million)
  - Drinking Water revenues increased 33% to \$2.7 million (H1 2014: \$2.0 million) while trailing twelve month revenues increased 61%, underscoring the positive sales momentum in the Drinking Water business
  - Environmental Water revenues remained stable at \$1.2 million (H1 2014: \$1.2 million)
  - Recreational Water revenues decreased by 10% to \$3.6 million (H1 2014: \$4.0 million)
- Consolidated gross margin increased to 40% (H1 2014: 39%)
- Operating expenses, excluding a one-off impairment charge for goodwill of \$0.2 million, decreased to \$8.2 million (H1 2014: \$8.4 million), as a result of the Company’s continued focus on costs
- Net cash at period end of \$9.8 million (H1 2014: \$8.3 million)
- Debt free at period end after repaying a \$1.0 million line of credit in India during H1 2015
- Cash flows used in operations for the period decreased 20% to \$3.8 million (H1 2014: \$4.7 million)

**Martin Coles, President and CEO of HaloSource, said:**

*“The Company’s overall revenue growth in H1 2015 continued to be driven by our Drinking Water business and the strategic decision to take our proprietary technologies to market in partnership with leading multi-national companies in key geographies. The restructuring of our Recreational Water business has improved its profitability and we are following a similar strategy in the Environmental Water business as we drive efficiencies and profitable growth through fewer, yet stronger, partnerships.*

*“We continue to sharpen our focus on delivering sustainable growth in revenue, margins and profitability and we remain confident in our outlook for the full year.”*

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**About HaloSource**

HaloSource, Inc. creates innovative solutions for water purification that serve people, preserve the planet and protect our most valuable resource. The Company works with scientists and industry experts across the globe in search of new ways to improve water quality and has been awarded more than 70 patents for its ground breaking chemistries, which provide effective and environmentally responsible solutions to the growing issue of water stress.

Founded in Seattle, Washington, HaloSource has grown to become an influential leader in three market segments: drinking water, recreational water, and environmental water treatment and remediation. HaloSource is headquartered in the US with operations in China and in India. Learn more about the Company's research and development and future cutting edge technologies by visiting [www.halosource.com](http://www.halosource.com).

HaloKlear, HaloPure, and SeaKlear are either trademarks or registered trademarks of HaloSource, Inc. All other trademarks, brand names or product names belong to their respective holders.

*This document contains certain forward-looking statements relating to the Company. The Company considers any statements that are not historical facts as "forward-looking statements". They relate to events and trends that are subject to risk and uncertainty that may cause actual results and the financial performance of the Company to differ materially from those contained in any forward-looking statement. These statements are made by management in good faith based on information available to them and such statements should be treated with caution due to the inherent uncertainties, including both economic and business risk factors, underlying any such forward-looking information.*

**Financial Review**

Total consolidated revenues increased by 3% to \$7.5 million, largely due to continued growth within the Drinking Water segment.

Consolidated gross margin was 40%, up from 39% for the same period last year, representing \$0.1 million in incremental margin. Operating expenses for H1 2015 totaled \$8.4 million, unchanged from H1 2014, including a one-time goodwill impairment charge of \$0.2 million related to the termination of the patent license for our anti-microbial coatings business during the period.

Consolidated net loss was \$5.5 million for the period, down from a net loss of \$5.7 million in H1 2014, driven primarily by improved gross profit and a reduction in interest expense related to the repayment of a \$1.0 million line of credit in India during 1H 2015.

The Company ended the period with \$9.8 million of cash and cash equivalents and short-term investments, compared with \$14.8 million in total as at 31 December 2014. Cash used in operations for the first half was \$3.8 million; down from \$4.7 million during the same period in 2014, resulting from improved gross margin and a \$0.5 million reduction in non-cash working capital employed during the period. The Company expects to continue to reduce cash flows used in operations in the second half of 2015.

**Operational Review**

During the period Drinking Water continued to deliver strong revenue growth as the Company's strategy of going to market with and through strategic partners continued to build momentum. Our partners, such as Perfect (China's largest direct-seller of household products), Jarden (a global Fortune 500 Consumer Product Goods company) and Eureka Forbes (Leading company in India with Aquasure branded water purification devices sold via direct sales force and in more than 18,000 retail dealers), continued to expand sales, marketing and distribution of their water purification devices powered by HaloPure's® class-leading disinfection technology. In H1 2015, Perfect

China took delivery of 225,000 cartridges powered by HaloPure®, an increase of 47% year-over-year. Another national partner in China using HaloPure® bacteriostatic cartridges in combination with their reverse osmosis system was the Company's second largest contributor to Drinking Water revenue in 1H 2015, behind Perfect. This new partner demonstrates both the potential for further revenue increases and the opportunity that combined drinking water technologies represent to continued growth in this segment.

As announced on 21 August 2015, HaloSource signed an agreement with Panasonic India Private Limited, a wholly-owned subsidiary of Panasonic Corporation, to launch a new line up of Panasonic branded, gravity-fed, water purification devices powered by HaloSource's HaloPure® class leading disinfection technology into the Indian market. The first two devices in the line up are scheduled to begin selling in September 2015.

While the Recreational Water segment experienced lower revenues during the period, the packaged business is seeing continued growth driven by partners such as Fluidra. Structural changes previously implemented reduced the size of the Company's direct sales team with a corresponding shift to a lower cost commission only indirect sales model. This model broadened the Company's distribution with more feet on the ground and removed some fixed cost resulting in improved profitability of this business segment as profit margins expanded.

The Environmental Water segment's revenues were stable during the period as the Company focused on strengthening key strategic relationships with established solutions providers in North America such as Rain For Rent and Stormtec. New projects during the period include a Rain For Rent project treating groundwater in the first phase of large-scale multi-phase construction project to extend the Bay Area Rapid Transit ("BART") rail system through Silicon Valley in California. This is the Company's largest Rain For Rent project completed to-date.

## People

The Company's headcount at 30 June 2015 was 122, versus 119 at 30 June 2014. As we continue to reduce our cash-burn, headcount is a critical metric, representing approximately 60% of total operating expenses. Headcount has increased in the lower-cost Asia-Pacific region with 50% of headcount now located in India and China, compared with 43% in the prior period.

Subsequent to 30 June 2015 the Company has initiated a move from partial to fully outsourced production of our Environmental Water products and to optimise sales coverage to drive improved gross margins, further reducing direct headcount and operating expenses while improving profitability in this segment.

## Outlook

As the issues of water contamination and drinking water availability continue to loom large globally, we continue to focus on developing our position as the technology integrator and solutions provider for our strategic partners who in turn take our technology to market. The multi-billion dollar market for water purification and remediation solutions will continue to grow rapidly and we remain a sought-after technology partner, helping solve unmet needs in both the consumer and business segments.

In the crucial Drinking Water segment, we continue to establish strong relationships as the water technology innovation partner to leading multi-national companies and are pleased to have recently added Panasonic to our growing list of strategic partners deploying our technology in China, India and Latin America. Existing partners will continue to expand their installed base with product launches in new markets in the coming months and a focus on driving increased cartridge replacement rates. We are also exploring expansion of our business into new markets, such as North America, with prospective new partners who see the opportunity for our HaloPure® technology in their product offerings as well as for the commercialisation of our newly developed proprietary media for the removal of dissolved contaminants such as metals, an entirely new aspect of water purification for the Company.

Recreational Water products continue to deliver strong gross margins and the business is expanding geographically through new partnerships with companies such as Fluidra. In the second half of the year, we expect to launch two new products as well as establish a stronger presence with key retailers across all channels and regions.

Our Environmental Water business presently has paid trials underway for uses of our technology in oil and gas projects in Canada, construction in the US and mining in Latin America.

We remain confident in our ability to continue to drive strong, sustainable growth in revenue, gross margins and profitability as we expand both existing and new partnerships while continuing to bring meaningful technology innovation to rapidly growing markets in all segments.

HaloSource, Inc. and Subsidiaries Unaudited Interim Condensed Consolidated Statements of Operations and Comprehensive Loss <i>(US \$000's, except per share data)</i>	Six months ended June 30, 2015	Six months ended June 30, 2014
<b>Revenue - net</b>	<b>7,487</b>	7,302
<b>Cost of goods sold</b>	<b>4,466</b>	4,435
<b>Gross profit</b>	<b>3,021</b>	2,867
<b>Operating expenses</b>		
Research and development	1,108	1,248
Selling, general, and administrative	7,166	7,141
Goodwill impairment	173	-
<b>Total operating expenses</b>	<b>8,447</b>	8,389
<b>Operating loss</b>	<b>(5,426)</b>	(5,522)
<b>Other expense, net</b>	<b>(23)</b>	(143)
<b>Loss before income taxes</b>	<b>(5,449)</b>	(5,665)
Income taxes	-	-
<b>Net loss</b>	<b>(5,449)</b>	(5,665)
<b>Other comprehensive loss</b>		
Unrealized (loss) gain on available-for-sale investments	(12)	4
Foreign currency translation adjustments	(22)	(46)
<b>Other comprehensive loss</b>	<b>(34)</b>	(42)
<b>Comprehensive loss</b>	<b>(5,483)</b>	(5,707)
<b>Basic and diluted net loss per share</b>	<b>(0.02)</b>	(0.04)
<b>Shares used to compute basic and diluted loss per share (000's)</b>	<b>220,246</b>	156,518

*See accompanying notes to unaudited interim condensed consolidated financial statements*

<b>HaloSource, Inc. and Subsidiaries</b>		
<b>Unaudited Interim Condensed Consolidated Balance Sheets</b>	<b>June 30,</b>	December 31,
<i>(US \$000's)</i>	<b>2015</b>	2014
<b>Assets</b>		
<b>Current assets</b>		
Cash and cash equivalents	4,328	3,295
Short-term investments	5,503	9,985
Restricted cash	-	1,552
Accounts receivable, less allowance for doubtful accounts of \$294 and \$294, respectively	6,172	8,388
Inventories — net	3,170	3,187
Prepaid expenses and other current assets	875	1,528
<b>Total current assets</b>	<b>20,048</b>	27,935
Property and equipment — net	2,892	3,160
Goodwill	2,007	2,180
Other intangible assets — net	663	724
Deposits	212	210
<b>Total assets</b>	<b>25,822</b>	34,209
<b>Liabilities and stockholders' equity</b>		
<b>Current liabilities</b>		
Accounts payable	1,670	2,986
Accrued expenses and other current liabilities	1,024	1,573
Salaries and benefits payable	441	508
Current portion of debt and capital lease obligations	19	1,050
<b>Total current liabilities</b>	<b>3,154</b>	6,117
Long-term portion of debt and capital lease obligations	16	25
Deferred rent	1,011	1,073
Deferred tax liabilities	138	138
<b>Total liabilities</b>	<b>4,319</b>	7,353
<b>Stockholders' equity</b>		
Common stock, no par value	141,349	141,219
Accumulated other comprehensive income	191	225
Accumulated deficit	(120,037)	(114,588)
<b>Total stockholders' equity</b>	<b>21,503</b>	26,856
<b>Total liabilities and stockholders' equity</b>	<b>25,822</b>	34,209

*See accompanying notes to unaudited interim condensed consolidated financial statements*

**HaloSource, Inc. and Subsidiaries**

**Unaudited Interim Condensed Consolidated Statements of Stockholders' Equity**

<i>(US\$000's, except shares in 000's)</i>	Common Stock Shares	Common Stock Amount	Accumulated Other Comprehensive Income	Accumulated Deficit	Total Stockholders' Equity
<b>Balance, December 31, 2013</b>	156,484	130,665	73	(105,958)	24,780
Exercise of common stock options	10	1	-	-	1
Issuance of shares upon vesting of restricted stock	100	10	-	-	10
Share-based compensation	-	337	-	-	337
Shares issued, net of offering costs of \$686	63,636	10,206	-	-	10,206
Other comprehensive income	-	-	152	-	152
Net loss	-	-	-	(8,630)	(8,630)
<b>Balance, December 31, 2014</b>	<b>220,230</b>	<b>141,219</b>	<b>225</b>	<b>(114,588)</b>	<b>26,856</b>
Exercise of common stock options	1	-	-	-	-
Issuance of shares upon vesting of restricted stock	40	10	-	-	10
Share-based compensation	-	120	-	-	120
Other comprehensive loss	-	-	(34)	-	(34)
Net loss	-	-	-	(5,449)	(5,449)
<b>Balance, June 30, 2015</b>	<b>220,271</b>	<b>141,349</b>	<b>191</b>	<b>(120,037)</b>	<b>21,503</b>

*See accompanying notes to unaudited interim condensed consolidated financial statements.*

HaloSource, Inc. and Subsidiaries Unaudited Interim Condensed Consolidated Statements of Cash Flows (US \$000's)	Six months ended June 30, 2015	Six months ended June 30, 2014
<b>Operating activities</b>		
Net loss	(5,449)	(5,665)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	494	505
Goodwill impairment	173	-
Allowance for inventory, sales returns and bad debts	45	(90)
Share-based compensation	130	197
(Gain) loss on disposal of property, equipment and other assets	(8)	14
Changes in operating assets and liabilities:		
Accounts receivable	2,230	1,446
Inventories	(23)	(365)
Prepaid expenses and other assets	652	565
Accounts payable	(1,327)	(712)
Accrued expenses and other liabilities	(512)	(394)
Salaries and benefits payable	(96)	(167)
Deferred rent	(72)	(57)
<b>Net cash used in operating activities</b>	<b>(3,763)</b>	<b>(4,723)</b>
<b>Cash flows from investing activities</b>		
Proceeds on disposal of property and equipment	8	110
Purchase of property and equipment	(159)	(86)
Purchase of short-term investments	(31)	(415)
Sale of short-term investments	4,500	5,250
Decrease in restricted cash	1,552	390
<b>Net cash provided by investing activities</b>	<b>5,870</b>	<b>5,249</b>
<b>Cash flows from financing activities</b>		
Repayments of debt and capital lease obligations	(1,056)	(28)
Proceeds from exercise of stock options and warrants	-	1
<b>Net cash used in financing activities</b>	<b>(1,056)</b>	<b>(27)</b>
<b>Effect of exchange rate changes on cash</b>	<b>(18)</b>	<b>1</b>
<b>Net increase in cash and cash equivalents</b>	<b>1,033</b>	<b>500</b>
<b>Cash and cash equivalents, beginning of period</b>	<b>3,295</b>	<b>1,762</b>
<b>Cash and cash equivalents, end of period</b>	<b>4,328</b>	<b>2,262</b>
<b>Supplemental disclosures of noncash investing and financing activities:</b>		
Increase in accrued property and equipment purchases	-	29

*See accompanying notes to unaudited interim condensed consolidated financial statements*

## Notes to Condensed Consolidated Financial Statements

### 1. General information

HaloSource, Inc. and its subsidiaries (together, the “Company” or “HaloSource”) is a global clean water technology company, headquartered near Seattle in Bothell, WA, U.S.A., with subsidiaries in India and China and operations in other markets around the world through its relationships with distributors and other third parties. The Company’s proprietary technologies for drinking water, recreational water and environmentally friendly wastewater recycling, enable the Company’s partners to rid the world’s water of impurities and return it responsibly to the earth. HaloSource markets its products under its brand names of HaloPure<sup>®</sup>, SeaKlear<sup>®</sup>, AquaPill<sup>®</sup>, HaloKlea<sup>®</sup>, Solar Shield<sup>™</sup>, StormKlear<sup>®</sup> and Mighty Pod<sup>®</sup>.

### 2. Basis of preparation

The condensed consolidated financial information for the six month periods ended June 30, 2015 and 2014 has been prepared in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) which is appropriate given the Company is incorporated in the State of Washington in the United States. References to U.S. GAAP issued by the Financial Accounting Standards Board (“FASB”) in the Company’s notes to its condensed consolidated financial statements are to the FASB Accounting Standards Codification, sometimes referred to as the “Codification” or “ASC”. The condensed consolidated financial information should be read in conjunction with the audited annual financial statements for the year ended December 31, 2014, which have also been prepared in accordance with U.S. GAAP and were made available on March 24, 2015. The financial information for the six-month periods ended June 30, 2015 and June 30, 2014 is unaudited.

#### *Principles of consolidation*

The consolidated financial statements include the accounts of HaloSource and its wholly owned subsidiaries: HaloSource International, Inc., HaloSource Asia, Inc., HaloSource Hong Kong Ltd., HaloSource China, Inc., SeaKlear Pool Pills LLC, HaloSource Technologies Pvt. Ltd., HaloSource Water Purification Technology (Shanghai) Co. Ltd., and HASO Corporation. Intercompany transactions and balances have been eliminated.

#### *Liquidity and capital resources*

The Company has incurred net losses and negative operating cash flows since inception, and as of June 30, 2015, the Company had an accumulated deficit of approximately \$120.0 million. For the six months ended June 30, 2015, the Company’s net loss was \$5.4 million and cash used in operating activities was \$3.8 million. As of June 30, 2015, the Company has \$4.3 million of cash and cash equivalents and \$5.5 million of short term investments.

The Company has implemented certain cost savings measures and implemented other plans that have reduced cash used by operations in 2015 as compared to 2014 and expects to continue to do so. In order to generate sufficient revenue to achieve profitability, the Company must successfully maintain its existing relationships and build new relationships with its customers to develop the reach and application of the Company’s technologies. There can be no assurance that these efforts will be successful. The Company continues to face significant risks associated with successful execution of its strategy. These risks include, but are not limited to, technology and product development, introduction and market acceptance of new products and services, changes in the marketplace, liquidity, competition from existing and new competitors which may enter the marketplace, and retention of key personnel. Management plans to continue to finance the Company’s operations with a combination of currently available cash and short-term investments. Management believes current funding will be sufficient to finance the Company’s operations through the remainder of 2015; however, if necessary, the Company may seek other financing options. If adequate funds are not available, the Company may be required to reduce the scope, delay or eliminate some or all of its planned commercial activities. The accompanying financial statements have been prepared assuming that the Company will continue as a going concern, which contemplates the realization of assets and the settlement of liabilities and commitments in the normal course of business. The financial statements for the period ended June 30, 2015 do not include any adjustments to reflect the possible future effects on the recoverability and classification of assets or the amounts and classification of liabilities that may result from uncertainty related to the Company’s ability to continue as a going concern.

### ***Use of estimates***

The preparation of condensed consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the condensed consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could materially differ from those estimates. Estimates include, among others, the Company's allowance for doubtful accounts, sales returns, inventory obsolescence, share-based compensation, and impairment evaluations for goodwill and long-lived assets.

### **3. Accounting policies**

The accounting policies applied are consistent with those of the annual financial statements for the year ended December 31, 2014, except as described below.

#### ***Recent accounting pronouncements***

In June 2014, the FASB issued ASU 2014-09, *Revenue from Contracts with Customers*. The update gives entities a single comprehensive model to use in reporting information about the amount and timing of revenue resulting from contracts to provide goods or services to customers. The ASU, which applies to any entity that enters into contracts to provide goods or services, will supersede current revenue recognition requirements and most industry-specific guidance throughout the Industry Topics of the Codification. The update is effective for the Company for its financial year ending December 31, 2018, including interim periods within that reporting period and early adoption is not permitted. The Company is currently reviewing the provisions of this ASU to determine if there will be any material effect on its consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, *Presentation of Financial Statements - Going Concern*, which added Subtopic 205-40 to the ASC (the "Subtopic"). This Subtopic requires management to determine whether substantial doubt exists concerning the reporting entity's ability to continue as a going concern, in which case certain disclosures will be required. The Subtopic affects financial statement presentation but not methods of accounting, and is effective on a prospective basis for annual periods ending after December 2016 and each reporting period thereafter, although early adoption is permitted. The Company has not early adopted the Subtopic.

### **4. Commitments and contingencies**

#### ***Litigation and other contingencies***

The Company may be subject to a variety of legal proceedings that could arise in the ordinary course of business or from its shareholders. The Company evaluates its exposure to threatened or pending litigation on a regular basis. To the extent it were required, the Company would evaluate the potential amount of loss related to litigation as well as the potential range of outcomes related to such loss. Determining the amount of potential loss and the range of potential outcomes requires significant judgment. The Company will record a loss contingency if an amount becomes both probable and measurable. In addition, any such proceedings, whether meritorious or not, could be time consuming, costly, and result in the diversion of significant operational resources or management time.

#### ***Operating and capital leases***

The Company has entered into operating lease agreements for its various office and manufacturing facilities worldwide and capital lease agreements for certain equipment. These leases are in effect through 2023.

Total rent expense under operating lease agreements for the six months ended June 30, 2015 and 2014 was \$428,000 and \$435,000, respectively.

### **5. Restricted cash**

Restricted cash primarily represents cash collateral used to secure working capital borrowing needs related to operations of the Company's foreign subsidiaries. In April 2011, the Company established a working capital line of credit arrangement through Axis Bank in India (see Note 13, below). During the six months ended June 30, 2015, the working capital line of credit was repaid and canceled and all restrictions on cash held as collateral were removed.

## 6. Segment reporting

The Company measures the results of its reportable segments based on revenue and gross profit. The Company does not allocate operating expenses, income taxes or interest income (expense) to the reportable business units for purposes of reporting to the chief operating decision maker.

Prior to January 1, 2014, the Company's operating segments were: Drinking Water (formerly referred to as Water Purification), Recreational Water, Environmental Water and Anti-microbial Coatings. During the year ended December 31, 2014, the Company determined that its Anti-microbial Coatings segment no longer met the criteria of a reportable segment. As a result, our financial results are now reported on the basis of three reportable segments: Drinking Water, Recreational Water and Environmental Water. Financial information for the six months ended June 30, 2014 has been reclassified to be consistent with the June 30, 2015 presentation.

Information on reportable segments and reconciliation to condensed consolidated net loss for the six-month periods ended June 30, 2015 and 2014 are presented below. Also presented below are total assets by operating segment as of June 30, 2015 and December 31, 2014. The Company does not report to the chief operating decision maker its capital expenditures or assets for the Recreational Water or Environmental Water segments and does not assign intangible assets to the segments.

### *Six months ended June 30, 2015*

<i>(US \$000's)</i>	Recreational Water	Environmental Water	Drinking Water	Unallocated	Consolidated
Revenue	3,605	1,178	2,658	46	7,487
Gross profit	2,084	402	495	40	3,021
Operating expenses	-	-	-	(8,447)	(8,447)
Other expenses, net	-	-	-	(23)	(23)
Net loss	-	-	-	-	(5,449)
Assets	-	-	7,170	18,652	25,822

### *Six months ended June 30, 2014, except assets as of December 31, 2014*

<i>(US \$000's)</i>	Recreational Water	Environmental Water	Drinking Water	Unallocated	Consolidated
Revenue	4,010	1,219	1,996	77	7,302
Gross profit	2,176	312	315	64	2,867
Operating expenses	-	-	-	(8,389)	(8,389)
Other expenses, net	-	-	-	(143)	(143)
Net loss	-	-	-	-	(5,665)
Assets	-	-	7,024	27,185	34,209

## 7. Net loss per share

Basic net loss per share is computed using the weighted average number of common shares outstanding during the period. Diluted net loss per share is computed using the weighted average number of common and potentially dilutive shares outstanding during the period. Potentially dilutive shares consist of the incremental common shares issuable upon conversion of the exercise of common stock options and warrants. The Company had a net loss for all periods presented

herein; therefore, none of the options or warrants outstanding during each of the periods presented have been included in the computation of diluted loss per share as they were antidilutive. Total potentially dilutive shares of 8,259,000 and 7,186,000 of common stock were excluded from the calculations of diluted loss per share for the six months ended June 30, 2015 and 2014, respectively.

## 8. Inventories

Inventories at June 30, 2015 and December 31, 2014 consist of the following:

<i>(US \$000's)</i>	<b>June 30, 2015</b>	December 31, 2014
Raw materials	<b>1,942</b>	1,860
Finished goods	<b>1,228</b>	1,327
<b>Inventories, net</b>	<b>3,170</b>	3,187

During the six month periods ended June 30, 2015 and 2014, the Company recorded cost of goods sold of \$0 and \$98,000, respectively, to reduce certain inventories from their recorded cost to their estimated net realizable value. The inventory reported in the condensed consolidated balance sheets as of June 30, 2015 and December 31, 2014 is net of write-downs of inventory carrying values due to obsolescence of \$488,000 and \$533,000, respectively.

## 9. Property and equipment

Property and equipment as of June 30, 2015 and December 31, 2014 consist of the following:

<i>(US \$000's)</i>	<b>June 30, 2015</b>	December 31, 2014
Manufacturing equipment	<b>3,094</b>	3,015
Furniture and fixtures	<b>227</b>	227
Office equipment	<b>972</b>	969
Leasehold improvements	<b>2,778</b>	2,746
Construction in process	<b>37</b>	6
	<b>7,108</b>	6,963
Less accumulated depreciation and amortization	<b>(4,216)</b>	(3,803)
<b>Property and equipment, net</b>	<b>2,892</b>	3,160

## 10. Goodwill and Impairment of Goodwill

Goodwill represents the excess of the purchase price over the fair value of net assets acquired in business combinations. Goodwill is not amortized but is tested for impairment annually on December 31 or more frequently if events or changes in circumstances indicate that the asset might be impaired. During the six months ended June 30, 2015 the Company determined that an impairment of goodwill in the amount of \$173,000 occurred in conjunction with its abandonment of its anti-microbial coatings business during the period. No impairment was recorded during the six months ended June 30, 2014.

## 11. Related party transactions

During the six months ended June 30, 2015 and 2014, the Company paid royalties for certain patent rights of \$225,000 and \$225,000, respectively, to a university which held stock in the Company. Royalty payments are allocated between cost of goods sold, where there are identifiable product and sublicense revenues, as well as research and development expenses in the accompanying condensed consolidated statements of operations and comprehensive loss. The Company had no outstanding accounts payable to the university at June 30, 2015 or December 31, 2014.

## 12. Business and credit concentration

For the six-month periods ended June 30, 2015 and 2014, one of the Company's Recreational Water customers individually accounted for 8% and 10% of the Company's revenue, respectively. Accounts receivable from this customer represented 2% and 23% of the total accounts receivable at June 30, 2015 and December 31, 2014, respectively.

Essentially all of the Company's revenue from its Drinking Water segment is generated in emerging market countries, including India and China. For the six-month periods ended June 30, 2015 and 2014, five of the Company's Drinking Water customers (four in China, one in India) accounted for 33% and 24% of the Company's revenue, respectively. Accounts receivable from these customers represented 51% and 30% of the total accounts receivable at June 30, 2015 and December 31, 2014, respectively. In addition, essentially all raw materials and manufacturing facilities used in the Drinking Water segment are sourced from, or located in, the same emerging market countries. These markets represent varying political and regulatory environments that can potentially affect Drinking Water operations.

### **13. Foreign line of credit**

In May 2011, HaloSource Technologies Pvt. Ltd. ("HaloSource Technologies"), a wholly-owned subsidiary of HaloSource, Inc. located in Bangalore, India, entered into a Sanction of Credit Facilities Agreement with Axis Bank for a credit facility for up to an amount of Rs. 70,000,000, or approximately \$1,097,000 at June 30, 2015. During the six months ended June 30, 2015 the Company repaid the full amount outstanding and closed the credit facility.

### **14. Forward exchange contracts**

The Company is exposed to foreign currency exchange-rate fluctuations in the normal course of its business, which the Company manages from time to time through the use of forward foreign exchange contracts. Forward foreign exchange contracts are used to hedge the impact of fluctuations of foreign exchange on certain assets or liabilities denominated in a currency other than the functional currency of the Company or its subsidiaries. The Company has chosen not to apply hedge accounting to these foreign exchange contracts.

For the six-month periods ended June 30, 2015 and 2014 these forward foreign exchange contracts resulted in realized losses of zero and \$162,000, respectively. The realized losses were partially offset by realized and unrealized gains on foreign denominated accounts receivable and foreign denominated intercompany payables during the same periods. Realized gains and losses related to forward foreign exchange contracts are recorded in foreign exchange gain (loss) on the condensed consolidated statements of operations and comprehensive loss and the assets and liabilities for these contracts are recorded in prepaid and other current assets and accrued expenses and other current liabilities on the condensed consolidated balance sheets. As of June 30, 2015 and December 31, 2014, the Company had no outstanding forward foreign exchange contracts.

### **15. Stock options and share-based compensation**

For stock-based compensation, the Company utilizes the Black-Scholes option pricing model to estimate the fair value of employee stock-based compensation at the date of the grant, which requires the input of subjective assumptions including expected volatility, expected term, and a risk free interest rate. Because the Company has limited historical patterns, the expected life of stock options is based on the experience of similar publicly traded companies and management's judgment. The expected volatility is based on volatility from comparable options with similar publicly traded companies. The risk free interest rate is estimated using comparable published federal funds rates. Compensation expense is recognized over the requisite service period for those options expected to vest, net of a forfeiture rate.

During the six month periods ended June 30, 2015 and 2014, the Company issued stock options and restricted stock awards under its 2010 Equity Incentive Plan ("2010 Plan") totaling 2,414,000, and 1,555,000, respectively. As of June 30, 2015, the Company had 623,000 shares available for issuance under the 2010 Plan.

The Company recognizes share-based compensation costs for an award on a straight-line basis over the requisite service period for each separately vesting portion of the award as if the award was, in substance, multiple awards. For the six-month periods ended June 30, 2015 and 2014, the Company recorded stock based compensation expense of \$130,000

and \$197,000, respectively, including expense related to restricted stock awards of \$10,000 and \$10,000, respectively. All stock based compensation has been recorded under selling, general, and administrative expenses within the Consolidated Statements of Operations and Comprehensive Loss. No income tax benefit was recognized in the condensed consolidated statements of operations and comprehensive loss for share-based compensation arrangements.

#### **16. Common stock**

Total authorized common shares at June 30, 2015 are 400,000,000. As of June 30, 2015, the Company has 220,271,000 issued and outstanding shares of common stock.

#### **17. Subsequent events**

The Company has evaluated subsequent events through the date on which the financial statements were available to be issued. No transactions or events have occurred that would require further disclosure.