

Edgar Filing: Henry Bros. Electronics, Inc. - Form 10QSB

Henry Bros. Electronics, Inc.  
Form 10QSB  
November 14, 2005

SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended September 30, 2005

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.  
(Name of small business issuer as specified in its charter)

Delaware  
(State or other jurisdiction of  
incorporation or organization)

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

280 Midland Avenue  
Saddle Brook, New Jersey 07663  
(address of principal executive offices) (Zip Code)  
Issuer's Telephone number, including area code: (201) 794-6500

Diversified Security Solutions, Inc.  
(Former Name, Former Address and Former Fiscal Year, if Changed  
Since Last Report)

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

Yes X No

Number of shares outstanding of the issuer's Common Stock:

Class:	Outstanding as of November 11, 2005
Common stock, \$.01 par value	5,889,398

Henry Bros. Electronics, Inc. and Subsidiaries

INDEX

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	Page	
	-----	
Part I	Financial Information	
Item 1.	Financial Statements	
	Consolidated Balance Sheets as of September 30, 2005 (Unaudited) and December 31, 2004 (Audited) .....	2
	Consolidated Statements of Operations for the nine and three months ended September 30, 2005 (Unaudited) and September 30, 2004 (Unaudited) .....	3
	Consolidated Statements of Cash Flows for the nine months ended September 30, 2005 (Unaudited) and September 30, 2004 (Unaudited) .....	4
	Notes to Consolidated Financial Statements .....	5-7
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations .....	8-9
Item 3.	Controls and Procedures .....	10
Part II	Other Information	
Item 1.	Legal Proceedings .....	11
Item 2.	Change in Securities .....	11
Item 3.	Defaults Upon Senior Securities .....	11
Item 4.	Submission of Matters to a Vote of Security Holders .....	11
Item 5.	Other Information .....	11
Item 6.	Exhibits and Reports on Form 8-K .....	12
SIGNATURES	.....	13
CERTIFICATIONS	.....	14-20

Part 1. Financial Statements

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

	Unaudited September 30, 2005	Audited December 31, 2004
	-----	-----
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	\$ 714,489	\$ 3,154,972
Accounts receivable-net of allowance for doubtful accounts- \$614,256 in 2005 and \$357,500 in 2004	13,091,812	9,035,460
Inventory	981,199	874,575
Costs in excess of billings and estimated profits	3,345,236	2,584,922
Deferred tax asset	1,044,660	1,011,263
Prepaid expenses and income tax receivable	82,574	470,397

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Other assets	36,907	47,830
	-----	-----
Total current assets	19,296,877	17,179,419
PROPERTY AND EQUIPMENT - net of accumulated depreciation of \$1,275,993 in 2005 and \$1,383,703 in 2004	1,148,936	1,301,428
GOODWILL	2,134,344	2,134,344
INTANGIBLE ASSETS - net of accumulated amortization of \$417,062 in 2005 and \$310,491 in 2004	1,085,281	1,191,852
DEFERRED TAX ASSET	547,264	742,070
OTHER ASSETS	1,145,994	539,307
	-----	-----
TOTAL ASSETS	\$25,358,696	\$23,088,419
	=====	=====
LIABILITIES & STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES		
Accounts payable	\$ 3,462,936	\$ 3,337,310
Accrued taxes and expenses	2,917,107	1,833,934
Billings in excess of costs and estimated profits	1,949,333	1,351,298
Deferred income	42,494	42,494
Current portion of long term debt	107,390	1,394,809
Deferred tax liability	44,673	32,398
	-----	-----
Total current liabilities	8,523,933	7,992,243
LONG-TERM DEBT, LESS CURRENT PORTION	1,154,386	168,989
DEFERRED TAX LIABILITY	149,822	188,163
	-----	-----
TOTAL LIABILITIES	9,828,141	8,349,395
	-----	-----
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; 5,739,398 shares issued and outstanding in 2005 and 2004	57,394	57,394
Additional paid in capital	16,935,188	16,602,366
Deferred compensation	(376,314)	(178,942)
Accumulated deficit	(1,085,713)	(1,741,794)
	-----	-----
TOTAL EQUITY	15,530,555	14,739,024
	-----	-----
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	\$25,358,696	\$23,088,419
	=====	=====

The accompanying notes are an integral part of these statements

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	Nine months ended September 30,		Three months ended September 30,	
	2005	2004	2005	2004
Revenue	\$30,110,696	\$ 19,977,273	\$11,298,796	\$7,785,299
Cost of revenue	22,161,167	15,165,515	8,427,197	5,781,040
Gross profit	7,949,529	4,811,758	2,871,599	2,004,259
Operating Expenses:				
Selling general & administrative expenses	6,650,688	4,817,478	2,296,143	1,791,250
Operating profit (loss)	1,298,841	(5,720)	575,456	212,999
Interest income	10,892	6,035	1,486	2,630
Other Expense	(4,079)		(299)	
Interest (expense)	(59,854)	(72,887)	(19,177)	(23,860)
Income (loss) before tax expense (benefit)	1,245,800	(72,572)	557,466	191,759
Tax expense (benefit)	589,719	(29,628)	269,644	78,740
Net income (loss) after taxes	\$ 656,081	\$ (42,944)	\$ 287,822	\$ 113,019
BASIC EARNINGS (LOSS) PER COMMON SHARE:				
Basic Profit (Loss) Per Common Share	\$ 0.11	\$ (0.01)	\$ 0.05	\$ 0.04
Weighted Average Common Shares	5,739,398	5,613,187	5,739,398	5,301,280
DILUTED EARNINGS (LOSS) PER COMMON SHARE:				
Diluted Profit (Loss) Per Common Share:	\$ 0.11	\$ (0.01)	\$ 0.05	\$ 0.04
Weighted Average Diluted Common Shares	5,739,398	5,613,187	5,739,398	5,315,580

The accompanying notes are an integral part of these statements

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

For the nine months ended  
September 30,  
-----  
2005                      2004  
-----

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Cash flows from operating activities:		
Net income (loss)	\$ 656,081	(\$ 42,944)
Adjustments to reconcile net income (loss) from operations to net cash provided by (used in) operating activities:		
Depreciation and amortization	425,279	396,123
Bad debt expense	256,756	145,500
Stock option expense	135,450	41,825
Deferred income taxes	135,343	(29,755)
Changes in operating assets and liabilities:		
Accounts receivable	(4,313,108)	(405,180)
Inventories	(106,624)	(211,299)
Costs in excess of billings and estimated profits	(760,314)	(1,044,915)
Other assets	(595,764)	170,748
Prepaid Expenses and income tax receivable	387,823	(37,166)
Accounts payable	125,626	760,947
Accrued expenses	1,069,476	573,040
Billings in excess of cost and estimated profits	598,035	320,089
Customers deposits	13,697	17,454
Deferred Income	--	32,787
	-----	-----
Net cash provided by (used in) operating activities	(1,972,244)	687,254
	-----	-----
Cash flows from investing activities:		
Purchase of business, net of cash acquired	--	(171,225)
Purchase of property and equipment	(89,764)	(85,838)
	-----	-----
Net Cash used in investing activities	(89,764)	(257,063)
	-----	-----
Cash flows from financing activities:		
Proceeds from issuance of common stock - net of fees		3,086,976
Net (payments) proceeds from revolving bank lines	100,000	(600,000)
Payments of bank loans	(408,190)	(269,460)
Capitalized lease payments	(70,285)	--
Payment of loan payable to owner of acquired company	--	(100,000)
	-----	-----
Net Cash provided by (used in) financing activities	(378,475)	2,117,516
	-----	-----
Increase (decrease) in cash and cash equivalents	(2,440,483)	2,547,707
Cash and cash equivalents - beginning of period	3,154,972	1,927,416
	-----	-----
Cash and cash equivalents - end of period	\$ 714,489	\$ 4,475,123
	=====	=====
Supplemental disclosure of cash flow information:		
Amount paid for the period for:		
Interest	\$ 59,854	\$ 72,887
Taxes	\$ 589,719	\$ 1,727
Non-cash investing and financing activities:		
Equipment financed	\$ 76,453	\$ 246,613
Issuance of stock to acquire businesses	--	\$ 266,400
Value of stock options issued to employees	\$ 332,822	--

The accompanying notes are an integral part of the financial statements.

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### 1. Basis of Presentation

Henry Bros. Electronics, Inc., the ("Company") (formally Diversified Security Solutions, Inc.) and its subsidiaries, are systems integrators providing design, installation and support services for a wide variety of security, communications and control systems. The Company specializes in turnkey systems that integrate many different technologies. Systems are customized to meet the specific needs of its customers. The Company markets nationwide with an emphasis in the New York, Dallas, Phoenix and Southern California metropolitan areas. Customers are primarily medium and large businesses and governmental agencies. The Company derives a majority of its sales from project installations and to a smaller extent, maintenance service revenue. In April of 2004, the Company acquired Airorlite Communications, Inc. ("Airorlite"). Airorlite specializes in the design, manufacturing and maintaining wireless communications equipment used to enhance and extend emergency radio frequency services and cellular communication for both fixed and mobile applications. The table below shows the sales percentages by geographic location for the nine months ended September 30, 2005 and 2004 as follows:

	Nine months ended September 30,	
	----- 2005	2004 -----
	----	----
New Jersey/New York	55%	35%
California	24	33
Texas	8	14
Arizona	6	8
	---	---
Total integration	93	90
Specialty products and services	7	10
	---	---
Total	100%	100%
	===	===

The Company's headquarters are located in Saddle Brook, New Jersey. Sales and service facilities are located near the Dallas Fort Worth Airport, Phoenix Arizona Airport, three facilities in the New York City metropolitan area ( two in Saddle Brook, New Jersey), and Fullerton, California. During the third quarter of 2003, the Company's subsidiary, Viscom Products ("Viscom"), restructured its operations to begin outsourcing the manufacturing of its products to a third party. Viscom will continue to sell product and support existing warranties.

The accompanying unaudited 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 three month and nine month period ended September 30, 2005, are not necessarily indicative of the results that may be expected for the year ended December 31, 2005. 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-KSB for the fiscal period ended December 31, 2004.

## 2. Net Income (Loss) Per Share

The computation of basic earnings (loss) 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.

## 3. Stock Based Compensation

In December 2002, the FASB issued SFAS No. 148 "Accounting for Stock Based Compensation- Transition and Disclosure". SFAS No. 148 provides alternative methods of transitions to SFAS No 123's fair value method of accounting for stock based employee compensation, but does not require companies to use fair value method. It also amends the disclosure provisions of SFAS No. 123 and APB No.25 to require, in the summary of significant policies, the effect of an entity's accounting policy with respect to stock based employee compensation on reported net income and earnings per share in annual and interim financial statements. The provision of this statement is effective for fiscal years ending after December 15, 2002, and interim reporting periods beginning after December 15, 2002. 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 nine months ended September 30, 2005, the Company charged \$157,860 of options granted subsequent to January 1, 2003 against 2005 earnings. 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.

Based upon the fair value method to measure compensation expense, the Company's proforma effects for the three and nine months ended September 30, 2005 and 2004 is as follows:

	For the nine months ended September 30,		For the three months ended September 30,	
	2005	2004	2005	2004
Net Income (Loss) as reported	\$656,081	(\$42,944)	\$287,822	\$113,010
Stock based- employee compensation expense included in reported net income (loss), net of related tax expense	74,091	24,677	27,220	13,640
Total stock-based employee compensation expense determined under fair valued based net of related tax effects	(93,218)	(29,567)	(27,220)	(18,351)
Pro forma net Income/(Loss)	\$636,954	(\$47,834)	\$287,822	\$108,299
Earnings/(Loss) per share:				
Basic and diluted - as reported	\$ 0.11	(\$0.01)	\$ 0.05	\$ 0.02





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Company's common stock placed in escrow and to be distributed to the sellers based upon the cumulative earnings before interest and taxes ("EBIT") of Securus on each of the next five periods ended December 31 to \$2,950,000. In the event that all such shares are issued prior to December 31, 2010, the sellers are entitled to receive an additional payment of up to \$200,000 based upon one third of the EBIT earned in excess of \$2,950,000 through December 31, 2010. Funding for this transaction was provided by the Company's credit facility with Hudson United Bank.

### 6. 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 financial statements.

7

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

### Results of Operations

#### Nine Months Ended September 30, 2005 and September 30, 2004

Sales - Sales for the nine months ended September 30, 2005 were \$30,110,696 representing an increase of \$10,133,423 or 51 % as compared to \$19,977,273 for the nine months ended September 30, 2004. This increase is principally related to the Integration business in the New Jersey/New York metropolitan market driven by increased business in the public transportation market. The Company's backlog as of September 30, 2005 was \$14,802,000.

Cost of Sales - Cost of sales for the nine months ended September 30, 2005 was \$22,161,167 as compared to \$15,165,515 for the nine months ended September 30, 2004. The gross profit margin for the nine months ended September 30, 2005 was 26.4 % as compared to 24.1 % for the nine months ended September 30, 2004. The improved gross profit percentage is due in part to lower material and labor costs as a percentage of sales in the 2005 period versus the 2004 period.

Selling, General and Administrative Expenses - Selling, general and administrative expense was \$6,650,688 for the nine months ended September 30, 2005 as compared to \$4,817,478 for the nine months ended September 30, 2004. This increase of 38.1% or \$1,833,210 was primarily attributed to increased cost associated with headcount of approximately \$1,490,000.

Interest Income - Interest income for the nine months ended September 30, 2005 was \$10,892 as compared to \$6,035 for nine months ended September 30, 2004.

Interest Expense - Interest expense for the nine months ended September 30, 2005 was \$59,854 as compared to \$72,887 for the nine months ended September 30, 2004. The decrease of \$13,033 is due to having a lower average debt balance for the nine months ended September 30, 2005 of \$1,347,307 versus \$2,079,515 for the nine months ended September 30, 2004.

#### Three Months Ended September 30, 2005 and September 30, 2004

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Sales - Sales for the three months ended September 30, 2005 were \$11,298,796 representing an increase of \$3,513,506 or 48.23 % as compared to \$7,285,290 for the three months ended September 30, 2004. The New Jersey/New York region integration business and Viscom specialty products business were the primary contributors to the sales growth of the company during the three months ended September 30, 2005 as compared to the September 30, 2004 period as the region benefited from a strong demand for its services in the public transportation market.

Cost of Sales - Cost of sales for the three months ended September 30, 2005 was \$8,427,197 as compared to \$5,781,040 for the three months ended September 30, 2004. The gross profit margin for the three months ended September 30, 2005 was 25.4 % as compared to 25.7 % for the three months ended September 30, 2004. Improved direct labor utilization was offset by higher material and subcontractor costs as a percentage of revenue in the 2005 period as compared with the 2004 period.

Selling, General and Administrative Expenses - Selling, general and administrative expenses were \$2,296,143 for the three months ended September 30, 2005 as compared to \$1,791,255 for the three months ended September 30, 2004. This increase of 28.2 % or \$504,888. The most significant costs associated with this increase was \$240,000, which was related to increased expenses related to hiring additional employees.

8

Interest Income - Interest income for the three months ended September 30, 2005 was \$1,486 as compared to \$2,631 for three months ended September 30, 2004 representing a decrease of \$1,145.

Interest Expense - Interest expense for the three months ended September 30, 2005 was \$19,177 as compared to \$23,868 for the three months ended September 30, 2004. The average debt balance for the three months ended September 30, 2005 was \$1,123,950 as compared to \$1,970,436 for the three months ended September 30, 2004.

Liquidity and Capital Resources - As of September 30, 2005, we had cash and cash equivalents of \$714,489. On June 30, 2005, the Company refinanced \$1 million of its outstanding bank debt into a five year term loan and entered into a 2 year \$4 million revolving credit facility with its' bank.

During the nine months ended September 30, 2005, net cash used in operating activities was \$1,972,244 due in large part to the increase in our accounts receivable resulting from our growth in sales. We purchased property and equipment of \$89,764 and reduced our debt by \$378,475. Our working capital requirements have grown and as a result, our cash and cash equivalents have significantly decreased over the last few years.

On July 28, 2004, the Company completed a \$3,300,000 private placement of its common stock to certain qualified institutional investors, from which the Company received approximately \$3,000,000 after expenses. We believe that our current cash and available lines of credit should be sufficient to meet our capital requirements for the next twelve months. However, we may seek additional equity and or debt financing as our operations grow.

Critical Accounting Policies

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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-KSB for the year ended December 31, 2004. Some of these policies require management to make estimates and assumptions that may affect the reported amounts in the Company's financial statement.

### 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.

9

### Item 3. Controls and Procedures

#### (a) Evaluation of Disclosure Controls and Procedures

Pursuant to Rule 13a-15 under the Securities and Exchange Act of 1934 as amended, the Company carried out an evaluation, under the supervision and with the participation of the Company's management, including the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer, of the design and operation of the Company's disclosure controls and procedures as defined under Rule 13a-15(e) under the Securities Exchange Act of 1934 as of the end of the period covered by this report. Based upon that evaluation, the Company's Chief Executive Officer, Chief Operating Officer and Chief Financial Officer concluded that the Company's disclosure controls and procedures

- (i) are effective in timely alerting them to material information relating to the Company (including its consolidated subsidiaries) required to be included in the Company's periodic SEC filings;
- (ii) are designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Securities and Exchange Act is recorded, processed, summarized and reported, within the time periods specified in the Commission's rules and forms; and
- (iii) include controls and procedures designed to ensure that information required to be disclosed by the Company in the reports that it files or submits under the Security Exchange Act is accumulated and communicated to the Company's management, including its principal executive and principal financial officers or persons performing similar functions, as appropriate to allow timely decisions regarding required disclosure.

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### (b) Change in Internal Controls over Financial Reporting

As required by Rule 13a-15(d), the company's executive management including the Chief Executive Officer, the Chief Operating officer and the Chief Financial Officer, also conducted an evaluation of the Company's internal control over financial reporting to determine whether any change occurred during the Company's last fiscal quarter that has materially affected, or is reasonably likely to materially affect, the Company's internal control over financial reporting. Based on that evaluation, there have been no changes in the Company's internal control over financial reporting during the fiscal quarter covered by this report that have materially affected, or are reasonably likely to materially affect our internal controls over financial reporting.

10

### Part II - Other Information

#### Item 1. Legal Proceedings

Not applicable

#### Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

Not applicable

#### Item 3. Defaults Upon Senior Securities

Not applicable

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

At our 2005 Annual Meeting of Stockholders held on August 3, 2005, the following individuals, constituting all of the members of the Board of Directors, were elected. For each elected director, the results of the voting were:

Name	Number of Votes For	Number of Votes Withheld
-----	-----	-----
Robert L. DeLia Sr.	5,305,750	11,933
James E. Henry	5,310,110	7,573
Joseph P. Ritorto	5,315,723	1,960
Brian Reach	5,310,150	7,533
David Sands	5,315,783	1,900
Irvin F. Witcosky	5,310,210	7,473

The stockholders also voted to ratify the selection of Demetrius & Company, L.L.C. as our independent auditors for 2005. The results of the voting of this proposal were 5,291,533 in favor, 3,900 against and 22,250 abstentions.

Stockholders also approved amending the Company's Certificate of Incorporation to change the Company's name to Henry Bros. Electronics, Inc. voting 5,255,788

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in favor, 40,245 against and 21,650 abstaining.

### Item 5. Other Information

Not applicable

11

### Item 6. Exhibits and Report on Form 8-K

#### Exhibits

Number	Description
-----	-----
2.1	Stock Purchase Agreement by and among Henry Bros. Electronics, Inc., a Colorado corporation, Henry Bros. Electronics, Inc., a Delaware corporation, Securus, Inc. the Paul Marcus Trust, the Phyllis C. Marcus Trust, Neal Marcus and Jeffery Marcus, incorporated by reference to the 8-K of the Company filed with the Securities and Exchange Commission on October 14, 2005.
3.1	Certificate of Incorporation of the Company, incorporated by reference to the Registration Statement on Form SB-2, File No. 333-94477 filed with Securities and Exchange Commission on January 12, 2000.
3.2	Certificate of Amendment of the Certificate of Incorporation of the Company, incorporated by reference to the 8-K filed with the Securities and Exchange Commission on August 9, 2005.
3.3	Amended and Restated Bylaws, incorporated by reference to the 8-K of the Company, filed with the Securities and Exchange Commission on August 9, 2005.
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

12

#### 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.

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Date: November 11, 2005

/s/ JAMES E. HENRY

-----  
James E. Henry  
Chairman, Chief Executive Officer,  
Treasurer and Director

Date: November 11, 2005

/s/ IRVIN F. WITCOSKY

-----  
Irvin F. Witcosky  
Chief Operating Officer, President,  
and Director

Date: November 11, 2005

/s/ PHILIP A. TIMPANARO

-----  
Philip A. Timpanaro  
Chief Financial Officer