

HORNE INTERNATIONAL, INC.
Form 10-K
April 16, 2013

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark One)

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

For the fiscal year ended, December 31, 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)

Delaware

90-0182158

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(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)

Registrant's telephone number, including area code: (703) 641-1100

Securities registered pursuant to sections 12(b) of the act:

None.

Securities registered pursuant to section 12(g) of the act:

| | |
|---|--|
| Common Stock, par value \$.0001 per share | None |
| (Title of each class) | (Name of exchange on which registered) |

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.
 Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

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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 if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

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 "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act.

Large Accelerated filer Accelerated Filer

Non-Accelerated Filer 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 March 31, 2013 there were 47,306,054 shares of the registrant's common stock, par value \$0.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE. None.

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Forward-Looking Statements

This document contains "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934. Any statements in this document that do not describe historical facts are forward-looking statements. Forward-looking statements in this document (including forward-looking statements regarding the continued health of segments of the homeland security industry, future information technology outsourcing opportunities, an expected increase or decrease in contract funding by the U.S. Government, the impact of current world events on our results of operations, the effects of inflation on our margins, and the effects of interest rate and foreign currency fluctuations on our results of operations) are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. When we use words such as "intend," "anticipate," "believe," "estimate," "plan," "will," or "expect", we are making forward-looking statements. We believe the assumptions and expectations reflected in such forward-looking statements are reasonable, based on information available to us on the date hereof, but we cannot assure you these assumptions and expectations will prove to have been correct or we will take any action we presently may be planning. We have disclosed certain important factors that could cause our actual future results to differ materially from our current expectation, including: a decline in the volume of purchases made by one or a group of our major customers; risks in technology development and commercialization; risks of downturns in economic conditions generally, and in the quick-service sector of the hospitality market specifically; risks associated with government contracts; risks associated with competition and competitive pricing pressures; and risks related to foreign operations. Forward-looking statements made in connection with this report are necessarily qualified by these factors. Factors that might cause or contribute to such differences include, but are not limited to, those discussed in Part I, Item 1A. "Risk Factors." You are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this report. We undertake no obligation to publicly release any revisions to the forward-looking statements or reflect events or circumstances taking place after the date of this report.

PART I

Item 1. Business

Horne International, Inc. (the "Company" or "we", "us", "our" or similar terms) is an engineering services company focused on 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, environmental and energy. We provide products and services to both commercial customers and to the United States Government.

The Company was incorporated as Silva Bay International, Inc., a Delaware corporation, in August 1998. In April 2003, the Company changed its name from Silva Bay to Spectrum Sciences & Software Holdings Corp. in conjunction with the acquisition of Spectrum Sciences & Software, Inc., a Florida corporation. The Company began

trading on the Over the Counter (“OTC”) Bulletin Board market in December 2003. In August 2006, the Company changed its name from Spectrum Sciences & Software Holdings Corp. to Horne International, Inc.

As of December 31, 2012, the Company had one reportable segment, Engineering Services (“Services”). Services provides efficiency solutions primarily to the government and is the past performance, qualifications and contractual center of the business operations. On February 6, 2012, the Company incorporated two new entities; BEES, LLC and Hornet, LLC to expand its current efficiency solutions business. BEES, LLC provides services to maximize building energy efficiency with a focus on Commercial and Government customers. Hornet, LLC provides hosted voice services for both government and commercial accounts with the intent of creating a sustainable monthly recurring revenue stream. As of March 31, 2013, BEES, LLC did not have material contributions to the Company’s operating business operations. As of March 31, 2013, Hornet, LLC had significant losses due to start up costs.

Business Segments

The Company’s only reportable segment is Services and is predominantly focused in the U.S. defense markets providing services, IT consulting and reselling products, although some commercial work is performed. Financial information can be found in Item 7 “Management’s Discussion and Analysis of Financial Condition and Results of Operations” and Item 8 “Financial Statements and Supplementary Data”.

Company services focuses on providing technology and technical engineering, addressing the areas of security, energy, and the environment. Our primary customer in this segment is the U.S. Government, with specific focus within the Departments of Homeland Security, Defense, and Transportation. We are a services-based company that relies on its people to maintain the reputation of the Company, to expand operations, and improve marketability. We have been successful in recruiting top-level candidates to staff open client-focused positions. The applicant pool for the required expertise appears to be sufficiently deep to meet our needs. This segment is primarily based out of our Fairfax, Virginia, headquarters and employed approximately 14 employees.

The market addressed by the Services segment is a very large, competitive market with some of the largest businesses and institutions in the country competing in addition to numerous small and emerging businesses. Success is dependent on high performance, expert personnel, intimate knowledge of the organizations being served, and strong relationships with the clients and our private sector partners. This market sector is dependent on the federal budget cycle, federal expenditures, and related priorities.

Discontinued Operations

Discontinued operations include our Spectrum Sciences and Services, Inc. subsidiary that closed in June 2008.

Government Contracts

Most of our business is conducted under contracts with or related to U.S. government entities. We are awarded government contracts either on a sole-source basis or through a competitive bidding process. Our U.S. government contract types may include fixed-price contracts, cost reimbursable contracts (including cost-plus-fixed fee, cost-plus-award fee, and cost-plus-incentive fee), and time and materials contracts.

Material Government Contract Provisions

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.

All contracts with the U.S. government contain provisions, and are subject to laws and regulations, that give the government rights and remedies not typically found in commercial contracts, including rights that allow the government to do any of the following:

Terminate existing contracts for convenience, which affords the U.S. government the right to terminate the contract in whole or in part anytime it wants for any reason or no reason, as well as for default;

- Reduce or modify contracts or subcontracts, if its requirements or budgetary constraints change;

Cancel multi-year contracts and related orders, if funds for contract performance for any subsequent year become unavailable;

- Claim rights in products and systems produced by its contractor;

- Adjust contract costs and fees on the basis of audits completed by its agencies;

- Suspend or debar a contractor from doing business with the U.S. government; and

- Control or prohibit the export of products.

Generally, government contracts are subject to oversight audits by government representatives. 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.

Corporate Information

Our headquarters is located at 3975 University Drive, Suite 100, Fairfax, VA 22030 and our general phone number is (703) 641-1100. Our website address is www.horne.com. The information contained on our website is not incorporated by reference into this Annual Report. All reports we filed electronically with the Securities and Exchange Commission (SEC), including our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, proxy statements, and other information and amendments to those reports filed electronically (if applicable), are accessible at no cost on our website as soon as reasonably practicable after such reports have been filed or furnished to the SEC. These filings are also accessible on the SEC's website at www.sec.gov. The public may read and copy any materials we file with the SEC at the SEC's Public Reference Room at 100 F Street, NE, Washington, DC 20549. The public may obtain information from the Public Reference Room by calling the SEC at 1-800-SEC-0330.

Item 1A. RISK FACTORS

The Company is subject to several risk factors that could have a direct and material impact on the operations of the Company and the market price of our common stock. Our material risk factors are described below.

1) Risk factor to the effect that the Company has attempted business strategy changes and partnerships over the past several years that have not proven successful or profitable, and that there is no guarantee that the Company's current business strategies and partnerships, or any business strategies or partnerships the Company undertakes in the future, will be successful or profitable. As an example the Company was unsuccessful in its partnership with Intelligent Solutions, Inc. to pursue information technology business; and

(2) Risk Factor that the Company has been significantly reliant on capital from affiliates the past several years, and that there is no guarantee that these affiliates will be able to provide additional capital on terms acceptable to the Company, or at all, in the future.

Our independent registered public accountants have issued a "going concern" opinion raising substantial doubt about our financial viability.

As a result of our losses and negative cash flows, our independent registered public accounting firms issued a "going concern" opinion in connection with their audit of our consolidated financial statements for the years ended December 31, 2012 and December 25, 2011. This opinion expressed substantial doubt as to our ability to continue as a going

concern. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately, generate additional revenue. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. Accordingly, the value of the Company in liquidation may be different from the amounts set forth in our consolidated financial statements. The going concern opinion may also limit our ability to access certain types of financing, prevent us from obtaining financing on acceptable terms, and limit our ability to obtain new business due to potential customers' concern about our ability to deliver products or services.

We have liquidity problems and may need to raise capital on terms unfavorable to our stockholders.

As of December 31, 2012, the Company had a nominal cash balance. The Company incurred a loss from continuing operations of approximately \$1.646 million and had a stockholders' deficit of approximately \$2.055 million as of that date. In 2012, 2011 and 2010, our independent registered public accounting firm expressed substantial doubt about our ability to continue as a going concern. While the Company continues to explore growth opportunities for our business, we do not have complete control over the timing and awarding of future contracts and our business is subject to economic, political, financial, competitive, regulatory, and other factors affecting the defense and security industries.

We will need additional capital to sustain our operations. However, our current financial condition, combined with the 2012, 2011 and 2010 "going concern" opinions received from our independent registered public accounting firm, make it more difficult for us to raise capital. There is no assurance that we will be able to obtain the necessary financing to support our existing business on acceptable terms, or at all; and if we can, we may do so on terms that are not favorable to our stockholders.

We are considering corporate strategic alternatives that may significantly change the Company as it stands today.

The Company is currently reviewing several strategic options that could have a material and significant impact on the structure, operating activities, businesses, and/or assets of the Company. These decisions may or may not have to be approved by our stockholders. Decisions that do not require stockholder approval may not be in the best interests of some stockholders.

Corporate overhead structure combined with a reduced operating base may impact our ability to operate at a profit.

We have made a concerted effort to maintain our overhead costs at a minimal level and to be in-line with our operating base. At the same time, we must maintain certain organizational capabilities to continue to operate the Company. Given our current revenue base, it is uncertain if our revenues will be sufficient to cover all of our overhead costs.

If we are unable to grow our business, we may continue to incur operating losses that could impact the Company's ability to continue operations. We are actively monitoring our cost structure to ensure that we are prudently incurring expenses while we are actively pursuing growth opportunities for our business.

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

The Company receives many government contract awards that include both funded and unfunded amounts. While the Company believes that most contracts will become fully funded and executed, there are occasions where the final executed amount of the contract may be substantially less than the contract award. Congress often appropriates funds for our clients on an annual basis, even though our contracts may call for services over a number of years. As a result, Congress may elect not to fund a particular contract in future years. Additionally, the funded amounts on contracts may not be fully recognized as revenue if the priorities of the contract-issuing agencies change and funding is re-appropriated for other uses, the contract is terminated for convenience by the customer, or our inability to find qualified employees or subcontractors to complete the work.

The full value of our tax loss carry-forward is not expected to be utilized and otherwise may be adversely impacted by factors outside of our control.

As of December 31, 2012, the Company had approximately \$56.4 million of net operating loss (NOL) carry-forward available to offset future taxable income. Due to our history of operating losses, we do not expect to be to utilize the full value of our NOL carry-forwards. In addition, the United States Internal Revenue Service has certain rules relating to NOL carry-forwards regarding stock ownership changes within a given three-year period. While management is able to manage within these guidelines without triggering the limitations that limit a company's ability to utilize net operating loss carry-forwards, management may not be able to control or influence outside parties' activity with regard to our stock.

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

Our revenue and operating results could vary significantly from quarter to quarter. In addition, we cannot predict with certainty our future revenue or results of operations. As a consequence, our operating results may fall below the expectations of securities analysts and investors, which could cause the price of our common stock to decline. Factors that may affect our operating results include, without limitation, the following:

Fluctuations in revenue earned on contracts;

Commencement, completion, or termination of contracts during any particular quarter;

Variable purchasing patterns under GSA schedule contracts and agency-specific indefinite delivery/indefinite quantity contracts;

Provision of services under a share-in-savings or performance-based contract;

Additions and departures of key personnel;

Strategic decisions by us or our competitors, such as acquisitions, divestitures, spin-offs, joint ventures, strategic investments, or changes in business strategy;

Contract mix, the extent of use of subcontractors, and the level of third-party hardware and software purchases for customers;

Changes in presidential administrations and senior federal government officials that affect the timing of procurements; and

Changes in policy or budgetary measures that adversely affect government contracts in general.

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

We depend on contracts with the U.S. federal government agencies or with prime contractors of such agencies for substantially all of our revenue, and if our relationships with these agencies were harmed, our business could be threatened.

The Company receives more than 90% of revenue in any given year from contracts with the U.S. federal government agencies or with prime contractors of such agencies. We believe that federal government contracts will continue to be the source of substantially of our revenue, for the foreseeable future. For this reason, any issue that compromises our relationship with agencies of the federal government or their prime contractors could cause serious harm to our business.

Our failure to comply with complex procurement laws and regulations could cause us to lose business and subject us to a variety of penalties.

We must comply with laws and regulations relating to the formation, administration, and performance of federal government contracts, which affect how we do business with our government clients and may impose added costs on our business. Among the most significant regulations are the following:

The Federal Acquisition Regulation, and agency regulations analogous or supplemental to the Federal Acquisition Regulation, which comprehensively regulates the formation, administration, and performance of government contracts, including provisions relating to the avoidance of conflicts of interest and intra-organizational conflicts of interest;

The Truth in Negotiations Act, which requires certification and disclosure of all cost and pricing data in connection with some contract negotiations;

The Procurement Integrity Act, which requires evaluation of ethical conflicts surrounding procurement activity and establishing certain employment restrictions for individuals who participate in the procurement process;

The Cost Accounting Standards, which impose accounting requirements that govern our right and method to reimbursement under some cost-based government contracts;

Laws, regulations, and executive orders restricting the use and dissemination of information classified for national security purposes and the exportation of specified products, technologies, and technical data;

Laws surrounding lobbying activities a corporation may engage in to support corporate interests; and

Compliance with anti-trust laws.

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

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

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

Item 1B. UNRESOLVED STAFF COMMENTS

None.

Item 2. Properties

The Company headquarters are located in leased office space in Fairfax, Virginia. The Company does not own or lease any other properties. The facilities for our off-site employees include general office space that is provided by our clients, and the Company believes its leased space is adequate for its current and foreseeable needs.

Item 3. Legal Proceedings

None

Item 4. Mine safety disclosures

Not applicable.

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PART II

Item 5. Market for the Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

The common stock of the Company is listed on the OTC Bulletin Board electronic quotation system and trades under the symbol "HNIN". The common stock was first traded on December 5, 2003, under the symbol "SPSC". The symbol was changed in conjunction with the corporate name change in August 2006 and began trading under the current symbol on September 12, 2006. The following table sets forth the high and low bid prices for our common stock for each quarterly period beginning in 2011 as reported on the OTC Bulletin Board. These quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

| 2011 | High | Low |
|----------------|--------|--------|
| First Quarter | \$0.19 | \$0.11 |
| Second Quarter | \$0.51 | \$0.14 |
| Third Quarter | \$0.31 | \$0.08 |
| Fourth Quarter | \$0.22 | \$0.05 |

| 2012 | High | Low |
|----------------|--------|--------|
| First Quarter | \$0.18 | \$0.07 |
| Second Quarter | \$0.18 | \$0.07 |
| Third Quarter | \$0.12 | \$0.05 |
| Fourth Quarter | \$0.10 | \$0.01 |

 Holders

There were approximately 3,990 stockholders of record of the common stock of the Company on March 31, 2013. A significant number of the outstanding shares are beneficially owned by individuals or entities registered in a street name.

Dividends

The Company has never paid any cash dividends and has no current intention to pay a dividend in the foreseeable future.

Securities Authorized for Issuance Under Equity Compensation Plans

See the Equity Compensation Plans subsection of Item 12 — Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters of this Annual Report on Form 10-K.

Item 6. Selected Financial Data (all dollars in thousands except per share data) [note smaller reporting companies are not required to provide E information REQUIRED BY THIS ITEM]

| | 2012 | 2011 | 2010 | 2009 | 2008 |
|---|---------|---------|---------|---------|---------|
| Revenue | 4,119 | 5,688 | 3,438 | 4,680 | 4,859 |
| Loss from Continuing Operations | (1,646) | (1,204) | (1,005) | (183) | (4,107) |
| Per share of Common Stock-basic & diluted | (0.04) | (0.03) | (0.02) | - | (0.10) |
| Net Loss | (1,646) | (121) | (1,042) | (337) | (6,113) |
| Per share of Common Stock-basic & diluted | (0.04) | - | (0.02) | (0.01) | (0.14) |
| Total Assets | 1,179 | 1,332 | 733 | 3,154 | 5,332 |
| Long-term Debt | - | 4 | 14 | 1,696 | 1,812 |
| Stockholders' (Deficit) Equity | (2,055) | (853) | (918) | (418) | (889) |

The financial information above is reflective of the operations since 2008. The income statement data reflects the operations of Horne Engineering Services, LLC., Hornet, LLC. and Horne International, Inc. The discontinued operations of Spectrum Sciences and Software, Inc. have been removed from the operating results.

Selected Quarterly Financial Data

(All dollars in thousands except per share data)

2012

| | Q1 | Q2 | Q3 | Q4 |
|--------------------------------------|---------|---------|---------|---------|
| Revenue | \$1,430 | \$974 | \$1,001 | \$714 |
| Gross Profit | 153 | 147 | 158 | (151) |
| Loss from continuing operations | (336) | (506) | (408) | (399) |
| Basic and diluted earnings per share | (0.01) | (0.01) | (0.01) | (0.01) |

2011

Q1 Q2 Q3 Q4

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| | | | | |
|--|---------|---------|---------|---------|
| Revenue | \$1,041 | \$1,303 | \$1,469 | \$1,875 |
| Gross Profit | 164 | 146 | 130 | 144 |
| Loss from continuing operations | (263) | (345) | (318) | (278) |
| Income (loss) from discontinued operations | (2) | 1,084 | 3 | (2) |
| Basic and diluted loss per share | (0.01) | 0.02 | (0.01) | (0.01) |

The selected financial data provided in this Item 6 should be read in conjunction with the Notes to Consolidated Financial Statements of this Annual Report on Form 10-K.

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

Item 7.

The financial and business analysis below provides information that the Company believes is relevant to an assessment and understanding of the Company's consolidated financial position, results of operations, and cash flows. This financial and business analysis should be read in conjunction with the consolidated financial statements and related notes.

The following discussion and certain other sections of this report contain statements reflecting the Company's views about its future performance and constitute "forward-looking statements" under the Private Securities Litigation Reform Act of 1995. These views involve risks and uncertainties that are difficult to predict, and accordingly, the Company's actual results may differ materially from the results discussed in such forward-looking statements. Readers should consider that various factors may affect the Company's performance. These factors include changes in general economic conditions and competitive market conditions; price pressures; relationships with key customers; and other factors discussed in Part I, Item 1A, "Risk Factors", and the sections entitled "Executive-Level Overview" and "Critical Accounting Estimates" below. The Company undertakes no obligation to publicly update any forward-looking statements as a result of new information, future events, or otherwise.

Executive-Level Overview

The Company provides a variety of services through its wholly owned subsidiary — Horne Engineering Services, LLC. The provision of such engineering services is largely dependent on the amount of U.S. Government contracting in the areas of homeland security, environmental management, and infrastructure reconstruction.

Basis of Presentation

The Company's fiscal-year is the 52-or 53-week period ending on the last day of December. Fiscal 2012 was a 53 week fiscal year and 2011 was a 52-week fiscal year. The consolidated financial statements include the accounts of the Company and its subsidiaries. All significant intercompany accounts and transactions have been eliminated.

Critical Accounting Estimates

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

The Company believes that the following critical accounting estimates, among others, require us to make significant estimates and judgments in the preparation of our consolidated financial statements.

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, the
- (i) Company recognizes 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, the Company recognizes 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. Revenue is recognized on a net basis excluding taxes collected from customers and remitted to government authorities.
 - (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.

Allowance for Bad Debts

Accounts Receivables are evaluated through a continuous process of assessing the Company's portfolio on an individual and overall basis. The majority of the Company's contracts are with U.S. government entities and as such have minimal risk of [non-]collectability. The few contracts the Company has with non-governmental entities are reviewed on a contract-by-contract basis.

Recent Accounting Pronouncements

Management does not believe that any recent accounting pronouncements will have a material effect on their financial statements.

Overall Results of Operations

| | For the Year ended December 31, 2012 (all dollars in 000's) | | | |
|-----------------|--|---------|----------|---------|
| | 2012 | | 2011 | |
| Revenue | 4,119 | 100.0 % | 5,688 | 100.0 % |
| Cost of Revenue | 3,812 | 92.5 % | 5,104 | 89.7 % |
| Gross Profit | 307 | 7.5 % | 584 | 10.3 % |
| Operating Loss | (1,318) | -32.0 % | (1,128) | -19.8 % |

Revenue decreased in 2012 by \$1.6 million as compared to 2011, as a direct result of the reduction of task orders under our Army Corps of Engineers (ACE) contract with Horne Engineering Services and slow growth in opportunities with the Hornet, LLC operations as compared to the operational expense incurred for the period. Cost of revenue, as a percentage of sales increased in 2012 from 2011 by 2.8 percent due to an increase in subsidiary labor costs for Horne Engineering Services on a fixed price contract. Total gross margin percentage declined due to the significant amount of low margin revenues and continued increase in cost.

The Company operating loss increased in 2012 by approximately \$190 thousand, as compared to 2011, primarily due to the significant amount of low margin revenues from the Hornet, LLC subsidiary.

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 estimated annual revenue of \$1.3 million. The task order for the U.S. Army Corps of Engineers also ended in December.

Based on our on-going review of strategic alternatives, the Company is not able to reasonably forecast the 2013 revenue or profitability. The strategic alternatives being considered and their varied impact on our operations significantly limits our ability to give a materially accurate financial forecast.

Discontinued Operations

For the Year ended December 31, 2012

(all numbers in 000's)

| | 2012 | 2011 |
|--|------|---------|
| Income (Loss) from discontinued operations | \$ - | \$1,083 |

Discontinued operations include the result of Spectrum Sciences & Software, Inc., a wholly-owned subsidiary that was closed in June 2008. Net income in 2011 was approximately \$(1,083,000) from discontinued operations was the result of the legal judgment described in Note 3 to our consolidated financial statements.

Liquidity and Capital Resources

Cash and cash equivalents totaled approximately \$8 thousand at December 31, 2012. During 2012, continuing operations consumed approximately \$1,223 million of cash predominantly due to operating losses.

During 2008, the Company entered into a loan agreement with Darryl K. Horne, the Company's Interim Chief Executive Officer, President and Chairman. The loan permitted the Company to borrow up to \$525,000 at 8% interest. On January 15, 2013, the loan was amended to permit borrowing up to \$1,000,000. As of December 31, 2012, the outstanding balance was \$763,507.

In March 2011, the Company entered into a receivables financing agreement with Evan Auld-Susott, the Company's former Chief Executive Officer and Director, 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 December 31, 2012, the outstanding balance was \$190,000. The loan is not convertible into any Company securities.

In April 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 December 31, 2012, the outstanding balance was \$118,495.

In December 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 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 is payable in cash or may be converted into common stock by Mr. Foster at a per share price equal to \$.10 or thirty percent less than the market price on the date of conversion, whichever is greater. On May 4, 2012 an amendment was made to the loan agreement pursuant to which the Company and Mr. Foster agreed to amend the payment in lieu of cash conversion. (Section ii) of the Note was amended to read as follows: (ii) In lieu of cash payments, Mr. Foster shall have the option to convert the entire principal loan balance to Horne International Inc. common stock as described in paragraph 3 of the Loan Agreement between Horne International Inc. and Trevor Foster dated December 27, 2011. The conversion price shall be equal to \$.10 per share of Horne International Inc. Common Stock. As of December 31, 2012 the outstanding balance was \$100,000.

Also in December of 2011, the Company entered into a loan agreement with Mr. Darryl K. Horne, Interim Chief Executive Officer, President and Chairman of the Company, 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 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 is payable in cash or may be converted into common stock by Mr. Horne at a per share price equal to \$.10 or thirty percent less than the market price on the date of conversion, whichever is greater. On May 7, 2012 an amendment was made to the loan agreement pursuant to which the Company and Mr. Horne agreed to amend the payment in lieu of cash conversion. (Section ii) of the Note was amended to read as follows: (ii) In lieu of cash payments, Mr. Horne shall have the option to convert the entire principal loan balance to Horne International Inc. common stock as described in paragraph 3 of the Loan Agreement between Horne International Inc. and Darryl Horne dated December 27, 2011. The conversion price shall be equal to \$.10 per share of Horne International Inc. Common Stock. As of December 31, 2012 the outstanding balance was \$50,000.

As a result of our continuing losses, our independent registered public accounting firm issued a “going concern” opinion in connection with its audit of our consolidated financial statements for the year ended December 31, 2012. This opinion expressed substantial doubt as to our ability to continue as a going concern. Our ability to continue as a going concern is dependent upon our ability to obtain additional equity or debt financing, attain further operating efficiencies, reduce expenditures, dispose of selective assets, and ultimately generate additional revenue. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties. Accordingly, the value of the Company in liquidation may be different from the amounts set forth in our financial statements. The going concern opinion may also limit our ability to access certain types of financing, prevent us from obtaining financing on acceptable terms, and limit our ability to obtain new business due to potential customers’ concern about our ability to deliver products or services.

The Company anticipates that funds from operations will not be sufficient to provide for our 2013 operations and purchases of plant and equipment. While we continue to seek financing alternatives to fund our 2013 operations, there is no assurance that we will be able to obtain financing on terms acceptable to the Company, or at all, and terms of any financing we do undertake may not be favorable to our stockholders.

The Company’s working capital position at December 31, 2012, was a deficit of \$2.2 million, compared with a deficit of \$.9 million at December 25, 2011. The negative working capital has resulted from our continued operating losses.

Contractual Obligations

The Company has certain obligations and commitments to make future payments under contracts. At December 31, 2012, the aggregate contractual obligations and commitments from continuing and discontinued operations are:

| | 2013 | 2014 | 2015 | 2016+ | 2017+ |
|-------------------------|-------|------|------|-------|-------|
| Operating Leases | \$ 90 | \$ - | \$ - | - | - |
| Capital Leases | 3 | - | - | - | - |
| Total Lease Commitments | \$ 93 | \$ - | \$ - | \$ - | \$ - |

The contractual obligations shown above reflect the principal amount of our commitments. The above schedule does not include the \$1.1 million in related party financing that is callable, but has no set payment dates.

Off-Balance Sheet Arrangements

We have no off-balance sheet arrangements.

Item 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET

None

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Item 8. Financial Statements and Supplementary Data

The following documents are filed as part of this Annual Report on Form 10-K:

Financial Statements

| | |
|--|------|
| Report of Independent Registered Public Accounting Firm | [14] |
| Consolidated Balance Sheets: December 31, 2012, and December 25, 2011 | [15] |
| Consolidated Statements of Operations and Comprehensive Loss: Years ended December 31, 2012, and December 25, 2011 | [16] |
| Consolidated Statements of Stockholders' Deficit: Years ended December 31, 2012, and December 25, 2011 | [17] |
| Consolidated Statements of Cash Flows: Years ended December 31, 2012, and December 25, 2011 | [18] |
| Notes to Consolidated Financial Statements | [19] |

Report of Independent Registered Public Accounting Firm

To the Audit Committee of the

Board of Directors and Stockholders of Horne International, Inc. and Subsidiaries

We have audited the accompanying consolidated balance sheets of Horne International, Inc. and its subsidiaries (the "Company") as of December 31, 2012 and December 25, 2011, and the related consolidated statements of operations and comprehensive loss, changes in stockholders' deficit, and cash flows for the years then ended. The Company's management is responsible for these consolidated financial statements. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Horne International, Inc. and its subsidiaries as of December 31, 2012 and December 25, 2011, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 1 to the consolidated financial statements, the Company has experienced continuing net losses for each of the last four years and as of December 31, 2012, current liabilities exceeded current assets by \$2.26 million. These conditions raise substantial doubt as to the Company's ability to continue as a going concern. Management's plan in regard to these matters is also described in Note 1. The accompanying consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

/s/ Stegman & Company

Baltimore, Maryland

March 28, 2013

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HORNE INTERNATIONAL, INC.

Consolidated Balance Sheets

(Dollars in thousands except share amounts)

| | December 31, 2012 | December 25, 2011 |
|---|----------------------|----------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 8 | \$ 152 |
| Receivables, net | 1,116 | 1,100 |
| Prepaid expenses and other current assets | 30 | 29 |
| Total current assets | 1,154 | 1,281 |
| Property and equipment, net | 6 | 32 |
| Other assets | 19 | 19 |
| TOTAL ASSETS | \$ 1,179 | \$ 1,332 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 695 | \$ 1,053 |
| Line of credit | 118 | - |
| Accrued expenses | 1,345 | 646 |
| Debt, net of discount | 1,069 | 475 |
| Other current liabilities | 7 | - |
| Current liabilities of discontinued operations | | 7 |
| Total current liabilities | 3,234 | 2,181 |
| Long-term liabilities: | | |
| Non-current portion of debt | | 4 |
| TOTAL LIABILITIES | 3,234 | 2,185 |
| Stockholders' deficit | | |
| 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 | 80,200 | 79,757 |
| Accumulated deficit | (82,260) | (80,614) |
| Accumulated other comprehensive income | - | - |
| Total stockholders' equity | (2,055) | (853) |
| TOTAL LIABILITIES AND STOCKHOLDERS' DEFICIT | \$ 1,179 | \$ 1,332 |

See accompanying notes to consolidated financial statements.

HORNE INTERNATIONAL, INC.

Consolidated Statements of Operations and Comprehensive Loss

(Dollars in thousands except share amounts)

| | Twelve months ended | |
|--|-------------------------|----------------------|
| | December 31, 2012 | December 25, 2011 |
| Revenue | \$4,119 | \$ 5,688 |
| Cost of revenue | 3,812 | 5,104 |
| Gross profit | 307 | 584 |
| Operating expense | 1,625 | 1,712 |
| Net operating loss | (1,318) | (1,128) |
| Non-operating expense, net | (325) | (77) |
| Loss before income taxes | (1,643) | (1,205) |
| Income tax expense (benefit) | (3) | 1 |
| Loss from continuing operations | (1,646) | (1,204) |
| Income (loss) from discontinued operations | - | 1,083 |
| Net and Total Comprehensive Loss | \$(1,646) | \$(121) |
| Weighted average common shares outstanding: | | |
| Basic and diluted | 46,386,959 | 43,780,153 |
| Basic and diluted per share: | | |
| Basic and diluted from continuing operations | \$(0.04) | \$(0.03) |
| Basic and diluted from discontinued operations | \$0.00 | \$0.03 |
| Total basic and diluted loss per share | \$(0.04) | \$(0.00) |

See accompanying notes to the consolidated financial statements.

HORNE INTERNATIONAL, INC.

Consolidated Statements of Stockholders' Deficit

(Dollars in thousands except share amounts)

| | Common Stock Shares | Amount | APIC | Accumulated Deficit | Total |
|---------------------------------|------------------------|--------|----------|------------------------|-----------|
| Balance as of December 26, 2010 | 42,977,893 | \$ 4 | \$79,571 | \$ (80,493) | \$(918) |
| Net loss | | | | (121) | (121) |
| Stock option expense | | | 63 | | 63 |
| Stock issuance | | | | | |
| Restricted stock issuances | 1,528,152 | | 123 | | 123 |
| Balance as of December 25, 2011 | 44,506,054 | \$ 4 | \$79,757 | \$ (80,614) | \$(853) |
| Net loss | | | | (1,646) | (1,646) |
| Stock option expense | | | 89 | | 89 |
| Stock issuance | | | 75 | | 75 |
| Restricted stock issuances | 2,800,000 | 1 | 279 | | 280 |
| Balance as of December 31, 2012 | 47,306,054 | \$ 5 | \$80,200 | \$ (82,260) | \$(2,055) |

See accompanying notes to the consolidated financial statements.

HORNE INTERNATIONAL, INC.

Consolidated Statements of Cash Flows

HORNE INTERNATIONAL, INC.

Consolidated Statements of Cash Flows (Dollars in thousands)

| | December 31, 2012 | December 25, 2011 |
|--|----------------------|----------------------|
| Cash flows from in operating activities: | | |
| Continuing Operations | | |
| Net loss from continuing operations | \$ (1,646 |) \$ (1,204) |
| Adjustments to reconcile net loss to net cash flows | | |
| Cash used in operating activities | - | |
| Stock based compensation | 88 | 63 |
| Issuance of common stock | 18 | 123 |
| Depreciation and amortization | 26 | 37 |
| Bad debt expense | 91 | - |
| Non-cash impact on debt discount | 38 | - |
| Receivables | (114) | (593) |
| Prepaid expenses and other current assets | 12 | 9 |
| Other assets | | 40 |
| Accounts payable | (358) | 890 |
| Accrued expenses | 623 | 92 |
| Deferred revenue | | (60) |
| Net cash used in continuing operations | (1,222) | (603) |
| Discontinued Operations | | |
| Income from discontinued operations | - | 1,083 |
| Cash (used in) discontinued operations | - | (208) |
| Net cash provided by (used in) discontinued operations | - | 875 |
| Net cash provided by (used in) operating activities | (1,222) | 272 |
| Cash flows from investing activities | | |
| Purchase of property and equipment | - | (2) |
| Cash flows used in investing activities | - | (2) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock | 250 | |
| Other debt | (5) | (10) |
| Net payments on lines of credit | 118 | (140) |
| Proceeds from debt | 715 | 310 |
| Repayment of related parties, net | | (340) |
| Net cash (used in) provided by financing activities | 1,078 | (180) |

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| | | | |
|--|------|---|--------|
| Net decrease (increase) in cash and cash equivalents | (144 |) | 90 |
| Cash and cash equivalents at beginning of period | 152 | | 62 |
| Cash and cash equivalents at end of period | \$ 8 | | \$ 152 |

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 | | - |
|---|----|--|---|

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

1. ORGANIZATION AND NATURE OF BUSINESS AND UNCERTAINTY

Horne International, Inc. (the “Company” or “Horne”), headquartered in Fairfax, Virginia, is an engineering services company focused on 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. We provide products and services to both commercial customers and to the United States Government.

Discontinued operations include the results of our Spectrum Sciences and Software subsidiary that closed in June 2008.

The Company’s independent registered public accountants stated in their report on the consolidated financial statements of the Company for the year ended December 31, 2012, that the Company has had recurring operating losses that raise substantial doubt about its ability to continue as a going concern. For the year ended December 31, 2012, the Company incurred a loss from continuing operations of approximately \$1.646 million and had a stockholders’ deficit of approximately \$2.055 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 Interim Chief Executive Officer, President and Chairman. The loan permitted the Company to borrow up to \$525,000 at 8% interest. On January 15, 2013, the loan was amended to permit borrowing up to \$1,000,000. As of December 31, 2012, the principal outstanding balance is \$763,507 and the accrued interest balance is \$108,354.

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 December 31, 2012, the outstanding balance is \$118,495. 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 December 31, 2012, the outstanding balance is \$190,000 and the accrued interest balance is \$31,158. 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 December 31, 2012, the outstanding balance of the loan is \$100,000 and the accrued interest balance is \$7,158.

On December 29, 2011, the Company entered into a Loan Agreement with Darryl K. Horne, the Company's Interim Chief Executive Officer, President and Chairman, 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 December 31, 2012, the outstanding balance is \$50,000 and the accrued interest balance is \$3,579.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

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 fiscal-year for Horne International, Inc. is the 52-or 53-week period ending on the last Sunday in December. Fiscal 2012 was a 53-week fiscal-year and Fiscal 2011 was a 52-week fiscal-year. The consolidated financial statements include the accounts of Horne International, Inc., and its subsidiaries. All significant intercompany accounts and transactions have been eliminated. Investments in unconsolidated joint ventures were adjusted to fair market value upon the acquisition of Horne Engineering in 2005. Beginning in 2008, the Company began accounting for its Weskem joint venture investment under the equity method. The joint venture ceased operations in 2009. See Note 15 for additional information.

Revenue Recognition

Revenues are derived from three sources:

(i)

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 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.
- (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.

Use of Estimates

The preparation of the consolidated 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.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

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.

Significant Customers and Credit Risks

Due to the nature of the Company's business and the relative size of certain contracts, it is not unusual for a significant customer in one year to be insignificant in the next. However, it is possible that the loss of any single significant customer could have a material adverse effect on the Company's results from operations. The Company's primary customers are government entities. For the period ended December 31, 2012, the Company had two customers that represented approximately 84% of the Company's revenue. In December 2012 the Company was notified that its contract with the U.S. Army Regional Environmental and Energy Office, which represented approximately 42% of the Company's revenues, would not be renewed causing a significant loss of future revenue. For the period ending December 25, 2011 the Company had two customers that represented 75% of the Company's revenue.

Concentration of Credit Risk

Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, accounts receivable, and unbilled services. As of December 31, 2012, all of the Company's cash and cash equivalents were held in or invested with domestic banks. As of December 31, 2012, the Company had two customers that accounted for approximately 95% of our accounts receivable. As of December 25, 2011, the Company had two customers that accounted for more than 87% of its accounts receivable. In determining the allowance for doubtful accounts, the Company analyzes the aging of the accounts receivable, historical bad debts, customer creditworthiness, and specific situations involving its customers. As the majority of the Company's work is government related, the risk of uncollectible debt is greatly reduced. The Company takes specific bad debt reserves when it considers its ability to collect an amount to be in doubt.

Property and Equipment

All other property and equipment are recorded at cost less accumulated depreciation. Depreciation is computed on both an accelerated basis and straight-line methods over the estimated useful lives of the underlying assets. The lives range from 3 to 10 years depending on asset type. Routine maintenance and repairs are expensed as incurred. Major replacements and improvements are capitalized. Leasehold improvements are amortized over the shorter of the useful life or the lease term.

Impairment of Long-Lived Assets

The Company reviews the recoverability of its long-lived asset groups, including buildings, furniture and equipment, computer hardware and software, and leasehold improvements, when events or changes in circumstances occur that indicate the carrying value of the asset may not be recoverable. The assessment of possible impairment is based on the Company's ability to recover the carrying value of the asset from the expected future pre-tax cash flows (undiscounted and without interest charges) of the related operations. If these cash flows are less than the carrying value of such asset, an impairment loss is recognized for the difference between estimated fair value and carrying value. The Company's primary measure of fair value is based on discounted cash flows. The measurement of impairment requires the Company to make estimates of these cash flows related to long-lived assets, as well as other fair value determinations.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

Income Taxes

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

The Company currently has a net operating loss carry forward of approximately \$56.4 million at December 31, 2012. The Company has not recorded this 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.

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 566,789 and 7,799,660 were not included in the computation of diluted loss per share for the twelve months ended December 31, 2012 and December 25, 2011, respectively, as the inclusion of these common stock equivalents would be anti-dilutive as the Company is in a net loss position and including such shares would reduce the net loss per share.

Foreign Currency Translation

The Company's functional currency is the U.S. dollar.

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.

Recent Accounting Pronouncements

Management does not believe that any recent accounting pronouncements will have a material effect on their financial statements.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

3. DISCONTINUED OPERATIONS

The Company made the strategic decision to close the operations of its Spectrum Sciences and Software, Inc. (SSSI), and Coast Engine & Equipment Co., subsidiaries in early 2008. Accordingly, the operating results of these two entities are included in discontinued operations for all years presented.

The Company recognized approximately \$1,083,000 in net income in the 2nd quarter of 2011 from a judgment in the matter of Spectrum Sciences and Software, Inc. vs. The United States, Case Number 04-1366C. The net income reflects an award of \$1,211,754 plus an Equal Access to Justice Act estimate of \$340,000 less the cost of litigation (\$470,754).

4. RECEIVABLES

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.

(IN THOUSANDS)

| | December 31, 2012 | December 31, 2011 |
|---------------------|-------------------------|----------------------|
| Accounts Receivable | | |
| Billed AR | \$ 291 | \$ 752 |
| Unbilled AR | 917 | 349 |
| Bad Debt Reserve | (92) | (1) |

| | | |
|----------|----------|----------|
| Total AR | \$ 1,116 | \$ 1,100 |
|----------|----------|----------|

5. PROPERTY AND EQUIPMENT

(IN THOUSANDS)

| | December 31, 2012 | December 25, 2011 |
|-----------------------------|-------------------------|----------------------|
| Property & Equipment | | |
| Buildings and improvements | 18 | 5 |
| Furniture and fixtures | 35 | 11 |
| Office equipment | 117 | 304 |
| Total | \$ 117 | \$ 320 |
| Accumulated Depreciation | 111 | (288) |
| Property and equipment, net | \$ 6 | \$ 32 |

6. ACCRUED EXPENSES

(IN THOUSANDS)

| | 2012 | 2011 |
|----------------------------------|----------|--------|
| Accrued Expenses | | |
| Salaries & payroll related items | \$ 115 | \$ 103 |
| Accrued leave | 85 | 126 |
| Tax | 3 | - |
| Professional Fees | 85 | 69 |
| Consulting Expense | 874 | 255 |
| Interest | 151 | 11 |
| Other | 33 | 84 |
| Total Accrued Liabilities | \$ 1,345 | \$ 646 |

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

7. LINES OF CREDIT

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 December 31, 2012, the outstanding balance is \$118,495. The loan is not convertible into any Company securities.

8. COMMON STOCK

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 provides for Intelligent to provide business support services to the Company. In return for business support services, the Company awarded to Intelligent 8,333,333 options to purchase common stock and was able to award up to 12,500,000 restricted stock units. During 2010, the Company awarded Intelligent 290,569 restricted stock units in exchange for business support services and recorded \$515,884 of stock-based compensation expense related to options. For the year ending, December 25, 2011, the Company awarded 1,523,151 restricted stock units in exchange for business support services and recorded \$0 of stock-based compensation expense related to these options. On March 6, 2012 the Company terminated the Stock Option Agreement and Restricted Stock Agreement and cancelled the remaining 4,166,667 options.

On January 13, 2012, the Company issued 500,000 shares of restricted common stock in conjunction with the exercise of 500,000 stock options for a consideration of \$50,000.

On May 16, 2012, the Company issued 2,000,000 shares of restricted common stock for a consideration of \$2,000,000

On June 6, 2012, the Company issued 300,000 shares of restricted common stock in exchange for prepaid future services valued at \$30,000.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

9. ReLated Party DEBT AND OTHER BORROWINGS

The Company's borrowings, consisting of related party receivable financing, unsecured notes, and other borrowings net of discount, were approximately \$1,221,012 as of December 31, 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 Interim Chief Executive Officer, President and Chairman. 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. On January 15, 2013, the loan was amended to permit borrowing up to \$1,000,000. As of December 31, 2012, the total outstanding balance is \$763,507 and accrued interest is \$108,354.

On December 29, 2011, the Company entered into a Loan Agreement with Mr. Darryl K. Horne, the Company's Interim Chief Executive Officer, President and Chairman, 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 December 31, 2012, the total outstanding balance is \$50,000 and accrued interest is \$3,579.

The convertible notes issued to Mr. Horne 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 500,000 shares of common stock.

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 \$31,158, respectively, as of December 31, 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 December 31, 2012, the outstanding balance of the loan is \$100,000 and the interest balance is \$7,158.

The convertible notes issued 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 1,000,000 shares of common stock.

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 December 31, 2012, the outstanding balance is \$117,505. The loan is not convertible into any Company securities.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

10. EMPLOYEE BENEFIT PLAN

The Company has a defined contribution 401(k) plan available to all U.S. employees who have completed minimum service requirements and meet minimum age requirements. Eligible employees may defer a portion of their salary as defined by Internal Revenue Service regulations. The Company currently matches 50 percent of an employee's contribution up to 5%, subject to legal limits. The total expense for the years ended December 31, 2012 and December 25, 2011 was approximately \$32,934 and \$32,398, respectively.

11. STOCK OPTIONS

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 provides for Intelligent to provide business support services to the Company. In return for business support services, the Company awarded to Intelligent 8,333,333 options to purchase common stock and was able to award up to 12,500,000 restricted stock units. During 2010, the Company awarded Intelligent 290,569 restricted stock units in exchange for business support services and recorded \$515,884 of stock-based compensation expense related to options. For the year ending, December 25, 2011, the Company awarded 1,523,151 restricted stock units in exchange for business support services and recorded \$0 of stock-based compensation expense related to these options. On March 6, 2012 the Company terminated the Stock Option Agreement and Restricted Stock Agreement and cancelled the remaining 4,166,667 options.

The Company has a stock option plan (the "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 year ending December 31, 2011, the Company granted 300,000 shares of stock options to three members of the Advisory Board. During the year ending December 31, 2012, the Company did not grant any stock options.

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 following table summarizes information about the Plan's stock options at December 31, 2012 and 2011.

| | Number of Shares | Weighted Average Exercise Price | Weighted Average Remaining Life (yrs) | Aggregate Intrinsic Value |
|--------------------------------|------------------|--|---|---------------------------------|
| Options Outstanding 12/26/2010 | 10,393,333.00 | 0.09 | 3.80 | |
| Granted | 1,597,993 | 0.20 | 2.43 | |
| Exercised | (5,000) | - | - | |
| Cancelled | (4,186,666) | 0.09 | - | |
| Options Outstanding 12/25/2011 | 7,799,660 | \$ 0.12 | 3.52 | |
| Granted | - | | | |
| Exercised | (500,000) | 0.10 | | |
| Cancelled | (6,732,871) | 0.11 | | |
| Options Outstanding 12/31/2012 | 566,790 | \$ 0.22 | 1.30 | |
| Options Exercisable 12/31/2012 | 324,876 | 0.24 | 1.31 | |

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

The following table summarizes the Plan's stock options at December 31, 2012.

| Exercise Price | Shares Outstanding | Shares Exercisable | Weighted Average Remaining Life (yrs) |
|----------------|--------------------|--------------------|---------------------------------------|
| \$ 0.15 | 170,000 | 53,083 | 1.3 |
| \$ 0.17 | 75,000 | 25,000 | 1.5 |
| \$ 0.25 | 281,789 | 206,793 | 1.4 |
| \$ 0.35 | 40,000 | 40,000 | 1.1 |
| | 566,789 | 324,876 | |

| | |
|---------------------------|------------|
| Total options authorized | 32,000,000 |
| Total options exercised | 20,626,200 |
| Total options outstanding | 566,789 |
| Total options remaining | 10,807,011 |

The intrinsic value of the options outstanding at December 31, 2012, is zero as the exercise price for all options is greater than the share price, at that date.

| | Year ended | | |
|--------------------------|-------------------|-------------------|---|
| | December 31, 2012 | December 25, 2011 | |
| Risk-free interest rate | Not applicable | 3.50 | % |
| Expected volatility | Not applicable | 192.69%-202.13 | % |
| Expected life (in years) | Not applicable | 3.0 | |
| Expected dividend yield | Not applicable | 0.00 | % |

The fair value of options granted for the years ending December 31, 2012 and December 25, 2011 have been estimated at the date of grant using the Black Scholes option pricing model with the following assumptions.

During the year ended December 25, 2011, we issued stock options that vested immediately. We estimate the fair value of stock options using the Black-Scholes option-pricing model. Estimates of fair value are not intended to predict actual future events or the value ultimately realized by persons who receive equity awards. The fair value of stock options granted during each of the last two years was estimated using the assumptions of a risk-free interest rate of 3.50% and expected life of the options to be 3. The expected life of stock options granted was based on our historical option exercise experience and post vesting forfeiture experience using the historical expected term from vesting date. The expected volatility of the options granted was determined using historical volatilities based on stock prices over a look-back period corresponding to the expected life. The risk-free interest rate was determined using the yield available for zero-coupon United States government issues with a remaining term approximating the expected life of the options. The forfeiture rate was determined using historical pre-vesting forfeiture rates since the inception of the plan. We have never paid a dividend, and as such, the dividend yield is zero.

12.

INCOME TAXES

The Company files income tax returns in the U.S. federal jurisdiction, and various state and foreign jurisdictions. The Company is no longer subject to U.S. federal, state and local, or non-U.S. income tax examinations by tax authorities for years before 2005. The provision for income taxes for years ended December 31, 2012 and December 25, 2011, were zero.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

(IN THOUSANDS)

| | Year Ended December | |
|---------------------|------------------------|-------------------|
| | 31, 2012 | December 25, 2011 |
| Current | | |
| Federal | \$ - | \$ - |
| State | - | - |
| Foreign | - | - |
| Total Current | - | - |
| Deferred | | |
| Federal | - | - |
| Foreign | - | - |
| Total Deferred | - | - |
| Total Tax Provision | \$ - | \$ - |

The difference between the tax provision at the statutory federal rate and the tax provision attributable to income before taxes was as follows:

| Rate Reconciliation: | 2012 | 2011 |
|--------------------------------------|-----------|-----------|
| Statutory Federal Income Tax Rate | 34.0 % | 34.00 % |
| State Taxes (Net of Federal Benefit) | 4.00 % | 3.65 % |
| Permanent Difference | (0.06 %) | (0.06 %) |
| Valuation Allowance | (37.94 %) | (37.50 %) |
| Effective Tax Rate | 0.00 % | 0.00 % |

Deferred income taxes reflect the net effect of temporary differences between the carrying amounts of assets and liabilities for financial and tax reporting purposes. Significant components of the Company's deferred taxes were as

follows

(IN THOUSANDS)

| | | |
|-----------------------------------|----------|----------|
| Deferred Tax Asset/Liability: | 2012 | 2011 |
| Accrued expenses | 166 | 195 |
| Depreciation | 27 | 23 |
| Stock compensation | 576 | 559 |
| NOL carry-forwards | 20,891 | 19,411 |
| Other, net | 752 | 752 |
| Valuation allowance | (22,412) | (20,940) |
| Net deferred tax asset(liability) | - | - |

Deferred Tax Asset/Liability:

| | | |
|------------------------------------|----------|----------|
| | 2011 | 2010 |
| Accrued Expenses | \$195 | \$129 |
| Depreciation | 23 | 21 |
| Stock Compensation | 559 | 534 |
| NOL Carryforwards | 19,411 | 18,990 |
| Other, Net | 752 | 752 |
| Valuation Allowance | (20,940) | (20,427) |
| Net Deferred Tax Asset/(Liability) | \$- | \$- |

As of December 31, 2012, the Company has approximately \$56.4 million of net operating loss carry forward available to offset future income. The net operating loss carry-forwards will expire on or before 2026.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

In determining the extent to which a valuation allowance for net deferred tax assets is required, the Company evaluates all available evidence including projections of future taxable income, carry-back opportunities, and other tax-planning strategies. The valuation allowance relates to our U.S. net operating losses. Due to the continued losses incurred by the Company in 2012 and prior years, the Company believes that it is more likely than not that the deferred tax asset related to these net operating losses will not be realized. If, in the future, the Company determines that the utilization of these net operating losses becomes more likely than not, the Company will reduce the valuation allowance at that time.

Management considers the likelihood of changes by taxing authorities in its filed income tax returns and recognizes a liability for or discloses potential changes that management believes are more likely than not to occur upon examination by tax authorities. Management has not identified any uncertain tax positions in filed income tax returns that require recognition or disclosure in the accompanying financial statements. The Company's income tax returns for the past three years are subject to examination by tax authorities, and may change upon examination.

13. SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION

| | (IN THOUSANDS) | |
|---|-------------------|----------|
| | 2012 | 2011 |
| Supplemental disclosure of cash flow information: | | |
| Cash paid for interest | \$ - | \$ 62 |
| Cash paid for taxes | \$ - | \$ 1 |
| Provisions for debt discount | \$ 75 | \$ 0 |
| Supplemental schedule of non-cash investing and financing activities: | | |
| Transfer of property and relief of related party notes payable | \$ 0 | \$ 1,743 |

14. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office space at one location in the United States. Rent expense totaled approximately \$120,000 and \$102,000 for 2012 and 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.

(IN THOUSANDS)

| | 2013 | 2014 | 2015 | 2016+ | 2017+ |
|------------------|-------|------|------|-------|-------|
| Operating Leases | \$ 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.

(IN THOUSANDS)

| | 2013 | 2014 | 2015 | 2016 | 2017+ |
|----------------|------|------|------|------|-------|
| Capital Leases | 3 | - | - | - | - |

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

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 \$10,650 associated with the investment. There may be future liabilities.

Legal Matters

No pending legal matters.

15. INVESTMENTS IN JOINT VENTURES

The Company, through its Horne Engineering Services subsidiary, was a member of Weskem, a limited liability company that specialized in environmental remediation. During 1999, Horne Engineering invested \$77,500 and became a 5.6 percent partner in this joint venture. The investment has been accounted for using the cost method of accounting until 2008. During 2008, the decision was made to cease Weskem's operations during the first quarter of 2009. Accordingly, we recorded a write-down of the Weskem investment to its liquidation value and the investment was liquidated in 2009. In 2011 the Company received notice of outstanding legal liabilities associated with the investment, in the amount of \$10,650. The Company may be required to pay additional capital calls in the future.

16. SUBSEQUENT EVENTS

On March 12, 2013, the Company entered into a note agreement with a creditor to finance an outstanding liability in the amount of \$153,498. Monthly principal payments in the amount of \$25,583 plus interest of 6% will be made beginning August 1, 2013 with a final balloon payment of \$51,166 to be made on December 1, 2013.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

Item 9. Changes in and Disagreements with Accountants on Accounting and Financial Disclosure

None.

ITEM 9A. CONTROLS AND PROCEDURES

Evaluation of Disclosure Controls and Procedures

As of the end of the period covered by this report, the Company's principal executive officer, interim principal financial officer and 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, the Company's principal executive officer, interim principal financial officer and management concluded that these disclosure controls and procedures were not effective as of the end of the period covered in this report.

Attestation Report of the Registered Public Accounting Firm

This annual report does not include an attestation report of the Company's registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by its registered public accounting firm pursuant to rules of the Securities and Exchange Commission that permit the Company to provide only management's report in this annual report.

Management's Annual Report on Internal Control Over Financial Reporting

The Company's management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rule 13a-15(f) of the Securities Exchange Act of 1934) 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.

The Company has identified material weaknesses in internal control over the 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 December 31, 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-K. 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.

HORNE INTERNATIONAL, INC.

Notes To Consolidated Financial Statements

Inherent Limitations on Effectiveness of Controls

Our management, including the interim CEO and interim CFO, does not expect that our disclosure controls or our internal control over financial reporting will prevent or detect all error and all fraud. A control system, no matter how well designed and operated, can provide only reasonable, not absolute, assurance that the control system's objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. These inherent limitations include the realities that judgments in decision-making can be faulty and that breakdowns can occur because of simple error or mistake.

Controls can also be circumvented by the individual acts of some persons, by collusion of two or more people, or by management override of the controls. The design of any system of controls is based in part on 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. Projections of any evaluation of controls effectiveness to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

During the fiscal quarter ended December 31, 2012 there has been no change in our internal control over financial reporting (as defined in Rule 13a-15 under the Exchange Act of 1934) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting. During 2013 our internal controls are likely to be affected by reduced staffing levels.

Item 9B. OTHER INFORMATION

There is no information that was required to be disclosed on a Form 8-K during the fourth quarter of 2012 but was not reported.

On March 8, 2013, the Company entered into a security purchase agreement with Asher Enterprises, Inc. (“Asher”). The Company issued an 8% convertible note with a principal amount of \$58,000. The note is convertible to Company common stock at a Variable Conversion Price of 58% multiplied by the Market Price. The Market Price is defined as the average of the lowest three trading prices during a ten day period. The maturity date of the note is November 21, 2013. The issuance of the Note was made in reliance on the exemption from registration provided by Section 4(2) of the Securities Act of 1933, as amended.

PART III

Item 10. Directors, Executive Officers and Corporate Governance

The names of our executive officers and directors, their ages as of March 31, 2013, and the positions currently held by each are as follows:

| Name | Age | Position |
|------------------|-----|---|
| Darryl K. Horne | 52 | Interim Chief Executive Officer, President, Chairman and Director |
| Marla Perdue | 42 | Interim Chief Financial Officer |
| Paige E. Shannon | 46 | General Counsel |
| Evan Auld-Susott | 33 | Director |
| John A. Moore | 60 | Director |

Biographies of Executive Officers and Directors

Darryl K. Horne. In May 2011, Darryl K. Horne was appointed President of Horne International, Inc. Mr. Horne also serves as Chairman of the Board of Directors of Horne International, Inc. In November of 2012, Mr. Horne was appointed to serve as the Company's interim chief executive officer. Mr. Horne founded Horne Engineering Services, Inc., a Virginia corporation, in 1990 and led the organization as the President and CEO until May 2005, when Horne Engineering Services, Inc., dissolved and was superseded by Horne Engineering Services, LLC. Horne Engineering Services, Inc., was a professional engineering firm providing engineering solutions to issues primarily in the areas of national security, energy and the environment, and transportation for customers in the U.S. federal government, state and local governments, and the private sector. As the President and CEO of Horne Engineering Services, Inc., Mr. Horne was responsible for personnel, budgeting, performance contracts, subcontract administration, proposals, business development, and the general oversight of corporate operations. In 1999, Mr. Horne was appointed by then Virginia Governor James Gilmore to the Virginia Military Institute (VMI) Board of Visitors. Mr. Horne was re-appointed to the VMI Board of Visitors by Governor Mark Warner in 2003. Mr. Horne was honored by Ernst & Young in 1999 as a Greater Washington Entrepreneur of the Year, and in 2002 he was a finalist for a National Capital Business Ethics Award. In March 2004, he was invited to become a Trustee on the Federal City Council, a non-profit, non-partisan organization dedicated to the improvement of the Nation's Capital and composed of and financed by the region's top business, professional, educational, and civic leaders. Mr. Horne received a bachelor's degree in civil engineering from VMI in 1982. He is a member of the National Society of Professional Engineers and the Society of American Military Engineers, and he completed service in the U.S. Army Reserve with the rank of Captain.

Marla Perdue. In March 2012, Marla Perdue was appointed Interim Chief Financial Officer (CFO) of Horne International, Inc. Ms. Perdue joined Horne International, Inc. in July 2011 as the Accounting Manager and has been

the Company's lead financial executive since the departure of the former CFO in January 2012. Ms. Perdue has over 12 years of professional accounting experience serving in increasingly responsible roles. Ms. Perdue has a B.S. in Accounting from George Mason University. Prior to joining Horne, from May 2007 Ms. Perdue was employed as an Accounting Manager for DIT, Inc. providing their management with financial information including billing, accounts payable, accounts receivable, contract analysis, policy and procedures, and GAAP compliance.

Paige E. Shannon. Paige E. Shannon joined Horne International, Inc., in December 2005 as General Counsel and Corporate Secretary. Ms. Shannon has extensive experience in the government contracting industry. Ms. Shannon holds a Doctorate from The Catholic University of America, Columbus School of Law and a Masters in Business Administration from George Mason University.

Evan Auld-Susott. Mr. Evan Auld-Susott joined Horne International, Inc. in 2007 as a member of the Board of Directors was appointed Chief Executive Officer May 2, 2011 and resigned that role in November 2012. Prior to joining Horne and currently, Mr. Auld-Susott serves as General Partner of The Susott Family Limited Partnership, a family owned investment group. Mr. Auld-Susott has a successful track record managing multiple profit and loss centers, managing executive teams, assessing and executing accretive transactions for stakeholders and aligning staff with their performance objectives. He has successfully closed accretive transactions in the areas of real estate, equity, debt and structured finance. Mr. Auld-Susott has a B.A. in economics and a B.A. in international relations from the University of Southern California in Los Angeles.

John A. Moore, Jr. John A. Moore, Jr. was elected to the Horne International, Inc., Board of Directors on April 27, 2006. Mr. Moore currently serves as the Chairman of both the audit and compensation committees. Mr. Moore has served as the Executive Vice President and Chief Financial Officer of ManTech International Corporation. Mr. Moore has extensive experience in strategic planning, acquisitions, corporate compliance, proposal preparation and pricing in the federal solutions marketplace. Mr. Moore has served on the Board of Directors for ManTech International Corporation, Global Secure Corporation, and Paradigm Holdings, Inc and currently serves on the Board of GBS Enterprises Incorporated. Mr. Moore is also a former member of the Board of Visitors for the University of Maryland, Robert H. Smith School of Business.

Code of Ethics

The Company has adopted a Code of Ethics applicable to its Principal Executive Officer, Principal Financial Officer, Principal Accounting Officer or Controller, and/or other persons performing similar functions. A copy of the written Code of Ethics is incorporated by reference as an exhibit to this Annual Report. The Code of Ethics is available to all employees on the Company's internet website. The website address is as follows:
http://www.horne.com/sites/default/files/Horne_Intl_Ethics_Policy_Web.pdf

Section 16(A) Beneficial Ownership Reporting Compliance

Section 16(a) of the Securities Exchange Act of 1934 requires officers and directors of the Company and persons who own more than ten percent (10%) of a registered class of Horne International, Inc., equity securities to file reports of ownership and changes in their ownership on Forms 3, 4, and 5 with the Securities and Exchange Commission and forward copies of such filings to the Company. Based on the copies of filings received by the Company during the most recent fiscal-year, the directors, officers, and beneficial owners of more than ten percent (10%) of the equity securities of the Company registered pursuant to Section 12 of the Exchange Act have timely filed all required Forms 3, 4, and 5 and any amendments thereto.

Audit Committee

The Company formed an audit committee on October 4, 2005, and adopted the Charter of the Audit Committee on April 27, 2006. On July 20, 2006, John A. Moore, Jr., was appointed by the Board of Directors to serve as a member of the Audit Committee. In July, 2008, Mr. Moore was appointed Chairman of the Audit Committee. The Company's Board has determined that Mr. Moore qualifies as an audit committee financial expert as defined in Item 407 (a)(5)(ii) of Regulation S-K of the Securities Act of 1933, as amended and is independent as defined under applicable NASDAQ rules.

Item 11. Executive Compensation

Compensation Discussion and Analysis

Although our executive compensation program is generally applicable to each of our senior management, this Compensation Discussion and Analysis focuses primarily on the program as applied to our CEO, CFO, and each of our other “named executive officers” as defined under applicable SEC rules. Our “named executive officers” for 2012 were our former CEO, Evan Auld-Susott, our Interim Chief Executive Officer, President and Chairman, Darryl K. Horne, our Interim CFO, Marla Perdue, Lily Xu the Company CFO until January 13, 2012, and our General Counsel, Paige Shannon.

Executive Compensation Policy and General Philosophy

We recognize that our long term success depends on our ability to provide innovative, comprehensive and quality services and products to the marketplace. Attracting and retaining highly talented individuals at all levels of the organization that are committed to the Company's core values of excellence and integrity requires us to maintain competitive compensation programs. Our Executive Compensation Program is based upon the same objectives that guide us in establishing all of our Compensation Programs. The Company compensates its senior management with a blend of base salary, bonus and equity compensation designed to be competitive with comparable employers and to align management's incentives with our long-term goals and the best interests of our stockholders.

Compensation of our [interim] Chief Executive Officer and is substantially affected by the employment agreement he entered into in connection with our acquisition of Horne Engineering in May 2005. As described herein under the section titled "Employment Contracts and Termination of Employment and Change of Control Agreements" this employment agreement establishes a minimum base salary, subject to annual review and increase by the Board of Directors, discretionary annual cash bonuses, certain payments and benefits upon termination of employment, including accelerated vesting of options and participation in any executive bonus and stock-based incentive programs established by us from time to time. The employment agreement was a condition of the closing of the Horne Engineering acquisition and reflected our view of the value of obtaining the experience and leadership skills of Mr. Horne. In addition, Mr. Horne received a substantial equity interest in our Company in consideration for his Horne Engineering shares. We believe that for compensatory purposes, Mr. Horne's equity interest aligns his interests with those of the stockholders generally, and our Board of Directors takes this factor into account in compensation determinations with respect to Mr. Horne.

Components of Executive Compensation for 2012

For 2012, the compensation of the named executive officers consisted solely of base salary. As we have awarded cash bonus and equity awards to named executive officers in recent past years, those elements of compensation are also discussed below, along with the 2012 compensation determinations.

Base Salaries

Base salary is the fixed element of employees' annual compensation. The value of base salary reflects the employee's long term performance, skill set and the market value of that skill set. The minimum base salary for the Chief Executive Officer was established by the employment contract which was entered into on May 11, 2005, in connections with the Company's acquisition of Horne Engineering as amended in February 2007. For a period of five (5) years beginning on May 11, 2005, Darryl K. Horne, as Chief Executive Officer was entitled to receive an annual

base salary of \$375,000. On May 2, 2011, Mr. Horne relinquished his responsibility as Chief Executive Officer, but retained his position as President with an annual compensation of \$206,500. On his appointment as Chief Executive Officer on May 2, 2011, Mr. Evan Auld-Susott was entitled to receive an annual salary of \$200,000 once the Company returned to profitability. In the interim, Mr. Auld-Susott received an annual salary of \$50,000. As Interim Chief Financial Officer, Ms. Marla Perdue receives an annual salary of \$91,000. The base salaries of the Chief Executive Officer, President and Chief Financial Officer were determined to be appropriate based upon their skill sets, knowledge of the marketplace, and historical knowledge of Horne International and Horne Engineering Services, LLC. Each of the base salaries paid to our “named executive officers” who include our CEO, President, and CFO are comparable to other government contractors of similar size and revenue. The Compensation Committee of the Board will review the base salaries of the Chief Executive Officer and the Chief Financial Officer periodically in the future. The General Counsel position is compensated on an hourly basis.

For 2012 the Company determined that a range of \$90,000 to \$190,000 for base annual salaries for senior level management was appropriate. In determining the base salaries of senior level management, we considered the individual employee’s skill set and the market value of that skill set and for employees who have served the Company for at least twelve (12) months, that employee’s overall performance.

Performance and Incentive Cash Bonuses

The Company’s practice is to award annual cash bonuses with the purpose of aligning employees’ goals with the Company’s overall performance objectives. Cash bonuses are awarded to senior level management based upon the Company’s overall performance and the individual employee’s overall performance. In 2012, we did not award any cash bonuses to the Chief Executive Officer, President, Interim Chief Financial Officer or any other named executive. In 2013 the Compensation Committee of the Board of Directors will set the performance goals and objectives as well as recommend to the Board of Directors the overall compensation of the Chief Executive Officer and [Interim] Chief Financial Officer. The Compensation Committee will recommend performance objectives and guidelines for the award of bonuses to senior level management.

Equity Compensation

Historically, the primary form of equity compensation awarded by the Company has been non-statutory stock options. The Plan permits the Company to distribute up to 32 million stock options to employees, consultants and advisors of the Company.

In 2013, the amount of equity compensation to which the Interim Chief Executive Officer and the Interim Chief Financial Officer may be entitled shall be determined by the Compensation Committee and recommended for approval by the Board of Directors.

Employee Benefits

The Company offers core employees benefits coverage in order to provide our workforce with a reasonable level of financial support in the event of illness or injury and enhance productivity and job satisfaction with programs that recognize the importance of achieving a balance between work and the employee's personal goals. The benefits available to all employees, including executive officers and senior level management of Horne International, Inc., and each of its subsidiaries are substantially similar and include medical and dental coverage, short-term and long-term disability insurance, basic life insurance and a 401(K) Retirement Savings Plan. The cost of employee benefits is partially borne by the employee, including each executive officer.

Severance Benefits

The Company does not currently have a comprehensive severance plan. In general, Company employees who are involuntarily terminated not for cause are granted one week of their base salary for each year the employee served the Company up to a maximum of eight weeks of pay. In the event Darryl K. Horne, [Interim Chief Executive Officer, President and Chairman], is terminated not for cause or voluntarily terminates his employment for good reason, he may be entitled to continue to receive his base annual salary, bonus compensation, if any, and any and all fringe and medical benefits as provided for by the terms of his Employment Agreement for a period of twelve (12) months. The termination benefits afforded Mr. Horne was negotiated at the time of the acquisition of Horne Engineering and was deemed by the Board of Directors at that time as necessary and desirable to procure his services for the Company and to consummate the acquisition.

Perquisites and Other Benefits

In 2013, the Compensation Committee will review and recommend all perquisites and other benefits afforded to our Interim CEO, Interim CFO, and other named executive officers.

Board of Directors Report on Compensation Discussion and Analysis

The Board of Directors has reviewed and discussed with management the Compensation Discussion and Analysis contained in this Annual Report. Based on the foregoing review and discussions, the Board of Directors recommends that the Compensation Discussion and Analysis be included in this Annual Report.

2012 Summary Compensation Table

| Name | Principal Position | Year | Base Salary | Fees earned or paid in cash | Bonus | Stock Awards | Option Awards | Non-equity Incentive Compensation | Non-qualified Deferred Compensation | All Other Compensation | Total Compensation |
|------------------|---|------|-------------|-----------------------------|-------|--------------|---------------|-----------------------------------|-------------------------------------|------------------------|--------------------|
| | | | | | | | | | | | |
| Darryl K. Horne | Interim Chief Executive Officer/President | 2012 | \$206,485 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 700 | (2) \$ 207,185 |
| | | 2011 | \$220,501 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 1,824 | (3) \$ 222,325 |
| Marla Perdue | Interim Chief Financial Officer | 2012 | \$91,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 91,000 |
| | | 2011 | \$35,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 35,000 |
| Lily Xu | Former Chief Financial Officer | 2012 | | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | |
| | | 2011 | \$120,000 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 120,000 |
| Evan Auld-Susott | Former Chief Executive Officer | 2012 | \$47,500 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | (1) \$ 47,500 |
| | | 2011 | \$30,769 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 30,769 |
| Paige Shannon | General Counsel | 2012 | \$37,384 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 37,384 |
| | | 2011 | \$37,539 | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ - | \$ 37,539 |

(1) Reflects compensation for partial year.

(2) Mr. Horne's all other Compensation includes \$700 for automobile related expenses.

(3) Mr. Horne's all other Compensation includes \$1824 for automobile related expenses.

For further information regarding the base salaries and bonuses of the named executive officers set forth above, see "Compensation Discussion and Analysis – Base Salaries" and "Performance and Incentive Cash Bonuses" above. [Confirm that there is not another named executive officer that is required to be in the table.]

Employment Contracts and Termination of Employment and Change in Control Agreements

On May 11, 2005, Darryl K. Horne entered into an employment agreement with the Company that provided for his appointment as CEO and President upon the filing of our quarterly report with the SEC for the quarter ending March 31, 2005. The employment agreement was subsequently amended on May 23, 2005, to provide for Mr. Horne's appointment upon our filing with the SEC of a certain amendment to the quarterly report. On June 7, 2005, the amendment to the quarterly report was filed with the SEC, and Mr. Horne assumed the position of CEO and President. Mr. Horne's employment agreement provided for his employment as the CEO and President of the Company until May 11, 2010, with automatic renewals thereafter for one-year terms unless either party provides notice of intent to terminate the agreement. Mr. Horne will be compensated with an annual base salary in the amount of \$375,000, subject to annual increase by the Board of Directors, and will be eligible to participate in any Company-sponsored incentive program that permits, allows or provides for award of stock, restricted stock or options in the Company or similar incentive equity interest plan. Mr. Horne will also be entitled to reimbursement for necessary and properly recorded client-related business or entertainment expenses incurred in the performance of his duties, five (5) weeks of paid vacation (200 hours) annually, a reasonable monthly car allowance and fringe benefits generally available to Company employees in accordance with Company programs, including personal leave, paid holidays, and disability, dental, vision, and group health insurance plans. In the event Mr. Horne's employment is terminated by the Company, without just cause or if Mr. Horne were to terminate for good reason, as defined by the agreement, prior to the expiration of the original employment period or any renewal term, Mr. Horne shall be entitled to certain benefits including the continuation for a period of twelve months from the date of termination of his base salary, bonus compensation, and medical benefits provided by the Company. In addition, Mr. Horne's interest in any stock options, restricted stock or other equity interest in the Company for which he is eligible or may have become eligible during the employment period shall vest fully on the date of termination. The benefits payable to Mr. Horne would have a value of \$375,000 for base salary and \$10,850 for medical and other benefits provided by the Company. The total benefits payable to Mr. Horne in the event of his termination without cause or his resignation for good reason is \$385,850. In the event Mr. Horne was to become permanently disabled, the Company, upon thirty days notice could terminate Mr. Horne's employment. If Mr. Horne's employment is terminated due to his permanent disability, the Company is obligated to pay to Mr. Horne an amount equal to three months of his base pay and all bonuses to which was entitled at the time of his termination and the Company must provide Mr. Horne benefits, including health benefits for a period of three months from the date of termination. The benefits payable to Mr. Horne in the event of termination due to disability would have a value of \$93,750 for base salary and \$2,712 for other benefits provided by the Company. The total benefits payable to Mr. Horne in the event of his termination due to disability is \$96,462. In the event Mr. Horne were to be terminated for cause then he would only be entitled to receive payment of salary accrued up to the date of termination. In addition, upon the termination of his employment, Mr. Horne is prohibited, for a period of no more than two years depending upon the cause for termination, from (a) owning, managing, controlling, or financing or being connected, with certain exceptions, as a proprietor, partner, stockholder, officer, director, principal, agent, representative, joint venture, investor, lender, consultant with or permit his name to be used in connection with any business engaged in competition with business conducted by the Company; (b) solicit from a customer or client of the Company to cease to do business with or limit the amount of business done with the Company; and (c) solicit any employee to terminate their employment with the Company. The employment agreement does also indemnify Mr. Horne, to the extent permitted by the law, for all losses, claims, damages and liabilities, expenses, judgments, fines, settlements and other amounts arising from claims and demands in which he may be involved or threatened to be involved by reason of his status as an officer or director provided Mr. Horne has acted in good faith and without gross negligence or willful misconduct.

Compensation Committee Interlocks and Insider Participation in Compensation Decisions

[Item 407(e)(4) requires disclosure of each person who served as a member of the compensation committee during the last completed fiscal year, indicating each member who (a) was during the fiscal year, an officer or employee; (b) was formerly an officer of the registrant; or (c) had any previous relationship.]

A Compensation Committee was established by the Board of Directors on January 1, 2007. In 2012, the Compensation Committee set the performance goals and objectives and recommended to the Board of Directors the overall compensation of the Chief Executive Officer and President. In addition, the Compensation Committee will further review the compensation of each of the most highly compensated employees. The Compensation Committee will recommend performance objectives and guidelines for the award of bonuses to senior level management. The executive management of Horne International, Inc. with the advice of the members of the Board of Directors determines the compensation for senior level management. Executives and members of the Board of Directors participated in deliberations concerning executive officer compensation and senior level management compensation. Evan Auld-Susott, Darryl Horne, and Marla Perdue did not participate in any deliberations concerning the compensation of the Chief Executive Officer, President and Interim Chief Financial Officer, respectively. No executive officer of the Company has served on the board of directors or compensation committee of any other entity that has or had at any time during 2012 an executive officer who served as a member of our compensation committee or board of directors.

Outstanding Equity Awards at Fiscal year-end

| Name | Number of Securities | | Option Price | Expiration Date |
|------------------|---------------------------------------|---------------|--------------|-----------------|
| | Underlying Unexercised Options | | | |
| | for the year ending December 31, 2012 | | | |
| | Exercisable | Unexercisable | | |
| Evan Auld-Susott | - | - | | |
| Darryl K. Horne | - | - | | |
| Paige Shannon | - | - | | |
| Marla Perdue | - | - | | |

Director Compensation

| Name | Fees Earned or Paid in Cash | Stock Awards | Option Awards | All Other Compensation | Total Compensation |
|---------------|--------------------------------|-----------------|------------------|---------------------------|-----------------------|
| John A. Moore | \$ 22,500 | - | \$ - | \$ - | \$ 22,500 |

1. Directors who are also employees of the Company do not receive any additional compensation for their service on the Board of Directors.

2. Total number of options held by each Director is disclosed Item 12 Security Ownership of Certain Beneficial Owners and Management.

The fees earned by the Directors were accrued for 2012, as of December 31, 2012, no fees were paid.

During fiscal 2012, non-employee members of the Board of Directors were entitled to receive \$6,500 per year payable quarterly, and \$1,000 for each meeting attended.

Item 12. Security Ownership of Certain Beneficial Owners and Management and related stockholder matters

Security Ownership of Certain Beneficial Owners and Management

The following table sets forth as of March 31, 2013, certain information with respect to the beneficial ownership of the Company's common stock by each beneficial owner of more than 5% of the Company's voting securities, each director and each named executive officer, and all directors and executive officers of the Company as a group. Unless otherwise specified in the table below, such information, other than information with respect to the directors and officers of the Company, is based on a review of statements filed with the Securities and Exchange Commission pursuant to the Exchange Act with respect to ownership of the Company's common stock. As of March 31, 2012, there were 47,306,054 shares of the Company's common stock outstanding.

| Name and Address of Beneficial Owner (1) | Number of Shares Beneficially Owned (2) | Percentage of Class |
|---|--|------------------------|
| Darryl K. Horne | 4,877,007 | 11.4 % |
| Evan Auld-Susott | 2,862,450 | a 6.3 % |
| 91 Hill Avenue, LLC (3) | 2,000,000 | b 4.7 % |
| John A. Moore | 30,000 | c * |

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| | | | |
|--|-----------|------|---|
| Paige E. Shannon | - | * | |
| Marla Perdue | - | * | |
| Total Directors and Named Executive Officers | 9,769,457 | 20.4 | % |
| Michael B. McElligott (4) | 8,133,911 | 19.0 | % |
| 85 Dudley Road | | | |
| Billerica, MA 01821 | | | |
| Trevor Foster (5) | 3,000,000 | 7.0 | % |
| P.O. Box 450 | | | |
| Hickman CA 95323 | | | |

* Less than 1% of the outstanding common stock.

- 1) Except as otherwise noted, the address for each person listed in this table is c/o Horne International, Inc., 3975 University Drive, Suite 100, Fairfax, VA 22030.

2) Beneficial ownership of shares is determined in accordance with the rules of the Securities and Exchange Commission and generally includes any shares over which a person exercises sole or shared voting or investment power. The number of shares beneficially owned by a person includes shares of common stock that the person had the right to acquire pursuant to options exercisable within 60 days of March [29], 2013. Shares issuable pursuant to options are deemed outstanding for calculating the percentage ownership of the person holding the options but are not deemed outstanding for the purposes of calculating the percentage ownership of any other person.

3) This LLC is owned by Evan Auld-Susott.

4) Information is based solely upon a Schedule 13G filed by Michael McElligott on April 12, 2011.

5) Information is based solely upon a Schedule 13G/A filed by Trevor Foster on March 16, 2007.

a) Includes 30,000 shares of common stock issuable pursuant to options (exercisable within 60 days)

b) Includes 2,000,000 shares of common stock issuable pursuant to options (exercisable within 60 days)

c) Includes 30,000 shares of common stock issuable pursuant to options (exercisable within 60 days)

Equity Compensation Plans

The following table summarizes our equity compensation plans as of December 31, 2012:

| Plan Category | Number of securities to be issued upon exercise of outstanding options, warrants and rights (a) | Weighted-average exercise price of outstanding options, warrants and rights (b) | Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) |
|---------------|---|---|---|
|---------------|---|---|---|

| | | | | |
|--|------------|--------|-----|-----------|
| | | | | (c) |
| Equity compensation plans approved by security holders | 0 | (1) \$ | 0 | 0 |
| Equity compensation plans not approved by security holders | 27,925,860 | (2) | (3) | 4,074,140 |
| Total | 27,925,860 | | | 4,074,140 |

- 1) Represents stock options issued pursuant to the Company's 2004 Non-Statutory Stock Option Plan.
- 2) Represents stock options issued pursuant to the Company's Amended and Restated Number 1 2004 Non-Statutory Stock Option Plan and the Company's Amended and Restated Number 2 2004 Non-Statutory Stock Option Plan.

3) The weighted average exercise price is dependent on the underlying price of the Company's stock. The 2,000,000 options issued in conjunction with the 91 Hill Avenue transaction are exercisable at the greater of \$0.10 or \$0.25 less than the current stock price.

In March 2004, stockholders approved the Company's 2004 Non-Statutory Stock Option Plan, which provided for the issuance of up to 10,000,000 shares. Under this plan, the Company issued 9,000,000 options that were subsequently exercised in 2004. In April 2004, the Company's Board of Directors amended the plan to increase the amount of options available under the plan to 30,000,000. In May 2010, the Company's Board of Directors amended the plan to increase the amount of options available under the plan to 32,000,000. All option grants subsequent to this amendment have been issued under the amended plan. The amended plan has not been approved by stockholders.

2004 Non-Statutory Stock Option Plan

The Company's 2004 Non-Statutory Stock Option Plan was adopted by the Board of Directors on March 11, 2004, and approved by the stockholders in March 2004. The plan was intended to advance the interests of the Company by inducing individuals, and eligible entities, and by encouraging and enabling eligible employees, non-employee directors, consultants and advisors to acquire proprietary interests in the Company, and by providing the participating employees, non-employee directors, consultants, and advisors with an additional incentive to promote the success of the Company. Under this plan a maximum of 10,000,000 shares of the Company's common stock, par value \$.0001, were authorized for issue. Options issued under this plan would expire one year from the date of issuance.

Amended and Restated Number 1 2004 Non-Statutory Stock Option Plan

The Amended and Restated Number 1, 2004, Non-Statutory Stock Option Plan was adopted by the Board of Directors on April 16, 2004. This restated plan took the same form as the 2004 Non-Statutory Stock Option Plan with the exception that the maximum number of options authorized under this plan was increased in March 2010 [Should this be April?] to 32 million.

Amended and Restated Number 2 2004 Non-Statutory Stock Option Plan

The Amended and Restated Number 2, 2004, Non-Statutory Stock Option Plan was adopted by the Board of Directors on November 15, 2004. This restated plan took the same form as the earlier plans, except that it amended the expiration date on future stock options issued from one year to three years and likewise extended the expiration date of any options issued pursuant to such prior stock option plans. No additional options were authorized under this amended plan.

The amendments to the Stock Option Plan have not been approved by the stockholders.

Changes in Control

There are no arrangements known to the Company, the operation of which may at a subsequent date result in a change in control of the Company.

Item 13. Certain Relationships and Related-Transactions, and director independence

Transactions with related persons

Information regarding transactions with related persons is included in Note 9 to the Company's consolidated financial statements under the heading "Related Party Transactions" in Part II, Item 8 of this report, which is incorporated herein by reference.

Director Independence

Darryl K. Horne, John A. Moore and Evan Auld-Susott serve as the directors of the Company. Mr. Moore is considered "independent" as defined under NASDAQ rules. There were no transactions, relationships or arrangements not disclosed in this Item 13 that were considered by the Company's Board of Directors under the applicable independence definitions in determining that Mr. Moore is independent. The Company does not have a majority of independent directors and the Audit and Compensation committees do not meet the independence requirements under NASDAQ rules.

Item 14. Principal Accounting Fees and Services

Fees Paid to the Independent Auditors

The following table presents fees for professional audit services rendered by Stegman & Company for the audit of the Company's annual financial statements for the year ended December 31, 2012 and December 25, 2011, quarterly filings for 2012 and 2011, and fees filed for other services rendered.

| | Stegman 2012 | Stegman 2011 |
|--------------------|-----------------|-----------------|
| Audit Fees | \$ 73,600 | \$ 70,500 |
| Audit Related Fees | - | - |
| Tax Fees | 5,400 | - |
| All Other Fees | - | - |
| | \$ 79,000 | \$ 70,500 |

All of the fees listed above were approved under the approval provisions of paragraph (c)(7)(i) of Rule 2-01 of Regulation S-X. The fees listed above under "Audit Fees" relate to the audit of our annual financial statement over financial reporting for the year ended December 31, 2012, including services for the reviews of the financial statements included in our quarterly reports filed on Form 10-Q for the 2012 period, and for services in connection with the audit of our annual financial statements for the fiscal-year ended December 25, 2011, [including services for the reviews of the financial statements included in our quarterly reports on Form 10-Q for the 2011 period].

The Audit Committee is responsible for appointing our independent registered public accounting firm and overseeing the services it provides to us. The Audit Committee has established a policy regarding pre-approval of all audit and permissible non-audit services provided by our independent registered public accounting firm. Under this policy, the Audit Committee has specified categories of audit services, audit-related services, and tax services that are pre-approved, subject to appropriate documentation and other requirements. In addition, the Audit Committee has specified categories of other services that our independent registered public accounting firm is precluded from providing to us.

See accompanying notes to consolidated financial statements.

Item 15. Exhibits, Financial Statements Schedules

- 1) The financial statements included in Item 8 hereof are incorporated herein by reference and filed as part of this report.
- 2) All financial statement schedules are omitted because they are either not applicable, or because the required information is shown in the consolidated financial statements or notes thereto.
- 3) Exhibits: The response to this section of Item 15 is included in the Exhibit Index of this report and is incorporated herein by reference.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) 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 on this 16th day of April 2013.

Horne International, Inc.

Date: April 16, 2013 By: /s/ DARRYL K. HORNE
Name: Darryl K. Horne

Title: Interim Chief Executive Officer, President,
Chairman and Director

Date: April 16, 2013 By: /s/ MARLA PERDUE
Name: Marla Perdue

Title: Interim Chief Financial Officer (PFO)

Date: April 16, 2013 By: /s/ EVAN AULD-SUSOTT
Name: Evan Auld-Susott

Title: Director

Date: April 16, 2013 By: /s/ JOHN A. MOORE, JR.
Name: John A. Moore, Jr.

Title: Director

Power of Authority

Know by all persons by these presents, that each person whose signature appears below above constitutes and appoints jointly and severally, Darryl K. Horne, Marla Perdue, Evan Auld-Susott, and John A. Moore, Jr., and each one of them, his or her attorneys-in-fact, each with the power of substitution, for him or her in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K and to file the same, with exhibits thereto and other documents in connection therewith, with the Securities and Exchange Commission, hereby ratifying and confirming all that each said attorneys –in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

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Pursuant to the requirements of the Securities Exchange Act of 1934, this Annual Report has been signed below by the following persons on behalf of the registrant and in the capacities and on the dates indicated.

| SIGNATURE | TITLE | DATE |
|------------------------|---|----------------|
| /s/ DARRY K. HORNE | Chief Executive Officer, President and Director | April 16, 2013 |
| /s/ MARLA PERDUE | Interim Chief Financial Officer | April 16, 2013 |
| /s/ EVAN AULD-SUSOTT | Director | April 16, 2013 |
| /s/ JOHN A. MOORE, JR. | Director | April 16, 2013 |

Exhibit Index

| 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+ | Employment Agreement, dated as of May 11, 2005, by and between Spectrum Sciences & Software Holdings Corp. and Darryl K. Horne (previously filed on Form 8-K, filed with the Securities and Exchange Commission on March 17, 2005). |
| 10.2+ | First Amendment to Employment Agreement, dated as of May 23, 2005, by and between Spectrum Sciences & Software Holdings Corp. and Darryl K. Horne (previously filed on Form 8-K, filed with the Securities and Exchange Commission on May 27, 2005). |
| 10.3+ | 2004 Non-Statutory Stock Option Plan, dated March 11, 2004 (previously filed on Form 8-K, filed with the Securities and Exchange Commission on March 12, 2004). |
| 10.4+ | Amended and Restated Number 1 2004 Non-Statutory Stock Option Plan, dated April 16, 2004 (previously filed on Form S-8, filed with the Securities and Exchange Commission on April 21, 2004). |
| 10.5+ | Amended and Restated Number 2 2004 Non-Statutory Stock Option Plan, dated November 15, 2004 (previously filed on Form 8-K, filed with the Securities and Exchange Commission on November 19, 2004). |
| 10.6 | 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). |
| 10.7 | Loan Agreement dated December 29, 2011 between Horne International, Inc. and Trevor Foster (previously filed on Form 8-K with the Securities and Exchange Commission on January 3, 2012). |

- 10.8 Promissory Note dated December 29, 2011 issued by Horne International, Inc. to Trevor Foster (previously filed on Form 8-K with the Securities and Exchange Commission on January 3, 2012).
- 10.9 Loan Agreement dated December 29, 2011 between Horne International, Inc. and Darryl K. Horne (previously filed on Form 8-K with the Securities and Exchange Commission on January 3, 2012).
- 10.10 Promissory Note dated December 29, 2011 issued by Horne International, Inc. to Darryl K. Horne (previously filed on Form 8-K with the Securities and Exchange Commission on January 3, 2012).
- 10.11 Restricted Stock Award Agreement dated May 16, 2012 with [_____].*
- 10.12 Merchant Banking Agreement dated June 4, 2012 with Lion Partners, Limited.*
- 14.1 Code of Ethics (previously filed on Form 10-KSB, filed with the Securities and Exchange Commission on April 13, 2004).
- 21* List of Subsidiaries
- 23* Consent of Stegman & Company
- 24 Powers of Attorney (see signature page hereto)
- 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

*Filed herewith.

**Furnished herewith.