

HORNE INTERNATIONAL, INC.  
Form 10-Q  
January 09, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

**FORM 10-Q**

(Mark One)

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

For the quarterly period ended: September 23, 2012

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: 000-50373

**Horne International, Inc.**

(Exact name of registrant as specified in its charter)

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Delaware 90-0182158  
(State or other jurisdiction of (I.R.S. Employer  
incorporation or organization) Identification No.)

3975 University Drive, Suite 100,  
Fairfax, Virginia 22030  
(Address of principal executive offices) (Zip Code)

703-641-1100

(Registrant's telephone number, including area code)

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, and (2) has been subject to such filing requirements for the past 90 days.

Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes  No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer  Accelerated Filer  Non-Accelerated Filer  Smaller Reporting Company

(Do not check if Smaller Reporting Company)

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes  No

As of November 21, 2012, there were 47,306,054 shares of the issuer's common stock, par value \$0.0001 per share, outstanding.



HORNE INTERNATIONAL, INC.

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Horne International, Inc.

Consolidated Balance Sheets (Unaudited)

(Dollars shown in 000's except share amounts)

**PART I - FINANCIAL INFORMATION****Item 1. Financial Statements**

	September 23, 2012	December 25, 2011
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 44	\$ 152
Receivables, net	888	1,100
Prepaid expenses and Other current assets	37	29
Total current assets	969	1,281
Property and equipment, net	9	32
Other assets	19	19
<b>TOTAL ASSETS</b>	<b>\$ 997</b>	<b>\$ 1,332</b>
<b>LIABILITIES AND STOCKHOLDERS' DEFICIT</b>		
Current liabilities:		
Accounts payable	\$ 933	\$ 1,053
Accrued expenses	939	646
Debt, net of discount	792	475
Current liabilities of discontinued operations	-	7
Total current liabilities	2,664	2,181
Long-term liabilities:		
Non-current portion of debt	-	4
<b>TOTAL LIABILITIES</b>	<b>2,664</b>	<b>2,185</b>
Commitments and contingencies (Note 9)	-	-
Stockholders' deficit		
Preferred stock, \$0.0001 par value; 20,000,000 shares authorized, none issued	-	-
Common stock, \$0.0001 par value; 80,000,000 shares authorized, 47,306,054 (2012) and 44,506,054 (2011) issued and outstanding	5	4
Additional paid-in capital	80,191	79,757
Accumulated deficit	(81,863 )	(80,614 )
Total stockholders' deficit	(1,667 )	(853 )

TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT	\$ 997	\$ 1,332
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See accompanying notes to consolidated financial statements (unaudited).

## HORNE INTERNATIONAL, INC.

## Consolidated Statements of Operations (Unaudited)

(Dollars shown in 000's except share and per share amounts)

	Three months ended		Nine months ended	
	September 23, 2012	September 25, 2011	September 23, 2012	September 25, 2011
Revenues	\$1,001	\$1,469	\$3,405	\$3,812
Cost of revenues	843	1,339	2,947	3,373
Gross profit	158	130	458	439
Operating expenses	488	433	1,432	1,303
Operating loss	(330 )	(303 )	(974 )	(864 )
Non-operating (expense) income, net	(74 )	(15 )	(272 )	(63 )
Loss before provision for income taxes	(404 )	(318 )	(1,246 )	(927 )
Income tax (expense) benefit	(3 )	-	(3 )	1
Loss from continuing operations	(407 )	(318 )	(1,249 )	(926 )
Income from discontinued operations	0	3	0	1,084
Net (Loss) Income	\$(407 )	\$(315 )	\$(1,249 )	\$158
Weighted average common shares outstanding: Basic and diluted	47,306,045	44,319,895	46,474,060	43,538,190
Basic and diluted loss per share:				
Loss from continuing operations	(0.01 )	(0.01 )	(0.03 )	(0.02 )
Income from discontinued operations	0.00	0.00	0.00	0.02
Total basic and diluted (loss) income per share	\$(0.01 )	\$(0.01 )	(0.03 )	\$0.00

See accompanying notes to consolidated financial statements (unaudited).

HORNE INTERNATIONAL, INC.

Consolidated Statement of Changes in Stockholders' Deficit (Unaudited)

For the Nine Months Ended September 23, 2012

(Dollars shown in 000's except share amounts)

	Shares	Amount	APIC	Deficit	Total
Balance as of December 25, 2011	44,506,054	\$ 4	\$79,757	\$(80,614)	\$(853 )
Net loss				(1,249 )	(1,249)
Stock based compensation			80		80
Beneficial conversion on debt			75		75
Restricted stock issuances	2,800,000	1	279		280
Balance as of September 23, 2012	47,306,054	\$ 5	\$80,191	\$(81,863)	\$(1,667)

See accompanying notes to the consolidated financial statements (unaudited).



Horne International, Inc.

## Consolidated Statement of Cash Flows (Unaudited)

For The Nine Months Ended September 23, 2012 and September 25, 2011

	Nine Months Ended	
	September 23, 2012	September 30, 2011
Cash flows from operating activities:		
Continuing Operations		
Net loss from continuing operations	\$ (1,249 )	\$ (926 )
Cash used in operating activities		
Stock-based compensation	89	38
Issuance of common stock for services	-	122
Depreciation and amortization	23	28
Non-Cash impact of debt discount	28	-
Change in balance sheet items		
Receivables, net	204	(566 )
Prepaid expenses	13	-
Other assets	-	40
Accounts payable	(120 )	869
Accrued expenses	218	(185 )
Deferred revenue	-	(3 )
Net cash used in continuing operations	(794 )	(583 )
Discontinued Operations		
Net income from discontinued operations	-	1,084
Cash used in discontinued operations	-	(202 )
Net cash provided by discontinued operations	-	882
Net cash (used in) provided by operations	(794 )	\$ 299
Cash flows from investing activities:		
Purchase of property and equipment	-	(2 )
Net cash used in investing activities	-	(2 )
Cash flows from financing activities		
Proceeds from issuance of common stock	250	
Principal repayments on capital lease obligations	(9 )	(7 )
Net payments on lines of credit	-	(140 )
Principal payments on debt	(245 )	(340 )
Proceeds from debt	690	310
Net cash provided by (used in) financing activities	686	(177 )
Net (decrease) increase in cash and cash equivalents	(108 )	120

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Cash and cash equivalents at beginning of period	152	62
Cash and cash equivalents at end of period	44	182

Supplemental disclosure of cash flow information:

Cash paid for interest	\$ -	\$ 62
Cash paid for taxes	\$ -	\$ 1

Supplemental schedule of non cash financing activities:

Provisions for debt discount	\$ 75	\$ -
Prepayment of service through common stock issuance	\$ 30	\$ -

See accompanying notes to the consolidated financial statements (unaudited).

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

1. organization and nature of business and uncertainty

Horne International, Inc. (the “Company” or “we”, “us”, “our” or similar terms), headquartered in Fairfax, Virginia, is an engineering services company focused on the provision of integrated, systems approach based solutions to the energy and environmental sectors. The Company’s solutions are sustainable, agile, and provide immediate, as well as long term results. The Company’s service and product offerings encompass engineering, environment, and energy solutions. We provide products and services to both commercial customers and to the United States Government.

Discontinued operations include the results of our Spectrum subsidiary that we decided to close in June 2008.

The Company’s independent registered public accountants stated in their report on the consolidated financial statements of the Company for the fiscal year ended December 25, 2011, that the Company has had recurring operating losses that raise substantial doubt about its ability to continue as a going concern. For the nine months ended September 23, 2012, the Company incurred a loss from continuing operations of approximately \$1,249 million and had a stockholders’ deficit of approximately \$1,667 million as of that date. The consolidated financial statements do not include any adjustments related to the recovery and classification of recorded assets, or the amounts and classification of liabilities that might be necessary in the event the Company cannot continue as a going concern.

The Company is dependent upon available cash and operating cash flow in addition to financing cash inflows to meet its capital needs. The Company is considering all strategic options to improve its liquidity and provide it with working capital to fund its continuing business operations which include equity offerings, assets sales or debt financing as alternatives to improve its cash requirements.

During 2008, the Company entered into a loan agreement with Darryl K. Horne, the Company’s President and Interim Chief Executive Officer. The loan permitted the Company to borrow up to \$525,000 at 8% interest. As of September 23, 2012, the principal outstanding balance is \$493,507 and the accrued interest balance is \$94,523.

In February 2011, the Company entered into a financing agreement with United Capital Funding Corporation under which the Company is able to factor certain eligible accounts receivable. The agreement calls for a minimum fee of 0.425% of the invoice amount for the first five day period and an additional 0.425% for each five day period thereafter

until the invoice is paid. The Company is able to receive 80% of any invoices factored to the lender. As of September 23, 2012, the outstanding balance is zero. The loan is not convertible into any Company securities.

In March 2011, the Company entered into a receivables financing agreement with Evan Auld-Susott, the Company's former Chief Executive Officer, as agent of the Susott Family Limited Partnership (FLP). Under the terms of the agreement, Mr. Auld-Susott agreed to finance specific accounts receivable under a line of credit for up to \$500,000 at an interest rate of 13 percent. As of September 23, 2012, the outstanding balance is \$190,000 and the accrued interest balance is \$24,323. The loan is not convertible into any Company securities.

On December 29, 2011, the Company entered into a Loan Agreement with Trevor Foster pursuant to which the Company borrowed One Hundred Thousand Dollars (\$100,000) from Mr. Foster in exchange for a promissory note in the principal amount of One Hundred Thousand Dollars (\$100,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7% per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. On May 7, 2012 an amendment was made to the Loan Agreement that permits Mr. Foster to convert the entire principal loan balance into Company common stock at a conversion price equal to \$.10 per share. As of September 23, 2012, the outstanding balance of the loan is \$100,000 and the accrued interest balance is \$5,221.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

On December 29, 2011, the Company entered into a Loan Agreement with Darryl K. Horne, the Company's President and Interim Chief Executive Officer, pursuant to which the Company borrowed Fifty Thousand Dollars (\$50,000) from Mr. Horne in exchange for a Promissory Note in the principal amount of Fifty Thousand Dollars (\$50,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7% per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. On May 7, 2012 an amendment was made to the Loan Agreement that permits Mr. Horne to convert the entire principal loan balance into Company common stock at a conversion price equal to \$.10 per share. As of September 23, 2012, the outstanding balance is \$50,000 and the accrued interest balance is \$2,610.48.

On January 3, 2012, 91 Hill, LLC, an entity affiliated with Evan Auld-Susott, the Company's former Chief Executive Officer, exercised 500,000 of its stock options at the exercise price of \$0.10 per share, and received 500,000 shares of the Company common stock.

On March 6, 2012, the Company notified Intelligent Decisions, Inc. of the termination of the Stock Option Agreement and Restricted Stock Agreement between the Company and Intelligent Decisions. The Company cancelled 4,166,667 options associated with the agreements. As of June 24, 2012, the Company cancelled the remaining 4,166,667 options of stock associated with the agreement. This action has resulted in the possibility of a contingent liability and pending litigation. See Note 9 – Contingent Liabilities below.

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### Principles of Consolidation and Basis of Presentation

The consolidated financial statements of Horne International, Inc. include accounts of the Company and its wholly-owned subsidiaries. Intercompany transactions and balances are eliminated in consolidation.

The accompanying unaudited consolidated financial statements for the nine month periods ended September 23, 2012, and September 25, 2011 have been prepared in accordance with accounting principles generally accepted in the United States of America for interim financial information and pursuant to the rules and regulations of the Securities

and Exchange Commission for Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, they do not include all of the information and disclosures required by generally accepted accounting principles 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 nine month period ended September 23, 2012 are not necessarily indicative of the results that may be expected for the year. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and related footnotes included in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011.

### Revenue Recognition

Revenues are derived from three sources:

- Government Contracts Services fees, related to professional services and reimbursable travel and training. Revenues from cost reimbursable contracts are recorded as reimbursable costs are incurred, including an estimated share of the applicable contractual fees earned. For performance-based fees under cost reimbursable contracts, we
- (i) recognize the relevant portion of the expected fee to be awarded by the client at the time such fee can be reasonably estimated, based on factors such as prior award experience and communications with the client regarding performance. For cost reimbursable contracts with performance-based fee incentives, we recognize the relevant portion of the fee upon customer approval. For time-and-materials contracts, revenue is recognized based on billable rates times hours delivered plus materials and other reimbursable costs incurred.
  - (ii) License, installation and maintenance fees, as an agent of implementation of network services. We recognize revenue on a net basis excluding taxes collected from customers and remitted to government authorities.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

(iii) Reselling of hosted module leased equipment to retain ownership. Revenue is recognized once delivery has occurred.

In all cases, revenue is only recognized when persuasive evidence of an arrangement exists, the price is fixed and determinable, delivery has occurred or services have been rendered, and collection of the resulting receivable is reasonably assured. The Company estimates an allowance for services provided.

#### 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 basis 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.

The Company currently has a net operating loss carry forward of approximately \$55 million at September 23, 2012. The Company has not recorded any related federal tax benefit in the accompanying consolidated financial statements, due to the possibility that the net operating loss carry forward may not be utilized, for various reasons, including the potential that the Company might not have sufficient profits to use the carry forward or the carry forward may be limited as a result of changes in the Company's equity ownership. The Company adopted Accounting Standards Codification topic 740, subtopic 10 on January 1, 2007, which requires financial statement benefits to be recognized for positions taken for tax return purposes when it is more-likely-than-not that the position will be sustained. There has been no change in our financial position and results of operation due to the adoption of this standard.

#### Loss Per Share

Basic loss per share is calculated by dividing net loss by the weighted-average number of common shares outstanding during the reporting period. Diluted loss per share is computed in a manner consistent with that of basic loss per share

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 of 2,960,380, and 7,654,600 were not included in the computation of diluted (loss) income per share for the nine months ended September 23, 2012, and September 25, 2011, respectively, as the inclusion of these common stock equivalents would have been anti-dilutive.

### **Stock-based Compensation**

The fair values of stock option awards are determined using the Black-Sholes option pricing model. The compensation expense is recognized on a straight-line basis over the vesting period. The Company, beginning in 2006, has included a vesting period for most options granted. See Note 7 for a detailed discussion of the Company's stock option plan. The Company accounts for stock incentive plans by measurement and recognition of compensation expense for all share-based awards on estimated fair values, net of estimated and actual forfeitures, on a straight line basis over the period during which the employee is required to provide services in exchange for the award.

### **Cash Equivalents**

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

### **Fair Value of Financial Instruments**

The carrying amount of cash and cash equivalents, receivables, accounts payable and accrued expenses approximates fair value because of the short-term nature of those instruments. The carrying amount and fair market value of the Company's short-term investments are the same since short-term investments are recorded at fair value. Debt is recorded at the cash settlement value of the underlying notes and is not revalued.



Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

### **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 and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Accordingly, results could differ from those estimates and assumptions.

### **Recent Accounting Pronouncements**

Management does not believe that any recent accounting pronouncements will have a material effect on the Company's consolidated financial statements.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

### 3. RECEIVABLES (000's)

Receivables primarily comprise of amounts due to the Company for work performed on contracts directly related to commercial and government customers. The Company has a nominal bad debt reserve as most of our contracts are with governmental entities.

Unbilled receivables represent recoverable costs and estimated earnings consisting principally of contract revenues that have been recognized for accounting purposes but are not yet billable to the customer based upon the respective contract terms.

	September 23, 2012	December 25, 2011
Accounts Receivable		
Billed	\$ 483	\$ 752
Unbilled	497	349
Allowance for uncollectable account	(92 )	(1 )
Total Accounts Receivable, Net	\$ 888	\$ 1,100

### 4. Property and equipment (000's)

	September 23, 2012	December 25, 2011
Buildings and Improvements	\$ 5	\$ 5
Furniture and Fixtures	11	11
Office Equipment	304	304
Total	\$ 320	\$ 320
Accumulated Depreciation	(311 )	(288 )
Property and Equipment, net	\$ 9	\$ 32

### 5. DEBT ReLated Party AND OTHER BORROWINGS

The Company's borrowings, consisting of related party receivable financing, unsecured notes, and other borrowings net of discount, were approximately \$792,000 as of September 23, 2012 and \$479,000 as of December 25, 2011. The

rates on the related party notes are 13%, 7% and 8%.

**Darryl Horne Notes**

During 2008, the Company entered into a loan agreement with Darryl K. Horne, the Company's President and Interim Chief Executive Officer. The agreement permitted the Company to borrow up to \$525,000 at an 8% interest rate. The interest is payable quarterly beginning in July 1, 2008, with principal payable upon demand. This note is unsecured and is not convertible into any Company securities. As of September 23, 2012, the total outstanding balance is \$493,507 and accrued interest is 94,523.

On December 29, 2011, the Company entered into a Loan Agreement with Mr. Darryl K. Horne, the Company's President and Interim Chief Executive Officer, pursuant to which the Company borrowed Fifty Thousand Dollars (\$50,000) from Mr. Horne in exchange for a promissory note in the principal amount of Fifty Thousand Dollars (\$50,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7% per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. The Note has been amended to be convertible into common stock at Mr. Horne's option at a per share price equal to \$.10 per share.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

### **Evan Auld-Susott Notes**

In March 2011, the Company entered into a receivables financing agreement with Evan Auld-Susott, the Company's former Chief Executive Officer, as agent of the Susott Family Limited Partnership. Under the terms of the agreement, Mr. Auld-Susott agreed to finance specific accounts receivable under a line of credit for up to \$500,000 at an interest rate of 13%. The outstanding balance and accrued interest is \$190,000 and \$24,323, respectively, as of September 23, 2012. The receivable is not convertible into any Company securities.

### **Other Borrowings**

On December 29, 2011, the Company entered into a Loan Agreement with Trevor Foster pursuant to which the Company borrowed one hundred thousand dollars (\$100,000) from Mr. Foster in exchange for a promissory note in the principal amount of one hundred thousand dollars (\$100,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7% per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. In May 2012 the note was amended to be payable, at the option of Mr. Foster, by conversion into common stock at a per share price equal to \$.10 per share. Mr. Foster has agreed to defer the quarterly payments. As of September 23, 2012, the outstanding balance of the loan is \$100,000 and the interest balance is \$5,221.

The convertible notes issued to Mr. Horne and Mr. Foster contain a "beneficial conversion" feature that required separate recognition, at issuance, of a portion of the proceeds equal to the intrinsic value of the feature as additional paid-in-capital. This "discount" is being amortized using the effective interest method through a charge to interest expense over the term of the notes. The notes are convertible into 1,500,000 shares of common stock.

#### 6. Line of Credit

In April 2011, the Company entered into a financing agreement with United Capital Funding under which the Company is able to factor certain eligible accounts receivable. The Company is able to receive 85 percent of any invoices factored to the lender. The agreement calls for a minimum factoring fee of 4.25% for the first five days and 4.25% for each additional five day period.

#### 7. STock Option plan

On March 22, 2010, the Company entered into a strategic partnership with Intelligent Decisions, Inc. (“Intelligent”). Intelligent is an information technology services company headquartered in Ashburn, Virginia, servicing both commercial and government customers. The agreement between the parties provide for Intelligent to provide business support services to the Company. On March 6, 2012, the Company notified Intelligent Decisions, Inc. of the termination of the Stock Option Agreement and Restricted Stock Agreement between the Company and Intelligent Decisions and cancelled 4,166,667 options. As of June 24, 2012, the Company cancelled the remaining 4,166,667 options associated with the agreements. This has resulted in the possibility of a contingent liability and legal litigation. See Note 9 – Commitments and Contingent Liabilities below.

On January 3, 2012, 91 Hill, LLC, Evan Auld-Susott, the Company’s former Chief Executive Officer, exercised 500,000 of its stock options at the exercise price of \$0.10 per share, and received 500,000 shares of the Company common stock.

The Company has a stock option plan available to eligible employees, non-employee directors, consultants and advisors to acquire proprietary interests in the Company by providing eligible persons an additional incentive to promote the success of the Company as deemed appropriate by senior management. This is accomplished by providing for the granting of Non-Statutory Stock Options to employees, non-employee directors, consultants and advisors. During the first nine months of 2012, the Company did not make any option grants.

The fair values of stock option awards are determined using the Black-Sholes option pricing model. The compensation expense is recognized on a straight-line basis over the vesting period. The Company, beginning in 2006, has included a vesting period for most options granted.

The table below summarizes our stock option activity during the nine months ended September 23, 2012.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

	Number of Shares	Weighted Average Exercise Price	Weighted Average Remaining Life (yrs)	Aggregate Intrinsic Value
Options Outstanding 12/25/2011	7,799,660	\$ 0.12	3.52	\$ 226,666
Granted	-			
Exercised	(500,000 )	\$ 0.10		
Cancelled	(4,339,280 )	\$ 0.09		
Options Outstanding 9/23/2012	2,960,380	\$ 0.15	0.93	\$ 0
Options Exercisable 9/23/2012	1,975,043	\$ 0.12	0.58	\$ 0

#### 8. Discontinued Operations

The Company made the strategic decision to close operations of its Spectrum Sciences and Software, Inc. (SSSI) in early 2008.

#### 9. COMMITMENTS AND CONTINGENCIES

##### Operating Leases

The Company leases office space at one location in the United States. Rent expense totaled approximately \$102,283 and \$73,000 for the nine months ending September 23, 2012 and September 25, 2011, respectively. The Company also enters into various other non-cancellable leases for office equipment and vehicles as necessary.

The table below summarizes our future annual minimum lease payments under non-cancellable agreements with an initial term of greater than one year at inception. (000's)

	2012	2013	2014
Operating Leases	\$ 34	\$ 90	\$ -

### Capital Leases

The Company updated its corporate office phone system in March 2010. The Company entered into a three-year lease agreement with a \$1 buyout option for the phone system with AVAYA Financial Services. This lease requires a monthly payment of \$1,010 plus all applicable taxes.

The table below summarizes our future annual minimum lease payments under this non-cancellable agreement with an initial term of greater than one year at inception. (000's)

	2012	2013	2014
Capital Leases	\$ 3	\$ 3	\$ -

### Contingent Liabilities

The Company, through its Horne Engineering Services subsidiary, was a member of Weskem, a limited liability company that specialized in environmental remediation. In 2011 the Company received notice of outstanding legal liability of \$10,000 associated with the investment. There may be future liabilities but at this time such liabilities are not quantifiable.

Horne International, Inc.

Notes to Consolidated Financial Statements (Unaudited)

On March 6, 2012, the Company notified Intelligent Decisions, Inc. of the termination of the Stock Option Agreement and Restricted Stock Agreement between the Company and Intelligent Decisions, Inc. The Company has terminated 8,333,333 stock options associated with this agreement in 2011 and 2012. The Company is also disputing invoices in the amount of \$36,000, under the terms of the Agreement, which payments by the Company are made in restricted common stock of the Company, equals 400,000 shares of restricted stock. In 2012 the Company received a letter from Intelligent Decisions counsel disputing the Company's right to terminate the Agreement and the stock options.

#### 10. SUBSEQUENT EVENTS

Management has evaluated all events that occurred after the balance sheet date through the date when these financial statements were issued and determined that the following subsequent event was required to be disclosed:

On December 19, 2012, the company through its Horne Engineering Services subsidiary was notified of the failure to win a re-compete on a prime government contract, U.S. Army Procurement to Support Regional Environmental and Energy Offices (REEOs) W91WAW-08-C0012, expiring on December 14, 2012, with an estimated \$1.3 million in revenue.



Horne International, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

ITEM 2. MANAGEMENT'S DISCUSSION AND analysis of financial condition and results of operations

The following discussion provides information which management believes is relevant to an assessment and an understanding of the Company's operations and financial condition. This discussion should be read in conjunction with the attached unaudited consolidated financial statements and accompanying notes as well as our annual report on Form 10-K for the fiscal year ended December 25, 2011.

**FORWARD-LOOKING STATEMENTS**

The matters discussed in this Quarterly Report on Form 10-Q 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 contain these 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," contained in our Annual Report of Form 10-K for the fiscal year ended December 25, 2011, as well as any cautionary language in this Form 10-Q, 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 this Form 10-Q. Subsequent events and developments may cause our views to change. While we may elect to update the forward-looking statements at some point in the future, we specifically disclaim any obligation to do so.

Description of the Company

The Company provides a variety of services through its wholly-owned subsidiaries; Horne Engineering Services LLC, Hornet LLC, and BEES LLC.

Horne Engineering Services, LLC, focuses on providing program engineering, energy solutions, occupational safety and health, environmental sciences, acquisition and procurement, business process engineering, public outreach, and product solutions. Our primary customer in this segment is the U.S. Government, with specific focus within the Departments of Homeland Security, Defense, Transportation and other civilian agencies.

On February 6, 2012 the Company incorporated Hornet, LLC. The Company focuses on cloud based technology, by providing hosted voice services, application and infrastructure management, and security solutions with the anticipation of having both Government and Commercial accounts.

On February 6, 2012, the Company incorporated BEES, LLC to expand its current Efficiency Solutions business. The Company expects that BEES, LLC will provide services to maximize building energy efficiency with a focus on Commercial and Government customers.

As of September 23, 2012, BEES, LLC did not have any business operations.

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly in deciding how to allocate resources and in assessing performance.

Horne International, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

Critical Accounting Policies and estimates

In our Form 10-K for the fiscal year ended December 25, 2011, our most critical accounting policies and estimates upon which our financial status depends were identified as those relating to revenue recognition, stock-based compensation, net operating losses and tax credit carryforwards, and impairment of long-lived assets. We reviewed our policies and determined that those policies remain our most critical accounting policies for the nine months ended September 23, 2012.

Comparison of THREE Months Ended September 23, 2012, and September 25, 2011

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.

Consolidated Overview (000's)

	September 23, 2012			September 25, 2011		
Total revenue	\$ 1,001	100.0	%	\$ 1,469	100.0	%
Gross profit	158	15.8	%	130	8.8	%
Operating loss	\$ (330 )	-33.0	%	(303 )	-20.6	%

Revenue for the quarter ended September 23, 2012, decreased by approximately \$469,000, as compared to the quarter ended September 25, 2011. The main driver of revenue decrease was a decline in task orders under our Army Corps of Engineers (ACE) contract. Gross profit as a percentage of revenue increased due to a decrease in low margin deliverables offset by higher margin contracts. The overall operating loss increased in the third quarter of 2012 compared to the second quarter of 2011 primarily due to the costs associated with investments in new business areas.

Comparison of Nine Months Ended September 23, 2012, and September 25, 2011

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.

Consolidated Overview (000's)

	September 23, 2012			September 25, 2011		
Total revenue	\$ 3,405	100.0 %		\$ 3,812	100.0 %	
Gross profit	458	13.5 %		439	11.5 %	
Operating loss	(974 )	-28.6 %		(864 )	-22.7 %	

Revenue for the nine months ended September 23, 2012, decreased by approximately \$408,000, as compared to the nine months ended September 25, 2011. The main driver of revenue decrease was the task orders revenue under our Army Corps of Engineers (ACE) contract in the first quarter 2012. Gross profit as a percentage of revenue increased due to a decrease in low margin deliverables. The overall operating loss increased in the first nine months of 2012 compared to the first nine months of 2011 primarily due to increased stock option expense and low margin revenues in third quarter 2012 and investments in new business areas.

**Discontinued Operations**

Discontinued operations include the results of Spectrum Sciences & Software, Inc. subsidiary that was closed in June 2008.

**Liquidity and Capital Resources**

Cash totaled approximately \$44,000 at September 23, 2012. During the nine months ended September 23, 2012 cash decreased by approximately \$108,000 of cash predominantly due to \$795, 000 used in operations offset by \$685,000 provided by financing activities.

Horne International, Inc.

Management's Discussion and Analysis of Financial Condition and Results of Operations

In February 2011, the Company entered into a financing agreement with United Capital Funding Corporation under which the Company is able to factor certain eligible accounts receivable. The agreement calls for a minimum fee of 4.25% of the invoice amount for the first five day period and an additional 4.25% for each five day period thereafter until the invoice is paid. The Company is able to receive 80% of any invoices factored to the lender. As of September 23, 2012, the outstanding balance was zero.

During 2008, the Company entered into a loan agreement with Darryl K. Horne, the Company's President and Interim Chief Executive Officer. The loan permitted the Company to borrow up to \$525,000 at 8% interest.

On December 29, 2011, the Company entered into a Loan Agreement with Mr. Darryl K. Horne, the Company's President and Interim Chief Executive Officer, pursuant to which the Company borrowed Fifty Thousand Dollars (\$50,000) from Mr. Horne in exchange for a promissory note in the principal amount of Fifty Thousand Dollars (\$50,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7% per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. The Note has been amended to be convertible into common stock at Mr. Horne's option at a per share price equal to \$.10 per share.

As of September 23, 2012, the aggregate outstanding principal balance to Mr. Horne is \$493,507 and the accrued interest is \$94,523 for both notes.

In March 2011, the Company entered into a receivables financing agreement with Evan Auld-Susott, the Company's former Chief Executive Officer, as agent of the Susott Family Limited Partnership (FLP). Under the terms of the agreement, Mr. Auld-Susott agreed to finance specific accounts receivable under a line of credit for up to \$500,000 at an interest rate of 13%. As of September 23, 2012, the outstanding balance is \$190,000 and interest outstanding is \$24,323. The loan is not convertible into any Company securities.

On December 29, 2011, the Company entered into a Loan Agreement with Mr. Trevor Foster pursuant to which the Company borrowed One Hundred Thousand Dollars (\$100,000) from Mr. Foster in exchange for a promissory note in the principal amount of One Hundred Thousand Dollars (\$100,000). The note is payable on a quarterly basis and fully due and payable December 29, 2013. The Loan Agreement and Promissory Note provide for interest at a rate of 7%

per annum on the outstanding principal, payable quarterly beginning March 31, 2012. The note is unsecured. The note has been amended to be payable, at the option of the lender, by conversion into common stock at a per share price equal to \$.10 per share. As of September 23, 2012, the outstanding balance is \$100,000 and interest of \$4,221 and Mr. Foster waived the quarterly payments.

As discussed in our 2010 Form 10-K, the Company has substantial liquidity challenges. While we continue to work towards profitability, there is a significant uncertainty that the Company will have sufficient cash flow to sustain its operations.

The Company continues to pursue additional funding sources in the event that funds from operations and financing are not sufficient to provide for our operations. The Company anticipates that these funding sources would primarily be in the form of notes from related parties or non-traditional, non-banking sources. Given our past financial performance, the costs and fees associated with funding sources may be more expensive than the Company has historically paid. The Company cannot determine if the funds available from operations will be sufficient for any acquisitions or facility expansions that may be undertaken during the year. Should the Company make any acquisitions or expansions, other sources of financing may be required.

The Company has no present commitments for additional financing. There is no guarantee that such additional financing will be available to the Company on commercially reasonable terms or at all.

HORNE INTERNATIONAL, INC.

### Quantitative and Qualitative Disclosures about Market Risk

#### Item 3. Quantitative and Qualitative Disclosures about Market Risk

In addition to the risks inherent in our operations, we are exposed to contractual, financial, market, political and economic risks. The following discussion provides additional detail regarding our exposure to interest rates and foreign exchange rates.

#### Government Contracts

The funding of U.S. government programs is subject to Congressional appropriations. Although multi-year contracts may be authorized in connection with major procurements, Congress generally appropriates funds on a fiscal-year basis, even though a program may continue for many years. Consequently, programs are often only partially funded initially, and additional funds are committed only as Congress makes further appropriations. Provisions in these contracts permit termination, in whole or in part, without prior notice, at the government's convenience or upon contractor default under the contract. Compensation in the event of a termination, if any, is limited to work completed at the time of termination. In the event of termination for convenience, the contractor may receive a certain allowance for profit on the work performed.

#### Foreign Exchange Risk

We currently do not have any foreign currency risk and accordingly, estimate that an immediate 10 percent change in foreign exchange rates would have no impact on our reported net loss. We do not currently utilize any derivative financial instruments to hedge foreign currency risks.

Horne International, Inc.

Controls and Procedures

#### ITEM 4. CONTROLS AND PROCEDURES

##### **Evaluation of Disclosure Controls and Procedures**

As of the end of the period covered by this report, management carried out an evaluation of the effectiveness of the design and operation of the Company's disclosure controls and procedures (as defined in Rule 13a-15 (e) under the Securities Exchange Act of 1934). In designing and evaluating its disclosure controls and procedures, management recognized that disclosure controls and procedures, no matter how well conceived and operated can provide only reasonable, but not absolute, assurance that the objectives of the disclosure controls and procedures are met. Additionally, in designing disclosure controls and procedures, management was necessarily required to apply its judgment in evaluating the cost-benefit relationship of possible disclosure controls and procedures. The design of any disclosure controls and procedures also 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. Based upon that evaluation, management concluded that these disclosure controls and procedures were not effective as of the end of the period covered in this report.

##### **Management's Report on Internal Control Over Financial Reporting**

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting for the Company. In order to evaluate the effectiveness of internal control over financial reporting, as required by Section 404 of the Sarbanes-Oxley Act, management has conducted an assessment, including testing using criteria described in Internal Control-integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"). Because of the inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

We have identified material weaknesses in our internal control over financial reporting, which, if not remedied effectively, could have an adverse effect on the trading price of our common stock and otherwise seriously harm our business. Management through, in part, the documentation and assessment of our internal control over financial



reporting and pursuant to the rules promulgated by the SEC under Section 404 of the Sarbanes-Oxley Act of 2002 and item 308 of Regulation S-K has concluded that our internal control over financial reporting had material weaknesses, as of September 23, 2012. Management of the Company does not have the ability to effectively and efficiently prepare consolidated financial statements in accordance with generally accepted accounting principles or pursuant to the rules and regulations of the Securities and Exchange Commission Form 10-Q. We have taken certain actions to begin to address the material weaknesses. Our inability to remedy such material weaknesses promptly and effectively could have a material adverse effect on our business, results of operations and financial condition, as well as impair our ability to meet our quarterly and annual reporting requirements in a timely manner.

### **Changes in Internal Control Over Financial Reporting**

During the fiscal quarter ended September 23, 2012 there has been no change in our internal control over financial reporting (as defined in Rule 13 a-I 5(f) under the Exchange Act) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Horne International, Inc.

Other Information

PART II - OTHER INFORMATION

ITEM 1.

**Item 1A. Risk Factors.**

There have been no material changes in our risk factors from those disclosed in the Company's Annual Report on Form 10-K for the fiscal year ended December 25, 2011.

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Horne International, Inc.

EXHIBITS

ITEM 6. EXHIBITS

Exhibit Number	Description
3.1	Certificate of Incorporation, filed August 28, 1998 (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
3.2	Certificate of Renewal and Revival, filed March 24, 2003 (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
3.3	Certificate of Amendment of Certificate of Incorporation, filed April 8, 2003 (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
3.4	Certificate of Merger filed with the Delaware Secretary of State (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
3.5	Articles of Merger filed with the Florida Secretary of State (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
3.6	Amended and Restated Bylaws of Spectrum Sciences & Software Holdings Corp., as amended (previously filed on Form 10-Q, filed with the Securities and Exchange Commission on November 14, 2005).
3.7	Amended and Restated Bylaws of Spectrum Sciences & Software Holdings Corp., as amended (previously filed on Form 8-K, filed with the Securities and Exchange Commission on May 2, 2006).
3.8	Amended Articles of Incorporation of Horne International, Inc. (previously filed on Form 8-K, filed with the Securities and Exchange Commission on September 6, 2006).
4.1	Specimen Certificate of Common Stock (previously filed in registration statement on Form 10-SB File No. 1-31710, filed with the Securities and Exchange Commission on June 10, 2003).
10.1	Amended Notes of Darryl K. Horne and Trevor R. Foster (previously filed on Form 8-K, filed with the Securities and Exchange Commission on May 10, 2012).
14.1	Code of Ethics (previously filed on Form 10-KSB, filed with the Securities and Exchange Commission on April 13, 2004).
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 & Chief Financial Officer Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002
101.INS**	XBRL Instance Document.
101.SCH**	XBRL Taxonomy Extension Schema Document.
101.DEF**	XBRL Taxonomy Extension Definition Linkbase Document
101.CAL**	XBRL Taxonomy Extension Calculation Linkbase Document
101.LAB**	XBRL Taxonomy Extension Label Linkbase Document

101.PRE\*\* XBRL Taxonomy Extension Presentation Linkbase Document

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Horne International, Inc.

EXHIBITS

\* Filed herewith.

\*\* Furnished herewith.

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Horne International, Inc.

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.

**Horne International, Inc.**

January 2, 2013 \_\_\_\_\_ By: /s/ Darryl K. Horne  
Date Darryl K. Horne  
Interim Chief Executive Officer

January 2, 2013 \_\_\_\_\_ By: /s/ Marla Perdue  
Date Marla Perdue  
Interim Chief Financial Officer