

Henry Bros. Electronics, Inc.
Form 10-Q
August 13, 2009
UNITED STATES

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

QUARTERLY REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the quarterly period ended June 30, 2009

OR

TRANSITION REPORT UNDER SECTION 13 OR 15 (D) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For the transition period from _____ to _____
Commission File No. 1-16779

Henry Bros. Electronics, Inc.
(Exact name of Registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

22-3690168
(I.R.S. Employer
Identification No.)

17-01 Pollitt Drive
Fair Lawn, New Jersey 07410
(address of principal executive offices) (Zip Code)
Registrant's Telephone number, including area code: (201) 794-6500

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes No

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

Large accelerated filer
Non-accelerated filer

Accelerated filer
Smaller reporting company

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(Do not check if a 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

Indicate the number of shares outstanding of each of the Registrant's Common Stock, as of the latest practicable date:
6,025,366 shares of common stock, \$.01 par value per share, as of August 7, 2009.

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Part I Financial Information

Item 1. Condensed Consolidated Financial Statements

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED BALANCE SHEETS

| | (Unaudited) June 30, 2009 | (Audited) December 31, 2008 |
|---|---------------------------------|--------------------------------------|
| ASSETS | | |
| CURRENT ASSETS | | |
| Cash and cash equivalents | \$ 1,265,070 | \$ 27,704 |
| Accounts receivable-net of allowance for doubtful accounts of \$779,696 at June 30, 2009 and \$801,306 at December 31, 2008 | 16,733,346 | 18,164,066 |
| Inventory | 1,241,691 | 1,201,477 |
| Costs in excess of billings and estimated profits | 3,446,549 | 5,512,101 |
| Deferred tax asset | 1,117,975 | 1,363,309 |
| Retainage receivable | 1,284,492 | 1,756,481 |
| Prepaid expenses and income tax receivable | 1,344,060 | 878,003 |
| Other assets | 362,809 | 330,052 |
| Total current assets | 26,795,992 | 29,233,193 |
| Property and equipment - net of accumulated depreciation of \$3,357,336 at June 30, 2009 and \$2,993,961 at December 31, 2008 | 2,430,483 | 2,620,790 |
| Goodwill | 3,708,830 | 3,592,080 |
| Intangible assets - net of accumulated amortization | 933,225 | 1,016,665 |
| Other assets | 519,988 | 147,380 |
| TOTAL ASSETS | \$ 34,388,518 | \$ 36,610,108 |
| LIABILITIES & STOCKHOLDERS' EQUITY | | |
| CURRENT LIABILITIES | | |
| Accounts payable | \$ 3,874,810 | \$ 6,927,365 |
| Accrued expenses | 3,846,453 | 4,833,618 |
| Accrued taxes | 4,422 | 200,774 |
| Billings in excess of costs and estimated profits | 1,434,357 | 2,006,751 |
| Deferred income | 92,660 | 157,890 |
| Current portion of long-term debt | 411,228 | 629,742 |
| Revolving credit line maturing within one year | 6,235,898 | - |
| Other current liabilities | 772,434 | 532,932 |
| Total current liabilities | 16,672,262 | 15,289,072 |
| Long-term debt, less current portion | 585,345 | 4,855,662 |
| Deferred tax liability | 393,260 | 406,417 |
| TOTAL LIABILITIES | 17,650,867 | 20,551,151 |
| STOCKHOLDERS' EQUITY | | |
| Preferred stock, \$.01 par value; 2,000,000 shares authorized; no shares issued | - | - |

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| | | |
|--|----------------------|----------------------|
| Common stock, \$.01 par value; 10,000,000 shares authorized; 6,021,366 shares issued and outstanding in 2009 and 5,966,583 shares in 2008 | 60,214 | 59,666 |
| Additional paid in capital | 18,189,367 | 17,732,596 |
| Accumulated deficit | (1,511,930) | (1,733,305) |
| TOTAL EQUITY | 16,737,651 | 16,058,957 |
| TOTAL LIABILITIES & STOCKHOLDERS' EQUITY | \$ 34,388,518 | \$ 36,610,108 |

See accompanying notes to the condensed consolidated financial statements.

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS

| | (Unaudited) | | (Unaudited) | |
|--|---------------------------|---------------|-----------------------------|---------------|
| | Six months ended June 30, | | Three months ended June 30, | |
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | \$ 29,280,192 | \$ 31,029,997 | \$ 13,971,980 | \$ 15,123,951 |
| Cost of revenue | 21,168,069 | 23,498,938 | 10,081,871 | 11,282,000 |
| Gross profit | 8,112,123 | 7,531,059 | 3,890,109 | 3,841,951 |
| Operating expenses: | | | | |
| Selling, general & administrative expenses | 7,562,645 | 6,256,168 | 3,691,785 | 3,126,987 |
| Operating profit | 549,478 | 1,274,891 | 198,324 | 714,964 |
| Interest income | 9,037 | 52,981 | 2,067 | 22,937 |
| Other income | 15,794 | 8,248 | 2,608 | 4,034 |
| Interest expense | (165,407) | (142,728) | (99,706) | (65,995) |
| Income before tax expense | 408,902 | 1,193,392 | 103,293 | 675,940 |
| Tax expense | 187,527 | 572,174 | 48,040 | 338,679 |
| Net income | \$ 221,375 | \$ 621,218 | \$ 55,253 | \$ 337,261 |
| BASIC EARNINGS PER COMMON SHARE: | | | | |
| Basic earnings per common share | \$ 0.04 | \$ 0.11 | \$ 0.01 | \$ 0.06 |
| Weighted average common shares | 5,850,048 | 5,772,864 | 5,870,291 | 5,772,864 |
| DILUTED EARNINGS PER COMMON SHARE: | | | | |
| Diluted earnings per common share: | \$ 0.04 | \$ 0.10 | \$ 0.01 | \$ 0.06 |
| Weighted average diluted common shares | 6,044,499 | 5,976,008 | 6,064,742 | 5,976,008 |

See accompanying notes to the condensed consolidated financial statements.

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

| | Six months ended June 30, | |
|--|------------------------------|--------------|
| | 2009 | 2008 |
| Cash flows from operating activities: | | |
| Net income | \$ 221,375 | \$ 621,218 |
| Adjustments to reconcile net income from operations to net cash (used in) provided by operating activities: | | |
| Depreciation and amortization | 459,098 | 386,822 |
| Bad debt expense | 159,979 | 109,099 |
| Provision for obsolete inventory | - | 30,000 |
| Stock option expense | 193,000 | 112,000 |
| Deferred income taxes | 232,177 | 95,149 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | 1,270,740 | 98,516 |
| Inventory | (40,214) | 135,610 |
| Costs in excess of billings and estimated profits | 2,065,552 | (1,015,915) |
| Retainage receivable | 471,990 | (207,453) |
| Other assets | (32,757) | (8,748) |
| Prepaid expenses and income tax receivable | (466,057) | 304,059 |
| Accounts payable | (3,052,553) | (718,533) |
| Accrued expenses | (1,183,517) | 596,407 |
| Billings in excess of costs and estimated profits | (572,394) | 423,853 |
| Deferred income | (65,231) | (4,229) |
| Other liabilities | 239,502 | 37,926 |
| Net cash (used in) provided by operating activities | (99,310) | 995,781 |
| Cash flows from investing activities: | | |
| Purchase of businesses, net of cash acquired | (37,500) | (37,500) |
| Purchase of property and equipment | (196,576) | (173,815) |
| Net cash used in investing activities | (234,076) | (211,315) |
| Cash flows from financing activities: | | |
| Recovery from shareholder, net | - | 59,443 |
| Exercise of employee stock options | 185,069 | - |
| Net proceeds from revolving bank lines | 1,900,000 | - |
| Payments of bank loans | (103,410) | (108,546) |
| Net repayments of other debt | (271,869) | (158,697) |
| Payments of equipment financing | (139,038) | (82,761) |
| Net cash provided by (used in) financing activities | 1,570,752 | (290,561) |
| Increase in cash and cash equivalents | 1,237,366 | 493,905 |
| Cash and cash equivalents - beginning of period | 27,704 | 3,277,450 |
| Cash and cash equivalents - end of period | \$ 1,265,070 | \$ 3,771,355 |
| Supplemental disclosure of cash flow information: | | |
| Amount paid for the period for: | | |
| Interest | \$ 144,508 | \$ 142,728 |
| Taxes | \$ 698,083 | \$ 225,000 |
| Non-cash investing and financing activities: | | |

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| | | |
|---|------------|------------|
| Equipment financed | \$ 268,844 | \$ 168,519 |
| Issuance of stock to acquire businesses | \$ 79,250 | \$ - |
| Surrender shares to purchase fixed assets | \$ - | \$ 14,080 |

See accompanying notes to the condensed consolidated financial statements.

HENRY BROS. ELECTRONCS, INC. AND SUBSIDIARIES
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

| | Common Stock par value \$.01 10,000,000 Authorized | | Additional Paid-in Capital | Retained Earnings | Total |
|--|--|-----------|----------------------------------|----------------------|---------------|
| | Shares | Amount | | | |
| Balance at December 31, 2008 | 5,966,583 | \$ 59,666 | \$ 17,732,596 | \$ (1,733,305) | \$ 16,058,957 |
| Employee stock options exercised | 39,783 | 398 | 184,671 | | 185,069 |
| Shares issued in connection with the acquisition of CIS Security Systems | 15,000 | 150 | 79,100 | | 79,250 |
| Amortization of value assigned to stock option grants | | | 193,000 | | 193,000 |
| Net income | | | | 221,375 | 221,375 |
| Balance at June 30, 2009 | 6,021,366 | \$ 60,214 | \$ 18,189,367 | \$ (1,511,930) | \$ 16,737,651 |

See accompanying notes to the condensed consolidated financial statements.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED)

1. Description of Business and Basis of Presentation

Interim Financial Statements:

The information presented as of June 30, 2009 and for the three and six month periods ended June 30, 2009 and 2008 are unaudited, and reflect all adjustments (consisting only of normal recurring adjustments) which Henry Bros. Electronics, Inc. and its subsidiaries, (the "Company") considers necessary for the fair presentation of the Company's financial position as of June 30, 2009, the results of its operations and cash flows for the six month periods ended June 30, 2009 and 2008, and changes in stockholders' equity for the six month period ended June 30, 2009. The Company's December 31, 2008 balance sheet information was derived from the audited consolidated financial statements for the year ended December 31, 2008, which are included as part of the Company's Annual Report on Form 10-K.

The condensed consolidated financial statements included herein have been prepared in accordance with U.S. generally accepted accounting principles and the instructions to Form 10-Q and Rule 8-03 of Regulation S-X. Accordingly, certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. generally accepted accounting principles have been condensed or omitted. It is suggested that these condensed financial statements be read in conjunction with the Company's financial statements and notes thereto included in the Company's latest shareholders' annual report.

As of June 30, 2009, there have been no material changes to any of the significant accounting policies described in our Annual Report on Form 10-K for the fiscal year ended December 31, 2008.

Description of Business:

The Company's operations are divided into two business segments – Security System Integration ("Integration") and Specialty Products and Services ("Specialty"). The Integration segment provides a cradle to grave services for a wide variety of security, communications and control systems. The Company specializes in turn-key systems that integrate many different technologies. Systems are customized to meet the specific needs of its customers. Through the Specialty segment we provide emergency preparedness programs, and specialized radio frequency communication equipment and integration. Each of the Company's segments markets its products and services nationwide with an emphasis in Arizona, California, Colorado, Maryland, New Jersey, New York, Texas and Virginia. Customers are primarily medium and large businesses and governmental agencies. The Company derives a majority of its revenues from project installations and to a smaller extent, maintenance service revenue.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

The table below shows the sales percentages by geographic location for the following periods:

| | Six months ended | |
|---------------------|------------------|------|
| | June 30, | |
| | 2009 | 2008 |
| New Jersey/New York | 47% | 47% |
| California | 20% | 19% |
| Texas | 4% | 4% |
| Arizona | 8% | 11% |
| Colorado | 12% | 8% |
| Virginia / Maryland | 8% | 9% |
| Integration segment | 99% | 98% |
| Specialty segment | 2% | 2% |
| Inter-segment | -1% | 0% |
| Total revenue | 100% | 100% |

2. Summary of Significant Accounting Policies:

Principles of Consolidation:

The condensed consolidated financial statements include the accounts of the Company. Acquisitions are recorded as of the purchase date, and are included in the consolidated financial statements from the date of acquisition. All material intercompany transactions have been eliminated in consolidation.

Reclassifications:

The presentation of certain prior year information has been reclassified to conform to the current year presentation. The Company has reclassified certain costs from cost of revenue into selling, general and administrative expenses. The amount of this reclassification was \$221,335 and \$367,458 for the three and six months ended June 30, 2008. This reclassification had no impact on operating profit.

Use of Estimates:

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

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

Revenue and costs relating to security integration systems projects and service agreements are particularly affected by management's estimates. The contract sale price and estimated costs are based upon the facts and circumstances known at the time of the proposal. Estimates for the costs to complete the contract are periodically updated during the performance of the contract. Unpredictable events can occur during the performance of the contract that can increase the costs and reduce the estimated gross profit. Change orders to record additional costs may not be approved or can become subject to long negotiations with the customer and can result in concessions by the Company. Considerable judgments are made during the performance of the contract that affects the Company's revenue recognition and cost accruals that may have a significant impact on the results of operations reported by the Company.

Recently Issued Accounting Pronouncements:

In April 2008, the FASB issued FASB Staff Position (FSP) No. 142-3, "Determination of the Useful Life of Intangible Assets" (FSP 142-3), which amends the factors that should be considered in developing renewal or extension assumptions used to determine the useful life of a recognized intangible asset under SFAS No. 142, "Goodwill and Other Intangible Assets." FSP 142-3 is effective for financial statements issued for fiscal years and interim periods beginning after December 15, 2008. Early adoption is prohibited. The guidance in FSP 142-3 for determining the useful life of a recognized intangible asset shall be applied prospectively to intangible assets acquired after adoption, and the disclosure requirements shall be applied prospectively to all intangible assets recognized as of, and subsequent to, adoption. We have evaluated the new statement and have determined that it does not have a significant impact on the determination or reporting of our financial results.

In April 2009 the FASB issued FSP No. FAS 157-4, Determining Fair Value When the Volume and Level of Activity for the Asset or Liability Have Significantly Decreased and Identifying Transactions That Are Not Orderly (FSP FAS 157-4), which clarifies the application of SFAS 157 when there is no active market or where the price inputs being used represent distressed sales. Additional guidance is provided regarding estimating the fair value of an asset or liability (financial and nonfinancial) when the volume and level of activity for the asset or liability have significantly decreased and identifying transactions that are not orderly. FSP FAS 157-4 is effective for interim and annual periods ending after June 15, 2009. We have evaluated the new statement and have determined that it does not have a significant impact on the determination or reporting of our financial results.

In May 2009, the Financial Accounting Standard Board issued Statement of Financial Accounting Standard No. 165, Subsequent Event (SFAS 165). SFAS 165 establishes general standards for accounting for and disclosure of events that occur after the balance sheet date but before financial statements are issued or are available to be issued. In particular, SFAS 165 sets forth the period after the balance sheet date during which management of a reporting entity should evaluate events or transactions that may occur for potential recognition or disclosure in the financial statements; the circumstances under which an entity should recognize events or transactions occurring after the balance sheet date in its financial statements and the disclosures that an entity should make about events or transactions that occurred after the balance sheet date. SFAS 165 is effective for interim and annual periods ending after June 15, 2009 and became effective for the Company in the second quarter of 2009. The adoption of SFAS 165 did not have a material impact on the Company's results of operations, financial position or liquidity. Subsequent events were evaluated through August 13, 2009, the date the financial statements of the Company were issued.

In June 2009, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 168, The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting

Principles – a replacement of FASB Statement No. 162 (SFAS 168). SFAS 168 identifies the sources of accounting principles and the framework for selecting the principles used in the preparation of financial statements of nongovernmental entities that are presented in conformity with generally accepted accounting principles in the United States. SFAS 168 is effective for interim and annual periods ending after September 15, 2009.

In April 2009, the FASB issued FASB Staff Position No. FAS 107-1 and APB 28-1, “Interim Disclosures about Fair Value of Financial Instruments” (“FSP FAS 107-1 and APB 28-1”). FSP FAS 107-1 and APB 28-1 extends the disclosure requirements of SFAS No. 107, “Disclosures About Fair Value of Financial Instruments” (“SFAS 107”), to interim period financial statements, in addition to the existing requirements for annual periods and reiterates SFAS 107’s requirement to disclose the methods and significant assumptions used to estimate fair value. This FSP is effective for interim reporting periods ending after June 15, 2009, with early adoption permitted for periods ending after March 15, 2009.

Fair Value of Financial Instruments

The carrying amounts of the Company’s financial instruments, which include cash equivalents, accounts receivable, accounts payable, accrued expenses, short and long-term debt, approximate their fair values as of June 30, 2009.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

3. Net Income Per Share

The computation of basic earnings per share is based upon the weighted average number of shares of common stock outstanding during the period. The computation of diluted earnings per share includes the dilutive effects of common stock equivalents, less the shares that may be repurchased with the funds received from their exercise and the effect of adding back unrecognized future stock compensation expense. Contingent shares are excluded from basic earnings per share.

4. Stock Based Compensation

For the three months ended June 30, 2009 and 2008, the Company charged \$133,000 and \$58,000, respectively, to operations for stock based compensation expense. For the six months ended June 30, 2009 and 2008, the Company charged \$193,000 and \$112,000, respectively, to operations for stock based compensation expense. A modification to a stock option, previously issued to an executive officer, extending the term for one year, resulted in an expense in the second quarter, equal to the net increase in the fair value of the modified stock option of \$49,000.

A summary of stock option activity for the six months ended June 30, 2009 under the Company's various Stock Option Plans' follows:

| | Number of Shares | | Weighted Average Exercise Price | |
|----------------------|------------------|-------------|---------------------------------|-------------|
| | Outstanding | Exercisable | Outstanding | Exercisable |
| January 1, 2009 | 984,515 | 496,856 | \$ 4.97 | \$ 5.44 |
| Granted at market | 45,000 | | 6.31 | |
| Exercised | (39,783) | | 4.62 | |
| Forfeited or expired | (17,000) | | 7.86 | |
| June 30, 2009 | 972,732 | 335,933 | \$ 4.98 | \$ 4.44 |

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

The fair value of the Company’s stock option awards granted during the six months ended June 30, 2009 was estimated assuming no expected dividends and the following weighted-average assumptions:

| | |
|--|---------|
| Expected Life (years) | 4.4 |
| Expected volatility | 51.4% |
| Risk-free interest rates | 1.85% |
| Dividend yield | - |
| Weighted-average grant-date fair value | \$ 2.83 |

The assumptions above are based on multiple factors, including historical exercise patterns of employees with respect to exercise and post-vesting employment termination behaviors, expected future exercise patterns for these employees and the historical volatility of our stock price. The expected term of options granted is derived using company-specific, historical exercise information and represents the period of time that the options granted are expected to be outstanding. The risk-free interest rate for periods within the contractual life of the option is based on the U.S. Treasury yield curve in effect at the time of the grant.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

5. Costs and Billings on Uncompleted Contracts

Costs and billing on uncompleted contracts consisted of the following:

| | June 30, 2009 | December 31, 2008 |
|--|------------------|----------------------|
| Cost incurred on uncompleted contracts | \$ 73,276,321 | \$ 68,235,896 |
| Billings on uncompleted contracts | 71,264,129 | 64,730,546 |
| | \$ 2,012,192 | \$ 3,505,350 |

Included in accompanying Balance Sheets under the following captions:

| | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| Costs in excess of billings and estimated profits | \$ 3,446,549 | \$ 5,512,101 |
| Billing in excess of costs and estimated profits | 1,434,357 | 2,006,751 |
| | \$ 2,012,192 | \$ 3,505,350 |

6. Long-Term Debt

On June 30, 2005, the Company entered into a loan agreement (the “Loan Agreement”) with TD Bank, N.A. (“TD Bank”, formerly known as TD Banknorth, N.A., and Hudson United Bank) pursuant to which TD Bank extended a \$4 million two-year credit facility (the “Revolving Loan”), to the Company and refinanced \$1 million of existing indebtedness to TD Bank into a five year term loan (the “Term Loan”).

On October 6, 2008, the Company executed its fourth amendment to the Revolving Loan with TD Bank, increasing its line of credit from \$4 million to \$8 million. The term of the agreement has been extended to June 30, 2010. Advances under the Revolving Loan may be used to finance working capital and acquisitions. Interest is paid monthly in arrears at TD Bank’s prime rate (3.25% at June 30, 2009 and December 31, 2008). TD Bank has a first priority security interest on the Company’s accounts receivable and inventory.

The Term Loan provides for the payment of sixty equal monthly installments of principal and interest in the amount of \$19,730 commencing July 30, 2005 and continued through June 30, 2010. Interest under the Term Loan was 6.75%.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

The Company is required to maintain certain financial and reporting covenants and is restricted from paying dividends under the terms of the Loan Agreement.

Long-term debt included the following balances:

| | June 30, 2009 | December 31, 2008 |
|---|------------------|----------------------|
| Term loan at 6.75% interest payable in monthly installments of \$19,730 thru June 30, 2010 | \$ - | \$ 103,410 |
| Revolving line at the prime rate of interest, payable in monthly installments of interest only thru June 30, 2010 | 6,235,898 | 4,335,898 |
| Corporate insurance financed at 7.85% payable in monthly installments thru October 1, 2009 | 89,664 | 268,992 |
| Capitalized lease obligations due in monthly installments, with interest ranging from 6.4% to 12.7% | 906,909 | 777,104 |
| | 7,232,471 | 5,485,404 |
| Less: Current Portion | (411,228) | (629,742) |
| Revolving loan | (6,235,898) | - |
| | \$ 585,345 | \$ 4,855,662 |

The weighted average prime interest rate was 3.25% and 4.8% for the six months ended June 30, 2009 and the year ended December 31, 2008, respectively.

7. Income Taxes

Income tax expense for interim reporting is based on an estimated overall effective tax rate for the year ending December 31, 2009. The Company's overall effective tax rate during the six months ended June 30, 2009 is estimated to be approximately 45.9%, as compared to an estimated overall effective tax rate of 47.9% for the six months ended June 30, 2008.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

The estimated overall effective income tax rate for fiscal 2009 has not been impacted by any material discrete items. The overall estimated effective tax rate is based on expectations and other estimates which are monitored closely, but are subject to change. As of December 31, 2008 and 2007, the Company had \$54,866 and \$47,100, respectively, of unrecognized income tax benefits, all of which would affect the Company's effective tax rate if recognized. There have been no significant changes in the quarter ended June 30, 2009.

8. STOCKHOLDERS' EQUITY

In connection with the acquisition of all the capital stock of CIS Security Systems Corp. ("CIS") on October 2, 2006, the Company issued an aggregate of 20,000 shares of its common stock, valued at \$67,200. The Company issued an additional 30,000 shares during 2007 and 2008 and 15,000 shares during the first six months of 2009 of its restricted common stock to CIS's selling shareholder after CIS met certain performance targets. The issuance of the shares of restricted stock in connection with the aforementioned acquisition was made in reliance upon the exemption provided in section 4(2) of the Securities Act of 1933, as amended. In addition, the selling shareholder may earn an additional 35,000 shares of the Company's common stock if CIS achieves certain performance targets through December 2011.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

9. Segment Data

Selected information by business segment is presented in the following tables:

| | Six months ended June 30, | | Three months ended June 30, | |
|-------------------------|---------------------------|---------------|-----------------------------|---------------|
| | 2009 | 2008 | 2009 | 2008 |
| Revenue | | | | |
| Integration | \$ 28,886,728 | \$ 30,533,724 | \$ 13,897,082 | \$ 14,735,036 |
| Specialty | 661,464 | 603,398 | 342,898 | 450,161 |
| Inter-segment | (268,000) | (107,125) | (268,000) | (61,246) |
| Total revenue | \$ 29,280,192 | \$ 31,029,997 | \$ 13,971,980 | \$ 15,123,951 |
| Operating Profit | | | | |
| Integration | \$ 2,328,801 | \$ 3,520,033 | \$ 1,136,925 | \$ 1,504,864 |
| Specialty | 66,743 | (581,436) | 2,847 | 23,889 |
| Corporate | (1,846,066) | (1,663,706) | (941,448) | (813,789) |
| Total operating profit | \$ 549,478 | \$ 1,274,891 | \$ 198,324 | \$ 714,964 |

Selected balance sheet information by business segment is presented in the following table as of:

| | June 30, | December 31, |
|----------------------|---------------|---------------|
| | 2009 | 2008 |
| Total Assets: | | |
| Integration | \$ 31,248,709 | \$ 33,304,890 |
| Specialty | 1,078,779 | 1,756,730 |
| Corporate | 2,061,030 | 1,548,488 |
| Total assets | \$ 34,388,518 | \$ 36,610,108 |

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL
STATEMENTS (UNAUDITED) – (continued)

10. Contingent Liabilities

From time to time, the Company is subject to various claims with respect to matters arising out of the normal course of business. In management's opinion, none of these claims is likely to have a material affect on the Company's consolidated financial statements.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

OVERVIEW

We are an established leader in the electronic physical security industry, specializing in integrated security systems and emergency preparedness. Our operations are divided into two business segments – Security System Integration (“Integration”) and Specialty Products and Services (“Specialty”). The Integration segment provides “cradle to grave” services for a wide variety of security, communications and control systems. The Company specializes in turn-key systems that integrate many different technologies. Systems are customized to meet the specific needs of its customers. Through the Specialty segment we provide emergency preparedness programs, and specialized radio frequency communication equipment and integration. Each of the Company’s segments markets nationwide with an emphasis in Arizona, California, Colorado, Maryland, New Jersey, New York, Texas and Virginia. Customers are primarily medium and large businesses and governmental agencies. The Company derives a majority of its revenues from project installations and, to a smaller extent, maintenance service revenue.

OUR VISION AND STRATEGY

Our vision is to maintain our leadership position in security technology. We intend to do this in part by:

- Providing advice on product selection and system design;
- Examining and thoroughly testing each security product as it would be set up for use in our customers’ facilities; and,
- Using only systems and components that are reliable and efficient to use.

In addition to growing the business organically, we have been actively pursuing the strategic acquisition of synergistic integrators and specialty products and service companies to further fuel steady growth. Consistent with our expansion strategy, we acquired seven companies since August of 2002.

To finance our acquisitions, we have used a combination of internally generated cash, the sale of Company common stock and bank debt. We currently have an \$8 million revolving credit facility with TD Bank. Borrowings under the revolving credit facility were \$6,235,898, at June 30, 2009. It is our expectation and intent to use cash and to incur additional debt as appropriate to finance future working capital and acquisitions. Additionally, to fund future acquisitions we would consider the issuance of subordinated debt, the sale of equity securities, or the sale of existing Company assets.

TRENDS

As a result of the protracted credit freeze and severe recession which are having a significant negative impact on construction markets and capital spend patterns of commercial businesses, we are revising our revenue forecast for 2009 to fall within a range of \$65 million to \$70 million, from the previous estimate of \$80 million. We anticipate our overall average operating margins for our business to now be 3.0% to 5.0% for the year ended December 31, 2009, from a previous estimate of 6.0%, as compared to an operating margin of 5.0% in 2008 and essentially breakeven operating margin in 2007.

There are several factors impacting operating margins, including levels of competition for a particular project and the size of the project. As a significant amount of our costs are relatively fixed, such as labor costs, increases or decreases in revenues can have a significant impact on operating margins. The Company continually monitors costs and pursues various cost control measures and sales initiatives to improve operating margins.

In February 2008, the Company entered into a subcontractor agreement with Global Security & Engineering Solutions, a division of L-3 Services, Inc. (the "L-3 Contract") pursuant to which L-3 would issue task orders under its Indefinite Quantity Firm Fixed Price Contract with the U.S. Marine Corp Systems Command to deliver a Tactical Video Capture System ("TVCS"). TVCS is used for real-time visualization and situational awareness while Marine units are conducting military operations in urban terrain training exercises. The performance period of the contract is three years. In the first two quarters of 2009, the revenue recognized under this contract represented \$4.0 million and there were outstanding task orders included in our backlog of approximately \$2.5 million at June 30, 2009. There was no revenue recognized under this contract for the first two quarters of 2008.

Three Months Ended June 30, 2009 compared to June 30, 2008

| | (Unaudited) | | |
|--|-----------------------------|---------------|----------|
| | Three months ended June 30, | | |
| | 2009 | 2008 | % change |
| Revenue | \$ 13,971,980 | \$ 15,123,951 | -7.6% |
| Cost of revenue | 10,081,871 | 11,282,000 | -10.6% |
| Gross profit | 3,890,109 | 3,841,951 | 1.3% |
| Operating expenses: | | | |
| Selling, general & administrative expenses | 3,691,785 | 3,126,987 | 18.1% |
| Operating profit | 198,324 | 714,964 | -72.3% |
| Interest income | 2,067 | 22,937 | -91.0% |
| Other income | 2,608 | 4,034 | -35.4% |
| Interest expense | (99,706) | (65,995) | 51.1% |
| Income before tax expense | 103,293 | 675,940 | -84.7% |
| Tax expense | 48,040 | 338,679 | -85.8% |
| Net income | \$ 55,253 | \$ 337,261 | -83.6% |

Revenue - Revenue for the three months ended June 30, 2009 was \$13,971,980, representing a decrease of \$1,151,971 or 7.6%, as compared to revenue of \$15,123,951 for the three months ended June 30, 2008. Revenue was down in all of the Company's integration regions in the second quarter of 2009 versus the same quarter in the prior year, with the exception of Colorado, which was up 57.7%. The New Jersey region had the greatest decrease, as a result of the winding down of large projects that were not replaced by similar projects due to competitive margin pressure. These declines are due principally to the protracted credit freeze and economic downturn which is having a significant

negative impact on construction markets and capital spending patterns of commercial businesses. Partially offsetting these declines was an increase in revenue resulting from the L-3 Contract.

Cost of Revenue - Cost of revenue for the three months ended June 30, 2009 was \$10,081,872 as compared to \$11,282,000 for the three months ended June 30, 2008. The gross profit margin for the three months ended June 30, 2009 was 27.8% as compared to 25.4% for the three months ended June 30, 2008. Our Arizona and Mid-Atlantic operations had lower quarter over quarter gross profit margin dollars due to their respective decline in revenues. While revenues and gross profit dollars were down in our New Jersey / New York operation, margins improved as we closed out several of the jobs with large public agencies in the New York Metropolitan area referenced above in "Revenue". Also contributing to the increase in gross profit was the profit recognized under the L-3 Contract.

Selling, General and Administrative Expenses - Selling, general and administrative expense was \$3,691,785 for the three months ended June 30, 2009 as compared to \$3,126,987 for the three months ended June 30, 2008. This increase of 18.1% or \$564,798 was mainly attributable to higher personnel related costs. As part of our strategic growth initiative, we have increased our sales force by over 60% starting in the last quarter of 2008 and continuing throughout the second quarter of 2009. This initiative was implemented in order to take advantage of an anticipated increase in security spending related to public projects and the expansion of the Company's national footprint into Houston, Texas and Grand Junction, Colorado.

Interest Income – Interest income for the three months ended June 30, 2009 was \$2,067 as compared to \$22,937 for the three months ended June 30, 2008. This decrease was attributable to lower average cash balances during the three month period ended June 30, 2009 versus the same period in the prior year.

Interest Expense - Interest expense for the three months ended June 30, 2009 was \$99,706 as compared to \$65,995 for the three months ended June 30, 2008. The increase is due to the average outstanding revolving debt balance being \$1,816,484 higher in the three month period ended June 30, 2009 versus that in the three months ended June 30, 2008, offset in part by a 175 basis point lower average prime rate of interest in 2009 compared to the same period in 2008.

Tax Expense – The effective tax rate for the three months ended June 30, 2009 was 46.5%, based upon income before tax expense of \$103,293. The effective tax rate for the three months ended June 30, 2008 was 50.1%, based upon income before tax expense of \$675,940. These tax rates are a result of the Company operating in multiple states and jurisdictions with higher tax rates than the average of all states combined.

Net Income - As a result of the above noted factors our net income was \$55,253 for the three months ended June 30, 2009 compared to net income of \$337,261 for the three months ended June 30, 2008. This resulted in diluted earnings per share of \$0.01 on weighted average diluted common shares outstanding of 6,064,742 for the three months ended June 30, 2009, as compared to diluted earnings per share of \$0.06 on weighted average diluted common shares outstanding of 5,976,008 for the three month period ended June 30, 2008.

Six Months Ended June 30, 2009 compared to June 30, 2008

| | (Unaudited) | | |
|--|---------------------------|---------------|----------|
| | Six months ended June 30, | | % change |
| | 2009 | 2008 | |
| Revenue | \$ 29,280,192 | \$ 31,029,997 | -5.6% |
| Cost of revenue | 21,168,069 | 23,498,938 | -9.9% |
| Gross profit | 8,112,123 | 7,531,059 | 7.7% |
| Operating expenses: | | | |
| Selling, general & administrative expenses | 7,562,645 | 6,256,168 | 20.9% |
| Operating profit | 549,478 | 1,274,891 | 56.9% |
| Interest income | 9,037 | 52,981 | -82.9% |
| Other income | 15,794 | 8,248 | 91.5% |
| Interest expense | (165,407) | (142,728) | 15.9% |
| Income before tax expense | 408,902 | 1,193,392 | -65.7% |
| Tax expense | 187,527 | 572,174 | -67.2% |
| Net income | \$ 221,375 | \$ 621,218 | -64.4% |

Revenue - Revenue for the six months ended June 30, 2009 was \$29,280,192, representing a decrease of \$1,749,805 or 5.6%, as compared to revenue of \$31,029,997 for the six months ended June 30, 2008. Revenue was down in all of the Company's integration regions in the second half of 2009 versus the same period in the prior year 2009, with the exception of Colorado, which was up 38.7%. The New Jersey region had the greatest decrease, as a result of the winding down of large projects that were not replaced by similar projects due to competitive margin pressure. These declines are due principally to the protracted credit freeze and economic downturn which is having a significant negative impact on construction markets and capital spending patterns of commercial businesses. Partially offsetting these declines was an increase in revenue resulting from the L-3 Contract.

Cost of Revenue - Cost of revenue for the six months ended June 30, 2009 was \$21,168,069 as compared to \$23,498,938 for the six months ended June 30, 2008. The gross profit margin for the six months ended June 30, 2009 was 27.7% as compared to 24.3% for the six months ended June 30, 2008. In the first quarter of 2008, our Airorlite subsidiary incurred significant losses in order to complete work on certain open contracts which depresses gross profit for that period in 2008. Our Arizona and Mid-Atlantic operations had lower period over period gross profit margin dollars due to their respective decline in revenues. While revenues and gross profit dollars were down in our New Jersey / New York operation, margins improved as we closed out several of the jobs with large public agencies in the New York Metropolitan area referenced above in "Revenue". Also contributing to the increase in gross profit was the profit recognized under the L-3 Contract.

Selling, General and Administrative Expenses - Selling, general and administrative expense was \$7,562,645 for the six months ended June 30, 2009 as compared to \$6,256,168 for the six months ended June 30, 2008. This increase of 20.9% or \$1,306,476 was mainly attributable to higher personnel related costs. As part of our strategic growth initiative, we have increased our sales force by over 60% starting in the last quarter of 2008 and continuing throughout the second quarter of 2009. This initiative was implemented in order to take advantage of an anticipated increase in security spending related to public projects and the expansion of the Company's national footprint into Houston, Texas and Grand Junction, Colorado. Higher training costs for our sales and technical staff were also incurred during the current quarter, which contributed to the overall increase.

Interest Income – Interest income for the six months ended June 30, 2009 was \$9,037 as compared to \$52,981 for the six months ended June 30, 2008. This decrease was attributable to lower average cash balances during the six month period ended June 30, 2009 versus the same period in the prior year.

Interest Expense - Interest expense for the six months ended June 30, 2009 was \$165,407 as compared to \$142,728 for the six months ended June 30, 2008. While the average outstanding revolving debt balance was \$1,400,552 higher in the six month period ended June 30, 2009 versus that in the six months ended June 30, 2008, the average prime rate of interest paid was 241 basis points lower in the 2009 period than it was in 2008 resulting in interest expense that is lower than expected.

Tax Expense – The effective tax rate for the six months ended June 30, 2009 was 45.9%, based upon income before tax expense of \$408,902. The effective tax rate for the six months ended June 30, 2008 was 47.9%, based upon income before tax expense of \$1,193,192. These tax rates are a result of the Company operating in multiple states and jurisdictions with higher tax rates than the average of all states combined.

Net Income - As a result of the above noted factors our net income was \$221,375 for the six months ended June 30, 2009 compared to net income of \$621,218 for the six months ended June 30, 2008. This resulted in diluted earnings per share of \$0.01 on weighted average diluted common shares outstanding of 6,044,499 for the six months ended June 30, 2009, as compared to diluted earnings per share of \$0.06 on weighted average diluted common shares outstanding of 5,976,008 for the six month period ended June 30, 2008.

Liquidity and Capital Resources

As of June 30, 2009, we had cash and cash equivalents of \$1,265,070. Our net current assets were \$10,123,730 at June 30, 2009 versus \$13,944,121 at December 31, 2008. Total debt at June 30, 2009 was \$7,232,471 compared to the December 31, 2008 balance of \$5,485,404.

Cash used in operating activities was \$99,310 during the six months ended June 30, 2009. The most significant use of cash resulted from a net decrease in accounts payable and accrued expenses of \$3,052,553 and \$1,183,517, respectively. Partially offsetting this use of cash was an increase in costs in excess of billings and estimated profits of \$2,065,552, which includes the deferral of costs related to the L-3 Contract, a decrease in accounts receivable of \$1,270,740 and an increase in billings in excess of costs and profits of \$572,394.

Cash used in investing activities was \$234,076, comprised of \$196,576 for the purchase of property and equipment and \$37,500 of earn-out payments associated with the CIS acquisition.

Cash provided by financing activities was \$1,570,752, of which \$1,900,000 represents borrowings from our revolving bank line and \$185,069 of proceeds from stock option exercises, partially offset by \$271,869 representing the repayments of bank loans and other debt.

Borrowings under the revolving credit facility were \$6,235,898 at June 30, 2009 and were \$4,335,898 at December 31, 2008. On October 6, 2008, the Company executed an amendment to its revolving credit agreement with TD Bank, increasing its line of credit from \$4 million to \$8 million. The term of the agreement has been extended to June 30, 2010 and interest continues to be paid monthly in arrears at TD Bank's prime rate. The Company is required to maintain certain financial and reporting covenants and restrictions on dividend payments under the terms of the Loan Agreement with TB Bank, N.A. (See Note 6 to the Condensed Consolidated Financial Statements included in this Quarterly Report on Form 10-Q).

Backlog and Bookings

Booked orders increased 58.3% to \$16,350,960 in the second quarter of 2009, as compared to \$10,328,622 same quarter of 2008. Booked orders increased 27.3% to \$28,091,723 in the first half of 2009, as compared to \$22,071,938 first half of 2008.

The Company's backlog as of June 30, 2009 was \$22,662,774 and was \$17,609,108 at June 30, 2008. The increase in backlog is due to new public sector service agreements, several integration contracts with new public agencies and L-3 Contract bookings.

Critical Accounting Policies and Estimates

Disclosure of the Company's significant accounting policies is included in Note 1 to the consolidated financial statements of the Company's Annual Report on Form 10-K for year ended December 31, 2008. Some of these policies require management to make estimates and assumptions that may affect the reported amounts in the Company's financial statements.

Forward Looking Statements

When used in this discussion, the words "believes", "anticipates", "contemplated", "expects", or similar expressions are intended to identify forward looking statements. Such statements are subject to certain risks and uncertainties that could cause actual results to differ materially from those projected. Those risks and uncertainties include changes in interest rates, the ability to control costs and expenses, significant variations in recognized revenue due to customer caused delays in installations, cancellations of contracts by our customers, and general economic conditions which could cause actual results to differ materially from historical earnings and those presently anticipated or projected. The Company undertakes no obligation to publicly release the results of any revisions to those forward looking statements that may be made to reflect events or circumstances after this date or to reflect the occurrence of unanticipated events.

Item 3. Quantitative and Qualitative Disclosures about Market Risk

We have one revolving credit facility for which the interest rate on outstanding borrowings is variable and is based upon the prime rate of interest. At June 30, 2009, there was \$6,235,898 outstanding under this credit facility.

Our business is impacted by the health of the U.S economy. Current economic conditions have caused a decline in business spending which has adversely affected our business and financial performance and our operating results. Accordingly, our business and financial performance has been adversely affected by current economic conditions, and any future d of economic conditions, could cause a further reduction in the availability of credit to our customers.

Item 4. Controls and Procedures

(a) Evaluation of Disclosure Controls and Procedures

The Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer have evaluated the effectiveness of our disclosure controls and procedures (as such term is defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act")) as of June 30, 2009. Based on such evaluation, such officers have concluded that, as of June 30, 2009, the Company's disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2009, management did not identify any changes in the Company's internal control over financial reporting that have materially affected, or are reasonably likely to materially affect, the Company's internal control over financial reporting.

Part II - Other Information

Item 1. Legal Proceedings

We know of no material litigation or proceeding, pending or threatened, to which we are or may become a party.

Item 6. Exhibits

Number Description

| | |
|------|---|
| 31.1 | Rule 13a-14(a) 15d-14(a) Certification of Chief Executive Officer |
| 31.2 | Rule 13a-14(a) 15d-14(a) Certification of Chief Operating Officer |
| 31.3 | Rule 13a-14(a) 15d-14(a) Certification of Chief Financial Officer |
| 32 | Section 1350 Certification |

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

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.

Henry Bros. Electronics, Inc.
(Registrant)

Date: August 13, 2009

By: /s/ JAMES E. HENRY

James E. Henry

Chairman, Chief Executive Officer,
Treasurer and Director

Date: August 13, 2009

By: /s/ BRIAN REACH

Brian Reach

President, Chief Operating Officer,
Secretary and Director

Date: August 13, 2009

By: /s/ JOHN P. HOPKINS

John P. Hopkins

Chief Financial Officer