SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP
Form 10-Q/A
December 23, 2005

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-Q/A
Amendment No. 1

(Mark One)

þ **QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the quarterly period ended: June 30, 2005

OR

o **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number: 000-50373

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.

(Exact name of registrant as specified in its charter)

Delaware	90-0182158
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)
3130 Fairview Park Drive, Suite 400, Falls Church, Virginia	22042
(Address of principal executive offices)	(Zip Code)

Registrant s telephone number, including area code: 703-564-2967

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. o Yes þ No

Indicate by check mark whether the registrant is an accelerated filer (as defined in Rule 12b-2 of the Exchange Act). o Yes þ No

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No þ

As of December 23, 2005, there were 44,072,200 shares of the issuer s common stock outstanding.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
JUNE 30, 2005 QUARTERLY REPORT ON FORM 10-Q/A

EXPLANATORY NOTE

This Amendment No. 1 on Form 10-Q/A (this Amendment) amends the Quarterly report on Form 10-QSB for the quarter ended June 30, 2005 of Spectrum Sciences & Software Holdings Corp. (the Company) originally filed with the Securities and Exchange Commission on August 22, 2005. This Amendment is being filed to make the following changes to the original filing.

To correct the filing to a Form 10-Q from a 10-QSB as originally filed. This change requires certain additional information be added to our original filing, including December 31, 2004 comparative balance sheets and market risk disclosures.

To revise the foreign currency translation adjustment as a result of the amendment to the consolidated financial statements in the Quarterly Report for the quarter ended March 31, 2005 filed on December 23, 2005.

To revise the footnotes to the consolidated financial statements to summarize previously issued financial data and to include comparative financial data from prior periods.

To update Subsequent Events through the filing date.

To amend the Management s Discussion and Analysis to conform to the segments presented in our current filings and to include historical data for comparison purposes.

To add Part I, Item 3 Quantitative and Qualitative Disclosures about Market Risk.

To revise the Controls and Procedures section.

This Amendment No. 1 does not modify or update disclosures presented in the original Form 10-QSB except as set forth above. Accordingly, the Amendment No. 1 should be read in conjunction with the Company s filings made with the Securities and Exchange Commission subsequent to the original filing date of the Form 10-QSB, including any amendments to those filings.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
JUNE 30, 2005 QUARTERLY REPORT ON FORM 10-Q/A

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SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
JUNE 30, 2005 QUARTERLY REPORT ON FORM 10-Q/A

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

The matters discussed in our Quarterly Report on Form 10-Q/A may constitute forward-looking statements within the meaning of The Private Securities Litigation Reform Act of 1995. These statements involve known and unknown risks, uncertainties, and other factors that may cause our actual results, activity levels, performance or achievements to be materially different from any future results, activity levels, performance or achievements expressed or implied by such forward-looking statements. In some cases, you can identify these statements by forward-looking words such as could expect estimate may potential will and would or similar words. You should read statements that conta words carefully because they discuss our future expectations, contain projections of our future results of operations or of our financial position, or state other forward-looking information. We believe it is important to communicate our future expectations to our investors. However, there may be events in the future that we are not able to predict or control accurately. The factors listed in the section captioned Risk Factors , as well as any cautionary language in the Form 10-Q/A, provide examples of risks, uncertainties, and events that may cause our actual results to differ materially from the expectations we describe in our forward-looking statements.

Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee future results, activity levels, performance or achievements. You should not place undue reliance on these forward-looking statements, which apply only as of the date of the Form 10-Q/A. Subsequent events and future developments may cause our views to change. However, while we may elect to update the forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Balance Sheets (Unaudited)

	June 30, 2005	December 31, 2004
ASSETS		
Current assets:		
Cash and cash equivalents	$ 5,596,126	$ 5,666,910
Short-term investments	1,910,262	18,795,143
Receivables	15,605,907	2,759,756
Due from Shareholder		705,126
Inventories	538,771	79,010
Prepaid expenses & other current assets	817,493	882,478
Total current assets	24,468,559	28,888,423
Property and equipment, net	7,665,972	2,280,746
Goodwill	15,088,708	
Investments in joint ventures	1,167,032	
Other assets	101,377	43,810
TOTAL ASSETS	**$ 48,491,648**	**$ 31,212,979**
LIABILITIES AND STOCKHOLDERS EQUITY		
Current liabilities:		
Accounts payable	$ 6,098,174	$ 1,025,030
Line of credit	1,017,764	
Accrued expenses	2,102,666	482,923
Current portion due to related party	118,061	705,126
Deferred revenues	322,848	228,968
Provision for contract losses		148,248
Current portion of long-term debt	379,509	
Total current liabilities	10,039,022	2,590,295
Long-term liabilities:		
Long-term debt, less current portion	2,387,259	
Due to related party, less current portion	67,388	
TOTAL LIABILITIES	$ 12,493,669	$ 2,590,295
Commitments and contingencies (Note 11)		
Minority interest	161,881	
Stockholders equity:		

Preferred stock, $0.0001 par value; 20,000,000 shares authorized, none issued		
Common stock, $0.0001 par value; 80,000,000 shares authorized, 44,072,200 and 38,969,300 issued and outstanding at June 30, 2005 and December 31, 2004	4,407	3,897
Additional paid-in capital	79,865,695	69,895,120
Accumulated deficit	(44,079,590)	(41,277,155)
Accumulated other comprehensive income	45,586	822
Total stockholders equity	35,836,098	28,622,684
TOTAL LIABILITIES AND STOCKHOLDERS EQUITY	**$ 48,491,648**	**$ 31,212,979**

See accompanying notes to consolidated financial statements.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Statements of Operations and Comprehensive Income (Loss) (Unaudited)

	Three months ended June 30,		Six months ended June 30,	
	2005	**2004**	**2005**	**2004**
Revenues	$ 11,796,428	$ 3,418,747	$ 14,339,038	$ 7,015,325
Cost of revenues	10,121,076	3,054,924	12,269,211	6,329,305
Gross profit	1,675,352	363,823	2,069,827	686,020
Operating expenses	2,961,564	27,053,790	5,254,759	41,005,374
Loss from operations	(1,286,212)	(26,689,967)	(3,184,932)	(40,319,354)
Total non-operating income (expense), net	324,471	8,452	498,576	(4,499)
Loss before provision for income taxes	(961,741)	(26,681,515)	(2,686,356)	(40,323,853)
Income tax benefit	50,485	0	50,485	61,330
Loss before minority interest	(911,256)	(26,681,515)	(2,635,871)	(40,262,523)
Minority interest income(loss)	(146,483)	0	(166,564)	0
Net Loss	**$ (1,057,739)**	**$ (26,681,515)**	**$ (2,802,435)**	**$ (40,262,523)**
Weighted average common shares outstanding: Basic and diluted	41,774,398	36,795,363	40,388,341	27,505,843
Loss per share: Basic and diluted	$ (0.03)	$ (0.73)	$ (0.07)	$ (1.46)
Net Loss	$ (1,057,739)	$ (26,681,515)	$ (2,802,435)	$ (40,262,523)
Foreign currency translation adjustments	(22,789)	0	45,586	0
Unrealized gain on available for sale securities	0	13,781	0	13,781

Total comprehensive income(loss)	**$ (1,080,528)**	**$ (26,667,734)**	**$ (2,756,849)**	**$ (40,248,742)**

See accompanying notes to consolidated financial statements.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Statement of Stockholders Equity (Unaudited)

	Common Stock Shares	Amount	APIC	Accumulated Deficit	Accumulated Other Comprehensive Income(Loss)	Total
Balance at January 1, 2005	38,969,300	$3,897	$69,895,120	$(41,277,155)	$ 822	$28,622,684
Stock options issued for consulting services			1,399,026			1,399,026
Exercise of stock options	2,900		4,059			4,059
Issuance of common stock for acquisition of Horne Engineering	5,100,000	510	8,567,490			8,568,000
Unrealized loss on investments					(822)	(822)
Foreign currency translation adjustments					45,586	45,586
Net loss				(2,802,435)		(2,802,435)
Balance at June 30, 2005	**44,072,200**	**$4,407**	**$79,865,695**	**$(44,079,590)**	**$ 45,586**	**$35,836,098**

	2005
Disclosure of reclassification amount:	
Reclassification adjustment for losses included in net loss	$822

See accompanying notes to the consolidated financial statements.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Condensed Consolidated Statements of Cash Flows (Unaudited)

	Six Months ended June 30, 2005	2004
Cash flows from operating activities		
Net loss	**$ (2,802,435)**	**$ (40,262,523)**
Adjustments to reconcile net loss to net		
Cash used in operating activities		
Issuance of stock options to related party for consulting services	0	37,258,300
Investor relations expenses paid by a related party	0	2,057,500
Amortization of investment bond premium	0	8,496
Depreciation	304,638	72,083
Issuance of stock options to employees	1,399,026	125,358
Deferred income taxes	0	(28,594)
Minority interest	161,881	0
Loss on disposal of equipment	2,015	0
Realized loss on the sale of bonds	(822)	0
Changes in assets and liabilities		
Receivables	(5,450,599)	(1,170,385)
Accounts payable	3,061,566	(525,982)
Provision for contract losses	(148,248)	0
Other balance sheet changes	626,546	(206,368)
Net cash used in operating activities	**(2,846,432)**	**(2,672,115)**
Cash flows from investing activities		
Maturities (purchases) of available for sale investments, net	16,884,881	(22,538,101)
Acquisitions, net of cash received	(12,411,884)	0
Purchase of property and equipment	(2,327,281)	(109,993)
Proceeds from the sale of equipment	7,500	0
Investments in joint ventures	(88,727)	0
Net cash provided by (used in) investing activities	**2,064,489**	**(22,648,094)**
Cash flows from financing activities		
Issuance (repayment) of debt, net	1,549,567	(1,061,044)
Net (repayments) borrowings on lines of credit	(1,045,905)	0
Advances from related party	157,852	620,051
Proceeds from the exercise of stock options	4,059	31,113,685
Net cash provided by financing activities	**665,573**	**30,672,692**
Foreign exchange translation	45,586	0
Net (decrease) increase in cash and cash equivalents	**(70,784)**	**5,352,483**
Cash and cash equivalents at beginning of period	**5,666,910**	**696,959**

Cash and cash equivalents at end of period	**$ 5,596,126**	**$ 6,049,442**

Non-cash acquisitions of property & equipment totaled $2,145,755 and $0 for the periods ended June 30, 2005 and 2004, respectively.

See accompanying notes to the consolidated financial statements.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

1. BASIS OF PRESENTATION

The accompanying unaudited consolidated financial statements for the three and six month periods ended June 30, 2005 and 2004 have been prepared in accordance with United States generally accepted accounting principles for interim financial information and pursuant to the rules and regulations of the Securities and Exchange Commission for Form 10-Q and Rule 10-01 of Regulation S-X. Accordingly, they do not include all the information and footnotes required for complete financial statements. In the opinion of management, the accompanying unaudited consolidated financial statements contain all adjustments, consisting only of normal recurring accruals, considered necessary for a fair presentation of the Company s financial position, results of operations, and cash flows as of and for the periods presented.

The results of operations for the interim periods ended June 30, 2005 and 2004 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the December 31, 2004 consolidated financial statements and related notes included in the Company s Annual Report on Form 10-KSB for the year ended December 31, 2004, in addition to the interim financial statements, exhibits and related notes included in the Company s Form 8-Ks filed on February 1, 2005, February 25, 2005, and May 11, 2005, and any amendments thereto.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Organization and Nature of Business

Spectrum Sciences & Software Holdings Corp. (the Company), headquartered in Falls Church, Virginia, has five reportable segments: Security Solutions, Industrial and Offshore, Repair and Overhaul, Engineering Consulting, and Procurement Services. Security Solutions includes the design and construction of munitions ground support equipment and containers for the shipping and storage of munitions and software to assist in hazard management and weapons impact analysis. The Security Solutions segment comprises the previously reported segments of management services, manufacturing, and engineering and information technology. Industrial and Offshore operations include the Company s engineering, mechanical contracting and steel fabrication operations in the Province of Newfoundland, Canada. The Company s Repair and Overhaul segment is engaged in providing specialized fabrication and maintenance for ships, lifeboats and maritime navigation systems. The Company s Engineering Consulting segment provides services to the federal government in the areas of energy and the environment, homeland defense and transportation. The Procurement Services segment provides acquisition support services to both government and commercial clients.

The Company acquired M&M Engineering Limited (M&M), Coast Engine and Equipment Co., Inc. (CEECO), and Horne Engineering Services, Inc. (Horne) during the 2005 fiscal year. Details of these acquisitions are included in Note 3.

Income Taxes

The Company accounts for income taxes utilizing the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carry forwards. Deferred tax assets and liabilities are measured using enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enacted date. Valuation allowances are established when necessary to reduce deferred tax assets to the amount expected to be realized.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

The Company currently has a net operating loss carry forward of approximately $9,300,000, which would equate to a deferred tax asset of approximately $3,000,000 at June 30, 2005. The Company has not recorded this federal tax benefit in the accompanying consolidated financial statements, due to the possibility that the net operating loss carryforward may not be utilized, for various reasons, including the potential that we might not have sufficient profits to use the carryforward or the carryforward may be limited as a result of changes in our equity ownership.

Earnings (Loss) Per Share

The Company reports its earnings (loss) per share in accordance with Financial Accounting Standards Board (FASB) Statement No. 128, Earnings Per Share. Statement No. 128 requires the presentation of basic and diluted loss per share on the face of the statement of operations.

Basic earnings (loss) per share (EPS) is calculated by dividing net income (loss) by the weighted-average number of common shares outstanding during the reporting period. Diluted EPS is computed in a manner consistent with that of basic EPS while giving effect to the impact of common stock equivalents. The Company s common stock equivalents consist of employee, director and consultant stock options to purchase common stock. Common stock equivalents were not included in the computation of diluted earnings (loss) per share for the three and six months ended June 30, 2005 and 2004 as the inclusion of these common stock equivalents would be anti-dilutive as the Company is in a net loss position and including such shares would reduce the net loss per share.

Financial Instruments

The Company considers all highly liquid interest-earning investments with a maturity of three months or less at the date of purchase to be cash equivalents. Short-term investments generally mature between three months and two years from the purchase date. Investments with maturities beyond one year may be classified as short-term based on their highly liquid nature and because such marketable securities represent the investment of cash that is available for current operations. All short-term investments are classified as available for sale and are recorded at market value using the specific identification method; unrealized gains and losses are reflected in Other Comprehensive Income. Investments consist of debt instruments. Debt securities are classified as available for sale and are recorded at market using the specific identification method. Unrealized gains and losses (excluding other-than-temporary impairments) are reflected in Other Comprehensive Income.

Investments are considered to be impaired when a decline in fair value is judged to be other than temporary. The Company employs a systematic methodology that considers available evidence in evaluating potential impairment of its investments. If the cost of an investment exceeds its fair value, the Company evaluates, among other factors, general market conditions, the duration and extent to which the fair value is less than cost, as well as our intent and ability to hold the investment. The Company also considers specific adverse conditions related to the financial health of and business outlook for the investee, including industry and sector performance, changes in technology, operational and financing cash flow factors, and rating agency actions. Once a decline in fair value is determined to be other than temporary, an impairment charge is recorded and a new cost basis for the investment is established.

Foreign Currency Translation

The Company s functional currency is the U.S. dollar, except that the functional currency of M&M is the Canadian dollar. In the accompanying consolidated financial statements, the monetary assets and liabilities of M&M were translated to U.S. dollars using the June 30, 2005 exchange rate of .8142 Canadian dollar to 1.00 U.S. dollar. All monetary consolidated statements of operations items of M&M were translated at the average exchange rate for the six months ended June 30, 2005 of .8086 Canadian dollar to 1.00 U.S. dollar.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

Recent Accounting Pronouncements

In December 2004, the FASB issued Statement of Financial Accounting Standards (SFAS) 123 (revised 2004), Share-Based Payment (SFAS 123R). SFAS 123R requires measurement of all employee stock-based compensation awards using a fair-value method and the recording of such expense in the consolidated financial statements. In addition, the adoption of SFAS 123R requires additional accounting related to the income tax effects and disclosure regarding the cash flow effects resulting from share-based payment arrangements. We selected the Black-Scholes option-pricing model as the most appropriate fair-value method for our awards and will recognize compensation cost on a straight-line basis over our awards vesting periods, if any. We adopted SFAS 123R in the first quarter of 2004. The expected adoption of the following recent accounting pronouncements in the first quarter of 2006 is not expected to have a material impact on our results of operations and financial condition:

SFAS No. 151, Inventory Costs An Amendment of ARB No. 43, Chapter 4

SFAS No. 153, Exchanges of Nonmonetary Assets An Amendment of APB Opinion No. 29.

EITF Issue No. 05-06, Determining the Amortization Period for Leasehold Improvements

In May 2005, the FASB issued SFAS 154, Accounting Changes and Error Corrections (SFAS 154), which replaces Accounting Principles Board Opinions No. 20 Accounting Changes and SFAS 3, Reporting Accounting Changes in Interim Financial Statements An Amendment of APB Opinion No. 28. SFAS 154 provides guidance on the accounting for and reporting of accounting changes and error corrections. It establishes retrospective application, or the earliest practicable date, as the required method for reporting a change in accounting principle and restatement with respect to the reporting of a correction of an error. SFAS 154 is effective for accounting changes and corrections of errors made in fiscal years beginning after December 15, 2005.

3. ACQUISITIONS

M&M Engineering Limited

On February 1, 2005, the Company acquired M&M for $6,768,202 in cash; a combination of the purchase of 100% of the common stock of M&M and an issuance of 1,000 preferred shares to the Company. The purchase price for the common stock of M&M was $5,958,802 in cash. Pursuant to the Purchase Agreement, M&M redeemed 1,000 of its preferred shares held by EnerNorth Industries Inc. for $809,400 immediately prior to closing the acquisition and issued the same number of preferred shares to the Company for $809,400. The total cost of the acquisition includes approximately $297,000 of acquisition related expenses for a total cost of $7,065,202. The primary purpose of this acquisition was to diversify the Company s corporate customer base beyond U.S. federal government contracting and to capitalize on the growth potential in the natural resource sector to include: the offshore oil and gas industries, the hydroelectric sector, mining and the pulp and paper industries in Newfoundland and Labrador.

Coast Engine and Equipment

On February 25, 2005, the Company acquired CEECO with an initial cash payment of $300,000 plus an earn-out over the next three years. Under the terms of the Purchase Agreement, the Company will pay to the former Shareholders of CEECO a total purchase price of up to $900,000 over a three-year period. The purchase price is payable in cash and common stock of the Company and is subject to certain adjustments, including, without limitation, adjustments based on CEECO s earnings during such three-year period. In addition to the $300,000 cash payment for CEECO, there were approximately $30,000 of acquisition related expenses. Pursuant to a security agreement executed in connection with the Purchase Agreement, the former Shareholders of CEECO will retain a security interest in all of the assets of CEECO until the total purchase price has been paid. The Company has a three-year employment contract with Louis T. Rogers, former owner of CEECO. The CEECO acquisition allows the Company to exploit other non-government customer bases in the south-central Florida region. It also provides the opportunity to pursue business opportunities within the U.S. Coast Guard and U.S. Navy by increasing the Company s presence in that market.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

As of June 30, 2005, CEECO has met the purchase price EBITDA (earnings before interest, tax, depreciation and amortization), as defined in the agreement, goals for the first year. While these results must be verified through year-end audit, one-quarter of the first year price of $200,000, or $50,000 has been accrued. This includes $50,000 accrued in this fiscal quarter to properly account for this expense.

Horne Engineering, Inc.

On May 11, 2005, the Company acquired all of the issued and outstanding capital stock of Horne Engineering, Inc. (Horne), from its shareholders, Darryl K. Horne, Charlene M. Horne and Michael M. Megless (the Horne Shareholders), pursuant to an Agreement and Plan of Merger (the Merger Agreement). Pursuant to the Merger Agreement, Horne was merged with and into Horne Acquisition LLC, a wholly owned subsidiary of the Company. The purchase price for the capital stock of Horne was $4.5 million in cash and 6.1 million unregistered shares of the Company s common stock (the Shares). Additional shares of common stock could subsequently become issuable by the Company to the Horne Shareholders to the extent that the average closing price of the Company s common stock on NASD OTC Bulletin Board, or other public securities market, for the trading days during the two month period ending on May 11, 2007 is less than $3.25 per share, subject to Horne (on a stand alone basis) meeting or exceeding 2005 gross revenues of $75 million with EBITDA (as defined in the merger agreement) of $3.25 million (the 2005 EBITDA) and EBITDA of not less than $3.25 million in 2006. Pursuant to an Amendment and Waiver Agreement entered into among the parties to the Merger Agreement on May 11, 2005 (the Amendment), the Company held back 4.0 million of the Shares payable to the former Horne Shareholders under the Merger Agreement (the Hold Back Shares), with the disposition of those shares subject to two conditions. First, the Amendment requires the Company to release 3.0 million of the Hold Back Shares to the former Horne Shareholders promptly upon receiving certain third party consents relating to certain of Horne s contracts, which are specified in the Amendment. Second, if Horne s 2005 EBITDA is less than $3.25 million (the EBITDA Shortfall), the Company will be entitled to recover any remaining Hold Back Shares limited such that the value of the recovered Hold Back Shares, based on the closing price of the Company s common stock on May 11, 2005, does not exceed three times the EBITDA Shortfall. As of November 11, 2005, the Company has received the required consents described above and intends to promptly issue three million of the Holdback shares to Horne s former shareholders. See also subsequent events described in Note 13.

In connection with the Merger Agreement, the Company and the Horne Shareholders entered into a Registration Rights Agreement, dated May 11, 2005 (the Rights Agreement), pursuant to which the Company agreed to prepare and file a registration statement pursuant to Rule 415 under the Securities Act of 1933, as amended (the Securities Act), covering the resale from time to time of all of the shares of the Company s common stock issued to the Shareholders pursuant to the Merger Agreement.

Upon the closing of the Merger Agreement, Messrs. Horne and Megless were appointed to the Company s Board of Directors. In connection with the Merger Agreement, Messrs. Horne and Megless executed Employment Agreements with the Company, dated as of May 11, 2005 (the Employment Agreements), pursuant to which such individuals were appointed Chief Executive Officer (CEO), and Chief Financial Officer (CFO), respectively. Pursuant to a Stock Option Agreement executed in connection with the Merger Agreement, Mr. Horne received an option to purchase 1.0 million shares of the Company s common stock at an exercise price of $1.65 per share, subject to Horne meeting the revenue and EBITDA targets for 2005 as described above. The Company also reserved 2.0 million shares of the Company s common stock for the issuance of stock options to be granted to the employees of Horne at the discretion of Mr. Horne.

Each acquisition described above was accounted for under the purchase method of accounting; accordingly, the purchase price has been allocated to reflect the fair value of assets and liabilities acquired at the date of acquisition. For the six-month period ended June 30, 2005, the results of operations reported for the Company includes a full six months of operations for Spectrum Sciences & Software, Inc. (SSSI), a wholly owned subsidiary of the Company, five months of operations for M&M (February 1, 2005 through June 30, 2005), four months of operations for CEECO (March 1, 2005 through June 30, 2005), and two months of operations for Horne (May 1, 2005 through June 30, 2005), respectively. For the three month and six month periods ended June 30, 2004, the results of operations

represent only those of SSSI.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

Pro Forma Results

The results of these acquisitions, had they been consummated at the beginning of each period shown, are included in the pro forma information below. The historical revenues and earnings of M&M, CEECO, and Horne for the periods ended June 30, 2005 and 2004 have been combined with the revenues and earnings of Spectrum Sciences & Software Holdings Corp. for the three and six months ended June 30, 2005 and 2004, respectively. This pro forma information does not necessarily reflect the results of operations that would have occurred had the acquisitions taken place at the beginning of each of the three and six month periods represented and is not necessarily indicative of results that may be obtained in the future.

	Three months ended June 30,		Six months ended June 30,	
	2005	**2004**	**2005**	**2004**
Revenue	$13,307,675	$ 14,576,726	$37,641,826	$ 22,888,868
Net loss	(1,046,875)	(26,302,478)	(2,778,843)	(39,691,478)
Loss per share Basic & Diluted	$ (0.03)	$ (0.71)	$ (0.07)	$ (1.44)

The decreased revenue for the three months ended June 30, 2005 as compared with the same quarter in 2004 is the lack of revenue from the Gila Bend contract that ended in late 2004 and a reduction in the revenue for M&M s Liannu joint venture. The Gila Bend contract contributed approximately $2.3 million of revenue during the quarter ended June 2004. The Liannu activity in the second quarter of 2004 was significant in that they were performing start-up related activities for the Voisey Bay mines under several contracts that totaled several million dollars of revenue for the quarter ended June 2004. The net loss for the three months ended June 2005 is due to $650,000 of stock-based compensation for consulting services, as well as the impact from Hurricane Dennis.

Revenue for the six months ended June 2005 increased from the six month period ended June 2004 due to the Bechtel National, Inc. procurement contract that provided $20.0 million more revenue in the six months ended June 2005 as compared with the same six month period in 2004. This increased revenue is offset by the decline in Gila Bend and Liannu revenues over the same period. The net loss for the six month period was impact by $1.4 million in stock-based compensation expense and a $360,000 loss for SSSI. The net loss reported above was also significantly impacted by merger and acquisition activity during the period including costs for accounting and legal fees, investor relations, and consulting, as well as Hurricane Dennis, the second hurricane to hit the Florida Gulf Coast in less than a year. The loss for the six months ended June 30, 2004 includes approximately $37.4 million of stock compensation expense.

4. RECEIVABLES

Receivables primarily comprise amounts due to the Company for work performed on contracts directly related to commercial and government customers. The Company s Industrial and Offshore major clients include Exxon Mobil, Petro Canada, Halliburton, Husky Energy, Inco Ltd., Iron Ore Company of Canada, North Atlantic Refining Ltd., Abitibi Consolidated and Corner Brook Pulp and Paper. The Company s Repair and Overhaul segments customers include: the U.S. Navy, U.S. Coast Guard, Military Sealift Command, Rinker Cement and Disney Cruise Lines. The U.S. Air Force and the U.S. Navy are the major customers for the Security Solutions segment. The U.S. Department of Defense (including the Army Environmental Center and the Army Corp of Engineers), Lockheed Martin, Battelle, Staubach, Louisiana State University, Department of Homeland Security (including the Transportation Security Agency), Federal Aviation Administration, the General Services Administration (GSA Schedules), USAID, and other government agencies are the major customers for the Company s Engineering Consulting segment. Bechtel International, Inc. is the major customer for the Company s Procurement Services segment.

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Receivables	**June 30, 2005**	**December 31, 2004**
Billed receivables	$ 11,906,206	$ 1,467,285
Unbilled receivables	3,201,400	1,165,514
Holdbacks	516,108	
Other	(17,807)	126,957
Total Receivables	**$ 15,605,907**	**$ 2,759,756**

5. INVENTORIES

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The major components of inventories are summarized as follows:

Inventories	**June 30, 2005**	**December 31, 2004**
Raw materials, net of reserve	$ 467,242	$ 20,483
Work in process	38,109	58,527
Finished goods	33,420	
Total Inventories	**$ 538,771**	**$ 79,010**

6. PROPERTY AND EQUIPMENT

Property & Equipment	**June 30, 2005**	**December 31, 2004**
Land	858,462	175,000
Buildings and Improvements	4,838,013	1,698,572
Furniture & fixtures	49,130	39,541
Manufacturing Equipment	1,331,900	1,012,541
Tools & Equipment	313,517	
Office Equipment	608,805	245,119
Vehicles	439,626	55,390
Equipment under capital Lease	476,575	
Investment Property	220,900	220,900
Total	**9,136,928**	**3,447,063**
Accumulated Depreciation	(1,470,956)	(1,166,317)
Property & Equipment, net	**7,665,972**	**2,280,746**

7. BORROWINGS AND LINES OF CREDIT

The Company s borrowings primarily consist of mortgages of $2.14 million and capital leases of $0.48 million. The interest rates on the mortgages are either fixed at 7% or adjustable at the Royal National Bank of Canada s cost of funds plus 3.25% (6.1% at June 30, 2005). The interest rates on the capital leases range from 0% to 14.9%.

The Company also maintains lines of credit through two of its subsidiaries. These lines of credit provide operating funds for normal business activities. These financing arrangements are described below.

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CIBC Facility

M&M maintains its own revolving line of credit facility with a commercial bank, the Canadian Imperial Bank of Commerce (CIBC). This credit facility (the CIBC Facility) was initially entered into in December 1994 and has been amended and renewed from time to time. The CIBC Facility currently allows the Company to borrow up to the lesser of i) $1.40 million Canadian, or ii) 75% of receivables from governments or large institutions and 60% of other receivables to finance working capital requirements on a revolving basis. The CIBC Facility is payable upon demand and bears interest at prime plus 2.25%. As of June 30, 2005, there was $367,764 outstanding under the CIBC Facility. As security for the CIBC Facility, M&M has provided a first priority lien on i) receivables, inventory and specific equipment; ii) a second priority lien on land, buildings and immovable equipment; and iii) an assignment of insurance proceeds. M&M and M&M Offshore Limited, a wholly owned subsidiary of M&M, have provided cross-guarantees to CIBC in an unlimited amount to secure each other s share of the CIBC Facility. The CIBC Facility also requires M&M to comply with specified financial covenants, including current ratio, debt/equity ratio and limits on capital expenditures, dividends and further encumbrances on collateral. As of June 30, 2005, M&M was in compliance with all of these covenants.

Magna Credit Facility

During 2003, Magna, a joint venture of M&M, negotiated a credit facility in the amount of $797,871, which is repayable on demand and bears interest at the bank s prime lending rate plus 1.50% per annum. As security, M&M has provided a $199,468 guarantee plus an agreement to postpone debt of a further $279,255. There was no outstanding balance of this demand loan as of June 30, 2005. M&M has not been liable for any guarantees under this credit facility.

Bank of America Facility

During 2004, Horne negotiated two revolving lines of credit with the Bank of America. In 2005, these credit lines were extended and now expire on December 31, 2005. The operating line of credit for $4,000,000 accrues interest at the London Inter-Bank Offered Rate (LIBOR) plus 2.75%. The contract line of credit for $10,000,000 accrues interest at LIBOR plus 3.25%. At June 30, 2005, there was no outstanding balance on either line.

8. RELATED PARTY TRANSACTIONS

Transactions related to BG Capital Group Limited, Endeavor Group, LLC and Related Stockholders

The Company had recorded a receivable from Robert Genovese, a stockholder of the Company, of $705,126 at December 31, 2004. However, the Company also recorded a payable to one of Mr. Genovese s companies of $705,126 at December 31, 2004 primarily representing previously disallowed investor relations expenses, which were subsequently approved on the basis that satisfactory support for such expenses was provided. These receivables and payables are recorded as related party amounts in the financial statements. On April 5, 2005 the receivable of $705,126 was paid to the Company by Mr. Genovese and the payable to one of Mr. Genovese s companies in the same amount was paid by the Company.

Transactions related to Coast Engine and Equipment Company

During the three month and six month periods ended June 30, 2005, the Company received cash advances from two of the CEECO officers of $22,715 and $54,715, respectively. These advances are non-interest bearing and are expected to be repaid within six months. At June 30, 2005, the Company owed $36,929 to the CEECO officers. Amounts repaid to the related parties during the six month period ended June 30, 2005 totaled $17,786.

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In March 2005, the Company purchased two vehicles through loans from the CEECO officers totaling $25,614. One vehicle was purchased for $33,614 through a trade-in allowance of $24,500 and cash paid by the CEECO officers of $9,114, which is included in loans from CEECO officers on the accompanying balance sheet. The other vehicle was purchased for $16,500 in cash paid by the CEECO officers and is also included in loans from CEECO officers on the accompanying balance sheet. The amounts due to the CEECO officers are non-interest bearing and are to be repaid through monthly payments in the amounts of $456 through November 2006 and $458 through March 2008. Amounts repaid to the CEECO officers during the three-month and seven-month periods ended June 30, 2005 totaled $2,804 and $2,804, respectively. The following are the payment obligations for the years ending December 31:

2005	$ 8,226
2006	10,513
2007	5,500
2008	1,375
	$ 25,614

CEECO leases its facilities from a company owned by a related party under a non-cancelable lease from May 1, 2004 through April 30, 2006. The following are the lease obligations for the next two years ending December 31:

2005	$ 71,016
2006	23,672
	$ 94,688

9. STOCK OPTION PLAN

On January 12, 2005, the Company executed stock option agreements with the directors and officers of the Company, pursuant to the Amended and Restated Number 2 2004 Non-Statutory Stock Option Plan (the Plan). Pursuant to stock option agreements, the Company granted options to each of Kelvin D. Armstrong, Karl Heer, William H. Ham, Jr. and Nancy Gontarek to purchase 300,000 shares of the Company s common stock, $0.0001 par value per share, at an exercise price of $1.65 per share. All the options become exercisable as of the date on which the Company has consummated, since January 12, 2005, the acquisition of businesses with annual revenues in the aggregate of at least $20 million. The options expire on January 12, 2008. The Company has chosen to implement FASB Statement No. 123R, *Share-Based Payment*, which requires options be valued at fair value at the grant date, effective January 1, 2004. The fair value of the options issued was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 2.84%; no dividend yields; volatility factors of the expected market price of our common stock of 0.67; and an expected option life of three years. This generates a price of $0.63 per option based on an exercise price of $1.65 at the grant date, January 12, 2005. As a result, $751,662 of compensation expense and additional paid-in capital was recorded at the grant date.

On February 14, 2005, the Company executed additional stock option agreements with the directors of the Company pursuant to the Plan. Pursuant to those stock option agreements, the Company granted options to each of Kelvin D. Armstrong, Karl Heer and William H. Ham, Jr. to purchase 500,000 shares of the Company s common stock, $0.0001 par value per share, at an exercise price of $2.50 per share. All of the options issued to the directors will expire on February 14, 2008. All of the options become exercisable as of the date on which the Company certifies, based on the Company s audited financial statements for the 2005 fiscal year as filed in the Company s Annual Report on Form 10-K filed with the Securities and Exchange Commission (the SEC) for such fiscal year, that the Company has achieved earnings before interest, taxes, depreciation and amortization of $4 million for the 2005 fiscal year. No compensation expense has been recorded because it cannot reasonably be determined, at this time, if the exercise contingency associated with these options will be satisfied.

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On April 7, 2005, the Company granted certain employees options to purchase an aggregate of 502,000 shares of the Company s common stock, $0.0001 par value per share, at an exercise price of $1.95, pursuant to the Plan. All the options issued expire on April 7, 2008. The fair value of the options issued was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 3.02%; no dividend yields; volatility factors of the expected market price of our common stock of 0.73; and an expected life of the options of three years. This generates a price of $1.27 per option based on a $1.95 exercise price at the grant date, April 7, 2005. As a result, $638,901 of compensation expense and additional paid-in capital was recorded at the grant date.

On June 6, 2005, the Company executed stock option agreements with certain employees pursuant to the Plan. Pursuant to the agreements, a total of 13,750 shares of the Company s common stock, $0.0001 par value per share, were issued at an exercise price of $1.28 per share. All the options issued will expire on June 6, 2008. The fair value of the options issued was estimated at the grant date using the Black-Scholes option pricing model with the following weighted-average assumptions: risk-free interest rate of 3.30%; no dividend yields; volatility factors of the expected market price of our common stock of 0.73; and an expected life of the options of three years. This generates a price of $0.62 per option based on a strike price of $1.28 at the grant date, which was June 6, 2005. As a result, $8,462 of compensation expense and additional paid-in capital was recorded at the grant date.

On June 8, 2005, the Company executed stock option agreements, pursuant to the Plan, with Darryl K. Horne and Michael M. Megless, who were appointed as directors of the Company on May 11, 2005. Pursuant to the stock option agreements, the Company granted, to each of Messrs. Horne and Megless, options to purchase 500,000 shares of the Company s common stock, $0.0001 par value per share, at an exercise price of $2.50 per share. All of the options issued to Messrs. Horne and Megless will expire on June 8, 2008. All of the options will become exercisable if and as of the date on which the Company certifies, based on the Company s audited financial statements for the 2005 fiscal year as filed in the Company s Annual Report on Form 10-K filed with the SEC for such fiscal year, that the Company has achieved earnings before interest, taxes, depreciation and amortization of $4 million for the 2005 fiscal year. No compensation expense has been recorded because it cannot reasonably be determined at this time that the exercise contingency associated with these options will be satisfied.

10. SEGMENT INFORMATION

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management evaluates operating profit by segment taking into account direct costs of each segment s products and services as well as an allocation of indirect corporate overhead costs. Through its four subsidiaries, the Company has five operating segments. The Security Solutions segment as reported by SSSI includes operations for management services, manufacturing, and engineering and information technology predominantly in the munitions and Homeland safety arena. The Industrial and Offshore segment reported by M&M includes the Company s engineering, mechanical contracting and steel fabrication in the Province of Newfoundland, Canada. The Repair and Overhaul segment as reported by Coast Engine and Equipment Company, Inc. is engaged in providing specialized fabrication and maintenance for ships, lifeboats and maritime navigation systems. The two segments reported by Horne Services, LLC are Engineering Consulting and Procurement Services. Engineering Consulting services consist of environmental sampling, occupational safety and transportation consulting. Procurement Services support large government programs for infrastructure rebuilding and acquisition. The following is a summary of certain financial information related to the five segments during the six months ended June 30, 2005 and 2004. Results are not reported in 2004 for the Industrial and Offshore segment, the Repair and Overhaul segment, the Engineering Consulting segment, and the Procurement Services segment as they were not part of the Company s operations during that time period.

For the six month periods ended June 30, 2005, the segment results reported for the Company include a full six months of operations for SSSI, five months of operations for M&M (beginning February 1, 2005), four months of operations for CEECO (beginning March 1, 2005), and two months of operations for Horne (beginning May 1, 2005). For the three month and six month periods ended June 30, 2004, the segment results represent only those of SSSI.

Note that the previously reported segments of management services, engineering and information technology, and manufacturing have now been consolidated into the Security Solutions segment consistent with how the Company is now being managed.

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	Three months ended June 30,		Six months ended June 30,	
	2005	**2004**	**2005**	**2004**
Security Solutions				
Total revenue	$ 1,642,055	$ 3,418,747	$ 3,292,807	$ 7,015,325
Operating (loss)income	(405,769)	62,913	(571,317)	36,160
Industrial and Offshore				
Total revenue	4,896,574		5,677,826	
Operating income	252,734		(101,407)	
Repair and Overhaul				
Total revenue	360,620		471,226	
Operating income	74,277		86,473	
Engineering Consulting				
Total revenue	2,613,446		2,613,446	
Operating income	197,043		197,043	
Procurement Services				
Total revenue	2,283,733		2,283,733	
Operating income	60,689		60,689	
Headquarters				
Total revenue				
Operating (loss)income	(1,465,186)	(26,752,880)	(2,856,413)	(40,355,514)
Total				
Total revenue	$11,796,428	$ 3,418,747	$14,339,038	$ 7,015,325
Operating (loss)income	$ (1,286,212)	$(26,689,967)	$ (3,184,932)	$(40,319,354)

Identifiable Assets	**September 30, 2005**	**December 31, 2004**
Security Solutions	$ 4,470,442	$ 3,071,143
Industrial and Offshore	8,636,551	
Repair and Overhaul	366,984	
Engineering Consulting	4,282,039	
Procurement Services	2,194,298	
Corporate Assets	28,541,334	28,141,836
Total Assets	**$ 48,491,648**	**$ 31,212,979**

See accompanying notes to consolidated financial statements.

11. COMMITMENTS AND CONTINGENCIES

Legal Matters

Harassment Suit

In December 2002, three employees filed complaints against SSSI for violation of civil rights, discrimination, harassment, hostile work environment and retaliation in the United States District Court in Arizona. In January 2003, SSSI filed answers to all three complaints denying all allegations of wrongdoing. The employees are requesting compensatory, incidental and punitive damages as well as attorney s fees and costs for undue stress and anxiety from SSSI s actions.

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On January 31, 2005, the suit was adjudicated in favor of the defendants with a total award of $383,100 plus attorney s fees. The awards were for $300,000, $80,000 and $3,100 respectively for the three defendants. On March 7, 2005, SSSI filed an objection to the judgment as the judgment amounts exceeded certain statutory limits. The court has not yet ruled on SSSI s objection to the judgment. SSSI has accrued the expected exposure related to this judgment of $238,000 in accrued expenses at December 31, 2004.

Section 16(b) claim

In July, 2004, a complaint was filed in the United States District Court, Southern District of Florida by Todd Augenbaum against Robert Genovese, Endeavor Capital Group, LLC, BG Capital Group, Ltd, and Spectrum Sciences and Software Holdings Corp. The suit alleges that Mr. Genovese and his affiliated companies beneficially owned more than 10% of the outstanding common stock of Spectrum and that Mr. Genovese acted as an officer and director of the Company. Based on these assertions, the suit claims that Mr. Genovese was a statutory insider of Spectrum, and as such, is presumed to have had access to material non-public information concerning the Company s operations and future business prospects, and is therefore subject to the provisions of Section 16(b) of the Exchange Act. The action was brought by the Plaintiff in order to obtain a recovery of short-swing profits alleged to have been unlawfully obtained by Mr. Genovese through the purchase and sale of the Company securities. The Company is a nominal defendant in the action and has no liability for the claims asserted therein against the other defendants. The Company s answer to the complaint was filed in the U.S. District Court, Ft. Lauderdale, FL on August 26, 2004. The plaintiff filed an Amended Complaint on October 18, 2004 and the Company filed its response as a nominal defendant on November 12, 2004. The defendants filed a motion to dismiss the action and the court denied the motion on January 6, 2005. The Company cannot currently make any prediction of what the outcome of the litigation will be.

Claim by the former President of the Company

On August 24, 2004, the former President and CEO of the Company, Mr. Donal R. Myrick filed a complaint for alleged breach of employment contracts and damages associated with a delayed stock sale. The suit alleges three counts against the Company:

Spectrum has breached its obligation under an oral employment agreement for the period from November 2002 to December 2003 by failing and refusing to pay salary or benefits;

Spectrum has breached its obligation under a written employment agreement starting December 2003 by failing to fully compensate Mr. Myrick under that agreement up to the time of his resignation, and

Spectrum, by its failure to issue an opinion letter to allow the sale of Mr. Myrick s stock in the open market, is liable for the damages that occurred due to the difference in value as to the date of the registration of transfer should have occurred and the eventual date that Mr. Myrick was able to liquidate the stock in the open market.

Mr. Myrick s suit demands damages of and from Spectrum together with interest and costs and such other and further relief as the Court deems just and proper. The Company intends to vigorously defend its position in the case and filed its answer to Mr. Myrick s complaint on October 25, 2004. Discovery and deposition scheduling is currently underway in advance of a court ordered attempt to mediate the claim. The case is scheduled for mediation in later October 2005. The Company currently does not know what the outcome of this litigation will be.

Munitions Assembly Conveyor (MAC) Lawsuit

On August 23, 2004, Spectrum Sciences & Software, Inc. (SSSI) filed suit against the United States Government in the United States Court of Federal Claims based on the Government s actions associated with the procurement of the improved Munitions Assembly Conveyor (MAC). The MAC is a munitions handling and support equipment system used to build up munitions prior to loading on an aircraft. As a result of SSSI s experience in both utilizing and producing the MAC, SSSI identified numerous areas needing improvement and upgrading to this old system. Based on SSSI s work, the Government entered into a Cooperative Research and Development Agreement (CRADA) for the purpose of improving munitions support equipment including the MAC. As part of the CRADA negotiation,

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Sepctrum, Inc. identified its prior development and unique modifications and improvements that constituted SSSI s trade secrets and intellectual property associated with the MAC. Following completion of the CRADA effort and delivery of the final report, the Government made overtures to purchase SSSI s rights in the redesigned the MAC, however, the offer was rejected as being inadequate to compensate SSSI for its efforts in redesigning the MAC and for the potential for further licensing opportunities. Following the failure of these discussions, SSSI alleges that the Government deliberately breached its obligation to SSSI under the CRADA to safeguard and protect SSSI s intellectual property and proprietary information by improperly disclosing and widely disseminating to third parties, including SSSI competitors, SSSI s proprietary information via a draft Request for Proposal Solicitation dated May 1, 2004. Based on the Government s actions, SSSI filed suit on three counts alleging:

Breach of Express Contract

Breach of Implied in Fact Contract

Misappropriation of Trade Secrets

SSSI has requested damages in excess of three and one half million dollars ($3,500,000) and will request the award of its costs, fees, expenses and attorney s fees associated with this action.

The Department of Justice on behalf of the agency filed its response on December 6, 2004. Based on discovery to date, SSSI has amended its suit on March 14, 2005. Initial Rule 26 documents have been exchanged and motions on the pleadings and substantial discovery is continuing. The Government has filed a motion to dismiss and a motion for summary judgment along with its findings of uncontroverted facts. On July 1, 2005, SSSI filed its objections to the Government s motion to dismiss and the motion for summary judgment, and its response to the Government s proposed findings of uncontroverted facts. The Company cannot predict the outcome of this litigation but is confident of its position as set forth in this lawsuit.

Garrison Lawsuit

On February 22, 2005, SSSI filed suit against former employees Donald L. Garrison, David M. Hatfield and their current employer Control Systems Research, Inc. SSSI alleges that during their employment at SSSI, Mr. Garrison and Mr. Hatfield were actively involved with the development and application of the Safe Range project (a proprietary SSSI product) and other non-technical company information such as employee wage data and personnel files, marketing plans, bidding information, and information about other SSSI contracts and affairs. The suit alleges that Garrison and Hatfield used SSSI s confidential and proprietary information (in violation of their signed agreements for Protection of Proprietary Information) to improperly compete with their new employer (Control Systems Research, Inc.) against SSSI with regards to the Safe Range program and other related government contracts. The five counts identified in the lawsuit include:

Breach of Contract

Violation of Uniform Trade Secrets Act

Tortious Interference

Conversion

Civil Conspiracy

Total damages to SSSI were not specified and the defendants have not yet responded to the suit. The Company currently does not know what the outcome of this litigation will be.

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Plum Island Claim

Horne Engineering submitted a three-part claim to the USDA (and later resubmitted to the Department of Homeland Security because of a change in federal agency responsibility for the project) seeking an equitable adjustment in the amount of $835,793. The first part of the claim concerns the pumping of sludge from the stabilization lagoon to the aeration lagoon. Based upon the contract documents, Horne reasonably expected to pump 4,129 cubic yards of sludge. In fact, it pumped an additional 3,459 cubic yards of sludge. Horne seeks $266,795 for this work. The second part of the claim is for difficulty in pumping water from the lagoon due to vegetation that clogged Horne s subcontractor pumps. This vegetation was not present in the pre site visit and not included in Horne s bid price. Horne seeks $49,870 for this work. Horne s third part of the claim is for obtaining and placing an additional 6, 750 cubic yards of borrow material. There is a question of fact regarding the quantity calculations; however, the Company believes its calculations are accurate and complete and seeks $519,128 for this work. The Company currently does not know what the outcome of this litigation will be. At June 30, 2005, no amounts have been recorded in the financial statements in anticipation of a successful outcome for this claim.

SEC Investigation

On April 28, 2004, Spectrum Sciences & Software Holdings Corp. was informed by the Securities and Exchange Commission (the SEC), Division of Enforcement that they were conducting an informal inquiry into the Company. In conjunction with that inquiry, the SEC has requested the Company to voluntarily provide the SEC with the documents and information they requested. More specifically, the SEC has requested, among other things:

All documents concerning Robert Genovese (Genovese), Endeavor Capital Group Ltd., and B.G. Capital Group Ltd., both of which are owned by a stockholder, Mr. Genovese;

All documents concerning any purchase or sales of the Company s stock by Genovese, Endeavor, B.G. Capital, or any Company officer, director or manager, or any related party;

All documents concerning stock options in the Company held by Genovese, Endeavor, B.G. Capital, or any other related persons or parties;

All documents concerning press releases or public announcements issued by the Company;

All documents concerning statements made by the Company to securities analysts or in the media;

All documents concerning any promotional materials concerning the Company s stock;

All documents concerning the resignation of Donal Myrick.

On May 17, 2004, the SEC broadened its request for information to include:

All information relating to the Company s decision to list on any foreign exchange;

All documents relating to the listing of the Company s stock on any foreign exchange;

Any information relating to any transfers of stock that the Company may be aware that were directed overseas.

The Company is fully cooperating with the SEC inquiry.

There has been an increase in legal fees associated with the Company s legal consultations relating to the SEC informal inquiry, the sexual harassment suit under the Gila Bend contract, and the suit against the Company by the former president.

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12. INVESTMENTS IN JOINT VENTURES

M&M Engineering Limited

M&M conducts a portion of its business through two joint ventures, Newfoundland Service Alliance, Inc. (NSA) a 20.83% owned joint venture and Magna Services, Inc. (Magna) a 50% owned joint venture. These investments are accounted for using the equity method of accounting.

NSA, a Newfoundland and Labrador corporation, was incorporated in December 1996 to combine the expertise of its shareholders in providing comprehensive onshore support services to the Newfoundland and Labrador oil and gas industry. NSA is jointly owned by M&M Offshore Limited (MMO) (20.83%), G.J. Cahill & Company (1979) Limited (Cahill) (20.83%), New Valve Services and Consulting Inc. (20.83%), Peacock Inc. (20.83%), and Siemens Westinghouse Ltd (16.68%).

Magna, a Newfoundland and Labrador corporation, was incorporated in April 1997 to provide offshore support services to the Newfoundland and Labrador oil and gas industry including the Hibernia and Terra Nova offshore oil projects. Magna is jointly owned 50% by MMO and 50% by Jendore Limited.

Liannu is a limited partnership formed under the laws of Newfoundland and Labrador in November 2002, for the purpose of providing services in Labrador including industrial mechanical contracting, structural and steel fabrication and erection and other services including the Voisey s Bay nickel mine development. M&M is the general partner of Liannu, and holds a .01% general partner s interest and a 48.99% limited partner s interest in the partnership. The remaining 51% limited partnership interests are held by two individuals unrelated to the Company. As a general partner, M&M charges a management fee equal to 5% of the contract price for contracts entered into by the partnership.

In addition, Liannu has entered into an informal teaming arrangement with a similar corporation named Mista-Shipu Constructors Limited (Mista-Shipu). The entity Liannu/Mista-Shipu was designed to be a 50/50 joint venture for the purpose of fulfilling a $3 million contract in 2004, regarding the site-wide supply and installation of cladding for the infrastructure buildings at Voisey s Bay.

During 2004, the Industrial & offshore segment through Liannu was awarded contracts totaling $7.79 million with Voisey s Bay Nickel Company (VBNC), which produced revenue of $3.80 million during fiscal 2004. Voisey s Bay is located in Newfoundland and Labrador, and is the site of a large nickel deposit currently being developed by INCO through its subsidiary, VBNC. The contracts awarded to Liannu to date include: the fabrication of four concentrate storage tanks; the fabrication of various pumphouses, including a port fuel unloading/dispensing system; a fire/fresh water pumphouse, a potable water pumphouse and a mill site fuel dispensing system; and the fabrication of forty-nine unique tanks to be used for various purposes in the storing and refining of ore.

As of the period ended June 30, 2005, M&M recorded $117,399 in receivables from these joint ventures and $81,165 in receivables from a terminated joint venture, North Eastern Constructors Limited; totaling $194,763. The Company believes these amounts are fully collectible.

Horne is a member of Weskem, a limited liability company, that specializes environmental remediation. During 1999, Horne invested $77,500 and became a 5% partner in this joint venture. The investment is accounted for using the equity method of accounting. During the years ended December 31, 2004 and 2003, Horne recognized $158,012 and $188,496, respectively, of equity in earnings of the joint venture.

13. SUBSEQUENT EVENTS

Required Consents Received

In connection with the Company s acquisition of Horne Engineering, Inc. on May 11, 2005, the Company held back four million shares of the Company s common stock payable to the former shareholders of Horne pending the receipt of certain third party consents relating to certain of Horne s contracts and the determination of Horne s 2005 EBITDA, as defined in Note 3 of these financial statements.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to the Consolidated Financial Statements (Unaudited)

As of November 11, 2005, the Company has received each of such required consents and, accordingly, intends to promptly issue three million shares of the Company s common stock to Horne s former shareholders. The Company will continue to hold back one million shares of the Company s common stock that is payable to Horne s former shareholders pending the audited financial results of the Company and the determination of Horne s 2005 EBITDA. The three million shares of the Company s common stock held back in connection with the required consents are shown as issued in the Consolidated Statement of Stockholders Equity for the six months ended June 30, 2005.

Legal Update

The Company resolved or received clarification on several open legal issues on November 17, 2005. The Company has been notified by the Securities and Exchange Commission that the informal investigation into the Company has been terminated with no resulting enforcement proceedings against the Company or any current director or officer of the Company. Also on November 17, 2005, the Company entered into a Stipulation and Agreement of Compromise (the Stipulation) for the Section 16(b) Augenbaum case. The Defendants agreed to make settlement payments of $3,250,000 with $975,000 in cash and the remainder in stock. This agreement was approved by the court on December 1, 2005.

In connection with the Stipulation, the Company has agreed to a Settlement and Standstill Agreement with Robert Genovese and the BG Capital Group, LTD. pursuant to which the Company will receive a $800,000 cash payment and one million shares of the Company stock. In return, Mr. Genovese and BG Capital have agreed not to engage in certain actions with respect to the Company until December 31, 2008.

The Company has settled its harassment suit for a total payment of $188,000 during the third quarter of 2005. The Company also settled its claim with Donal Myrick, the former President and CEO of the Company. The Company paid Mr. Myrick $155,000 in full settlement.

ITEM 2. MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

DESCRIPTION OF THE COMPANY

Spectrum Sciences & Software Holdings Corp. (the Company) provides a variety of goods and services through its wholly-owned subsidiaries SSSI, M&M, CEECO and Horne. The following section details the business for each segment, major customers and key operational issues. The segments depicted, with the exception of Industrial and Offshore, are predominantly involved in U.S. Government contracting focusing on Homeland Security, Department of Defense, transportation and the environment, and munitions management.

The Security Solutions segment specializes in engineering, manufacturing and technological support services, as well as the production of specialized and standard ground support equipment for the United States Department of Defense and other governmental and commercial contractors. The manufacturing operation concentrates on munitions transport and packaging equipment under contracts for AMRAAM missile support, Navy launch tubes and plane maintenance equipment. The engineering group provides a variety of services including modeling and simulation, range planning, environmental analyses, the development of the Safe-Range program and Weapon Safety Footprint development. The technological support services group provides various services for military installations ranging from all base operations to specific tasks within a base.

The Repair and Overhaul segment provides a full array of electrical and electronic repair, equipment and machinery repair and overhaul, HVAC and refrigeration servicing and repair, pipe fabrication and installation, certified welding services, metal and sheet metal fabrication and installation, custom insulation services, custom flooring services and machinery to the maritime industry. Major customers include Rinker Cement, U.S. Navy, U.S. Coast Guard and Disney Cruise Lines.

The Industrial and Offshore segment is an industrial mechanical contracting company that provides maintenance services to major industries such as oil refineries, mining, pulp and paper, power generation plants, and offshore oil platforms. Its subsidiary, M&M Offshore Limited, is a steel fabrication company that provides module fabrication, pipe spooling, and specialized welding services to the offshore oil and heavy industries. The segment also contains the Liannu joint venture. This venture provides industrial mechanical contracting, structural and steel fabrication and erection. Major clients include Halliburton, ExxonMobil, Petro Canada, Husky Energy, Inco Ltd., Iron Ore Company of Canada, North Atlantic Refining Ltd., Abitibi Consolidated, and Corner Brook Pulp and Paper.

The Engineering Consulting segment delivers technology and technical engineering solutions to improve performance in the areas of environmental engineering, transportation, and occupational health and safety under prime contracts and subcontracts for agencies of the federal government, principally the Department of Defense, the Department of Homeland Security and the Transportation Security Administration (TSA). The engineering group provides services as diversified as integrated base defense security systems to environmental assessment to chemical demilitarization to the implementation of occupational health programs for entire government agencies.

The Procurement Services segment specializes in outsourced procurement services. Its largest contract is as a subcontractor to Bechtel National, Inc. on a contract with the United States Agency for International Development. The segment has continued supporting the reconstruction of the power infrastructure in Iraq by purchasing large quantities of material and equipment required for these power projects.

The new senior management of the Company has begun to integrate the subsidiaries into a cohesive organization that will capitalize on the strengths of the individual subsidiaries and provide synergistic and focused solutions for our clients. As part of this effort, the Company has formed a transition team comprised of members from each organization. Its objective is to identify synergies in operations, products and services, its clients and administration processes that will result in a more efficient Company better able to focus on its core strengths

by optimizing and aligning all of its resources. The recommendations of the transition team will be a very important factor in determining the Company s future direction.

CRITICAL ACCOUNTING POLICIES

Management s Discussion and Analysis of Financial Condition and Results of Operations are based upon our consolidated financial statements which have been prepared in accordance with United States generally accepted accounting principles. The preparation of these financial statements requires management to make estimates and assumptions that affect the amounts reported in the financial statements and determine whether contingent assets and liabilities, if any, are disclosed in the financial statements. On an ongoing basis, we evaluate our estimates and assumptions, including those related to long-term contracts, product returns, bad debts, inventories, fixed asset lives, income taxes, environmental matters, litigation and other contingencies. We base our estimates and assumptions on historical experience and on various factors that are believed to be reasonable under the circumstances, including current and expected economic conditions, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ materially from our estimates under different assumptions or conditions.

We believe that the following critical accounting policies, among others, require us to make significant estimates and judgments in the preparation of our financial statements:

Revenue Recognition

We recognize revenue and profit on substantially all of our fixed price contracts using the percentage-of-completion method of accounting, which relies on estimates of total expected contract revenues and costs. We follow this method since reasonably dependable estimates of the revenues and costs applicable to various stages of the contracts can be made. Recognized revenues and profit are subject to revisions as the projects progress to completion. Revisions to the profit estimates are charged to income in the period in which the facts that give rise to the revisions become known. Revenue from cost-plus contracts is recognized on the basis of direct costs plus indirect costs incurred and an allocable portion of the fixed fee. Revenue from time and material contracts is recognized based on fixed hourly rates for direct labor hours expended. The fixed rate includes direct labor, indirect expenses and profit. Materials or other specified direct cost are recorded at actual cost.

Inventory Valuation

We review our inventory balances to determine if inventories can be sold at amounts equal to or greater than their carrying value. The review includes identification of slow-moving inventories, obsolete inventories, and discontinued products or lines of products. The identification process includes analysis of historical performance of the inventory and current operational plans for the inventory as well as industry and customer-specific trends. If our actual results differ from management expectations with respect to the selling of our inventories at amounts equal to or greater than our carrying amounts, we would be required to adjust our inventory values accordingly.

Foreign Currency Translation

The Company s functional currency is the U.S. dollar, except that the functional currency of M&M is the Canadian dollar. In the accompanying consolidated financial statements, the monetary assets and liabilities of M&M were translated to U.S. dollars using the June 30, 2005 exchange rate of .8142 Canadian dollar to 1.00 U.S. dollar. All monetary consolidated statements of operations items of M&M were translated at the average exchange rate for the six months ended June 30, 2005 of .8086 Canadian dollar to 1.00 U.S. dollar.

Net Operating Loss Carryforwards

We have not recognized the benefit in our financial statements with respect to the approximately $9,300,000 net operating loss carryforward for federal income tax purposes as of June 30, 2005. This benefit was not recognized due to the possibility that the net operating loss carryforward would not be utilized, for various reasons, including the potential that we might not have sufficient profits to use the carryforward or the carryforward may be limited as a result of changes in our equity ownership.

We intend to use this carryforward to offset our future taxable income. If we were to use any of this net operating loss carryforward to reduce our future taxable income and the Internal Revenue Service were to then successfully assert that our carryforward is subject to limitation as a result of capital transactions occurring in 2002 or otherwise, we may be liable for back taxes, interest and, possibly, penalties prospectively.

Impairment of Long Lived Assets

We assess the impairment of long-lived assets on an ongoing basis and whenever events or changes in circumstances indicate that the carrying value may not be recoverable based upon an estimate of future discounted cash flows. Factors we consider that could trigger an impairment review include the following: (i) significant underperformance relative to expected historical or projected future operating results; (ii) significant changes in the manner of our use of the acquired assets or the strategy for our overall business; and (iii) significant negative industry or economic trends. When we determine that the carrying value of any long-lived asset may not be recoverable based upon the existence of one or more of the above indicators of impairment, we measure impairment based on the difference between an asset s carrying value and an estimate of fair value, which may be determined based upon quotes or a projected discounted cash flow, using a discount rate determined by our management to be commensurate with our cost of capital and the risk inherent in our current business model, and other measures of fair value.

Off Balance Sheet Risk

The Company currently has no off balance sheet arrangements.

The following discussion and analysis should be read in conjunction with the unaudited financial statements (and notes thereto) and other financial information of the Company appearing elsewhere in this report. For the three month and six month periods ended June 30, 2004, the segment results represent only those of SSSI.

COMPARISON OF THREE MONTHS ENDED JUNE 30, 2005 AND JUNE 30, 2004

Consolidated Overview

For the three month period ended June 30, 2005, the revenues reported for the Company include a full three months of operations for SSSI, M&M and CEECO and two months of operations for Horne.

	For the three months ended June 30,			
	2005		2004	
Revenues	$ 11,796,428	100.0%	$ 3,418,747	100.0%
Cost of revenue	10,121,076	85.8%	3,054,924	89.4%
Gross profit	$ 1,675,352	14.2%	$ 363,823	10.6%

Total revenues for the three months ended June 30, 2005 increased by 245% compared with the same period in 2004, primarily as a result of the acquisition of M&M, CEECO, and Horne offset by a $2.3 million reduction in revenues from the Gila Bend contract. Gross profit as a percentage of revenue was 14.2% for the three months ended June 30, 2005 as compared with 10.6% for the prior year period. These increased margins are due primarily to the profitability of the three subsidiaries acquired during 2005.

Security Solutions

The following section depicts Security Solutions operating results for the three months ended June 30, 2005 and the three months ended June 30, 2004.

	For the three months ended June 30,			
	2005		2004	
Revenue	$ 1,642,055	100.0%	3,418,747	100.0%
Cost of revenue	1,749,730	106.6%	3,054,924	89.4%
Gross profit	$ (107,675)	(6.6%)	363,823	10.6%

The Security Solutions segment, comprised of manufacturing, software engineering and management services, had a decrease in revenue due to the loss of the Gila Bend contract that provided approximately $2.3 million of revenue in the second quarter of 2004. The segment witnessed continued growth in its manufacturing operations while software engineering was negatively impacted by the reshaping of government Safe Range requirements for a future contract and our completion of the first increment of Safe Borders coding. Operations & Maintenance revenue remained stable with cost saving measures resulting in a return to profitability.

The manufacturing group delivered more than 40 contracts valued at over $1.0 million during the second quarter. The Navy launch tube contract provided slightly more than half of the revenue for the quarter. The negative gross profit for the quarter is primarily due to increased raw material prices for the B-stands contracts and the time lost as a result of Hurricane Dennis. Hurricane Dennis shut down our production facilities and some of our prime vendors were closed for up to two weeks.

Software engineering revenues decreased by 14% to $384,000 for the three month period ended June 30, 2005 as compared with the same period in 2004. This decrease in revenues is due to the necessary diverting of staff resources for non-revenue generating activities such as preparing Safe Borders for the pending America s Shield Initiative (ASI) procurement, conducting the Second Annual Safe Range Users Conference in May and preparing legal proceedings in the case of Spectrum vs. Garrison.

Industrial and Offshore Segment

The following section depicts the Industrial and Offshore operating results for the three month period ended June 30, 2005. There are no comparisons with the same period in 2004, as this segment was not acquired by the Company until February 2005.

	For the three months ended June 30,			
	2005		2004	
Revenue	$ 4,896,574	100.0%	N/A	N/A
Cost of revenue	4,023,423	82.2%	N/A	N/A
Gross profit	$ 873,151	17.8%	N/A	N/A

Revenue was driven by three major projects including INCO, Deer Lake and the Technip project. Combined, these projects contributed approximately 75% of the revenue for the period. The gross margins for the quarter are consistent with the segment s contributions for this time of year given the seasonality of the business.

The segment is currently engaged in a substantial contract with INCO to construct an ore-processing facility in Canada based on an experimental hydromet process. This facility is a prototype, with plans to construct a larger operation in the near future should the prototype prove economically feasible.

Repair and Overhaul Segment

The following section depicts operating results for the three month period ended June 30, 2005. There are no comparisons with the same period in 2004, as this segment was not acquired by the Company until March 2005.

	For the three months ended June 30,			
	2005		2004	
Revenue	$ 360,620	100.0%	N/A	N/A
Cost of revenue	226,008	62.7%	N/A	N/A
Gross profit	$ 134,612	37.3%	N/A	N/A

This segment continues to show substantial margins with a gross profit of 37.3% of segment revenues. This segment continues to provide major servicing to one of its prime customers, Rinker Cement. Margins were high due to the project mix concentrating on more services than production during the quarter.

Engineering Consulting

The following section depicts operating results for the three month period ended June 30, 2005. There are no comparisons with the same period in 2004 as this segment was not acquired by the Company until May 2005.

	For the two months ended June 30,			
	2005		2004	
Revenue	$ 2,613,446	100.0%	NA	NA
Cost of revenue	1,934,263	74.0%	NA	NA
Gross profit	$ 679,183	26.0%	NA	NA

Revenue was driven by environmental service projects and our large TSA contract with $1.2 million and $.5 million of revenue for the quarter, respectively. The environmental revenue is mainly from a Department of Defense environmental sampling contract that contributed approximately $.6 million of revenue.

Horne staff is providing environmental sampling services for the Pentagon Force Protection Agency as part of a team led by Battelle Memorial Institute. The samples are analyzed for biological agents on a constant (24/7) basis.

Horne has been assisting TSA in the development and implementation of a nationwide Occupational Safety and Health (OSH) Program under a program awarded in July 2004. Support services include initial hazard assessments, inspections, industrial hygiene services, mishap and incident investigations, reporting and recordkeeping, training development, technical research, policy development, and evaluations.

Procurement Services

	For the two months ended June 30,			
	2005		2004	
Revenues	$ 2,283,733	100.0%	NA	NA
Cost of revenue	2,187,651	95.8%	NA	NA
Gross profit	$ 96,082	4.2%	NA	NA

The segment continues to provide procurement services as a subcontractor to Bechtel National, Inc. on a contract with the United States Agency for International Development. Horne has continued supporting the reconstruction of the power infrastructure in Iraq by purchasing large quantities of material and equipment required for these power projects. This subcontract is scheduled to terminate on December 31, 2005. The Company recognized all of its procurement revenue in the second quarter from this contract.

In July 2005, Horne was awarded a $2.1 million subcontract to assist a second major contractor in Iraq to closeout purchase order and subcontract files. Procurement specialists were deployed to Iraq where they work to close hundreds of contracts and purchase orders issued over the past several years.

Operating Expenses

	June 30, 2005	June 30, 2004	Decrease
Selling, General & Administrative	$ 2,961,564	$ 27,053,789	89.1%

During the three months ended June 30, 2005, selling, general, and administrative expenses were significantly less than the expense incurred in the same period ended June 30, 2004. This is primarily due to $25.3 million less stock-based compensation expense during the second quarter of 2005. The Company recorded $0.6 million of stock-based compensation during the quarter ended June 30, 2005 as compared with $25.9 million of stock-based compensation expense for consulting fees during the quarter ended June 30, 2004. This reduction in expense is partially offset by the increased expenses associated with the newly acquired subsidiaries. The quarterly selling, general and administrative expense associated with the acquired companies totaled approximately $2.1 million during the quarter.

Other Income and Expenses

Non-operating income increased to $324,000 from $8,000 in the comparable prior year period as a result of the joint venture earnings from M&M offset by a reduction in interest income. The M&M joint ventures provided approximately $245,000 of income that was not present in the prior period. Interest income increased by approximately $77,000 between the same periods as a result of the cash inflows received the latter part of 2004 that are currently invested in interest bearing investment vehicles.

COMPARISON OF SIX MONTHS ENDED JUNE 30, 2005 AND JUNE 30, 2004

Consolidated Overview

For the six month period ended June 30, 2005, the revenues reported for the Company include a full six months of operations for SSSI, five months of operations for M&M (February 1, 2005 through June 30, 2005), four months of operations for CEECO (March 1, 2005 through June 30, 2005), and two months of operations for Horne (May 1, 2005 through June 30, 2005). For the six month period ended June 30, 2004, the revenue depicted during that period includes only that of SSSI.

The five segments depicted are Security Solutions, Industrial and Offshore, Repair and Overhaul, Engineering Consulting, and Procurement Services.

	For the six months ended June 30,			
	2005		2004	
Revenues	$ 14,339,038	100.0%	$ 7,015,325	100.0%
Cost of revenue	12,269,211	85.6%	6,329,305	90.2%
Gross profit	$ 2,069,827	14.4%	$ 686,020	9.8%

Total revenues for the six months ended June 30, 2005 increased by 104% compared with the same period in 2004, primarily as a result of the acquisition of three subsidiaries: M&M, CEECO, and Horne offset by the decreased revenue from the Gila Bend contract of $4.8 million. Gross profit as a percentage of revenue was 14.4% for the six months ended June 30, 2005 as compared to 8.5% for the prior year period. These increased margins are due primarily to the profitability of the three subsidiaries acquired during 2005.

Security Solutions

The following section compares the segment s operating results for the six months ended June 30, 2005 with the six months ended June 30, 2004.

	For the six months ended June 30,			
	2005		2004	
Revenue	$ 3,292,807	100.0%	$ 7,015,325	100.0%
Cost of revenue	3,087,487	93.8%	6,329,305	90.3%
Gross profit	$ 205,320	6.2%	$ 686,020	9.7%

The significant decrease in revenue and margin associated with the Security Solutions segment is primarily a result of the Gila Bend contract that was closed out in the third quarter of 2004 and has no comparable replacement in 2005. This contract accounted for $4.8 million of revenue in 2004 at a margin of 1%. The loss of this revenue has been partially offset by an increase in manufacturing revenue over the same period. Manufacturing revenues increased $1.3 million to $2.5 million during the six month period due to expansion in the Navy launch tube contract that was started in 2005. The profit margin has decreased year over year primarily due to a foreign military sales contract that is operating at a loss, increased non-revenue producing activity related to the SAFE Borders program and closeout costs on the Gila Bend contract.

Industrial and Offshore Segment

The following section depicts operating results for the period February 1, 2005 through June 30, 2005. There are no comparisons to the same period in 2004, as the segment was not acquired by the Company until February 2005.

	For the five months ended June 30,			
	2005		2004	
Revenue	$ 5,677,826	100.0%	N/A	N/A
Cost of revenue	4,768,105	84.0%	N/A	N/A
Gross profit	$ 909,721	16.0%	N/A	N/A

The majority of the revenue has been driven by the Deer Lake and INCO projects which accounted for 60% of the segment s revenue since acquisition. The INCO project accounts for approximately 34% of the revenue for the segment. These projects will continue through at least the early part of the fourth quarter 2005. The overall segment margins are consistent with the historical profit rates the segment earned prior to acquisition for this time of year. The seasonality of the business is such that most of the revenue and related profit is earned between April and November of each year.

Repair and Overhaul Segment

The following section depicts CEECO operating results for the period March 1, 2005 through June 30, 2005. There are no comparisons with the same period in 2004.

	For the four months ended June 30,			
	2005		2004	
Revenue	$ 471,226	100.0%	N/A	N/A
Cost of revenue	291,705	61.9%	N/A	N/A
Gross profit	$ 179,521	38.1%	N/A	N/A

In the four month period of March 1, 2005 to June 30, 2005, this segment continued to show high gross margins as a result of better operations and higher levels of services as compared to manufacturing. We do not expect the margins to continue at this level in the future.

Engineering Consulting

The following section depicts operating results for the period May 1, 2005 through June 30, 2005. There are no comparisons to the same period in 2004; as the segment was not acquired by the Company until May 2005.

	For the two months ended June 30,			
	2005		2004	
Revenue	$ 2,613,446	100.0%	N/A	N/A
Cost of revenue	1,934,373	74.0%	N/A	N/A
Gross profit	$ 679,073	26.0%	N/A	N/A

Revenue was driven by environmental service projects and our large TSA contract with $1.2 million and $.5 million of revenue for the quarter, respectively. The environmental revenue is mainly from a Department of Defense environmental sampling contract that contributed approximately $.6 million of revenue.

Horne staff is providing environmental sampling services for the Pentagon Force Protection Agency as part of a team led by Battelle Memorial Institute, in the National Capital Region. The samples are analyzed for biological agents on a constant (24/7) basis.

Horne has been assisting TSA in the development and implementation of a nationwide Occupational Safety and Health (OSH) Program under a program awarded in July 2004. Support services include initial hazard assessments, inspections, industrial hygiene services, mishap and incident investigations, reporting and recordkeeping, training development, technical research, policy development, and evaluations.

Procurement Services

The following section depicts operating results for the period May 1, 2005 through June 30, 2005. There are no comparisons to the same period in 2004; as the segment was not acquired by the Company until May 2005

	For the two months ended June 30,			
	2005		2004	
Revenues	$ 2,283,733	100.0%	N/A	N/A
Cost of revenue	2,187,541	95.8%	N/A	N/A
Gross profit	$ 96,192	4.2%	N/A	N/A

The segment continues to provide procurement services as a subcontractor to Bechtel National, Inc. on a contract with the United States Agency for International Development. Horne has continued supporting the reconstruction of the power infrastructure in Iraq by purchasing large quantities of material and equipment required for these power projects. This subcontract is scheduled to terminate on December 31, 2005. The Company recognized all of its procurement revenue in the second quarter from this contract.

In July 2005, Horne was awarded a $2.1 million subcontract to assist a second major contractor in Iraq to closeout purchase order and subcontract files. Procurement specialists were deployed to Iraq where they work to close hundreds of contracts and purchase orders issued over the past several years.

Operating Expenses

	June 30, 2005	June 30, 2004	Decrease
Selling, General & Administrative	$ 5,254,759	$ 41,005,374	87.2%

During the six months ended June 30, 2005, selling, general and administrative expenses were $35.9 million less than the expense incurred in the same period ended June 30, 2004. This is primarily due to approximately $36 million less expense recorded for stock-based compensation in 2004. During the six month period ended June 30, 2005, $1.4 million was recorded for stock-based employee compensation as compared with $37.4 million recorded for stock-based compensation in the six month period ended June 30, 2004.

These reductions in expense are partially offset by additional expenses as a result of adding the three new subsidiaries. This expense was not present in the six month period ended June 30, 2004 and is primarily personnel related costs.

Other Income and Expenses

Non-operating income increased by approximately $500,000 as a result of the inclusion of the addition of the Canadian joint ventures that contributed $335,000 of income and a reduction of interest expense of approximately $160,000 related to borrowings that occurred in the first half of 2004.

Liquidity and Capital Resources

Total liquidity, consisting of cash equivalents and short-term investments, decreased by $16.9 million as of June 30, 2005, as compared with December 31, 2004. The majority of the funds expended were utilized for the acquisitions of M&M, CEECO, and Horne. At June 30, 2005, cash and cash equivalents totaled $5,596,126 as compared with $5,666,910 at December 31, 2004. As of June 30, 2005, the Company had $4,074,187 in cash accounts related to bonding issues in Canada. At December 31, 2004, the Company had $18,795,143 in money market accounts and short-term government-backed securities as a result of investing funds received from the exercise of stock options. The company s subsidiary M&M had drawn down its line of credit by $367,764 to fund operations due to its accounts receivable balances. This is expected to be repaid by year-end.

Accounts receivable represent our largest working capital requirement. We bill most of our clients monthly or at the completion of a milestone. Our overall cash flow is predicated on the timely collection of our outstanding receivable balances. We have no indication that there will be any collectability issues regarding our outstanding receivables. Available cash, cash equivalents and short term investments combined with cash provided by operations anticipated through December 31, 2005, should provide sufficient operating capital to fund operations. In addition, available lines of credit currently in place will provide for additional working capital as necessary.

Commitments

The Company, during the normal course of business, enters into agreements with subcontractors and vendors to provide products and services that we consume in our operations or that are delivered to our customers. These products and services are not considered unconditional obligations until the products and services are actually delivered. We do not record a liability until that criterion is met. The table below summarizes our contractual obligations under operating leases, capital leases and debt.

	2006	**2007**	**2008**	**2009**	**2010**	**2011+**
Operating Leases	$ 835,188	$380,816	$ 67,772	$ 42,016	$ 3,710	
Capital Leases	116,727	99,740	87,673	77,367	37,219	13,646
Mortgages Payable	280,481	280,481	280,481	223,591	208,728	724,238
Total Lease Commitments	**$1,232,396**	**$761,037**	**$435,926**	**$342,974**	**$249,657**	**$737,884**

Risk Factors

The Company is subject to several risk factors that could have a direct and material impact on the operations of the Company. These risk factors are described below.

We may not receive the full amount of our contract awards.

The Company receives many government contract awards that include both funded and unfunded amounts. While the Company believes that most contracts will become fully funded and executed, there are occasions where the final executed amount of the contract may be substantially less than the contract award. Congress often appropriates funds for our clients on a yearly basis, even though our contracts may call for services over a number of years. As a result, Congress may elect not to fund a particular contract in future years. Additionally, the funded amounts on contracts may not be fully recognized in revenue as the priorities of the contract issuing agencies may change and funding may be reappropriated for other uses.

We may not be able to integrate our new management and the acquired companies successfully to achieve the expected benefits of these acquisitions.

In 2005, the Company acquired three new subsidiaries and had a change in executive management. If we are unable to successfully integrate the existing companies and the new management, our revenue and operating results could suffer. The difficulties of integration may be increased by the necessity of coordinating a diverse set of businesses that are both geographically and operationally disparate. Integrating these operations and related personnel may result in increased attrition, including but not limited to key employees of acquired companies, that could adversely affect our future revenue and profitability.

Increased raw material prices may adversely affect contract profitability.

The Company has experienced significant increases in both steel and aluminum raw material prices. Continued increases in the price of raw materials could have a negative impact on the profitability of the Company. Many of our contracts in our manufacturing components are fixed price contracts and are not automatically repriced when raw material costs increase. We aggressively pursue our contract rights to receive compensation for these increased costs, where available, but not all contracts have price adjustment clauses that allow the Company to recover those cost increases.

Loss of bonding may adversely impact our Canadian operations.

The Company has obtained bonding in Canada through posting a cash deposit with a Canadian surety company. This was the only vehicle available for securing adequate bonding for M&M to continue its operations. The loss of such bonding could have a material adverse impact on the revenues and related profitability of M&M. The Company is currently seeking non-cash secured bonding. Failure to obtain such bonding could adversely impact the Company through reduced revenue and profit.

Quarterly operating results may fluctuate significantly as a result of factors outside of our control, which could cause the market price of our common stock to decline.

Revenue and operating results could vary significantly from quarter to quarter. In addition, we cannot predict with certainty our future revenue or results of operations. As a consequence, our operating results may fall below the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include:

- fluctuations in revenue earned on contracts;
- commencement, completion, or termination of contracts during any particular quarter;
- variable purchasing patterns under GSA schedule contracts and agency-specific indefinite delivery/indefinite quantity contracts;
- providing services under a share-in-savings or performance-based contract;
- additions and departures of key personnel;
- strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments, or changes in business strategy;
- contract mix, the extent of use of subcontractors, and the level of third-party hardware and software purchases for customers;

changes in presidential administrations and senior federal government officials that affect the timing of technology procurement;
changes in policy or budgetary measures that adversely affect government contracts in general; and
the seasonality of our business.

Reductions in revenue in a particular quarter could lead to lower profitability in that quarter because a relatively large amount of our expenses are fixed in the short-term. We may incur significant operating expenses during the start-up and early stages of large contracts and may not receive corresponding payments or revenue in that same quarter. We may also incur significant or unanticipated expenses when contracts expire or are terminated or are not renewed. In addition, payments due to us from government agencies may be delayed due to billing cycles or as a result of failures of governmental budgets to gain Congressional and administration approval in a timely manner.

Our business commitments require our employees to travel to potentially dangerous places, which may result in injury to our employees.

Our business involves providing services that require our employees to operate in various countries around the world, including Iraq. These countries may be experiencing political upheaval or unrest, and in some cases war or terrorism. Certain senior level employees or executives may, on occasion, be part of the teams deployed to provide services in these countries. As a result, it is possible that certain of our employees or executives will suffer injury or bodily harm in the course of these deployments. It is also possible that we will encounter unexpected costs in connection with additional risks inherent with sending our employees to dangerous locations, such as increased insurance costs, as well as the repatriation of our employees or executives for reasons beyond our control. These problems could cause our actual results to differ materially from those anticipated.

Unfavorable government audit results could force the Company to adjust previously reported operating results and could subject us to a variety of penalties and sanctions.

A significant portion of our revenue comes from payments made by the U.S. government on prime contracts and subcontracts. The costs of these contracts are subject to audit by the Defense Contract Audit Agency (DCAA). Disallowance of these contract costs by DCAA could adversely affect the Company s financial statements. Management periodically reviews its estimates of allowable and unallowable costs based on the results of government audits and makes adjustments, if any, as required.

If the government discovers improper or illegal activities, by the Company or its employees, the Company may be subject to civil and criminal penalties and administrative sanctions, including contract termination, forfeiture of profits, suspension of payments, fines, and suspension or disbarment from conducting future business with the government. In addition, the Company could suffer serious harm to our reputation if allegations of impropriety were made against it, whether or not true. The Company is not aware of any instances of improper or illegal activities of its employees.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Interest Rate Risk

At June 30, 2005, only our M&M subsidiary had amounts outstanding under a revolving credit facility. This amount is expected to be repaid using funds from operations. We have not historically mitigated our exposure to fluctuations in interest rates by entering into interest rate hedge agreements nor do we have any plans to do so in the immediate future.

Cash and cash equivalents, as of June 30, 2005, were $5.6 million and are primarily invested in money market interest bearing accounts. A hypothetical 10% adverse change in the average interest rate on our money market cash investments would have had no material effect on net income for the six months ended June 30, 2005.

Foreign Exchange Risk

We are exposed to foreign currency risks due to both transactions and translations between functional and reporting currencies in our Canadian subsidiaries. We are exposed to the impact of foreign currency fluctuations due to the operations of and net monetary asset and liability positions in our Canadian subsidiaries.

In addition, we estimate that an immediate 10% change in foreign exchange rates would impact reported net income or loss by an immaterial amount. We do not currently utilize any derivative financial instruments to hedge foreign currency risks.

ITEM 4. CONTROLS AND PROCEDURES

We evaluated the effectiveness of the Company s disclosure controls and procedures as of June 30, 2005. The term disclosure controls and procedures, as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act, means controls and other procedures of a company that are designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the SEC s rules and forms. Disclosure controls and procedures include, without limitation, controls and procedures designed to ensure that information required to be disclosed in such reports is accumulated and communicated to the company s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company s disclosure controls and procedures as of June 30, 2005, the Company s chief executive officer and chief financial officer concluded that, as of such date, the Company s disclosure controls and procedures were not effective for the reasons described in the following paragraph.

We filed our quarterly reports for the quarters ended March 31, 2005 and June 30, 2005 on Form 10-QSB as a small business issuer. In connection with the preparation of the quarterly report for the quarter ended September 30, 2005, we determined that pursuant to Item 10(a)(2) of Regulation S-B we ceased to qualify as a small business issuer as of January 1, 2005 because our public float exceeded $25 million as of the end of the last two years. As a result, we were not eligible to file our 2005 quarterly reports on Form 10-QSB, but were instead required to file them on Form 10-Q. Consequently, we are amending this quarterly report on Form 10-Q/A to replace our previously filed Form 10-QSB. The Company s current chief executive officer and chief financial officer joined the Company in June 2005. Internal controls and procedures in place during the second quarter 10-Q process included a Form 10-QSB applicability review by senior management together with outside legal and accounting professionals. Internal control reviews by senior management and outside consultants for the third quarter 10-Q process determined that the Company incorrectly filed Form 10-QSB for the quarters ended March 31 and June 30, 2005. Steps we have taken to enhance our disclosure controls and procedures include hiring a new controller with SEC reporting experience, appointing a chairman of the audit committee and hiring an internal general counsel.

No change in the Company s internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) occurred during the fiscal quarter ended June 30, 2005 that has materially affected, or is reasonably likely to materially affect, the Company s internal control over financial reporting.

PART II OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

See full description of Legal Matters in footnote 11 and updates in Subsequent Events footnote 13.

ITEM 6. EXHIBITS

Exhibit Number	Description
31.1	Certification of Chief Executive Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
31.2	Certification of Chief Financial Officer Pursuant to Section 302 of the Sarbanes-Oxley Act of 2002*
32.1	Certification of Chief Executive Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*
32.2	Certification of Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002*

* Filed herewith.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 23rd day of December, 2005.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.

Date: December 23, 2005

By: /s/ Darryl K. Horne

Darryl K. Horne
President and Chief Executive Officer

Date: December 23, 2005

By: /s/ Michael M. Megless

Michael M. Megless
Chief Financial Officer