

SENSOR SYSTEM SOLUTIONS INC
Form 10QSB
June 22, 2005

**U.S. Securities and Exchange Commission
Washington, D.C. 20549**

FORM 10-QSB

(Mark One)

Quarterly Report Pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

For the quarterly period ended March 31, 2005

or

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 0-024828

SENSOR SYSTEM SOLUTIONS, INC.
(Exact name of small business issuer as specified in its charter)

NEVADA
(State or other jurisdiction of
incorporation or organization)

98-0226032
(IRS Employer Identification No.)

45 Parker Avenue, Suite A
Irvine, California 92618
(Address of principal executive offices)

(949) 855-6688
(Issuer's telephone number)

Check 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.

Yes No

As of June 21, 2005 there were **59,279,241** shares of Common Stock outstanding.

Transitional Small Business Disclosure Format

Yes No

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PART I
FINANCIAL INFORMATION

Item 1. Financial Statements.

SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED BALANCE SHEETS
As of March 31, 2005 (Unaudited)
and December 31, 2004

| | ASSETS | | March 31, 2005 (Unaudited) | December 31, 2004 |
|--|---------------|-----------|----------------------------------|-------------------------|
| CURRENT ASSETS | | | | |
| Cash | \$ | 47,716 | \$ | 17,115 |
| Accounts receivable | | 131,065 | | 100,530 |
| Inventory | | 212,522 | | 220,445 |
| Prepays and other current assets | | 4,872 | | 24,552 |
| Total current assets | | 396,175 | | 362,642 |
| Property and equipment, net | | 294,801 | | 320,717 |
| Other assets | | 54,112 | | 54,112 |
| Total assets | \$ | 745,088 | \$ | 737,471 |
| LIABILITIES AND STOCKHOLDERS' DEFICIENCY | | | | |
| CURRENT LIABILITIES | | | | |
| Accounts payable and accrued expenses | \$ | 691,659 | \$ | 720,817 |
| Notes payable | | 363,386 | | 263,922 |
| Notes payable, related parties | | 335,575 | | 718,133 |
| Current portion of capital lease obligations | | 7,819 | | 7,819 |
| Current portion of deferred rent concession | | 4,756 | | 5,259 |
| Total current liabilities | | 1,403,195 | | 1,715,950 |
| LONG-TERM LIABILITIES | | | | |
| Capital lease obligations, net of current portion | | 32,336 | | 34,199 |
| Deferred rent concession, net of current portion | | 9,515 | | 10,513 |
| | | 41,851 | | 44,712 |
| Commitments and contingencies | | - | | - |
| STOCKHOLDERS' DEFICIENCY | | | | |
| Preferred stock, \$.001 par value, 20,000,000 shares authorized, none outstanding | | - | | - |
| Common stock, \$.001 par value, 180,000,000 shares authorized, 59,279,241 issued and outstanding | | 59,279 | | 3,977 |
| Common stock to be issued (15,404,871 shares) | | 878,512 | | 2,100,000 |

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| | | |
|--|-------------|-------------|
| Additional paid-in capital | 6,674,202 | 4,867,790 |
| Deferred compensation | (75,458) | (186,400) |
| Accumulated deficit | (8,236,493) | (7,808,558) |
| Total stockholders' deficiency | (699,958) | (1,023,191) |
| Total liabilities and stockholders' deficiency | \$ 745,088 | \$ 737,471 |

See accompanying notes to condensed financial statements.

SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
For three months ended March 31, 2005 and 2004 (Unaudited)

| | 2005 | 2004 |
|--|--------------|--------------|
| Sales, net | \$ 205,015 | \$ 107,279 |
| Cost of goods sold | 147,274 | 105,665 |
| Gross profit | 57,741 | 1,614 |
| Operating expenses | 330,555 | 174,342 |
| Amortization of discount on notes payable | 155,121 | 60,612 |
| Total operating expenses | 485,676 | 234,954 |
| Net loss | \$ (427,935) | \$ (233,340) |
| Loss per common share, basic and diluted | \$ (.01) | \$ (.09) |
| Weighted average shares outstanding, basic and diluted | 43,302,999 | 2,486,539 |

See accompanying notes to condensed financial statements.

SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
For three months ended March 31, 2005 (Unaudited)

| | Common Stock | | Common Stock to be issued | | Additional paid-in capital | Deferred compensation | Accumulated deficit | Total |
|---|--------------|-----------|---------------------------|--------------|----------------------------|-----------------------|---------------------|----------------|
| | Shares | Amount | Shares | Amount | | | | |
| Balance January 1, 2005 | 3,976,868 | \$ 3,977 | 7,700,000 | \$ 2,100,000 | \$ 4,867,790 | \$ (186,400) | \$ (7,808,558) | \$ (1,023,191) |
| Forfeit of stock options | - | - | - | - | (99,000) | 99,000 | - | - |
| Issuance of common stock | 7,500,000 | 7,500 | (7,500,000) | (1,800,000) | 1,792,500 | - | - | - |
| Warrants exercised by shareholders from merger | 47,802,373 | 47,802 | - | - | (47,802) | - | - | - |
| Exercise of warrants for debt outstanding | - | - | 14,793,290 | 262,500 | - | - | - | 262,500 |
| Settlement of debt for stock | - | - | 411,581 | 316,012 | - | - | - | 316,012 |
| Intrinsic value of common stock warrants issued with note payable | - | - | - | - | 160,714 | - | - | 160,714 |
| Amortization of deferred Compensation | - | - | - | - | - | 11,942 | - | 11,942 |
| Net loss | - | - | - | - | - | - | (427,935) | (427,935) |
| Balance March 31, 2005 | 59,279,241 | \$ 59,279 | 15,404,871 | \$ 878,512 | \$ 6,674,202 | \$ (75,458) | \$ (8,236,493) | \$ (699,958) |

See accompanying notes to condensed financial statements.

**SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONSOLIDATED STATEMENTS OF CASH FLOWS**

For three months ended March 31, 2005 and 2004 (Unaudited)

| | 2005 | | 2004 |
|--|--------------|----|-----------|
| Cash flows from operating activities: | | | |
| Net loss | \$ (427,935) | \$ | (233,340) |
| Adjustments to reconcile net loss to net cash used in operating activities: | | | |
| Depreciation and amortization | 25,916 | | 28,480 |
| Amortization of discount on notes payable | 155,121 | | 60,612 |
| Amortization of deferred compensation | 11,942 | | 12,375 |
| Changes in operating assets and liabilities: | | | |
| Accounts receivable | (30,535) | | 9,413 |
| Inventories | 7,923 | | 38,600 |
| Prepays and other current assets | 19,680 | | (57,076) |
| Deferred rent | (1,500) | | |
| Accounts payable and accrued expenses | 21,852 | | 6,071 |
| Net Cash Used In Operating Activities | (217,536) | | (134,865) |
| Cash flows from investing activities: | | | |
| Purchase of property and equipment | - | | (1,346) |
| Cash flows from financing activities: | | | |
| Proceeds from notes payable | 250,000 | | 250,000 |
| Principal payments on capital leases | (1,863) | | - |
| Net Cash Provided By Financing Activities | 248,137 | | 250,000 |
| Net increase in cash and cash equivalents | 30,601 | | 113,789 |
| Cash and cash equivalents, beginning of the year | 17,115 | | 10,711 |
| Cash and cash equivalents, three months ended | \$ 47,716 | \$ | 124,500 |
| Supplemental disclosure of cash flow information | | | |
| Cash paid for: | | | |
| Interest | \$ 5,179 | \$ | 1,148 |
| Taxes | \$ 800 | \$ | 800 |
| Non-cash investing and financing activities: | | | |
| Forfeiture of stock options | \$ 99,000 | \$ | - |
| Accrued interest added to notes payable principal | 51,013 | | - |
| Discount related to warrants and convertible notes | 160,714 | | 60,612 |
| Exercise of warrants for debt outstanding | 262,500 | | - |
| Conversion of notes payable | 316,012 | | - |

See accompanying notes to condensed financial statements.

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial information included herein is unaudited. The interim consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation of the Company's consolidated financial position and results of operations for the periods presented. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes presented in the Company's Form 10-KSB for the year ended December 31, 2004. Interim operating results are not necessarily indicative of operating results expected for the entire year.

Description of business

The Company is a manufacturer and assembler of sensors and micro systems, and its products include thin film sensors, thin film pressure sensors and micro-machined pressure sensors, and micro systems that may include sensors, signal conditioning circuits, LCD display, computer interface and molded housing specifically designed to the customers needs.

Going concern

The Company incurred a net loss of \$427,935 and a negative cash flow from operations of \$217,536 for three months ended March 31, 2005, and had a working capital deficiency of \$1,007,020 and a stockholders' deficiency of \$699,958 at March 31, 2005. These matters raise substantial doubt about its ability to continue as a going concern. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. Management believes that actions are presently being taken to revise the Company's operating and financial requirements in order to improve the Company's financial position and operating results. However, given the levels of its cash resources and working capital deficiency at March 31, 2005, management believes cash to be generated by operations will not be sufficient to meet anticipated cash requirements for operations, working capital, and capital expenditures during 2005. The Company completed a merger and recapitalization on May 20, 2004, with Spectre Industries, Inc., to gain access to the United States and European capital markets, but there can be no assurances that the Company will ultimately be successful in this regard. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Principles of consolidation

The consolidated financial statements for the three months ended March 31, 2005 and 2004 include the accounts and operations of Sensor Systems Solutions Inc. and its wholly owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

Stock - based compensation

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosures" as well as those outlined in SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS 148 and SFAS 123, the Company continues to apply the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock issued to Employees" and related interpretations in accounting for the Company's stock option plan. Accordingly, compensation cost for stock options is measured as the excess, if any, of the estimated fair value of the Company's stock at the date of the grant, over the amount an employee must pay to acquire the stock. Stock based awards for non-employees are accounted for at fair value equal to the excess of the estimated fair value of the Company's stock over the option price using an estimated interest rate to calculate the fair value of the option. There were no stock based awards to non-employees for the three months ended March 31, 2005.

Had compensation cost for all stock option grants been determined based on their fair value at the grant dates, consistent with the method prescribed by SFAS 148 and SFAS 123, our net loss and loss per share would have been adjusted to the pro forma amounts indicated below:

| | Three months ended March 31: | |
|---|------------------------------|--------------|
| | 2005 | 2004 |
| Net loss | \$ (427,935) | \$ (233,340) |
| Add: Stock-based expense included in net loss | 11,942 | 12,375 |
| Deduct: Fair value based stock-based expense | (14,720) | (14,720) |
| Pro forma net loss | \$ (425,157) | \$ (235,685) |
| Basic and diluted earnings per share: | | |
| As reported | \$ (.01) | \$ (0.09) |
| Pro forma under SFAS No. 123 | \$ (.01) | \$ (0.09) |

Earnings (loss) per share

Basic earnings (loss) per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. As of March 31, 2005 and 2004, the Company had granted stock options for 96,500 and 136,500 shares of common stock, respectively, that are potentially dilutive common shares but are not included in the computation of loss per share because their effect would be anti-dilutive. As of March 31, 2005 and 2004, the Company had granted warrants for 8,190,155 and 19,461,805 shares of common stock, respectively, that are potentially dilutive common shares but are not included in the computation of loss per share because their effect would be anti-dilutive.

Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs". This Statement amends the guidance in ARB No. 43 Chapter 4 Inventory Pricing, to require items such as idle facility costs, excessive spoilage, double freight and rehandling costs to be expensed in the current period, regardless if they are abnormal amounts or not. This Statement will become effective for us in the first quarter of 2006. The adoption of

SFAS No. 151 is not expected to have a material impact on our financial condition, results of operations, or cash flows.

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment(SFAS 123R), which revises SFAS No. 123. SFAS 123R also supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows". In general, the accounting required by SFAS 123R is similar to that of SFAS No. 123. However, SFAS No. 123 gave companies a choice to either recognize the fair value of stock options in their income statements or disclose the pro forma income statement effect of the fair value of stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be adopted by small-business issuers as of the first interim or annual reporting period of the first fiscal year beginning on or after December 15, 2005. Early adoption is permitted.

The Company is currently evaluating the timing and manner in which it will adopt SFAS 123R. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method. Accordingly, adoption of SFAS 123R's fair value method will have an effect on results of operations, although it will have no impact on overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had SFAS 123R been adopted in prior periods, the effect would have approximated the SFAS 123 pro forma net loss and loss per share disclosures as shown above. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods after adoption.

NOTE 2 NOTES PAYABLE

Notes payable consist of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 (unaudited) | December 31, 2004 |
|---|----------------------------------|-------------------------|
| Two lines of credit, unsecured, interest payable monthly at 8.75% and 10.0% per annum, due on demand. | \$ 92,983 | \$ 92,983 |
| Note Payable, unsecured, interest payable monthly at Prime + 3% per annum (prime rate at March 31, 2005 was 5.75%), due on demand. | 40,000 | 40,000 |
| Note payable, unsecured, interest payable monthly at 10% per annum, payable as a percentage of any future private or public stock offerings. | 90,000 | 90,000 |
| Three notes payable, secured by all assets of the Company, interest at 8% per annum, payable at various maturities through February 21, 2006. At December 31, 2004, there were two notes payable totaling \$90,000. On February 22, 2005, a note payable for \$200,000 was issued. At maturity, the notes are convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, each note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The aggregate intrinsic value of the beneficial conversion feature of these | 290,000 | 90,000 |

notes and warrants, valued at \$186,428 (of which \$128,571 is related to the note issued in 2005), has been recorded as loan discount costs and is being amortized over the life of the respective note as additional interest cost.

| | | |
|------------------------------|------------|------------|
| Less remaining debt discount | (149,597) | (49,061) |
| | \$ 363,386 | \$ 263,922 |

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

NOTE 3 NOTES PAYABLE, RELATED PARTIES

Notes payable to related parties consist of the following at March 31, 2005 and December 31, 2004:

| | March 31, 2005 (unaudited) | December 31, 2004 |
|--|----------------------------------|-------------------------|
| <p>Note payable to the sister of the Company's Chief Executive Officer, secured by all assets of the Company, interest at 14.25% per annum, due December 31, 2004. The note payable was originally issued by Advanced Custom Sensors, Inc. (ACSI), which merged with the Company in 2004. In connection with the note payable, ACSI issued a warrant expiring September 17, 2008, to purchase 190,665 shares of ACSI's common stock at \$.50 per share (The ACSI warrant is convertible into 5,372,940 shares of the Company's stock) The intrinsic value of the warrant (\$190,665) has been recorded as loan discount costs and are being amortized over the life of the note as additional interest cost. The Company is currently negotiating an extension of this note.</p> | \$ 190,665 | \$ 190,665 |
| <p>Note payable to the sister of the Company's Chief Executive Officer, secured by all assets of the Company, interest at 10.0% per annum, due March 15, 2005. The note payable was originally issued by ACSI in 2003, at which time ACSI issued a warrant expiring September 17, 2008, to purchase 100,000 shares of stock at \$.50 per share (the ACSI warrant is convertible into 2,817,215 shares of the Company's common stock). The intrinsic value of the original warrant (\$100,000) recorded as loan discount cost, and was amortized over the life of the original note as additional interest cost. The original note was due September 16, 2004. On September 16, 2004, a new note was issued to replace the original note. At maturity, the new note is convertible at the holder's option at a conversion price equal to 80% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at \$48,125, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. The Company is currently negotiating an extension of this note.</p> | 110,000 | 110,000 |
| <p>Note payable to an employee of the Company, secured by all assets of the Company, interest at 8.0% per annum, due November 11, 2005. At maturity, the note is convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at \$12,857, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest</p> | 20,000 | 20,000 |

| | | |
|---|------------|------------|
| cost. | | |
| Note payable to shareholder, secured by all assets of the Company, interest at 8.0% per annum, due February 11, 2005. At maturity, the note is convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at \$32,143, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. | 50,000 | - |
| Note payable, secured by accounts receivable of the Company, interest at 10%, due February 11, 2005. The note payable was originally issued by ACSI. In connection with the note payable, ACSI issued a warrant to purchase 500,000 shares of stock at \$.50 per share (the ACSI warrant is convertible into 14,088,865 shares of the Company's common stock). The note was payable to Sino-American, Inc., a company controlled by Mr. Hanlin Chen, a director of the Company. On March 15, 2005, the warrant was exercised for \$250,000 of the debt outstanding. The balance of the note payable and accrued interest (\$300,000) was exchanged for 390,228 shares of the Company's common stock at approximately \$0.77 per share, which approximated the market value of the stock on March 15, 2005. | - | 500,000 |
| Notes payable, secured by all assets of the Company, interest at 8% per annum, due October 1, 2005. The note payable was originally issued by ACSI in 2003, at which time ACSI issued a warrant to purchase 25,000 shares of stock at \$.50 per share (the ACSI shares are convertible into 704,425 shares of the Company's common stock). The intrinsic value of the original warrant was valued at \$25,000, recorded as loan discount cost, and was amortized over the life of the original note as additional interest cost. The original note was due September 16, 2004. On October 2, 2004, a new note was issued to replace the original note. At maturity, the new note was convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the new note has a warrant attached that, once the new note is converted into stock, allows the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the new note and new warrant, valued at \$17,679, has been recorded as loan discount costs and is amortized over the life of the new note. On March 18, 2005, the ACSI warrant was exercised for \$12,500 of the debt outstanding. The balance of the note payable and accrued interest (\$16,012) was exchanged for 21,353 shares of the Company's common stock at approximately \$0.77 per share, which approximated the market value of the stock on March 15, 2005. | - | 27,500 |
| Less remaining debt discount | (35,090) | (130,032) |
| | \$ 335,575 | \$ 718,133 |

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THREE MONTHS ENDED MARCH 31, 2005 AND 2004 (UNAUDITED)

NOTE 4 STOCKHOLDERS' EQUITY

On May 24, 2004, Sensor System Solutions (formerly known as Spectre Industries, Inc.,) a Nevada corporation, entered into an agreement and plan of merger with Advanced Custom Sensors, Inc. (ACSI). Sensor issued 2,584,906 shares of its common stock and warrants to purchase up to 47,802,373 shares of its common stock to the shareholders of ACSI in exchange for all the issued and outstanding shares of ACSI. On January 29, 2005, warrants for the 47,802,373 shares of common stock were exercised. The Company recorded the par value of the stock issued (\$47,802) as an increase in common stock and a reduction to additional paid in capital in the accompanying financial statements.

See Note 3 for issuance of stock and warrants to settle related party debt.

Item 2. Management's Discussion And Analysis or Plan of Operation.

Cautionary Statement

Statements in this report on Form 10-QSB that are forward-looking are based on current expectations. Actual results may differ materially. Forward-looking statements involve numerous risks and uncertainties including, but not limited to, the possibility that the demand for our products may decline as a result of possible changes in general and industry specific economic conditions, the effects of competitive pricing and such other risks and uncertainties as are described in this report on Form 10-QSB and other documents previously filed or hereafter filed by us from time to time with the Securities and Exchange Commission. All forward-looking statements speak only as of the date made, and we undertake no obligation to update these forward-looking statements.

The following discussion and analysis should be read in conjunction with the consolidated financial statements and the notes thereto, included as part of this Quarterly Report.

OVERVIEW

Sensor System Solutions, Inc. (3S) was founded by an engineering management team with over 50 years of Micro-electro-mechanical-systems or "MEMS" transducer experience. Its objective is to provide high quality sensors and transducers at an economical price by employing innovative designs and creative manufacturing methods. 3S offers a variety of Digital Pressure Gauges, Pressure Transducers, Pressure Sensors, Force Beams, Load Cells, Strain Gauges and Sensor Kits.

3S commenced operations as a private company in September of 1996. 3S is headquartered in Irvine, California where 3S occupies a 25,000 square foot facility fully equipped with fabrication capability.

3S has fifteen (15) employees in the United States, and utilizes a network of independent contractors and consultants throughout the United States and Asia. 3S produces or supplies a family of nearly thirty (30) distinctive products. 3S set up a volume production line with an ISO 9000 partner in Taiwan in 2002. This allows 3S to penetrate high-volume consumer markets that are very price sensitive. 3S signed a joint venture agreement with China Automotive Systems, Inc. (NASDAQ: CAAS) in February 2005 to establish a joint venture in China targeting its automotive sensor market.

3S is a supplier of thin-film and micro-machined force and pressure sensors to the medical, chemical, oil, and gas industries. 3S believes that its technology will enable it to become a global supplier of advanced MEMS/Microelectronic products in myriad developing markets. 3S's strategic plan is to focus on developing custom MEMS pressure sensor devices and forming strategic partnerships.

In addition to its core operational assets dedicated to the MEMS sensor markets, 3S owns approximately 7.5% of TransOptiX, Inc., ("TransOptiX"), a business dedicated to the development and production of high performance optical switches. TransOptiX intends to make significant progress in 2005 and 2006 in the optical switch segment by offering its switches at prices up to 40% below its competition and with better performance.

PLAN OF OPERATION

We plan to grow our business in four areas.

- § **Increase the revenue of existing sensor component business.** The majority of our sensor component manufacturing will be moved to our joint venture in China to help reduce the cost of our products. We will invest to increase our production capacity and will qualify offshore suppliers to meet the increasing demands. We will invest in sales and marketing in order to expand our customer base and to secure more OEM projects.
- § **Develop sensor solution business.** With the rapid advances in technology and wireless telecommunication in the last decade, we can now offer total sensor solutions at a very affordable price. These sensor solutions are modules containing sensing elements, signal conditioning circuitry, software for calibration and interface, and capability of wireless and/or networking. These sensor solutions will provide information continuously to decision makers in all phases of business operation.
- § **Penetrate automotive sensor market through China.** By leveraging the marketing channel of our joint venture partner, we will have access to the automotive market in China immediately. Over the next three years we plan to increase our production capacity, product offerings, and our development staff. We anticipate that we will be able to import automotive sensors produced by our joint venture to North America and Europe by 2008.
- § **Strategic acquisition:** We plan to grow our business through strategic acquisitions. We will actively seek equity or debt funding to bring in the necessary resources to execute this plan.

RESULTS OF OPERATIONS

Three months Ended March 31, 2005 and 2004

Revenues

We generated revenues of \$205,015 for the three months ended March 31, 2005, which was \$97,736 or a 91% increase from \$107,279 for the three months ended March 31, 2004. The increase is the result of the hiring of a full-time sales manager, the addition of new sales representatives and the introduction of new products.

Gross Profit

Gross Profit for the three months ended March 31, 2005, was \$57,741 or 28.2% of revenues, compared to \$1,614 or 1.5% for the three months ended March 31, 2004. The \$56,127 increase in gross profit was generated by a decrease in cost of sales percentage, which was the result of increased productivity and management's efforts to reduce operating expense, and production tooling improvement.

Total Operating expenses

Operating expense

Operating expense increased to \$330,555 for the three months ended March 31, 2005 compared to \$174,342 for the three months ended March 31, 2004. The expenses increased \$156,213, primarily as a result of an increase in interest expense and additional investment in R&D personnel and development, and professional fees for a public company.

Amortization of discount on notes payable

Amortization of discount on notes payable increased to \$155,121 for the three months ended March 31, 2005 compared to \$60,612 for the three months ended March 31, 2004. The expense increased \$94,509, or 156%, primarily due to the convertible loans from Sino-America and Tina Young.

Net Loss

Net loss increased to (\$427,935) for the three months ended March 31, 2005 compared to (\$233,340) for the three months ended March 31, 2004. The \$194,595 increase in net loss is primarily due to \$155,121 of notes payable- debt discount costs along with increase in investment in R&D and production capacity, and additional cost for being a public company.

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

Going Concern

The Company incurred a net loss of \$427,935 and a negative cash flow from operations of \$217,536 for three months ended March 31, 2005, and had a working capital deficiency of \$1,007,020 and a stockholders' deficiency of \$699,958 at March 31, 2005. These matters raise substantial doubt about its ability to continue as a going concern.

We have relied primarily on cash flow from operations, bank loans, and advances and investments from our shareholders for our capital requirements since inception. The company received two convertible loans for a total of \$250,000 from two of its existing shareholders in February 2005. This allowed the company to pay off some of the debt and continue its operation. Current cash on hand will allow the company to continue its operation for one month.

At March 31, 2005, cash was \$47,716 as compared to \$17,115 at December 31, 2004. The increase is due to the \$250,000 convertible loans. We have a substantial working capital deficit. We require \$3,000,000 to continue operations for the next three years. We are in the process of raising capital in the form of equity and/or debt. However, there is no guarantee that we will raise sufficient funds to execute our business plan. To the extent we are unable to raise sufficient funds, our business plan will be required to be substantially modified, its operations curtailed or protection under bankruptcy/ reorganization laws sought.

We are addressing our liquidity requirements by the following actions: Continue our programs for selling products; continue to seek investment capital through the public markets. However, there is no guarantee that these strategies will enable us to meet our obligations for the foreseeable future.

Commitments and Contingencies

We have the following material contractual obligations and capital expenditure commitments:

The Company leases certain equipment under two capital leases with monthly payments of \$360 and \$701, respectively, including interest at 12.75% per annum.

Future minimum annual rental payments for capitalized leases are as follows:

| Three months ended March 31, | Amount |
|---|-----------|
| 2005 | \$ 9,549 |
| 2006 | 12,732 |
| 2007 | 12,732 |
| 2008 | 12,732 |
| 2009 | 3,543 |
| | 51,288 |
| Amount representing interest | (11,133) |
| Present value of minimum lease payments | 40,155 |
| Less: Current portion | (7,819) |
| | \$ 32,336 |

The Company leases its office and facility through 2007 under a long term operating lease agreement. Under terms of the lease, the Company pays the cost of repairs and maintenance. The office and warehouse facility is shared with TransOptix, who signed the lease as co-tenant with the Company. The Company and TransOptix have entered into an agreement stipulating each entities share of the rent, however, in event of default by TransOptix, the Company could contingently be liable for the full amount of the rent.

Future minimum lease commitments for the Company's share under this lease at March 31, 2005 are as follows:

| Three months ended March 31, | |
|------------------------------|------------|
| 2005 | \$ 72,748 |
| 2006 | 104,906 |
| 2007 | 91,520 |
| | \$ 269,174 |

The total lease commitment as of March 31, 2005 for which the Company could be contingently liable in the event of default of TransOptix is approximately \$538,348. Rent expense for the three months ended March 31, 2005 and 2004 was \$31,383 and \$26,409 respectively.

Inflation and Changing Prices

We do not foresee any adverse effects on our earnings as a result of inflation or changing prices.

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

The Company recognizes revenue when risk of loss and title to the product is transferred to the customer, which occurs at shipment.

Stock - based compensation

The Company has adopted the disclosure-only provisions of Statement of Financial Accounting Standards (SFAS) No. 148, "Accounting for Stock-Based Compensation - Transition and Disclosures" as well as those outlined in SFAS No. 123, "Accounting for Stock-Based Compensation". As permitted by SFAS 148 and SFAS 123, the Company continues to apply the provisions of Accounting Principles Board Opinion (APB) No. 25, "Accounting for Stock issued to Employees" and related interpretations in accounting for the Company's stock option plan. Accordingly, compensation cost for stock options is measured as the excess, if any, of the estimated fair value of the Company's stock at the date of the grant, over the amount an employee must pay to acquire the stock. Stock based awards for non-employees are accounted for at fair value equal to the excess of the estimated fair value of the Company's stock over the option price using an estimated interest rate to calculate the fair value of the option

Inventories

Inventories are stated at the lower of cost (first-in, first-out method) or market.

Recent Accounting Pronouncements

In November 2004, the FASB issued Statement of Financial Accounting Standards No. 151, "Inventory Costs". This Statement amends the guidance in ARB No. 43 Chapter 4 Inventory Pricing, to require items such as idle facility costs, excessive spoilage, double freight and rehandling costs to be expensed in the current period, regardless if they are abnormal amounts or not. This Statement will become effective for us in the first quarter of 2006. The adoption of SFAS No. 151 is not expected to have a material impact on our financial condition, results of operations, or cash flows.

In December 2004, the FASB issued SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which revises SFAS No. 123. SFAS 123R also supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows". In general, the accounting required by SFAS 123R is similar to that of SFAS No. 123. However, SFAS No. 123 gave companies a choice to either recognize the fair value of stock options in their income statements or disclose the pro forma income statement effect of the fair value of stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period. SFAS 123R must be adopted no later than July 1, 2005. Early adoption is permitted.

The Company is currently evaluating the timing and manner in which it will adopt SFAS 123R. As permitted by SFAS 123, the Company currently accounts for share-based payments to employees using APB 25's intrinsic value method. Accordingly, adoption of SFAS 123R's fair value method will have an effect on results of operations, although it will have no impact on overall financial position. The impact of adoption of SFAS 123R cannot be predicted at this time because it will depend on levels of share-based payments granted in the future. However, had SFAS 123R been adopted in prior periods, the effect would have approximated the SFAS 123 pro forma net loss and loss per share disclosures as shown above. SFAS 123R also requires the benefits of tax deductions in excess of recognized compensation cost to be reported as a financing cash flow, rather than as an operating cash flow as currently required, thereby reducing net operating cash flows and increasing net financing cash flows in periods after adoption.

RISKS RELATED TO OUR BUSINESS

We have had negative cash flows from operations. Our business operations may fail if our actual cash requirements exceed our estimates, and we are not able to obtain further financing.

Our company has had negative cash flows from operations. To date, we have incurred significant expenses in product development and administration in order to ready our products for market. Our business plan calls for additional significant expenses necessary to bring our products to market. We believe we do not have sufficient funds to satisfy our short-term cash requirements. There is no assurance that actual cash requirements will not exceed our estimates, in which case we will require additional financing to bring our products into commercial operation, finance working capital and pay for operating expenses and capital requirements until we achieve a positive cash flow. In particular, additional capital may be required in the event that:

- we incur unexpected costs in completing the development of our technology or encounter any unexpected technical or other difficulties;
 - we incur delays and additional expenses as a result of technology failure;
 - we are unable to create a substantial market for our product and services; or
 - we incur any significant unanticipated expenses.

We may not be able to obtain additional equity or debt financing on acceptable terms if and when we need it. Even if financing is available it may not be available on terms that are favorable to us or in sufficient amounts to satisfy our requirements. If we require, but are unable to obtain, additional financing in the future, we may be unable to implement our business plan and our growth strategies, respond to changing business or economic conditions, withstand adverse operating results, and compete effectively. More importantly, if we are unable to raise further financing when required, our continued operations may have to be scaled down or even ceased and our ability to generate revenues would be negatively affected.

A decline in the price of our common stock could affect our ability to raise further working capital and adversely impact our operations.

A prolonged decline in the price of our common stock could result in a reduction in the liquidity of our common stock and a reduction in our ability to raise capital. Because our operations have been primarily financed through the sale of equity securities, a decline in the price of our common stock could be especially detrimental to our liquidity and our continued operations. Any reduction in our ability to raise equity capital in the future would force us to reallocate funds from other planned uses and would have a significant negative effect on our business plans and operations, including our ability to develop new products and continue our current operations. If the stock price declines, there can be no assurance that we can raise additional capital or generate funds from operations sufficient to meet our obligations.

If we issue additional shares in the future this may result in dilution to our existing stockholders.

Our Amended Certificate of Incorporation authorizes the issuance of 200,000,000 shares of common stock. Our board of directors has the authority to issue additional shares up to the authorized capital stated in the certificate of incorporation. Our board of directors may choose to issue some or all of such shares to acquire one or more businesses or to provide additional financing in the future. The issuance of any such shares may result in a reduction of the book value or market price of the outstanding shares of our common stock. It will also cause a reduction in the proportionate ownership and voting power of all other stockholders. Further, any such issuance may result in a change of control of our corporation.

We have a history of losses and negative cash flows, which is likely to continue unless our products gain sufficient market acceptance to generate a commercially viable level of sales.

From inception through March 31, 2005, we have incurred aggregate net losses. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as market acceptance of our products, the unpredictability of when customers will order products, the size of customers' orders, the demand for our products, and the level of competition and general economic conditions.

Although we anticipate that we will be able to increase revenues during the next 9 months, we also expect an increase in development and operating costs. Consequently, we expect to incur operating losses and net cash outflow unless and until our existing products, and/or any new products that we may develop, gain market acceptance sufficient to generate a commercially viable and sustainable level of sales.

Unless we can establish significant sales of our current products, our potential revenues may be significantly reduced.

We expect that a substantial portion, if not all, of our future revenue will be derived from the sale of our sensor products. We expect that these product offerings and their extensions and derivatives will account for a majority, if not all, of our revenue for the foreseeable future. The successful introduction and broad market acceptance of our sensor products - as well as the development, introduction and market acceptance of any future enhancements - are, therefore, critical to our future success and our ability to generate revenues. Unfortunately, there can be no assurance that we will be successful in marketing our current product offerings, or any new product offerings, applications or enhancements. Failure to achieve broad market acceptance of our sensor products, as a result of competition, technological change, or otherwise, would significantly harm our business.

We could lose our competitive advantages if we are not able to protect any proprietary technology and intellectual property rights against infringement, and any related litigation could be time-consuming and costly.

Our success and ability to compete depends to a significant degree on our proprietary technology incorporated in our products. We have taken limited action to protect our proprietary technology and proprietary computer software. If any of our competitors copies or otherwise gains access to our proprietary technology or software or develops similar technologies independently, we would not be able to compete as effectively.

Further, the laws of foreign countries may provide inadequate protection of such intellectual property rights. We may need to bring legal claims to enforce or protect such intellectual property rights. Any litigation, whether successful or unsuccessful, could result in substantial costs and diversions of resources. In addition, notwithstanding any rights we have secured in our intellectual property, other persons may bring claims against us that we have infringed on their intellectual property rights, including claims based upon the content we license from third parties or claims that our intellectual property right interests are not valid. Any claims against us, with or without merit, could be time consuming and costly to defend or litigate, divert our attention and resources, result in the loss of goodwill associated with our service marks or require us to make changes to our website or other of our technologies.

Our products may become obsolete and unmarketable if we are unable to respond adequately to rapidly changing technology and customer demands.

Our industry is characterized by rapid changes in technology and customer demands. As a result, our products may quickly become obsolete and unmarketable. Our future success will depend on our ability to adapt to technological advances, anticipate customer demands, develop new products and enhance our current products on a timely and cost-effective basis. Further, our products must remain competitive with those of other companies with substantially greater resources. We may experience technical or other difficulties that could delay or prevent the development, introduction or marketing of new products or enhanced versions of existing products. Also, we may not be able to adapt new or enhanced products to emerging industry standards, and our new products may not be favorably received.

If we fail to effectively manage our growth our future business results could be harmed and our managerial and operational resources may be strained.

As we proceed with the commercialization of our products, we expect to experience significant and rapid growth in the scope and complexity of our business. We will need to add staff to market our products, manage operations, handle sales and marketing efforts and perform finance and accounting functions. We will be required to hire a broad range of additional personnel in order to successfully advance our operations. This growth is likely to place a strain on our management and operational resources. The failure to develop and implement effective systems, or to hire and retain sufficient personnel for the performance of all of the functions necessary to effectively service and manage our potential business, or the failure to manage growth effectively, could have a materially adverse effect on our business and financial condition.

OFF BALANCE SHEET ARRANGMENTS

There are no Off-Balance Sheet Arrangements to report.

Item 3. Controls And Procedures

(a) Evaluation of Disclosure Controls and Procedures.

Our management evaluated, with the participation of our Chief Executive and Financial Officer, the effectiveness of our disclosure controls and procedures as of the end of the period covered by this Quarterly Report on Form 10-QSB. Based on this evaluation, our Chief Executive and Financial Officer has concluded that our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934 (the Exchange Act)) are inadequate to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is recorded, processed, summarized and reported within the time periods specified in SEC rules and forms. We are developing a plan to ensure that all information will be recorded, processed, summarized and reported on a timely basis. This plan is dependent, in part, upon reallocation of responsibilities among various personnel, possibly hiring additional personnel and additional funding. It should also be noted that the design of any system of controls is based in part upon certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions, regardless of how remote.

(b) Changes in Internal Controls.

During the period covered by the Quarterly Report on Form 10-QSB, there were no significant changes in our internal controls over financial reporting or in other factors that have materially affected, or are reasonably likely to materially affect, our internal controls over financial reporting.

**PART II
OTHER INFORMATION**

Item 1. Legal Proceedings.

None.

Item 2. Changes In Securities and Small Business Issuer Purchases of Equity Securities.

1. On May 24, 2004, Sensor System Solutions (formerly known as Spectre Industries, Inc.), a Nevada corporation, entered into an agreement and plan of merger (the Merger) with Advanced Custom Sensors, Inc. (ACSI). Sensor issued 2,584,906 shares of its common stock and warrants (the Merger Warrants) to purchase up to 47,802,373 shares of its common stock to the shareholders of ACSI in exchange for all the issued and outstanding shares of ACSI. On January 29, 2005, warrants for 47,802,373 shares of common stock were exercised. The company recorded \$47,802, the par value of the stock issued, as an increase in common stock and a reduction to additional paid in capital in the accompanying financial statements.
2. On February 9, 2005, the Company filed an S-8 under the Securities Act of 1933, to register an aggregate of 3,000,000 shares of our common stock consisting of 1,500,000 shares of our common stock that we have agreed to issue to each of Ian Grant, a director and our former President and Matthew Markin, a director pursuant to a written stock compensation agreement with each of them. The purpose of the stock compensation agreement is to secure for our company and Messrs. Grant and Markin, our independent directors, the benefits arising from capital stock ownership by such directors or officers of, and consultants or advisors to, our company and subsidiary corporations who have contributed to our company in the past and who are expected to contribute to our company's future growth and success. These 3,000,000 shares are part of the 7,500,000 shares granted to the five shareholders in Spectre on December 4, 2004.
3. Note payable, secured by accounts receivable of the Company, interest at 10%, due February 11, 2005. The note payable was originally issued by ACSI. In connection with the note payable, ACSI issued a warrant to purchase 500,000 shares of stock at \$.50 per share (the ACSI warrant is convertible into 14,088,865 shares of the Company's common stock). The note was payable to Sino-American, Inc., a company controlled by Mr. Hanlin Chen, a director of the Company. On March 15, 2005, the warrant was exercised for \$250,000 of the debt outstanding. The balance of the note payable and accrued interest (\$300,000) was exchanged for 390,228 shares of the Company's common stock at approximately \$0.77 per share, which approximated the market value of the stock on March 15, 2005.
4. Notes payable, secured by all assets of the Company, interest at 8% per annum, due October 1, 2005. The note payable was originally issued by ACSI in 2003, at which time ACSI issued a warrant to purchase 25,000 shares of stock at \$.50 per share (the ACSI shares are convertible into 704,425 shares of the Company's common stock). The intrinsic value of the original warrant was valued at \$25,000, recorded as loan discount cost, and was amortized over the life of the original note as additional interest cost. The original note was due September 16, 2004. On October 2, 2004, a new note was issued to replace the original note. At maturity, the new note was convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the new note has a warrant attached that, once

the new note is converted into stock, allows the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the new note and new warrant, valued at \$17,679, has been recorded as loan discount costs and is amortized over the life of the new note. On March 18, 2005, the ACSI warrant was exercised for \$12,500 of the debt outstanding. The balance of the note payable and accrued interest (\$16,012) was exchanged for 21,353 shares of the Company's common stock at approximately \$0.77 per share, which approximated the market value of the stock on March 15, 2005.

Item 3. Defaults Upon Senior Securities.

The \$190,665 promissory note due to Tina Young matured on December 31, 2004. The Company is currently negotiating a settlement.

The \$110,000 convertible loan due to Tina Young matured on March 16, 2005. The Company is currently negotiating a settlement.

Item 4. Submission of Matters to a Vote of Security Holders.

None.

Item 5. Other Information.

1. On February 14, 2005, the Company approved the joint venture agreement with China Automotive Systems, Inc.
2. On March 20, 2005, the Company approved the loan conversions of Sino-American and Pei Jen Hsu and forwent the warrant exercise charge of \$4,780 for the original ACSI shareholders.

Item 6. Exhibits

- | | |
|------|---|
| 31.1 | Certification pursuant to Section 302 of the Sarbanes-Oxley Act of 2002 |
| 32.1 | Certification pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 |

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SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the Registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SENSOR SYSTEM SOLUTIONS, INC.

Dated: June 22, 2005

/s/ Michael Young

Name: Michael Young
Title: Chief Executive Officer and Principal Accounting Officer