Henry Bros. Electronics, Inc.
Form 10-Q
October 18, 2007

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-Q

(Mark One)

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

For the quarterly period ended June 30, 2007

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. 05-62411

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

Delaware	22-3690168
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

17-01 Pollitt Drive
Fair Lawn, New Jersey 07410
(address of principal executive offices) (Zip Code)
Issuer'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 o No x

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 o Accelerated filer o Non-accelerated filer x

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

Indicate the number of shares outstanding of each of the issuer's Common Stock, as of the latest practicable date: 5,926,065 shares of common stock, $.01 par value per share, as of September 30, 2007.

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

	(Unaudited) June 30, 2007	(Audited) December 31, 2006
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	$ 1,258,373	$ 199,853
Accounts receivable-net of allowance for doubtful accounts	11,952,446	13,628,358
Inventory	1,539,898	1,707,933
Costs in excess of billings and estimated profits	4,590,974	4,643,469
Deferred tax asset	1,349,620	1,155,620
Retainage receivable	1,226,527	1,390,468
Prepaid expenses and income tax receivable	1,095,551	454,801
Other assets	285,963	290,079
Total current assets	23,299,352	23,470,581
Property and equipment - net of accumulated depreciation	2,235,612	2,402,394
Goodwill	3,316,530	3,316,530
Intangible assets - net of accumulated amortization	1,325,886	1,436,414
Deferred tax asset	694,545	594,545
Other assets	150,857	151,145
TOTAL ASSETS	$ 31,022,782	$ 31,371,609
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	$ 6,966,889	$ 5,973,047
Accrued expenses	3,076,580	4,786,203
Accrued taxes	59,576	58,914
Billings in excess of costs and estimated profits	1,431,510	1,167,259
Deferred income	396,460	476,775
Revolving credit line maturing within one year	3,635,897	-
Current portion of long-term debt	475,708	505,028
Deferred tax liability	249,365	249,365
Other current liabilities	401,069	252,881
Total current liabilities	16,693,054	13,469,472
Long-term debt, less current portion	474,793	3,463,236
Deferred tax liability	428,283	428,283
TOTAL LIABILITIES	17,596,130	17,360,991
STOCKHOLDERS' EQUITY		
Preferred stock, $.01 par value; 10,000,000 shares authorized; no shares issued	-	-
Common stock, $.01 par value; 10,000,000 shares authorized; 5,916,065 shares issued and outstanding in 2007 and 2006	59,161	59,161
Additional paid in capital	17,284,205	17,284,205
Deferred compensation	(297,147)	(383,552)
Accumulated deficit	(3,619,567)	(2,949,196)

TOTAL EQUITY	13,426,652	14,010,618
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$ 31,022,782	$ 31,371,609

The accompanying notes are an integral part of these statements

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

	Six months ended June 30, 2007	Six months ended June 30, 2006 (Restated)	Three months ended June 30, 2007	Three months ended June 30, 2006 (Restated)
Revenue	$ 24,392,499	$ 19,284,797	$ 13,521,198	$ 10,139,969
Cost of revenue	18,956,044	14,133,828	10,240,919	7,927,175
Gross profit	5,436,455	5,150,969	3,280,279	2,212,794
Operating expenses:				
Selling, general & administrative expenses	6,246,153	5,205,840	2,981,986	2,577,086
Operating (loss) profit	(809,698)	(54,871)	298,293	(364,292)
Interest income	21,273	6,414	14,332	6,234
Other expense	(3,369)	(4,084)	(3,110)	(4,084)
Interest expense	(167,189)	(35,618)	(96,732)	(8,890)
(Loss) income before tax expense	(958,983)	(88,159)	212,783	(371,032)
Tax expense (benefit)	(288,612)	204,153	62,739	22,967
Net (loss) income after taxes	$ (670,371)	$ (292,312)	$ 150,044	$ (393,999)
<u>BASIC (LOSS) EARNINGS PER COMMON SHARE:</u>				
Basic (loss) profit per common share	$ (0.12)	$ (0.05)	$ 0.03	$ (0.07)
Weighted average common shares	5,749,964	5,742,064	5,749,964	5,742,064
<u>DILUTED (LOSS) EARNINGS PER COMMON SHARE:</u>				
Diluted (loss) profit per common share:	$ (0.12)	$ (0.05)	$ 0.03	$ (0.07)
Weighted average diluted common shares	5,749,964	5,905,784	5,749,964	5,905,556

The accompanying notes are an integral part of these statements

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

	Six months ended June 30, 2007	Six months ended June 30, 2006 (Restated)
Cash flows from operating activities:		
Net (loss) income	$ (670,371)	$ (292,312)
Adjustments to reconcile net (loss) income from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	394,101	336,558
Bad debt expense	110,465	82,664
Provision for obsolete inventory	55,000	30,000
Stock option expense	86,405	106,805
Deferred income taxes	(294,000)	(36,404)
Changes in operating assets and liabilities:		
Accounts receivable	1,565,448	347,029
Inventories	113,034	(92,165)
Costs in excess of billings and estimated profits	52,494	(65,751)
Retainage receivable	163,940	(622,432)
Other assets	4,115	(123,136)
Prepaid expenses and income tax receivable	(640,749)	(298,839)
Accounts payable	993,841	(1,234,643)
Accrued expenses	(1,709,621)	(45,977)
Billings in excess of cost and estimated profits	264,251	297,068
Deferred income	(80,315)	(46,202)
Other Liabilities	148,189	269,865
Net cash provided by (used in) operating activities	556,227	(1,387,872)
Cash flows from investing activities:		
Purchase of property and equipment	(74,367)	(61,326)
Net cash used in investing activities	(74,367)	(61,326)
Cash flows from financing activities:		
Proceeds from issuance of common stock - net of fees		30,999
Net proceeds and (payments) from revolving bank lines	788,000	-
Payments of bank loans	(101,675)	(56,035)
Net repayments of other debt	(47,404)	(5,759)
Capitalized lease payments	(62,262)	(56,269)
Net Cash provided by (used in) financing activities	576,659	(87,064)
Increase (decrease) in cash and cash equivalents	1,058,519	(1,536,262)
Cash and cash equivalents - beginning of period	199,854	2,177,686
Cash and cash equivalents - end of period	$ 1,258,373	$ 641,424
Supplemental disclosure of cash flow information:		
Amount paid for the period for:		
Interest	$ 164,697	$ 35,340
Taxes	$ 175,500	319,113
Non-cash investing and financing activities:		
Equipment financed	$ 42,425	90,812

The accompanying notes are an integral part of these 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	Deferred		
	Shares	Amount	Paid-in Capital	Comp-ensation	Retained Earnings	Total
Balance at December 31, 2005 (Corrected)	5,889,399	$ 58,894	$ 16,956,008	$ (342,878)	$ (689,058)	$ 15,982,966
Employee stock options exercised	6,666	67	30,930			30,997
Value of stock option grants			66,551	(66,551)		-
Amortization of value assigned to stock option grants				106,805		106,805
Net loss June 30, 2006					(292,312)	(292,312)
Balance at June 30, 2006	5,896,065	58,961	17,053,489	(302,624)	(981,370)	15,828,456
Balance at December 31, 2006	5,916,065	$ 59,161	$ 17,284,205	$ (383,552)	$ (2,949,196)	$ 14,010,618
Amortization of value assigned to stock option grants				86,405		86,405
Net loss June 30, 2007					(670,371)	(670,371)
Balance at June 30, 2007	5,916,065	$ 59,161	$ 17,284,205	$ (297,147)	$ (3,619,567)	$ 13,426,652

The accompanying notes are an integral part of these statements

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

1. Basis of Presentation

Henry Bros. Electronics, Inc., (the Company) and its subsidiaries, 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 Products and Services segment we provide emergency preparedness programs, mobile digital recording solutions and specialized radio frequency communication equipment and integration. Each of the Company s segments markets nationwide with an emphasis in the Arizona, California, Colorado, Maryland, New Jersey, New York, Texas and Virginia metropolitan areas. 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.

The table below shows the sales percentages by geographic location for the six months ended June 30, 2007 and 2006:

	2007	**2006**
New Jersey/New York	42%	47%
California	24%	30%
Texas	5%	3%
Arizona	4%	7%
Colorado	8%	12%
Virginia/Washington DC	12%	-
Integration Segment	96%	99%
Specialty Segment	5%	6%
Inter-segment	-	-5%
Total	100%	100%

In addition to the New Jersey headquarters location, other sales and service facilities are located near the Dallas Fort Worth Airport, Phoenix Arizona Airport, Denver and Colorado Springs, Colorado, Fullerton, California, Washington DC, and New York City.

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the United States of America for interim financial information. Accordingly, they do not include all of the information and footnotes required by generally accepted accounting principles in the United States for full year financial statements. In the opinion of management, all adjustments considered necessary for a fair presentation have been included and are of a normal, recurring nature. Operating results for the six month period ended June 30, 2007, are not necessarily indicative of the results that may be expected for the full year. These consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto that are included in the Company's Annual Report on Form 10-K for the fiscal period ended December 31, 2006.

As discussed in Item 4 on this Quarterly Report on Form 10-Q and as disclosed in the Company's Annual Report on Form 10-K for the fiscal period ended December 31, 2006, certain quarterly information in 2006 has been restated. The impact on the condensed consolidated operations for the three and six months ended June 30, 2006 follows:

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES

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

	Three months ended	Six months ended
	June 30, 2006	
As Reported:		
Revenue	$ 10,030,118	$ 19,185,196
Gross profit	2,564,036	5,559,741
Net income	30,001	255,688
Earnings per share:		
Basic	$ 0.01	$ 0.04
Diluted	0.01	0.04
As Restated:		
Revenue	$ 10,139,969	$ 19,284,797
Gross profit	2,212,794	5,150,969
Net loss	(393,999)	(292,312)
Loss per share:		
Basic	$ (0.07)	$ (0.05)
Diluted	(0.07)	(0.05)

2. 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 of options and warrants, 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. Potentially dilutive securities are not included in earnings per share for the six months ended June 30, 2007, as their inclusion would be anti-dilutive.

3. Stock Based Compensation

In December 2004, the Financial Accounting Standards Board issued Statement of Financial Accounting Standards No. 123(R) (FAS-123(R)), *Share-Based Payment,* which is a revision of Statement of Financial Accounting Standards No. 123 (FAS-123), *Accounting for Stock-Based Compensation.*

FAS-123(R) eliminates accounting for share-based compensation transactions using the intrinsic value method prescribed in Accounting Principles Board Opinion No. 25 (APB-25), *Accounting for Stock Issued to Employees,* and requires instead that such transactions be accounted for using a fair-value-based method. The Company has elected to adopt the provisions of FAS-123(R) effective January 1, 2006, under the modified prospective transition method, in which compensation cost was

HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES

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

recognized beginning with the effective date (a) based on the requirements of FAS-123R for all share-based payments granted after the effective date and (b) based on the requirements of FAS-123R for all awards granted to employees prior to the effective date of FAS-123R that remain unvested on the effective date.

As permitted under FAS-123, the Company elected to follow Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees*, and related interpretations in accounting for stock-based awards to employees through December 31, 2005. Accordingly, compensation cost for stock options and nonvested stock grants was measured as the excess, if any, of the market price of the Companys common stock at the date of grant over the exercise price.

With the adoption of FAS-123(R), the Company elected to amortize stock-based compensation for awards granted on or after the adoption of FAS-123R on January 1, 2006, on a straight-line basis over the requisite service (vesting) period for the entire award. For awards granted prior to January 1, 2006, compensation costs are amortized in a manner consistent with Financial Accounting Standards Board Interpretation No. 28 (FIN-28), *Accounting for Stock Appreciation Rights and Other Variable Stock Option or Award Plans*. This is the same manner applied in the pro forma disclosures under FAS-123. Accordingly, the fair value of all options granted on and after January 1, 2003 is to be charged against income over the vesting period. For the three months ended June 30, 2007 and 2006 the Company charged $56,250 and $79,987, respectively, and for the six months ended June 30, 2007 and 2006 the Company charged $113,775 and $129,869, respectively, to operations for those options granted subsequent to January 1, 2003. Those issued prior to adoption are accounted for under the intrinsic value method in accordance with APB No. 25. The Company adopted the perspective method as permitted by SFAS No. 148 on January 1, 2003.

4. Long-Term Debt

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

Advances under the Revolving Loan may be used to finance working capital and acquisitions. Interest is paid monthly in arrears at TD Banknorths prime rate (8.25% at June 30, 2007 and December 31, 2006) through May 1, 2008, when all amounts outstanding under the Revolving loan is due. The Revolving Loan was originally due May 1, 2007; however, in December 2006 TD Banknorth provided the Company a one year extension.

The Term Loan provides for the payment of sixty equal monthly installments of principal and interest in the amount of $19,729.65 commencing July 30, 2005 and continuing thru June 30, 2010. Interest under the Term Loan is 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. The Company was not in compliance with certain of these bank covenants at March 31, 2007, June 30 and December 31, 2006. TD Banknorth provided the Company with a waiver associated with the bank covenants in default on October 11, 2007. As a condition of the waiver, the Company agreed to grant TD Banknorth a first security interest on its accounts receivable.

Long-term debt included of the following balances:

	(Unaudited) June 30, 2007	(Audited) December 31, 2006
Term loan at 6.75% interest payable in monthly installments of $19,730 thru June 30, 2010	$ 429,447	$ 531,122
Revolving line at the prime rate of interest, payable in monthly installments thru May 1, 2008	3,635,897	