SPECTRUM SCIENCES & SOFTWARE HOLDINGS INC
Form 10QSB
December 03, 2003

U.S. SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 10-QSB

(Mark One)

[X] QUARTERLY REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE QUARTERLY PERIOD ENDED: September 30, 2003

OR

[ ] TRANSITION REPORT UNDER SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from ________ to __________

Commission file number ______________________

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
(Exact name of small business issuer as specified in its charter)

DELAWARE	80-0025175
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification No.)

91 HILL AVENUE NW,
FORT WALTON BEACH, FLORIDA 32548
(Address of principal executive offices)
(Zip Code)

Issuer's telephone number (850) 796-0909

Check whether the issuer (1) filed all reports required to be filed by Section 13 or 15(d) of the Exchange Act during the past 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 [X] No [ ]

As of November 12, 2003 there were 18,851,000 shares of the registrant's common stock, par value $0.0001, issued and outstanding.

Transitional Small Business Disclosure Format (check one):
Yes [ ] No [X]

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
SEPTEMBER 30, 2003 QUARTERLY REPORT ON FORM 10-QSB

TABLE OF CONTENTS

2

SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

To the extent that the information presented in this Quarterly Report on Form 10-QSB for the quarter ended September 30, 2003, discusses financial projections, information or expectations about our products or markets, or otherwise makes statements about future events, such statements are forward-looking. We are making these forward-looking statements in reliance on the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Although we believe that the expectations reflected in these forward-looking statements are based on reasonable assumptions, there are a number of risks and uncertainties that could cause actual results to differ materially from such forward-looking statements. These risks and uncertainties are described, among other places in this Quarterly Report, in "Management's Discussion and Analysis or Plan of Operations."

In addition, we disclaim any obligations to update any forward-looking statements to reflect events or circumstances after the date of this Quarterly Report. When considering such forward-looking statements, you should keep in mind the risks referenced above and the other cautionary statements in this Quarterly Report.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Balance Sheet
September 30, 2003
(Unaudited)

ASSETS	
Current assets:	
Cash	$ 211,782
Receivables, net	1,823,670
Inventories	257,860
Prepaid expenses	74,529
Total current assets	2,367,841
Property and equipment, net	2,027,254
Deferred tax asset	49,115
Cash surrender value of life insurance	19,701
Other assets	14,690
Total assets	$ 4,478,601
LIABILITIES AND SHAREHOLDERS' DEFICIT	
Current liabilities:	
Accounts payable	$ 1,068,858
Accrued expenses	757,189
Contract deposits	137,668
Bank lines of credit	762,787
Current portion of long-term debt	1,892,273
Due to related parties	805,021
Income taxes payable	91,825
Total current liabilities	5,515,621
Long-term liabilities:	
Notes payable, net of current portion	2,656
Total liabilities	5,518,277

Shareholders' deficit:	
Common stock, $0.0001 par value; 80,000,000 shares authorized, 18,844,000 shares issued and outstanding	1,884
Accumulated deficit	(1,041,560)
Total shareholders' deficit	(1,039,676)
Total liabilities and shareholders' deficit	$ 4,478,601

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Statements of Operations
For the three months ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Revenues earned	$ 3,287,609	2,932,782
Cost of revenues earned	2,729,784	3,008,273
Gross profit	557,825	(75,491)
Operating expenses	369,035	177,736
Income (loss) from operations	188,790	(253,227)
Other income and expense:		
Interest income	25	700
Building rent	45,351	45,430
Other income	1,078	(33,430)
Interest expense	(61,665)	(76,278)
Other expenses	(2,749)	3,097
Total other income (expense)	(17,960)	(60,481)
Net income (loss) from continuing operations	170,830	(313,708)
Discontinued operations:		
Loss on disposal of yacht manufacturing segment	-	(79,325)
Income (loss) before cumulative effect of accounting change	170,830	(393,033)
Cumulative effect of accounting change for SFAS No. 142	-	-

Net income (loss) before provision for income taxes.	170,830	(393,033)
Provision for income taxes	7,130	-
Net income (loss)	$ 163,700	(393,033)
Weighted average common shares outstanding	18,844,000	16,244,000
Basic and diluted earnings (loss) per share	$ 0.01	$ (0.02)

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Statements of Operations, Continued
For the nine months ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Revenues earned	$10,003,999	8,554,546
Cost of revenues earned	8,783,358	8,470,276
Gross profit	1,220,641	84,270
Operating expenses	949,649	450,534
Income (loss) from operations	270,992	(366,264)
Other income and expense:		
Interest income	274	2,682
Building rent	136,053	136,132
Other income	(9,250)	(32,111)
Interest expense	(211,059)	(243,868)
Other expenses	(11,585)	(17,865)
Total other income (expense)	(95,567)	(155,030)
Net income (loss) from continuing operations	175,425	(521,294)
Discontinued operations:		
Loss on disposal of yacht manufacturing segment	-	(407,250)
Income (loss) before cumulative effect of accounting change	-	(928,544)

Cumulative effect of accounting change for SFAS No. 142	-	(91,022)
Net income (loss) before provision for income taxes	175,425	(1,019,566)
Provision for income taxes	42,710	-
Net income (loss)	$ 132,715	(1,019,566)
Weighted average common shares outstanding	18,844,000	16,244,000
Basic and diluted earnings (loss) per share	$ 0.01	$ (0.06)

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Consolidated Statements of Cash Flows
For the nine months ended September 30, 2003 and 2002
(Unaudited)

	2003	2002
Cash flows from operating activities:		
Net income (loss)	$ 132,715	(1,019,565)
Adjustments to reconcile net income (loss) to net cash flows from operating activities:		
Depreciation	107,550	96,187
Restatement	-	(92,065)
Amortization	1,332	37,943
Cumulative effect of accounting change	-	-
Gain on disposal of assets	(18,000)	-
Impairment of goodwill	145,974	-
Discontinued operations:		
Provision for doubtful accounts	-	407,250
(Increase) decrease in:		
Receivables	261,118	758,005
Inventories	33,485	(148,965)
Prepaid expenses	(65,536)	(12,185)
Deferred tax asset	(49,115)	-
Other assets	1,000	(500)
Cash value of life insurance	-	-
Increase (decrease) in:		
Accounts payable	(550,723)	134,238
Accrued expenses	6,450	6,440
Contract deposits	(36,267)	(2,649)
Corporate taxes payable	91,825	-
Net cash flows from operating activities	61,808	164,134

Cash flows from investing activities:		
Proceeds from sale of assets	18,000	-
Purchase of property and equipment	(62,855)	-
Net cash used in from investing activities	(44,855)	-
Cash flows from financing activities:		
Principal payments on notes payable and lines of credit	(549,108)	(175,996)
Proceeds from amount due to related party	171,735	-
Repayments on due to related party	(70,585)	-
Net cash used in financing activities	(447,958)	(175,996)
Net decrease in cash	(431,005)	(11,862)
Cash at beginning of period	642,787	344,537
Cash at end of period	$ 211,782	332,675

7

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP.
Notes to Condensed Consolidated Financial Statements
For the nine months ended September 30, 2003 and 2002
(Unaudited)

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

(A) ORGANIZATION AND NATURE OF BUSINESS

Silva Bay International, Inc., a Delaware corporation, was formed in 1998 for the purpose of locating and recovering rare and valuable aircraft. Silva Bay International, Inc. had no operations and no revenue from inception in 1998 to the time of the acquisition of Spectrum Sciences & Software, Inc. in April, 2003.

On April 2, 2003, Silva Bay International, Inc. acquired Spectrum Sciences & Software, Inc., a Florida corporation, in exchange for the issuance of 2,500,000 shares of common stock (taking into account the forward two for one stock split of April 9, 2003) (see Note 3). Spectrum Sciences & Software, Inc. is now the wholly owned subsidiary of Silva Bay International, Inc. (now collectively referred to as the "Company").

Spectrum Sciences & Software, Inc. was incorporated in the State of Florida on October 8, 1982. Headquartered in Fort Walton Beach, Florida, the Company has three reportable segments - management services, manufacturing, and engineering and information technology services. Management services include providing engineering, technical, and operational services in the area of defense range management specializing in bombing and gunnery training range operation and maintenance. Manufacturing operations includes the design and construction of munitions ground support equipment and containers for the shipping and storage of munitions and equipment. The Company's engineering and information technology services segment consists of the sale of computer software developed to assist in hazard management and weapons impact analysis.

The Company's contracts are primarily fixed price contracts with the United States Department of Defense (DOD). The Company currently has contracts in Florida and Arizona. During the years ended December 31, 2002 and 2001, 99% of the Company's revenues were derived from contracts with the DOD.

On April 8, 2003, Silva Bay International, Inc. changed its name to Spectrum Sciences & Software Holdings Corp. On April 9, 2003, the Company effectuated a two for one forward split of its common stock.

(B) INCOME TAXES

The Company accounts for income taxes utilizing the asset and liability method. This approach requires the recognition of deferred tax assets and liabilities for the expected future tax consequences attributable to temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases and operating loss and tax credit carryforwards. 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.

8

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES, CONTINUED:

(C) EARNINGS (LOSS) PER SHARE

The Company utilizes Financial Accounting Standards Board Statement No. 128, "Earnings Per Share." Statement No. 128 requires the presentation of basic and diluted loss per share on the face of the statement of operations.

Basic earnings (loss) per share has been calculated using the weighted average number of common shares outstanding during the period. In calculating diluted earnings (loss) per share, the Company had no common stock equivalent shares as of September 30, 2003 and 2002. However, if the Company had such common stock equivalents, they would be considered anti-dilutive due to there being losses, and therefore would not be included in the diluted loss per share calculations.

2. BASIS OF PRESENTATION AND GOING CONCERN:

The accompanying unaudited consolidated financial statements for the three and nine months ended September 30, 2003 and 2002 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-QSB. Accordingly, they do not include all the information and footnotes required by accounting principles generally accepted in the United States of America 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 for the periods presented.

The results of operations for the interim periods ended September 30, 2003 and 2002 are not necessarily indicative of the results to be expected for the full year. These interim consolidated financial statements should be read in conjunction with the December 31, 2002 consolidated financial statements.

The Company's financial statements have been prepared assuming the Company will continue as a going concern. The Company has experienced losses from operations and has an accumulated deficit of $1,041,560 as of September 30, 2003. Additionally, the Company has negative working capital of $3,150,436 at September 30, 2003. These deficits and the dependence of the Company to find alternative financing arrangements to repay its debt owed to its lender are conditions which could affect the Company's ability to continue as a going concern.

The Company's plans to deal with this uncertainty include reducing expenditures, continuing to request forbearance from creditors and raising additional capital or entering into a strategic arrangement with a third party. There can be no assurance that management's plans to reduce expenditures, gain cooperation from creditors, raise capital or enter into a strategic arrangement can be realized. No adjustment has been made in the accompanying financial statements to the amounts and classification of assets and liabilities which could result should the Company be unable to continue as a going concern.

3. ACQUISITION OF SPECTRUM SCIENCES & SOFTWARE, INC.:

On April 3, 2003, Spectrum Sciences & Software Holdings Corp. (formerly Silva Bay International, Inc.) entered into an amended and restated agreement and plan of merger with Spectrum Sciences & Software, Inc. pursuant to which Spectrum Sciences & Software, Inc. became our wholly owned subsidiary and 2,500,000 shares of our common stock were issued to Donal Myrick. As a result of the merger, Spectrum Sciences & Software, Inc. will have access to additional capital markets as a registered reporting company with the SEC.

The acquisition was accounted for under the purchase method of accounting; accordingly, the purchase price has been allocated to reflect the fair value of assets and liabilities acquired at the date of acquisition. Due to the composition of the majority of the governing body and senior management of the Company being the same as Spectrum Sciences & Software, Inc. prior to the April 3, 2003 acquisition, Spectrum Sciences & Software, Inc. has been deemed to be the accounting acquirer.

The following table summarizes the estimated fair values of the assets acquired and liabilities assumed at the date of acquisition:

AT APRIL 3, 2003	
Current assets	$ 7,986
Goodwill	145,974
Total assets acquired . .	153,960
Current liabilities. . . .	(153,960)
Total liabilities assumed	(153,960)
Net	$ -

==========

The results of operations of the acquired business have been included in the accompanying consolidated financial statements from the date of acquisition.

As of the date of the acquisition, management has determined that the goodwill has no value; therefore, an impairment charge of $145,974 has been recorded during the second quarter of 2003.

4. INVENTORIES:

Inventories are valued at the lower of cost or market. Cost is determined using the first-in, first-out method. The major components of inventories at September 30, 2003 are summarized as follows:

Raw materials	$ 137,870
Work in progress	48,990
Finished goods	71,000
Total inventories	$ 257,860

10

4. INVENTORIES, CONTINUED:

Raw materials consists of sheet metal, various product spare parts, hardware and other miscellaneous materials. Finished goods consist of substantially complete products available for sale.

5. ACCRUED EXPENSES:

The major components of accrued expenses at September 30, 2003 are summarized as follows:

Accrued salaries and related benefits	$ 422,164
Payroll related taxes	135,779
Accrued vacation and sick	133,805
Accrued interest payable	15,085
Accrued property taxes	27,221
Accrued other	23,135
Total accrued expenses	$ 757,189

A major components of the accrued salaries and related benefits is $200,000 owed to Gila Bend employees for wage rates which were recalculated based on job conformity required by the Department of Labor in 2002. These accrued salaries will be paid out over a period of time beginning in early 2004 pending final agreement with the DOL.

6. DEBT:

BANK LINES OF CREDIT

The following is a summary of the bank lines of credit:

AVAILABLE CREDIT	INTEREST TERMS	CURRENT RATE	COLLATERAL	DUE	BALANCE AT 9/30/2003
1,000,000	Prime +2%	6%	(1)	9/25/03	$ 267,361
1,000,000	Prime +2%	6%	(1)	9/25/03	267,356
100,000	Prime +2%	6%	(2)	9/25/03	99,549
145,000	Prime +2%	6%	(3)	9/25/03	128,521
					$ 762,787

(1) Assignment of Government contracts and personal guarantee of Company President.
(1) Personal guarantee of Company President.
(2) Cross-collateralized with real estate loan and personal guarantee of Company President.

All of the bank lines of credit were due September 25, 2003. The Company is in the process of negotiating a longer-term extension and modification of the lines of credit.

6. DEBT, CONTINUED:

Debt consisted of the following:

	SEPTEMBER 30, 2
Note payable to a bank, due in monthly installments of $14,870, including interest at 8.50%. Final balloon payment of $1,501,039 due October 1, 2004, collateralized by real estate and a personal guarantee of the Company President.	$ 1,549,230
Note payable to a bank, due in monthly installments of $1,588, including interest at 8.75%. Final Balloon payment of $188,822 due December 27, 2004, collateralized by a condominium and a personal guarantee of the Company President.	190,159
Note payable to a bank, due in monthly installments of $4,347, including interest at prime + .25% (4.25% at September 30, 2003). Final payment due August 13, 2006, collateralized by equipment and inventory.	122,455
Note payable to a financial corporation due in monthly installments of $2,655, including interest at 22%. Final payment due January 10, 2005, collateralized by certain equipment of the Company and a personal guarantee of the Company President.	33,085
	1,894,929

Less current portion	(1,892,273)
Total long-term debt	$ 2,656

7. DUE TO RELATED PARTIES:

Related Party Payables

Related party payables consist of the following:

	September 30, 2003 (Unaudited)
Cash advances made to the Company by a shareholder, non-interest bearing, payable upon demand	$ 698,064
Management consulting fees to a shareholder of the Company, non-interest bearing, payable upon demand.	106,957
	$ 805,021

8. SEGMENT INFORMATION:

Segment information has been presented on a basis consistent with how business activities are reported internally to management. Management solely evaluates operating profit by segment by direct costs of its products and services with an allocation of indirect costs. The Company has three operating segments - management services, manufacturing, and engineering and information technology. Management services include providing engineering, technical, and operational services in the area of defense range management specializing in bombing and gunnery training range operation and maintenance. Manufacturing operations include the design and construction of munitions ground support equipment and containers for the shipping and storage of munitions and equipment. The Company's engineering and information technology segment consists of the sale of computer software developed to assist in hazard management and weapons impact analysis.

8. SEGMENT INFORMATION, CONTINUED

The following is a summary of certain financial information related to the three segments during the three and nine months ended September 30, 2003 and 2002:

	THREE MONTHS ENDED SEPTEMBER 30, 2003	THREE MONTHS ENDED SEPTEMBER 30, 2002	NINE MONTHS ENDED SEPTEMBER 30, 2003	NINE MONTHS ENDED SEPTEMBER 30, 2002
TOTAL REVENUES BY SEGMENT				
Management Services	$2,304,494	$2,162,548	$ 6,941,884	$ 6,474,
Engineering and Information Technology	599,711	194,796	1,363,711	645,
Manufacturing	383,404	575,202	1,698,404	1,434,
TOTAL REVENUES BY SEGMENT	3,287,609	$2,932,782	$10,003,999	$ 8,554,
OPERATING PROFIT (LOSS) BY SEGMENT				
Management Services	$ 239,467	$ (56,813)	$ 412,283	$ (60,
Engineering and Information Technology	325,325	59,063	640,325	255,
Manufacturing	(6,967)	(77,980)	168,033	(109,
Operating Expenses	(369,035)	(177736)	(803,675)	(450,
Impairment Loss			(145,974)	
Interest income (expense)net	(61,640)	(75,578)	(210,785)	(241,
Other income (expense), net	43,680	27,033	115,218	86,
Discontinued operations				(407,
Cumulative effect of SFAS No. 142		(91,022)		(91,
Net Income before Provision for income taxes	$ 170,830	$ (393,033)	$ 175,425	$(1,019,
Provision for income taxes	(7,130)		(42,710)	
NET INCOME (LOSS)	$ 163,700	$ (393,033)	$ 132,715	$(1,019,

ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OR PLAN OF OPERATIONS

You should read the following discussion and analysis in conjunction with the unaudited financial statements (and notes thereto) and other financial information of our company appearing elsewhere in this report.

COMPARISON OF THE THREE MONTHS ENDED SEPTEMBER 30, 2003 AND 2002

CONSOLIDATED OVERVIEW:

	FOR THE THREE MONTHS ENDED SEPTEMBER 30, 2003		2002	
Sales	$ 3,287,609	100.0%	$ 2,932,782	100.0%
Cost of sales	2,729,784	83.0%	3,008,276	102.6%
Gross margin	$ 557,825	17.0%	$ (75,730)	(2.6)%

Overall sales for the three-months ended September 30, 2003 increased by 12% compared to the same period in 2002. This increase was due to increased marketing activity during 2003. Gross margin as a percentage of sales improved by 758% due to cost controls put in place in during the last quarter of 2002.

MANAGEMENT SERVICES

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 2,304.068	100.0%	$ 2,162,548	100.0%
Cost of sales	2,065.027	89.6%	2,219,361	102.6%
Gross margin.	$ 239,042	10.4%	$ (56,813)	(2.6)%

Sales in the Management Services segment increased approximately 7% for the three-month period ended September 30, 2003 compared to 2002. The increases in revenue are primarily due to the scheduled increases in reimbursable labor cost under the Service Contract Act and increased contract modifications requesting additional range services.

Gross margin for the three-month period ended September 30, 2003 improved by $295,855 due to improved labor cost efficiencies that were implemented in 2003.

ENGINEERING AND INFORMATION TECHNOLOGY SERVICES

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 599,711	100.0%	$ 194,796	100.0%
Cost of sales	274,386	45.8%	135,733	69.7%
Gross margin.	$ 325,325	54.2%	$ 59,063	30.3%

15

Sales in the Engineering and Information Technology Services segment increased approximately 208% for the period ended September 30, 2003 as compared to the same period in 2002. Increased sales were a result of scheduled completion of backlog software development tasks for the Safe-Range program.

Gross margin, as a percent of sales, increased by more than 79% due to significant revenue increases in the 3rd quarter 2003.

MANUFACTURING SEGMENT

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 383,404	100.0%	$ 575,202	100.0%
Cost of sales	390,371	101.8%	653,182	113.6%
Gross margin.	$ (6,967)	(1.8)%	$ (77,980)	(13.6)%

Sales in the Manufacturing segment decreased 33% for the three-month period ended September 30, 2003 as compared to 2002. The decrease in revenue is due to the delay of the federal Department of Defense budget being approved by Congress. Demand by the Spectrum customer base remains strong

While still at a minimal loss, the gross margin improved by 87% due to improved labor efficiencies.

OPERATING EXPENSES

	FOR THE THREE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Selling, general and administrative	$ 369,035	100.0%	$ 177,736	100.0%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - Selling, general and administrative ("SG&A") expenses were $369,035 and $177,736 in the three-month period ended September 30, 2003 and 2002, respectively. This increase of $191,299 is due to increased legal and accounting costs associated with the filing of a registration statement with the Securities and Exchange Commission.

OTHER INCOME AND EXPENSES

INTEREST INCOME AND EXPENSE, NET - Net interest expense was $61,640 and $75,578 for the three-month period ended September 30, 2003 and 2002, respectively. OTHER INCOME AND EXPENSE, NET - Net other income was $43,680 and $15,097 for the three-month period ended September 30, 2003 and 2002, respectively. The increase of $28,583 or 189% was primarily due to a reduction of the penalties we incurred during 2002 for late payment of payroll taxes and other late fees.

FOR THE NINE MONTHS ENDED SEPTEMBER 30,

	2003		2002	
Sales	$10,003,999	100.0%	$ 8,554,546	100.0%
Cost of sales	8,783,358	87.8%	8,470,276	99.0%
Gross margin.	$ 1,220,641	12.2%	$ 84,270	1.0%

Overall sales for the nine-months ended September 30, 2003 increased by approximately 17% compared to the same period in 2002. This increase can be attributed to increased marketing activity of our services. Gross margin as a percentage of sales improved by 1139% due to cost controls that we implemented in December 2002.

MANAGEMENT SERVICES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 6,941,884	100.0%	$ 6,474,548	100.0%
Cost of sales	6,529,601	94.1%	6,535,361	100.9%
Gross margin.	$ 412,283	5.9%	$ (60,813)	(0.9)%

Sales in the Management Services segment increased approximately 7% for the nine-month period ended September 30, 2003 compared to 2002. The increases in revenue are primarily due to the scheduled increases in reimbursable labor cost under the Service Contract Act and increased contract modifications requesting additional range services.

Gross margin for the nine-month period ended September 30, 2003 improved by approximately $473,096. This increase was due to improved labor cost efficiencies.

ENGINEERING AND INFORMATION TECHNOLOGY SERVICES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 1,363,711	100.0%	$ 645,796	100.0%
Cost of sales	723,386	53.0%	390,733	60.5%
Gross margin.	$ 640,325	47.0%	$ 255,063	39.5%

=========== ====== ============= ========

Sales in the Engineering and Information Technology Services segment increased approximately 111% for the period ended September 30, 2003 as compared to the same period in 2002. Increased sales were a result of scheduled completion of backlog software development tasks for the Safe-Range program.

Gross margin, as a percent of sales, increased by approximately 19% due to increased labor costs as a result of hiring additional employees in this division.

MANUFACTURING SEGMENT

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Sales	$ 1,698,404	100.0%	$ 1,434,202	100.0%
Cost of sales	1,530,371	90.1%	1,544,182	107.7%
Gross margin.	$ 168,033	9.9%	$ (109,980)	(7.7)%

Sales in the Manufacturing segment increased 18% for the nine-month period ended September 30, 2003 as compared to 2002. The increase in revenue is due to the expansion the customer base for the Spectrum manufactured products.

Gross margin increased by $278,013 due to the labor cost efficiencies implemented in 2003.

OPERATING EXPENSES

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Selling, general and administrative	$ 949,649	100.0%	$ 450,534	100.0%

SELLING, GENERAL AND ADMINISTRATIVE EXPENSES - Selling, general and administrative ("SG&A") expenses were $949,649 and $450,534 for the nine month period ending September 30, 2003 and 2002, respectively. This increase of approximately $499,115 or 1.10% was due to increased legal and accounting fees associated with filing a registration statement with the Securities and Exchange Commission and the impairment loss taken for $145,974 in relation to the acquisition.

IMPAIRMENT LOSS

	FOR THE NINE MONTHS ENDED SEPTEMBER 30,			
	2003		2002	
Impairment Loss	$ 146,000	100.0%	$ -0-	100.0%

IMPAIRMENT LOSS - On April 3, 2003, Spectrum Sciences & Software Holdings Corp. (formerly Silva Bay International, Inc.) entered into an asset purchase agreement to purchase all of the assets and assume all of the liabilities of Spectrum Sciences & Software, Inc. in exchange for the issuance of 2,500,000 shares of our common stock. As a result of the acquisition, Spectrum Sciences & Software, Inc. will have access to additional capital markets. The acquisition was accounted for under the purchase method of accounting; accordingly, the purchase price was allocated to reflect the fair value of assets and liabilities acquired at the date of acquisition. Based on an evaluation of all of the facts and circumstances of this transaction, we determined that Spectrum Sciences & Software, Inc. is the accounting acquirer. As of the date of the acquisition, management has determined that the goodwill has no value; therefore, an impairment charge of approximately $146,000 was recorded during the six month period ending June 30, 2003.

OTHER INCOME AND EXPENSES

INTEREST INCOME AND EXPENSE, NET - Net interest expense totaled $210,785 and $241,186 for the nine month periods ended September 30, 2003 and 2002, respectively. The decrease of $30,401 or 13% was a result of lower prevailing interest rates and lower average loan balances.

OTHER INCOME AND EXPENSE, NET - Net other income in the nine months ended September 30, 2003 was $115,218 compared to other income of $86,156 in 2002. Our other income consists primarily of rental income received from L3 Communications, (formerly Raytheon).

ITEM 3. CONTROLS AND PROCEDURES

Our principal executive and financial officer evaluated the effectiveness of our disclosure controls and procedures as of a date within 90 days prior to the filing of this report. Based on this evaluation, our principal executive and financial officer concluded that our controls and procedures are effective in providing reasonable assurance that the information required to be disclosed in this report is accurate and complete and has been recorded, processed, summarized and reported within the time period required for the filing of this report. Subsequent to the date of this evaluation, there have not been any significant changes in our internal controls or, to our knowledge, in other factors that could significantly affect our internal controls.

19

Consistent with Section 10A(i)(2) of the Securities Exchange Act of 1934, as added by Section 202 of the Sarbanes-Oxley Act of 2002, we are responsible for listing the non-audit services approved by our Board of Directors to be performed by Tedder, James, Worden & Associates, P.A. our external auditor. Non-audit services are defined as services other than those provided in connection with an audit or a review of our financial statements. Our Board of Directors currently has not approved the engagement of Tedder, James, Worden & Associates, P.A. to perform any non-audit services in 2003, except for income tax preparation.

PART II - OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

On January 13, 2003, The Trident Company obtained a default judgment in the District Court of Tulsa County, State of Oklahoma, Case No. CJ-2003-1787, against Spectrum Sciences & Software, Inc. and Spectrum Manufacturing, Inc. in the amount of approximately $143,000. The current balance is $52,380 as of December 2, 2003.

On April 21, 2003, the United States Internal Revenue Service obtained a lien against any and all of Spectrum's assets in the amount of $173,041. Spectrum has entered into an installment payment plan with the IRS, which specifies that Spectrum will pay to the IRS $7,500 a month for 4 months. The December 2, 2003 current IRS balance is $33,425.

We currently have a debt to Washington Group International, Inc. of approximately $73,900, and this debt may be reduced pursuant to a confession of judgment. We are attempting to resolve this debt. The current balance is $52,778.

In December, 2002, three Spectrum employees each filed complaints for violation of civil rights, discrimination, harassment, hostile work environment and retaliation in the United States District Court, District of Arizona. The Case numbers for these complaints are: CIV '02 2621 PHX MHM; CIV '02 2619 PHX DKD; and CIV '02 2620 PHX FJM. In January, 2003, Spectrum filed answers to all three complaints, denying all allegations of wrongdoing. All three plaintiffs are claiming "undue stress and anxiety" from Spectrum's actions. There were no damage amounts specified in any of the actions. The plaintiffs are requesting the following:

a) Compensatory damages, plus special in incidental damages in such a sum as may be proven at trial;
b) For punitive damages in such a sum as may be proven at trial;
c) For cost for the suit;
d) For attorney's fees; and
e) For other such relief as the Court deems just and proper.

Spectrum does not know what the outcome of this litigation will be.

On or about May 28, 2003, Business & Commercial Brokerage, Inc. filed a complaint against Spectrum Sciences & Software, Inc. (a Florida Corporation) and Donal R. Myrick (Case No. 2003 CA 001093) in the Circuit Court in and for Escambia County, Florida. The complaint is based upon an alleged breach of contract related to the sale of any and all assets of Spectrum Sciences & Software, Inc. The plaintiff Business & Commercial Brokerage, Inc. is seeking damages in the form of a sales commission, additional unspecified damages, interests, court costs and attorney fees. Spectrum has answered the complaint with an affirmative defense that Business & Commercial Brokerage, Inc. is not owed any commission or any other damages.

On November 12, 2003, Spectrum filed a Second Motion to Amend Answer of Defendant, Spectrum Sciences & Software, Inc. and Motion to file Counterclaims. The motion states the Spectrum recently discovered additional facts which are fundamental for its affirmative defense to liability and which create a cause of action for reformation against Plaintiff. Spectrum recently discovered that the Agreement sued on by the Plaintiff is not the Agreement entered into by the parties. Spectrum does not know what the outcome of this litigation will be.

Spectrum is not aware of any other pending or threatened litigation.

On November 24, 2003, Spectrum received a waiver for the reduction of penalty and interest charges from the Internal Revenue Service in the amount of $38,070. This was related to September 2000.

ITEM 2. CHANGES IN SECURITIES

Not applicable.

ITEM 3. DEFAULTS IN SENIOR SECURITIES

Not applicable.

ITEM 4. SUBMISSION OF MATTERS TO A VOTE OF SECURITY HOLDERS

In accordance with the Delaware General Corporation Law Section 228(a), as of September 26, 2003, and the holders of approximately 59% of the issued and outstanding shares of common stock (or 10,880,000 shares), $.0001 par value, of the Company, in person or by proxy, by their consent in writing, authorized, approved and adopted a resolution respecting the removal of Harold Dwain Brannon and Dyron M. Watford as members of the Board of Directors without cause, and elected Brent Lokash and Kelly Armstrong to fill the vacancies created by such the removals. Pursuant thereto, the Shareholder Consent was delivered to the Company on October 16, 2003. Subsequently, it was learned by the Company that Brent Lokash did not desire to participate as a member of the Company's Board. On October 20, 2003, the Board of Directors elected Karl Heer as a member of the Board of Directors to serve until the next annual meeting of Stockholders or until his successor is duly elected and qualified, or until his earlier death, resignation or removal.

The Company's current board members include Kelly Armstrong, Karl Heer and Donal Myrick.

ITEM 5. OTHER INFORMATION

Not applicable.

ITEM 6. EXHIBITS AND REPORTS ON FORM 8-K

a) Exhibits

31.1 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Executive Officer

31.2 Rule 13(a)-14(a)/15(d)-14(a) Certification of Principal Financial Officer

32.1 Section 1350 Certification of Chief Executive Officer

32.2 Section 1350 Certification of Chief Financial Officer

b) Reports on Form 8-K:

None

21

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the Registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized, on this 3rd day of December 2003.

SPECTRUM SCIENCES & SOFTWARE HOLDINGS CORP

By: /s/ Donal R. Myrick

Donal R. Myrick, Chief Executive Officer, President, and Chairman of the Board

The undersigned, the Chief Financial Officer of the Registrant, certifies that this report complies with all of the requirements of section 13(a) and 15(d) of the Exchange Act and the information contained in this report fairly presents, in all material respects, the financial condition and results of operations of the Registrant.

Date: December 3, 2003

/s/ Nancy Gontarek

Nancy Gontarek,
Chief Financial Officer

22