GOLDMAN SACHS GROUP INC
Form 424B2
March 27, 2019
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Registration Statement No. 333-219206

The information in this preliminary pricing supplement is not complete and may be changed. This preliminary pricing supplement is not an offer to sell nor does it seek an offer to buy these securities in any jurisdiction where the offer or sale is not permitted.

Subject to Completion. Dated March 26, 2019.

GS Finance Corp.

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Callable Contingent Coupon Index-Linked Notes due

guaranteed by

The Goldman Sachs Group, Inc.

The notes will not pay a fixed coupon and may pay no coupon on a payment date. The amount that you will be paid on your notes is based on the performances of the Russell 2000® Index and the S&P 500® Index. The notes will mature on October 30, 2026, unless we redeem them.

We may redeem your notes at 100% of their face amount plus any coupon then due on any payment date (expected to be the 30th day of each month (except for the payment date in each February, which will be the last calendar day of such month), commencing in May 2019 and ending on the stated maturity date) on or after the payment date in April 2020 up to the payment date in September 2026.

If we do not redeem your notes, if the closing level of each index is greater than or equal to 80% of its initial level (set on the trade date, expected to be April 26, 2019) on a coupon observation date (expected to be the tenth scheduled trading day for all indices prior to each payment date), you will receive on the applicable payment date a coupon of \$3.334 for each \$1,000 face amount of your notes. If the closing level of any index on a coupon observation date is less than 80% of its initial level, you will not receive a coupon on the applicable payment date.

If we do not redeem your notes, at maturity, for each $1,000 face amount of your notes, you will receive $1,000 plus the final coupon, if any.

You should read the disclosure herein to better understand the terms and risks of your investment, including the credit risk of GS Finance Corp. and The Goldman Sachs Group, Inc. See page PS-10.

The estimated value of your notes at the time the terms of your notes are set on the trade date is expected to be between $890 and $940 per $1,000 face amount. For a discussion of the estimated value and the price at which Goldman Sachs & Co. LLC would initially buy or sell your notes, if it makes a market in the notes, see the following page.

Original issue date:	expected to be April 30, 2019	Original issue price:	100% of the face amount*
Underwriting discount:	% of the face amount*	Net proceeds to the issuer:	% of the face amount

*The original issue price will be % for certain investors; see "Supplemental Plan of Distribution; Conflicts of Interest" on page PS-21.

Neither the Securities and Exchange Commission nor any other regulatory body has approved or disapproved of these securities or passed upon the accuracy or adequacy of this prospectus. Any representation to the contrary is a criminal offense. The notes are not bank deposits and are not insured by the Federal Deposit Insurance Corporation or any other governmental agency, nor are they obligations of, or guaranteed by, a bank.

Goldman Sachs & Co. LLC

Pricing Supplement No. dated , 2019.

The issue price, underwriting discount and net proceeds listed above relate to the notes we sell initially. We may decide to sell additional notes after the date of this pricing supplement, at issue prices and with underwriting discounts and net proceeds that differ from the amounts set forth above. The return (whether positive or negative) on your investment in notes will depend in part on the issue price you pay for such notes.

GS Finance Corp. may use this prospectus in the initial sale of the notes. In addition, Goldman Sachs & Co. LLC, or any other affiliate of GS Finance Corp. may use this prospectus in a market-making transaction in a note after its initial sale. Unless GS Finance Corp. or its agent informs the purchaser otherwise in the confirmation of sale, this prospectus is being used in a market-making transaction.

Estimated Value of Your Notes

The estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by Goldman Sachs & Co. LLC (GS&Co.) and taking into account our credit spreads) is expected to be between \$890 and \$940 per \$1,000 face amount, which is less than the original issue price. The value of your notes at any time will reflect many factors and cannot be predicted; however, the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would initially buy or sell notes (if it makes a market, which it is not obligated to do) and the value that GS&Co. will initially use for account statements and otherwise is equal to approximately the estimated value of your notes at the time of pricing, plus an additional amount (initially equal to \$ per \$1,000 face amount).

Prior to , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market, which it is not obligated to do) will equal approximately the sum of (a) the then-current estimated value of your notes (as determined by reference to GS&Co.'s pricing models) plus (b) any remaining additional amount (the additional amount will decline to zero on a straight-line basis from the time of pricing through). On and after , the price (not including GS&Co.'s customary bid and ask spreads) at which GS&Co. would buy or sell your notes (if it makes a market) will equal approximately the then-current estimated value of your notes determined by reference to such pricing models.

About Your Prospectus

The notes are part of the Medium-Term Notes, Series E program of GS Finance Corp. and are fully and unconditionally guaranteed by The Goldman Sachs Group, Inc. This prospectus includes this pricing supplement and the accompanying documents listed below. This pricing supplement constitutes a supplement to the documents listed below, does not set forth all of the terms of your notes and therefore should be read in conjunction with such documents:

General terms supplement no. 1,734 dated July 10, 2017
Prospectus supplement dated July 10, 2017
Prospectus dated July 10, 2017

The information in this pricing supplement supersedes any conflicting information in the documents listed above. In addition, some of the terms or features described in the listed documents may not apply to your notes.

We refer to the notes we are offering by this pricing supplement as the "offered notes" or the "notes". Each of the offered notes has the terms described below. Please note that in this pricing supplement, references to "GS Finance Corp.", "we", "our" and "us" mean only GS Finance Corp. and do not include its subsidiaries or affiliates, references to "The Goldman Sachs Group, Inc.", our parent company, mean only The Goldman Sachs Group, Inc. and do not include its subsidiaries or affiliates and references to "Goldman Sachs" mean The Goldman Sachs Group, Inc. together with its consolidated subsidiaries and affiliates, including us. The notes will be issued under the senior debt indenture, dated as of October 10, 2008, as supplemented by the First Supplemental Indenture, dated as of February 20, 2015, each among us, as issuer, The Goldman Sachs Group, Inc., as guarantor, and The Bank of New York Mellon, as trustee. This indenture, as so supplemented and as further supplemented thereafter, is referred to as the "GSFC 2008 indenture" in the accompanying prospectus supplement. The notes will be issued in book-entry form and represented by a master global note.

TERMS AND CONDITIONS

(Terms From Pricing Supplement No. Incorporated Into Master Note No. 2)

These terms and conditions relate to pricing supplement no. dated , 2019 of GS Finance Corp. and The Goldman Sachs Group, Inc. with respect to the issuance by GS Finance Corp. of its Callable Contingent Coupon Index-Linked Notes due and the guarantee thereof by The Goldman Sachs Group, Inc.

The provisions below are hereby incorporated into master note no. 2, dated August 22, 2018. References herein to "this note" shall be deemed to refer to "this security" in such master note no. 2, dated August 22, 2018. Certain defined terms may not be capitalized in these terms and conditions even if they are capitalized in master note no. 2, dated August 22, 2018. Defined terms that are not defined in these terms and conditions shall have the meanings indicated in such master note no. 2, dated August 22, 2018, unless the context otherwise requires.

CUSIP / ISIN: 40056F6H3 / US40056F6H33

Company (Issuer): GS Finance Corp.

Guarantor: The Goldman Sachs Group, Inc.

Underliers (each individually, an underlier): the Russell 2000® Index (current Bloomberg symbol: "RTY Index"), or any successor underlier, and the S&P 500® Index (current Bloomberg symbol: "SPX Index"), or any successor underlier, as each may be modified, replaced or adjusted from time to time as provided herein

Face amount: $ in the aggregate on the original issue date; the aggregate face amount may be increased if the company, at its sole option, decides to sell an additional amount on a date subsequent to the trade date

Authorized denominations: $1,000 or any integral multiple of $1,000 in excess thereof

Principal amount: Subject to redemption by the company as provided under "— Company's redemption right " below, on the stated maturity date, in addition to the final coupon, if any, the company will pay, for each $1,000 of the outstanding face amount, an amount in cash equal to $1,000.

Company's redemption right: the company may redeem the notes, at its option, in whole but not in part, on each coupon payment date commencing in April 2020 and ending in September 2026 for an amount in cash for each $1,000 of the outstanding face amount on the redemption date equal to 100% of such $1,000 face amount plus any coupon then due.

If the company chooses to exercise the company's redemption right, it will notify the holder of your notes and the trustee by giving at least ten business days' prior notice. The day the company gives the notice, which will be a business day, will be the redemption notice date and the immediately following coupon payment date, which the company will state in the redemption notice, will be the redemption date.

The company will not give a redemption notice that results in a redemption date later than the September 2026 coupon payment date. A redemption notice, once given, shall be irrevocable.

Initial underlier level (set on the trade date): with respect to an underlier, the closing level of such underlier on the trade date

Coupon: subject to the company's redemption right, on each coupon payment date, for each $1,000 of the outstanding face amount, the company will pay an amount in cash equal to:

- if the closing level of each underlier on the related coupon observation date is greater than or equal to its coupon trigger level, $3.334; or
- if the closing level of any underlier on the related coupon observation date is less than its coupon trigger level, $0

Coupon trigger level: for each underlier, 80% of its initial underlier level

Trade date: expected to be April 26, 2019

Original issue date (set on the trade date): expected to be April 30, 2019

Determination date: the last coupon observation date, expected to be October 16, 2026, subject to adjustment as described under "— Coupon observation dates" below. If the stated maturity date is postponed due to a non-business day as described under "Stated maturity date" below, such postponement of the stated maturity date will not postpone the determination date.

Stated maturity date (set on the trade date): expected to be October 30, 2026, unless that day is not a business day, in which case the stated maturity date will be postponed to the next following business day. If the determination date is postponed as described under "— Determination date" above, such postponement of the determination date will not postpone the stated maturity date.

Coupon observation dates (set on the trade date): expected to be the tenth scheduled trading day for all underliers prior to each coupon payment date, unless the calculation agent determines that, with respect to any underlier, a market disruption event occurs or is continuing on that day or that day is not otherwise a trading day. If a coupon payment date is postponed due to a non-business day as described under "— Coupon payment dates" below, such postponement of the coupon payment date will not postpone the related coupon observation date.

In the event the originally scheduled coupon observation date is a non-trading day with respect to any underlier, the coupon observation date will be the first day thereafter that is a trading day for all underliers (the "first qualified coupon trading day") provided that no market disruption event occurs or is continuing with respect to an underlier on that day. If a market disruption event with respect to an underlier occurs or is continuing on the originally scheduled coupon observation date or the first qualified coupon trading day, the coupon observation date will be the first following trading day on which the calculation agent determines that each underlier has had at least one trading day (from and including the originally scheduled coupon observation date or the first qualified coupon trading day, as applicable) on which no market disruption event has occurred or is continuing and the closing level of each underlier for that coupon observation date will be determined on or prior to the postponed coupon observation date as set forth under "— Consequences of a market disruption event or a non-trading day" below. (In such case, the coupon observation date may differ from the date on which the level of an underlier is determined for the purpose of the calculations to be performed on the coupon observation date.) In no event, however, will the coupon observation date be postponed by more than three scheduled trading days for all underliers from the originally scheduled coupon observation date either due to the occurrence of serial non-trading days or due to the occurrence of one or more market disruption events. (For the avoidance of doubt, a day that is a scheduled trading day for only one underlier will not count as one of the three scheduled trading days for this purpose.) On such last possible coupon observation date applicable to the relevant coupon payment date, if a market disruption event occurs or is continuing with respect to an underlier that has not yet had such a trading day on which no market disruption event has occurred or is continuing or if such last possible day is not a trading day with respect to such underlier, that day will nevertheless be the coupon observation date.

Coupon payment dates (set on the trade date): expected to be the 30th day of each month (except for the coupon payment date in each February, which will be the last calendar day of such month), commencing in May 2019 and ending on the stated maturity date, unless, for any such coupon payment date, that day is not a business day, in which case such coupon payment date will be postponed to the next following business day. If a coupon observation date is postponed as described under — "Coupon observation dates" above, such postponement of the coupon observation date will not postpone the related coupon payment date.

Closing level: on any trading day, (i) with respect to the Russell 2000® Index, the closing level of such underlier or any successor underlier reported by Bloomberg Financial Services, or any successor reporting service the company may select, on such trading day for that underlier (as of the trade date, whereas the underlier sponsor publishes the official closing level of the Russell 2000® Index to six decimal places, Bloomberg Financial Services reports the closing level to fewer decimal places) and (ii) with respect to the S&P 500® Index, the official closing level of such underlier or any successor underlier published by the underlier sponsor on such trading day for such underlier

Trading day: with respect to an underlier, a day on which the respective principal securities markets for all of its underlier stocks are open for trading, the underlier sponsor is open for business and such underlier is calculated and published by the underlier sponsor. A day is a scheduled trading day with respect to an underlier if, as of the trade date, the respective principal securities markets for all of its underlier stocks are scheduled to be open for trading, the respective underlier sponsor is scheduled to be open for business and such underlier is expected to be calculated and published by the underlier sponsor on such day.

Successor underlier: with respect to an underlier, any substitute underlier approved by the calculation agent as a successor as provided under "— Discontinuance or modification of an underlier" below

Underlier sponsor: with respect to an underlier, at any time, the person or entity, including any successor sponsor, that determines and publishes such underlier as then in effect. The notes are not sponsored, endorsed, sold or promoted by any underlier sponsor or any affiliate thereof and no underlier sponsor or affiliate thereof makes any representation regarding the advisability of investing in the notes.

Underlier stocks: with respect to an underlier, at any time, the stocks that comprise such underlier as then in effect, after giving effect to any additions, deletions or substitutions

Market disruption event: With respect to any given trading day, any of the following will be a market disruption event with respect to an underlier:

a suspension, absence or material limitation of trading in underlier stocks constituting 20% or more, by weight, of the underlier on their respective primary markets, in each case for more than two consecutive hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion,

a suspension, absence or material limitation of trading in option or futures contracts relating to the underlier or to underlier stocks constituting 20% or more, by weight, of such underlier in the respective primary markets for those contracts, in each case for more than two consecutive hours of trading or during the one-half hour before the close of trading in that market, as determined by the calculation agent in its sole discretion, or

underlier stocks constituting 20% or more, by weight, of the underlier, or option or futures contracts, if available, relating to an underlier or to underlier stocks constituting 20% or more, by weight, of the underlier do not trade on what were the respective primary markets for those underlier stocks or contracts, as determined by the calculation agent in its sole discretion,

and, in the case of any of these events, the calculation agent determines in its sole discretion that such event could materially interfere with the ability of the company or any of its affiliates or a similarly situated person to unwind all or a material portion of a hedge that could be effected with respect to this note.

The following events will not be market disruption events:

a limitation on the hours or numbers of days of trading, but only if the limitation results from an announced change in the regular business hours of the relevant market, and

a decision to permanently discontinue trading in option or futures contracts relating to an underlier or to any underlier stock.

For this purpose, an "absence of trading" in the primary securities market on which an underlier stock is traded, or on which option or futures contracts relating to an underlier or an underlier stock are traded, will not include any time when that market is itself closed for trading under ordinary circumstances. In contrast, a suspension or limitation of trading in an underlier stock or in option or futures contracts, if available, relating to an underlier or an underlier stock in the primary market for that stock or those contracts, by reason of:

a price change exceeding limits set by that market,

an imbalance of orders relating to that underlier stock or those contracts, or

a disparity in bid and ask quotes relating to that underlier stock or those contracts,

will constitute a suspension or material limitation of trading in that stock or those contracts in that market.

A market disruption event with respect to one underlier will not, by itself, constitute a market disruption event for the other unaffected underlier.

As is the case throughout this pricing supplement, references to the underlier in this description of market disruption events includes any successor underlier as it may be modified, replaced or adjusted from time to time.

Consequences of a market disruption event or a non-trading day: With respect to any underlier, if a market disruption event occurs or is continuing on a day that would otherwise be a coupon observation date (and the determination date in the case of the last coupon observation date), or such day is not a trading day, then such coupon observation date will be postponed as described under "— Coupon observation dates” above. If any coupon observation date (and the determination date in the case of the last coupon observation date) is postponed to the last possible date due to the occurrence of serial non-trading days, the level of each underlier will be the calculation agent’s assessment of such level, in its sole discretion, on such last possible postponed coupon observation date (and the determination date in the case of the last coupon observation date). If any coupon observation date (and the determination date in the case of the last coupon observation date) is postponed due to a market disruption event with respect to any underlier, the closing level of each underlier with respect to such coupon observation date will be calculated based on (i) for any underlier that is not affected by a market disruption event on the applicable originally scheduled coupon observation date or the first qualified coupon trading day thereafter (if applicable), the closing level of the underlier on that date, (ii) for any underlier that is affected by a market disruption event on the applicable originally scheduled coupon observation date or the first qualified coupon trading day thereafter (if applicable), the closing level of the underlier on the first following trading day on which no market disruption event exists for such underlier and (iii) the calculation agent’s assessment, in its sole discretion, of the level of any underlier on the last possible postponed coupon observation date with respect to such underlier as to which a market disruption event continues through the last possible postponed coupon observation date. As a result, this could result in the closing level on any coupon observation date of each underlier being determined on different calendar dates. For the avoidance of doubt, once the closing level for an underlier is determined for a coupon observation date (or the determination date in the case of the last coupon observation date), the occurrence of a later market disruption event or non-trading day will not alter such calculation.

Discontinuance or modification of an underlier: If an underlier sponsor discontinues publication of an underlier and such underlier sponsor or anyone else publishes a substitute underlier that the calculation agent determines is comparable to such underlier and approves as a successor underlier, or if the calculation agent designates a substitute underlier, then the calculation agent will determine the coupon payable, if any, on the relevant coupon payment date by reference to such successor underlier.

If the calculation agent determines on a coupon observation date or the determination date, as applicable, that the publication of an underlier is discontinued and there is no successor underlier, the calculation agent will determine the coupon on the related coupon payment date or the stated maturity date, as applicable, by a computation methodology that the calculation agent determines will as closely as reasonably possible replicate such underlier.

If the calculation agent determines that an underlier, the underlier stocks comprising that underlier or the method of calculating that underlier is changed at any time in any respect — including any split or reverse-split and any addition, deletion or substitution and any reweighting or rebalancing of the underlier or of the underlier stocks and whether the change is made by the underlier sponsor under its existing policies or following a modification of those policies, is due to the publication of a successor underlier, is due to events affecting one or more of the underlier stocks or their issuers or is due to any other reason — and is not otherwise reflected in the level of the underlier by the underlier sponsor pursuant to the then-current underlier methodology of the underlier, then the calculation agent will be permitted (but not required) to make such adjustments in such underlier or the method of its calculation as it believes are appropriate to ensure that the levels of such underlier used to determine the coupon on the related coupon payment date or the stated maturity date, as applicable, is equitable.

All determinations and adjustments to be made by the calculation agent with respect to an underlier may be made by the calculation agent in its sole discretion. The calculation agent is not obligated to make any such adjustments.

Regular record dates: the scheduled business day immediately preceding the day on which payment is to be made (as such payment date may be adjusted)

Calculation agent: Goldman Sachs & Co. LLC (“GS&Co.”)

Tax characterization: We expect to treat the notes as variable rate debt instruments for U.S. federal income tax purposes. Under this characterization, it is the opinion of Sidley Austin llp that you should include the coupon payments on the notes in ordinary income at the time you receive or accrue such payments, depending on your regular method of accounting for tax purposes. In addition, any gain or loss you recognize upon the sale, exchange, redemption or maturity of your notes should be capital gain or loss except to the extent of any amount attributable to any accrued but unpaid coupon payments on your notes. Please see "Supplemental Discussion of Federal Income Tax Consequences" below for a more detailed discussion.

Overdue principal rate and overdue coupon rate: the effective Federal Funds rate

Hypothetical ExampleS

The following examples are provided for purposes of illustration only. They should not be taken as an indication or prediction of future investment results and are intended merely to illustrate the impact that various hypothetical closing levels of the underliers on a coupon observation date could have on the coupon payable, if any, on the related coupon payment date assuming all other variables remain constant.

The examples below are based on a range of underlier levels that are entirely hypothetical; no one can predict what the closing level of any underlier will be on any day throughout the life of your notes and what the closing level of any underlier will be on any coupon observation date. The underliers have been highly volatile in the past — meaning that the underlier levels have changed substantially in relatively short periods — and their performance cannot be predicted for any future period.

The information in the following examples reflects hypothetical rates of return on the offered notes assuming that they are purchased on the original issue date at the face amount and held to the stated maturity date or date of early redemption. If you sell your notes in a secondary market prior to the stated maturity date or date of early redemption, as the case may be, your return will depend upon the market value of your notes at the time of sale, which may be affected by a number of factors that are not reflected in the examples below such as interest rates, the volatility of the underliers, the creditworthiness of GS Finance Corp., as issuer, and the creditworthiness of The Goldman Sachs Group, Inc., as guarantor. In addition, the estimated value of your notes at the time the terms of your notes are set on the trade date (as determined by reference to pricing models used by GS&Co.) is less than the original issue price of your notes. For more information on the estimated value of your notes, see "Additional Risk Factors Specific to Your Notes — The Estimated Value of Your Notes At the Time the Terms of Your Notes Are Set On the Trade Date (as Determined By Reference to Pricing Models Used By GS&Co.) Is Less Than the Original Issue Price Of Your Notes" on page PS-10 of this pricing supplement. The information in the examples also reflects the key terms and assumptions in the box below.

Key Terms and Assumptions	
Face amount	$1,000
Coupon	$3.334
Coupon trigger level with respect to each underlier, 80% of its initial underlier level	
Neither a market disruption event nor a non-trading day occurs on any originally scheduled coupon observation date or the originally scheduled determination date	
No change in or affecting any of the underlier stocks or the method by which the applicable underlier sponsor calculates any underlier	
Notes purchased on original issue date at the face amount and held to the stated maturity date or date of early redemption	

Moreover, we have not yet set the initial underlier levels that will serve as the baseline for determining the coupon payable on each coupon payment date, if any. We will not do so until the trade date. As a result, the actual initial underlier levels may differ substantially from the underlier levels prior to the trade date. They may also differ substantially from the underlier levels at the time you purchase your notes.

For these reasons, the actual performance of the underliers over the life of your notes, the actual underlier levels on any coupon observation date, as well as the coupon payable, if any, on each coupon payment date, may bear little relation to the hypothetical examples shown below or to the historical underlier levels shown elsewhere in this pricing supplement. For information about the underlier levels during recent periods, see "The Underliers — Historical Closing

Levels of the Underliers” on page PS-15. Before investing in the notes, you should consult publicly available information to determine the underlier levels between the date of this pricing supplement and the date of your purchase of the notes.

Also, the hypothetical examples shown below do not take into account the effects of applicable taxes. Because of the U.S. tax treatment applicable to your notes, tax liabilities could affect the after-tax rate of return on your notes to a comparatively greater extent than the after-tax return on the underlier stocks.

Hypothetical Coupon Payments

The examples below show hypothetical performances of each underlier as well as the hypothetical coupons, if any, that we would pay on each coupon payment date with respect to each $1,000 face amount of the notes if the hypothetical closing level of each underlier on the applicable coupon observation date was the percentage of its initial underlier level shown.

Scenario 1

[redacted]

First	110%	40%	$0
Second	50%	50%	$0
Third	60%	55%	$0
Fourth	90%	85%	$3.334
Fifth	55%	50%	$0
Sixth	50%	55%	$0
Seventh	85%	95%	$3.334
Eighth	60%	50%	$0
Ninth	60%	50%	$0
Tenth	70%	45%	$0
Eleventh	50%	110%	$0
Twelfth – Ninetieth	55%	50%	$0
		Total Hypothetical Coupons	$6.668

In Scenario 1, the hypothetical closing level of each underlier increases and decreases by varying amounts on each hypothetical coupon observation date. Because the hypothetical closing level of each underlier on the fourth and seventh hypothetical coupon observation dates is greater than or equal to its hypothetical coupon trigger level, the total of the hypothetical coupons in Scenario 1 is $6.668. Because the hypothetical closing level of at least one underlier on all other hypothetical coupon observation dates is less than its hypothetical coupon trigger level, no further coupons will be paid, including at maturity.

Scenario 2

[redacted]

[redacted]

First	50%	60%	$0
Second	55%	65%	$0
Third	40%	55%	$0
Fourth	45%	60%	$0
Fifth	50%	65%	$0
Sixth	110%	55%	$0
Seventh	35%	45%	$0
Eighth	45%	40%	$0
Ninth	55%	55%	$0
Tenth	50%	50%	$0
Eleventh	60%	110%	$0
Twelfth – Ninetieth	55%	60%	$0
		817,260	$ 508,271

Cost of goods sold	154,380	226,570	487,373	373,844
Gross profit	132,782	76,686	329,887	134,427
Operating expenses	542,169	433,693	1,086,986	764,249
Amortization of discount on notes payable	135,638	36,339	268,086	191,460
Stock-based compensation costs	55,321	--	115,350	--
Total expenses	733,128	470,032	1,470,422	955,460
Gain on sale of equipment to related party	--	--	16,905	--
Net loss	$ (600,346)	$ (393,346)	$ (1,123,630)	$ (821,282)
Loss per common share, basic and diluted	$ (.01)	$ (.01)	$ (.02)	$ (.01)
Weighted average shares outstanding, basic and diluted	76,478,851	59,279,241	71,353,572	59,279,241

See accompanying notes to condensed consolidated financial statements.

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SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN STOCKHOLDERS' DEFICIENCY
For the six months ended June 30, 2006 (Unaudited)

	Common Stock		Common Stock to be issued					
	Shares	Amount	Shares	Amount	Additional paid-in capital	Deferred compensation	Accumulated deficit	Tot
Balance January 1, 2006	61,705,019	$ 61,705	14,479,093	$ 550,000	$ 15,456,834	$ (26,598)	$ (17,737,831)	$ (1,695
Cancellation of stock options	--	--	--	--	(26,598)	26,598	--	
Stock option expense	--	--	--	--	70,442	--	--	70
Compensatory stock issued	211,625	212	--	--	44,696	--	--	44
Warrants issued with notes payable	--	--	--	--	130,603	--	--	130
Stock issued for warrants exercised in prior year	14,479,093	14,479	(14,479,093)	(550,000)	535,521	--	--	
Stock issued for settlement of notes payable	342,000	342	--	--	54,378	--	--	54
Net loss	--	--	--	--	--	--	(1,123,630)	(1,123
Balance June 30, 2006	76,737,737	$ 76,738	--	$ --	$ 16,265,876	$ --	$ (18,861,461)	$ (2,518

See accompanying notes to condensed consolidated financial statements.

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SENSOR SYSTEM SOLUTIONS, INC. AND SUBSIDIARY
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
For the six months ended June 30, 2006 and 2005 (Unaudited)

	2006	2005
Cash flows from operating activities:		
Net loss	$ (1,123,630)	$ (821,282)
Adjustments to reconcile net loss to net cash used in operating activities:		
Stock-based compensation costs	115,350	--
Depreciation and amortization	36,799	51,832
Amortization of discount on notes payable	268,086	191,460
Amortization of deferred compensation	--	23,884
Gain on sale of property and equipment	(16,905)	--
Changes in operating assets and liabilities:		
Accounts receivable	41,051	(15,796)
Inventory	(2,785)	(34,249)
Prepaids and other current assets	41,437	24,552
Deferred rent	(3,000)	(3,000)
Accounts payable and accrued expenses	215,907	324,387
Net Cash Used In Operating Activities	(427,690)	(258,212)
Cash flows from investing activities:		
Proceeds from sale of property and equipment	79,200	--
Cash flows from financing activities:		
Proceeds from notes payable	200,000	250,000
Principal payments on notes payable	(8,410)	--
Principal payments on capital leases	(4,298)	(3,785)
Net Cash Provided By Financing Activities	187,292	246,215
Net decrease in cash and cash equivalents	(161,198)	(11,997)
Cash and cash equivalents, beginning of period	172,732	17,115
Cash and cash equivalents, end of period	$ 11,534	$ 5,118
Supplemental disclosure of cash flow information		
Cash paid for:		
Interest	$ 12,790	$ 9,914
Taxes	$ --	$ 800
Non-cash investing and financing activities:		
Cancellations and forfeitures of stock options	$ 6,598	$ 99,000
Compensatory stock issued	--	1,800,000
Warrants exercised by shareholders from merger	--	47,802

Accrued interest added to notes payable principal	4,720	51,012
Discount related to warrants and convertible notes	130,603	160,714
Conversion of notes payable	54,720	578,512

See accompanying notes to condensed consolidated financial statements.

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial information included herein is unaudited. The interim consolidated financial statements have been prepared on the same basis as the annual financial statements and, in the opinion of management, reflect all adjustments, which include only normal recurring adjustments, considered necessary for a fair presentation of the Company's consolidated financial position and results of operations for the periods presented. Certain information and footnote disclosures normally included in the financial statements prepared in accordance with accounting principles generally accepted in the United States of America have been omitted. These consolidated financial statements should be read in conjunction with the audited consolidated financial statements and accompanying notes presented in the Company's Form 10-KSB for the year ended December 31, 2005. Interim operating results are not necessarily indicative of operating results expected for the entire year.

Description of business

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

Going concern

The Company incurred a net loss of $1,123,630 and a negative cash flow from operations of $427,690 for the six months ended June 30, 2006, and had a working capital deficiency of $2,713,192 and a stockholders' deficiency of $2,518,847 at June 30, 2006. These matters raise substantial doubt about its ability to continue as a going concern. Without realization of additional capital, it would be unlikely for the Company to continue as a going concern. Management believes that actions are presently being taken to revise the Company's operating and financial requirements in order to improve the Company's financial position and operating results. However, given the levels of its cash resources and working capital deficiency at June 30, 2006, management believes cash to be generated by operations will not be sufficient to meet anticipated cash requirements for operations, working capital, and capital expenditures during 2006.

Principles of consolidation

The consolidated financial statements for the three and six months ended June 30, 2006 and 2005 include the accounts and operations of Sensor Systems Solutions Inc. and its wholly-owned subsidiary. Intercompany accounts and transactions have been eliminated in consolidation.

Use of estimates

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

Stock-based compensation

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which revises SFAS No. 123 effective January 1, 2006. SFAS 123R also supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows". Effective January 1, 2006, SFAS 123R requires that the Company measure the cost of employee services received in exchange for equity awards based on the grant date fair value of the awards, with the cost to be recognized as compensation expense in the Company's financial statements over the vesting period of the awards.

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

Accordingly, the Company will recognize compensation cost for equity-based compensation for all new or modified grants issued after December 31, 2005. Although SFAS 123R would also require the Company to recognize the unvested portion of the grant date fair value of awards issued prior to adoption of SFAS 123R based on the fair values previously calculated for disclosure purposes over the remaining vesting period of the outstanding stock options and warrants, there are none because all options issued prior to January 1, 2006 were cancelled in the first quarter of 2006 (see Note 6).

The Company is using the modified prospective method in which compensation cost is recognized beginning with the effective date based on the requirements of SFAS 123R for all share-based payments granted after the effective date.

The total stock-based compensation expense for the three and six months ended June 30, 2006 was $55,321 and $115,350, respectively, of which $22,635 and $47,807 was from stock options granted during 2006. The balance was from common shares issued in lieu of cash. At June 30, 2006, the unamortized value of these option awards was $221,191 which will be amortized in future periods as the options vest. The fair value of options was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions for the periods indicated.

	Three months ended June 30, 2006	Six months ended June 30, 2006
Dividend yield	0%	0%
Risk-free interest rate	4.9%	4.9%
Expected volatility	230%	212%
Expected life of options (years)	6.0	5.7

Prior to the adoption of SFAS 123R, the Company elected to account for its employee and director stock-based awards under the provisions of Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" and it provided the pro-forma disclosures required under SFAS 123 and SFAS 148. Pro-forma information for the three and six months ended June 30, 2005 is as follows:

	Three months ended June 30, 2005	Six months ended June 30, 2005
Net loss	$ (393,346)	$ (821,282)
Add: Stock-based expense included in net loss	11,942	23,884
Deduct: Fair value based stock-based expense	(11,240)	(25,960)
Pro forma net loss	$ (392,644)	$ (823,358)
Basic and diluted earnings per share:		

As reported	$	(.01)	$	(.01)
Pro forma under SFAS No. 123	$	(.01)	$	(.01)

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

Earnings (loss) per share

Basic earnings (loss) per common share (EPS) are based on the weighted average number of common shares outstanding during each period. Diluted earnings per common share are based on shares outstanding (computed as under basic EPS) and potentially dilutive common shares. As of June 30, 2006 and 2005, the Company had granted stock options for 1,610,000 and 96,500 shares of common stock, respectively, that are potentially dilutive common shares but are not included in the computation of loss per share because their effect would be anti-dilutive. As of June 30, 2006 and 2005, the Company had granted warrants for 9,477,021 and 8,190,155 shares of common stock, respectively, that are potentially dilutive common shares but are not included in the computation of loss per share because their effect would be anti-dilutive.

Recent Accounting Pronouncements

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

In May 2005, the FASB issued Statement No. 154 (SFAS 154) “Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3.” SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods’ financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects or the cumulative effect of the change. In the event of such impracticality, SFAS 154 provides for other means of application. In the event the Company changes accounting principles, it will evaluate the impact of SFAS 154.

NOTE 2 INVENTORY

Inventory consists of the following at:

	June 30, 2006 (Unaudited)	December 31, 2005
Raw materials	$ 148,403	$ 204,748
Finished goods	156,553	97,423
	$ 304,956	$ 302,171

SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

NOTE 3 NOTES PAYABLE

Notes payable consist of the following at June 30, 2006 and December 31, 2005:

	June 30, 2006 (Unaudited)	December 31, 2005
Two lines of credit, unsecured, interest payable monthly at 10.75% and 11.5% per annum, due on demand.	$91,245	$92,983
Note payable, unsecured, converted to three-year note in 2006 with monthly principal payments of $1,112 plus interest at 1% over prime (currently a total of 8.5%).	33,328	40,000
Note payable, unsecured, interest payable monthly at 10% per annum, payable as a percentage of any future private or public stock offerings.	90,000	90,000
Four notes payable, secured by all assets of the Company, interest at 8% per annum, payable at various maturities through August 21, 2006. One note for $200,000 was due February 21, 2006 and was converted into a note due August 21, 2006. The other notes for $64,800, $32,400 and $47,707 were due on April 18, 2006, April 20, 2006 and May 30, 2006, respectively. The Company is currently negotiating an extension of these notes. At maturity, the notes are convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, each note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The aggregate intrinsic value of the beneficial conversion feature of these notes and warrants, valued at $329,679, has been recorded as loan discount costs and is being amortized over the life of the respective note as additional interest cost.	346,907	346,907
Note payable, secured by all assets of the Company, interest at 10% per annum, payable on December 23, 2006. The note is convertible, with some limitations, at the holder’s option at a conversion price equal to the lesser of $0.35 or 90% of the lowest volume weighted average price of the common stock for the 15 trading days immediately preceding the conversion date. In addition, the note has detachable warrants that allow the holder to buy 600,000 shares of common stock at $0.2878 per share and	800,000	800,000

another 600,000 shares at $0.35 per share.		
Note payable, secured by all assets of the Company, interest at 10% per annum, payable on February 14, 2007. The note is convertible, with some limitations, at the holder's option at a conversion price equal to the lesser of $0.35 or 90% of the lowest volume weighted average price of the common stock for the 15 trading days immediately preceding the conversion date.	200,000	--
Less, remaining debt discount	(175,936)	(309,719)
	1,385,544	1,060,171
Less, non-current portion of notes	(23,320)	--
	$1,362,224	$1,060,171

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

NOTE 4 NOTES PAYABLE, RELATED PARTIES

Notes payable to related parties consist of the following at June 30, 2006 and December 31, 2005:

	June 30, 2006 (Unaudited)	December 31, 2005
Note payable to the sister of the Company's Chief Executive Officer, secured by all assets of the Company, interest at 14.25% per annum, due December 31, 2004. The note payable was originally issued by Advanced Custom Sensors, Inc. (ACSI), which merged with the company in 2004. In connection with the note payable, ACSI issued warrants expiring September 17, 2008, to purchase 190,665 shares of ACSI's common stock at $.50 per share (The ACSI warrant is convertible into 5,372,940 shares of the Company's stock). The intrinsic value of the warrant ($190,665) has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. The Company is currently negotiating an extension of this note.	$190,665	$190,665
Note payable to the sister of the Company's Chief Executive Officer, secured by all assets of the Company, interest at 10.0% per annum, due March 15, 2005. The note payable was originally issued by ACSI in 2003, at which time ACSI issued a warrant expiring September 17, 2008, to purchase 100,000 shares of stock at $.50 per share (the ACSI warrant is convertible into 2,817,215 shares of the Company's common stock). The intrinsic value of the original warrant ($100,000) was recorded as a loan discount cost, and was amortized over the life of the original note as additional interest cost. The original note was due September 16, 2004. On September 16, 2004, a new note was issued to replace the original note. At maturity, the new note is convertible at the holder's option at a conversion price equal to 80% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at $48,125, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. The Company is currently negotiating an extension of this note.	110,000	110,000
Note payable to an employee of the Company, secured by all assets of the Company, interest at 8.0%per annum, due May 30, 2006. At maturity, the note is convertible at the holder's option at	21,600	21,600

a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at $13,886, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. The Company is currently negotiating an extension of this note.		
Note payable to shareholder, secured by all assets of the Company, interest at 8.0% per annum at 8.0% per annum, due April 3, 2006. At maturity the note is convertible at the holder's option at a conversion price equal to 70% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. In addition, the note has warrants attached that, once the note is converted into stock, allow the holder to purchase stock at 85% of the weighted average price of the common stock for the 30 trading days immediately preceding the conversion date. The intrinsic value of the beneficial conversion feature of the note and warrants, valued at $32,143, has been recorded as loan discount costs and is being amortized over the life of the note as additional interest cost. This note and accrued interest of $4,720 was converted into 342,000 shares of common stock at maturity.	--	50,000
Less, remaining debt discount	--	(3,700)
	$322,265	$368,565

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

NOTE 5 INVESTMENT IN AFFILIATED ENTITIES

Universal Sensors, Inc.

In April 2005, the Company, China Automotive Systems, Inc. (CAAS) and Shanghai Hongxi Investment Inc. (HX) formed Universal Sensors, Inc. (USI), a joint venture in the People's Republic of China to develop, produce and market sensor and related electronic products. The ownership percentages of USI are 30%, 60% and 10% to the Company, CAAS and HX, respectively. CAAS and HX will contribute cash, land and building and the Company will contribute technology. As there was no cash contributed by the Company and the technology it will contribute is not recorded as an asset on the Company's books, the Company's investment in USI is recorded at zero. USI is in a start-up mode and had not begun operations as of June 30, 2006. USI has incurred cumulative losses at June 30, 2006 of approximately $484,000, including $252,000 for the six months then ended. The Company has not recorded any loss from USI since its investment is zero. The Company will not record any income in the future until such time as USI is cumulatively profitable. The Company has no liability for future cash payments to USI if necessary to fund its operations or pay its debts.

As of June 30, 2006, the Company also had trade accounts receivable and payable due from and to USI in the amounts of $51,565 and $157,565, respectively.

During the six months ended June 30, 2006, the Company sold some of its tooling equipment to USI. The equipment had an original cost and remaining book value of approximately $118,000 and $62,000, respectively. The Company recorded a gain on the sale of $16,905.

NOTE 6 STOCK OPTIONS

The Company had a stock option plan, which provided for the granting of options to employees, independent representatives and directors of the Company. The Company was authorized to issue 200,000 shares of common stock of Advanced Custom Sensors, Inc. (ACSI) which merged with Sensor System Solutions, Inc. in 2004. The exercise price was fixed by the plan administrator, shares vested over four years upon the optionee's completion of service and the options expired ten years from the date of grant. At January 1, 2006, there were options for 76,000 shares outstanding with an exercise price of $.50. In the first quarter of 2006, the Board of Directors cancelled this plan and all outstanding options. The Board then approved a new stock compensation plan which includes stock options and other forms of stock-based awards. The Company is authorized to issue 5,000,000 shares of common stock under this plan. The first grant of stock options was to the employees whose ACSI stock options were cancelled. They were granted options for 760,000 shares on March 3, 2006 at the closing price on that date with a vesting period of one year.

At June 30, 2006, options outstanding are as follows:

	Shares		Average Exercise Price
Balance at January 1, 2006	76,000	$	.50
Cancelled	(76,000)		.50
Replacement options	760,000		.21
Granted	850,000		.19
Exercised	--		

Balance at June 30, 2006	1,610,000	$	.20

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SENSOR SYSTEMS SOLUTIONS, INC.
CONDENSED NOTES TO FINANCIAL STATEMENTS
FOR THE THREE AND SIX MONTHS ENDED JUNE 30, 2006 AND 2005 (UNAUDITED)

NOTE 7 COMMITMENTS AND CONTINGENCIES

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

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

As of June 30, 2006		Amount
2006 (six months)	$	6,366
2007		12,732
2008		12,732
2009		3,903
		35,733
Amount representing interest		(5,832)
Present value of minimum lease payments		29,901
Less: Current portion		(9,458)
	$	20,443

The Company leases its office and facility through July 31, 2007 under a long-term operating lease agreement. Under terms of the lease, the Company pays the cost of repairs and maintenance.

Future minimum lease commitments for the Company's share under this lease at June 30, 2006 are as follows:

2006 (six months)	$	128,350
2007		151,095
	$	279,445

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

Cautionary Statement

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

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

OVERVIEW

Sensor System Solutions, Inc. (3S) was founded by an engineering management team with over 50 years of Micro-electro-mechanical-systems or "MEMS" transducer experience. Its objective is to provide high quality sensors and transducers at an economical price by employing innovative designs and creative manufacturing methods. 3S offers a variety of digital pressure gauges, pressure transducers, pressure sensors, force beams, load cells, intelligent sensor interface electronics, intelligent embedded control systems, and wireless communication network interfaces.

3S has 14 employees in the United States, and utilizes a network of independent contractors and consultants throughout the United States and Asia. 3S produces or supplies a family of nearly 30 distinctive products. 3S formed a joint venture in China with China Automotive Systems, Inc. (NASDAQ: CAAS) in April of 2005, targeting its automotive sensor market. 3S is transitioning to move its production line in Taiwan to this joint venture. 3S is a supplier of thin-film and micro-machined force and pressure sensors to the medical, chemical, oil, and gas industries. 3S believes that its technology will enable it to become a global supplier of advanced MEMS/Microelectronic products in a myriad of developing markets. 3S's strategic plan is to focus on developing custom MEMS pressure sensor devices and forming strategic partnerships where its strategic partners dominate the sales channels in industries accepting MEMS sensor applications.

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

STRATEGIC PLAN

We plan to grow our business in four areas.

§ **Increase the revenue of our existing sensor component business**. Once finalized, the majority of our sensor component manufacturing will be moved to our joint venture in China to help reduce the cost of our products. We will invest to increase our production capacity and will qualify offshore suppliers to meet the increasing demands. Substantial efforts will be invested in sales and marketing in order to expand our customer base and to secure additional OEM projects.

§ **Develop sensor solution business.** By leveraging the advances in technology and the large industry-wide investments in wireless and telecommunication in the last decade, we can now offer total sensor solutions at a very affordable price. These sensor solutions are modules containing sensing elements, signal conditioning circuitry, software for calibration and interface, and capability of wireless communication and/or networking. They will provide information continuously to decision makers in all phases of business operation.

§ **Penetrate the automotive sensor market in China and India.** By leveraging the marketing channel of USI, our joint venture partner, and X-Lab Global, a leading technology advisory and strategic consulting firm, we will have access to the automotive market in China and India immediately. We plan to use the next twoyears to build up our production capacity, product offerings and technical team there. We expect to import automotive sensors produced by our joint venture to North America and Europe around 2008.

§ **Strategic acquisition**: Being a public company gives us a supplemental tool to grow our business through acquisition in addition to internal growth. We will actively seek equity or debt funding to bring in the necessary resources to execute this plan.

RESULTS OF OPERATIONS

Three months Ended June 30, 2006 and 2005

Revenues

We generated revenues of $287,162 for the three months ended June 30, 2006, which was a decrease of $16,094 or 6% from $303,256 for the three months ended June 30, 2005. The decrease is primarily the result of a temporary lapse in ordering by one of the Company's largest customers in order to work off its inventory level. This customer has issued a new purchase order subsequent to the end of the quarter for approximately $600,000 worth of products to be delivered over the next two years.

Gross Profit

Gross profit for the three months ended June 30, 2006, was $132,782 or 46.3% of revenues, compared to $76,686 or 25.3% for the three months ended June 30, 2005. The $56,096 increase in gross profit was generated by a decrease in cost of sales percentage, which was the result of increased productivity and management's efforts to reduce operating expense, and production tooling improvement.

Total Expenses

Operating expenses

Operating expenses increased to $542,169 for the three months ended June 30, 2006 compared to $433,693 for the three months ended June 30, 2005. The expenses increased $108,476, primarily as a result of an increase in interest expense, rent, additional investment in R&D and sales personnel, and professional fees for a public company.

Amortization of discount on notes payable

Amortization of discount on notes payable increased to $135,638 for the three months ended June 30, 2006 compared to $36,339 for the three months ended June 30, 2005. The expense increased $99,299, or 273%, primarily due to the Cornell Capital Partners borrowings of $800,000 in December 2005 and $200,000 in February 2006.

Stock-based compensation costs

During the three months ended June 30, 2006, the Company recorded $47,807 in stock-based compensation costs for options issued to employees during the quarter. Another $7,514 was recorded for compensatory stock issued to non-employees for services rendered. There were no stock-based compensation costs in the three months ended June 30, 2005.

Net Loss

Net loss increased to ($600,346) for the three months ended June 30, 2006 compared to ($393,346) for the three months ended June 30, 2005. The $207,000 increase in net loss is due to the increase in operating expenses exceeding the increase in gross profit.

Six months Ended June 30, 2006 and 2005

Revenues

We generated revenues of $817,260 for the six months ended June 30, 2006, which was $308,989 or a 61% increase from $508,271 for the six months ended June 30, 2005. The increase is the result of the hiring of a full-time sales manager, the addition of new sales representatives and the introduction of new products.

Gross Profit

Gross profit for the six months ended June 30, 2006, was $329,887 or 40.4% of revenues, compared to $134,427 or 26.4% for the six months ended June 30, 2005. The $195,460 increase in gross profit was generated by a decrease in cost of sales percentage, which was the result of increased productivity and management's efforts to reduce operating expense, and production tooling improvement.

Total Expenses

Operating expenses

Operating expenses increased to $1,086,986 for the six months ended June 30, 2006 compared to $764,249 for the six months ended June 30, 2005. The expenses increased $322,737, primarily as a result of an increase in interest expense, rent, additional investment in R&D personnel and development, and professional fees for a public company.

Amortization of discount on notes payable

Amortization of discount on notes payable increased to $268,086 for the six months ended June 30, 2006 compared to $191,460 for the six months ended June 30, 2005. The expense increased $76,626, or 40%, primarily due to the Cornell Capital Partners borrowings of $800,000 in December 2005 and $200,000 in February 2006.

Stock-based compensation costs

During the six months ended June 30, 2006, the Company recorded $70,442 in stock-based compensation costs for options issued to employees during the quarter. Another $44,908 was recorded for compensatory stock issued to non-employees for services rendered. There were no stock-based compensation costs in the six months ended June 30, 2005.

Net Loss

Net loss increased to ($1,123,630) for the six months ended June 30, 2006 compared to ($821,282) for the six months ended June 30, 2005. The $302,348 increase in net loss is primarily due to the increase in operating expenses exceeding the increase in gross profit and is partially offset by the $16,905 gain on sale of equipment to related party.

FINANCIAL CONDITION, LIQUIDITY, CAPITAL RESOURCES

Going Concern

The Company incurred a net loss of $1,123,630 and a negative cash flow from operations of $427,690 for the six months ended June 30, 2006, and had a working capital deficiency of $2,713,192 and a stockholders' deficiency of $2,518,847 at June 30, 2006. These matters raise substantial doubt about its ability to continue as a going concern.

We have relied primarily on cash flow from operations, bank loans, and advances and investments from our shareholders for our capital requirements since inception. The company received an additional $200,000 on a convertible loan from an outside source in February 2006, bringing the total owed to that lender to $1 million. This allowed the company to pay off some of the debt and continue its operation. Current cash on hand will allow the company to continue its operation for only a short period of time.

At June 30, 2006, cash was $11,534 as compared to $172,732 at December 31, 2005. The decrease is due to the negative cash flow from operations, primarily due to the net loss of $1,123,630 reduced by $420,235 in non-cash expenditures for stock-based compensation, amortization of debt discount costs and depreciation and amortization. Changes in operating assets and liabilities contributed an additional $296,610 in cash, primarily from a decrease in accounts payable of $215,907. The cash flows from investing and financing activities totaling $266,492 was not enough to fund the $427,690 in net cash used in operations. We have a substantial working capital deficit. We require $3,000,000 to continue operations for the next three years. We are in the process of raising capital in the form of equity and/or debt. However, there is no guarantee that we will raise sufficient funds to execute our business plan. To the extent we are unable to raise sufficient funds, our business plan will be required to be substantially modified, its operations curtailed or protection under bankruptcy/ reorganization laws sought.

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

Commitments and Contingencies

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

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

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

As of June 30, 2006		Amount
2006 (six months)	$	6,366
2007		12,732
2008		12,732
2009		3,903
		35,733
Amount representing interest		(5,832)
Present value of minimum lease payments		29,901
Less: Current portion		(9,458)
	$	20,443

The Company leases its office and facility through July 31, 2007 under a long-term operating lease agreement. Under terms of the lease, the Company pays the cost of repairs and maintenance.

Future minimum lease commitments for the Company's share under this lease at June 30, 2006 are as follows:

2006 (six months)	$	128,350
2007		151,095
	$	279,445

Inflation and Changing Prices

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

CRITICAL ACCOUNTING POLICIES

Revenue Recognition

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

Stock - based compensation

The Company adopted SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS 123R), which revises SFAS No. 123 in the first quarter of 2006. SFAS 123R also supersedes APB No. 25 and amends SFAS No. 95, "Statement of Cash Flows". In general, the accounting required by SFAS 123R is similar to that of SFAS No. 123. However, SFAS No. 123 gave companies a choice to either recognize the fair value of stock options in their income statements or disclose the pro forma income statement effect of the fair value of stock options in the notes to the financial statements. SFAS 123R eliminates that choice and requires the fair value of all share-based payments to employees, including the fair value of grants of employee stock options, be recognized in the income statement, generally over the option vesting period.

Inventories

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

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Recent Accounting Pronouncements

During the first quarter of 2006, the Company adopted Statement No. 151 (SFAS 151) "Inventory Costs". This Statement amends the guidance in ARB No. 43, Chapter 4 Inventory Pricing to require items such as idle facility costs, excessive spoilage, double freight and rehandling costs to be expensed in the current period, regardless if they are abnormal amounts or not. The adoption of SFAS 151 did not have a material impact on the Company's financial condition, results of operations or cash flows.

In May 2005, the FASB issued Statement No. 154 (SFAS 154) "Accounting Changes and Error Corrections - a replacement of APB Opinion No. 20 and FASB Statement No. 3." SFAS 154 changes the requirements for the accounting for and reporting of a change in accounting principle. APB Opinion 20 previously required that most voluntary changes in accounting principle be recognized by including in net income of the period of the change the cumulative effect of changing to the new accounting principle. SFAS 154 requires retrospective application to prior periods' financial statements of changes in accounting principle, unless it is impracticable to determine either the period-specific effects of the cumulative effect of the change. In the event of such impracticality, SFAS 154 provides for other means of application. In the event the Company changes accounting principles, it will evaluate the impact of SFAS 154.

RISKS RELATED TO OUR BUSINESS

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

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

o we incur unexpected costs in completing the development of our technology or encounter any unexpected technical or other difficulties;

o we incur delays and additional expenses as a result of technology failure;

o we are unable to create a substantial market for our product and services; or

o we incur any significant unanticipated expenses.

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

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

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

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

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

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

From inception through March 31, 2006, we have incurred aggregate net losses. There is no assurance that we will operate profitably or will generate positive cash flow in the future. In addition, our operating results in the future may be subject to significant fluctuations due to many factors not within our control, such as market acceptance of our products, the unpredictability of when customers will order products, the size of customers' orders, the demand for our products, and the level of competition and general economic conditions.

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

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

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

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

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

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

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

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

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

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

OFF BALACE SHEET ARRANGMENTS

There are no Off-Balance Sheet Arrangements to report.

Item 3. Controls And Procedures

(a) *Evaluation of Disclosure Controls and Procedures.*

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

(b) *Changes in Internal Controls.*

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

PART II
OTHER INFORMATION

Item 1. Legal Proceedings.

None.

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

On February 14, 2006, the Company issued a note payable for $200,000, secured by all assets of the Company, interest at 10% per annum, payable on February 14, 2007. The note is convertible, with some limitations, at the holder's option at a conversion price equal to the lesser of $0.35 or 90% of the lowest volume weighted average price of the common stock for the 15 trading days immediately preceding the conversion date.

On February 22, 2006, the Company issued a note payable for $200,000, secured by all assets of the Company, interest at 8% per annum, payable on August 21, 2006. The note is convertible at the holder's option at a conversion price equal to the 75% of the average closing bid price of the common stock for the month of February 2006. The note has 3-year warrants attached that allow the holder, if he converts, to purchase an identical number of shares at 85% of the average bid price of the common stock for the 30 trading days preceding exercise.

On May 1, 2006, the Company issued 342,000 shares of its common stock in payment of a $54,000 note payable plus accrued interest of $720.

Item 3. Defaults Upon Senior Securities.

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

The $110,000 convertible loan due to Tina Young matured on March 15, 2005. The Company is currently negotiating a settlement.

A $64,800 convertible loan matured on April 18, 2006. The Company is currently negotiating an extension of the note.

A $32,400 convertible loan matured on April 20, 2006. The Company is currently negotiating an extension of the note.

A $47,707 convertible loan matured on May 30, 2006. The Company is currently negotiating an extension of the note.

A $21,600 convertible loan matured on May 30, 2006. The Company is currently negotiating an extension of the note.

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

None.

Item 5. Other Information.

None.

Item 6. Exhibits

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

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

SIGNATURES

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

SENSOR SYSTEM SOLUTIONS, INC.

Dated: August 14, 2006	/s/ Michael Young
	Name: Michael Young Title: Chief Executive Officer and Principal Accounting Officer