Henry Bros. Electronics, Inc.
Form 10QSB
August 15, 2005

SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

Form 10-QSB

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

For the quarterly period ended June 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	22-3690168
(State or other jurisdiction of incorporation or organization)	(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 August 11, 2004,
Common stock, $.01 par value	5,739,398

Henry Bros. Electronics, Inc. and Subsidiaries

INDEX

Part I Financial Information

Item 1. Financial Statements

Consolidated Balance Sheets as of June 30, 2005 (Unaudited) and December 31, 2004 (Audited)..........

Consolidated Statements of Operations for the six and three months ended June 30, 2005 (Unaudited) and June 30, 2004 (Unaudited)..........

Consolidated Statements of Cash Flows for the six months ended June 30, 2005 (Unaudited) and June 30, 2004 (Unaudited)..........

Notes to Financial Statements..........

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

Item 3. Controls and Procedures..........

Part II Other Information

Item 1. Legal Proceedings..........

Item 2. Change in Securities..........

Item 3. Defaults Upon Senior Securities..........

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

Item 5. Other Information..........

Item 6. Exhibits and Reports on Form 8-K ....

SIGNATURES..........

CERTIFICATIONS..........

Part 1. Financial Statements

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

	Unaud June 20 --
ASSETS	

CURRENT ASSETS	
Cash and cash equivalents	$1,4
Accounts receivable-net of allowance for doubtful accounts- $488,000 in 2005 and $357,500 in 2004	10,8
Inventory	9
Costs in excess of billings and estimated profits	2,8
Deferred tax asset	1,1
Prepaid expenses and income tax receivable	3
Other assets	
Total current assets	17,5
PROPERTY AND EQUIPMENT - net of accumulated depreciation of $1,191,551 in 2005 and $1,383,703 in 2004	1,1
GOODWILL	2,1
INTANGIBLE ASSETS - net of accumulated amortization of $381,271 in 2005 and $310,491 in 2004	1,1
DEFERRED TAX ASSET	3
OTHER ASSETS	7
TOTAL ASSETS	$23,1

LIABILITIES & STOCKHOLDERS' EQUITY

CURRENT LIABILITIES	
Accounts payable	$3,3
Accrued taxes and expenses	1,6
Billings in excess of costs and estimated profits	1,3
Deferred income	
Current portion of long term debt	1
Deferred tax liability	
Total current liabilities	6,6
LONG-TERM DEBT, LESS CURRENT PORTION	1,1
DEFERRED TAX LIABILITY	2
TOTAL LIABILITIES	8,0
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	
Additional paid in capital	16,9
Deferred compensation	(39
Accumulated deficit	(1,37
TOTAL EQUITY	15,1
TOTAL LIABILITIES & STOCKHOLDERS' EQUITY	$23,1

The accompanying notes are an integral part of these statements

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

	Six months ended June 30, 2005	Six months ended June 30, 2004	Three 2005
Revenue	$18,811,900	$12,191,983	$10,198,8
Cost of revenue	13,733,970	9,384,475	7,304,6
Gross profit	5,077,930	2,807,508	2,894,1
Operating Expenses:			
Selling general & administrative expenses	4,354,545	3,026,223	2,303,7
Operating profit (loss)	723,385	(218,715)	590,3
Interest income	9,406	3,404	5,6
Other Expense	(3,780)	--	(3,78
Interest (expense)	(40,677)	(49,019)	(20,85
Net income (loss) before tax expense (benefit)	688,334	(264,330)	571,3
Tax expense (benefit)	320,075	(108,375)	265,4
Net income (loss) after taxes	$368,259	($155,955)	$305,9
BASIC EARNINGS (LOSS) PER COMMON SHARE:			
Basic Profit (Loss) Per Common Share	$0.06	($0.03)	$0.
Weighted Average Common Shares	5,739,398	5,143,908	5,739,3
DILUTED EARNINGS (LOSS) PER COMMON SHARE:			
Diluted Profit (Loss) Per Common Share:	$0.06	($0.03)	$0.
Weighted Average Diluted Common Shares	5,739,398	5,143,908	5,739,3

The accompanying notes are an integral part of these statements.

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

Unaudited

	For the June 30, 2005
Cash flows from operating activities:	
Net income (loss)	$368,2
Adjustments to reconcile net income (loss) from operations to net cash provide by (used in) operating activities:	
Depreciation and amortization	321,0
Bad debt expense	130,5
Stock option expense	85,6
Deferred income taxes	(252,99
Changes in operating assets and liabilities:	
Accounts receivable	(1,648,52
Inventories	(82,21
Costs in excess of billings and estimated profits	(238,22
Other assets	(243,04
Prepaid Expenses and income tax receivable	(133,55
Accounts payable	2,8
Accrued expenses	213,4
Billings in excess of cost and estimated profits	41,4
Customers deposits	15,8
Deferred Income	26,2
Net cash (used in) from operating activities	(1,393,35
Cash flows from investing activities:	
Purchase of business, net of cash acquired	--
Purchase of property and equipment	(55,05
Cash proceeds from (used for) investing activities	(55,05
Cash flows from financing activities:	
Net (payments) proceeds from revolving bank lines	(149,47
Proceeds from issuance of common stock - net of fees	--
Payments of other bank debt	(80,89
Capitalized lease payments	(36,45
Payment of loan payable to owner of acquired company	--
Cash (used) and proceeds in financing activities	(266,82
Increase (decrease) in cash and cash equivalents	(1,715,23
Cash and cash equivalents - beginning of period	3,154,9
Cash and cash equivalents - end of period	$1,439,7
Supplemental disclosure of cash flow information:	
Amount paid for the period for:	
Interest	$40,6
Taxes	$320,0
Non-cash investing and financing activities:	
Equipment financed	--
Issuance of stock to acquire businesses	--
Value of stock options issued to employees	$303,6

The accompanying notes are an integral part of the financial statements

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 completed its acquisition of Airorlite Communication's, 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 six months ended June 30, 2005 and 2004 as follows:

	Six Months Ended June 30, 2005	Six Months Ended June 30, 2004
New Jersey/ New York	59%	38%
California	24	35
Texas	9	14
Arizona	5	7
Total integration	97	94
Specialty products and services	3	6
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 it operations to begin outsourcing the manufacturing of it 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 six month period ended June 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.

5

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 six months ended June 30, 2005, the Company charged $18,707 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 six months ended June 30, 2005 and 2004 is as follows:

	For The Six Months Ended June 30		For T Months E
	2005	2004	2005
Net Income (Loss) as reported	$368,259	($155,955)	$305,972
Stock based- employee compensation			

expense included in reported net income (loss), net of related tax expense	45,832	7,670	21,655
Total stock-based employee compensation expense determined under fair valued based, net of related tax effects	(49,099)	(11,216)	(23,288)
Pro forma net Income/(Loss)	$364,993	($159,501)	$304,339
Earnings/(Loss) per share:			
Basic and diluted - as reported	$0.06	($0.03)	$0.05
Basic and diluted - proforma	$0.06	($0.03)	$0.05

4. Segment Data

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

Revenue	Six months ended June 30, 2005	2004	Three months June 30 2005
Integration	$18,056,387	$11,465,377	$ 9,629,729
Specialty Products and Services	755,513	726,606	569,097
Total	$18,811,900	$12,191,983	$10,198,826

Operating Profit (Loss)	Six months ended June 30, 2005	2004	Three months June 30 2004
Integration	$ 1,811,745	$ 290,105	$ 1,009,379
Specialty Products and Services	(322,362)	112,487	40,217
Corporate	(765,998)	(621,307)	(459,242)
Total	$ 723,385	($218,715)	$ 590,354

Total Assets	June 30, 2005	June 30, 2004
Integration	$17,778,352	$17,643,412
Specialty Products and Services	2,583,860	2,583,860
Corporate	2,861,147	2,861,147
Total	$ 23,223,359	$23,088,419

5. Subsequent Event

On August 3, 2005 the Company obtained shareholder approval and file an amendment to its Certificate of Incorporation changing its name from Diversified Security Solutions, Inc. to Henry Bros. Electronics, Inc.

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.

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

Results of Operations

Six Months Ended June 30, 2005 and June 30, 2004

Sales - Sales for the six months ended June 30, 2005 were $18,811,900 representing an increase of $6,619,917 or 54% as compared to $12,191,983 for the six months ended June 30, 2004. This increase is principally related to the Integration business. Each of the Company's four regions experienced significant sales growth during the six months ended June 30, 2005 as compared to the June 30, 2004 period. The Company backlog as of June 30, 2005 is $16,975,381.

Cost of Sales - Cost of sales for the six months ended June 30, 2005 was $13,733,970 as compared to $9,384,475 for the six months ended June 30, 2004. The gross profit margin for the six months ended June 30, 2005 was 27.0% as compared to 23.0% for the six months ended June 30, 2004. The improved gross profit percentage is due in part to lower material and contract 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 $4,354,545 for the six months ended June 30, 2005 as compared to $3,026,223 for the six months ended June 30, 2004. This increase of 43.9% or $1,328,322 was primarily attributed to increased cost associated with headcount of approximately $1,199,000 related to revenue growth.

Interest Income - Interest income for the six months ended June 30, 2005 was $9,406 as compared to $3,404 for six months ended June 30, 2004.

Interest Expense - Interest expense for the six months ended June 30, 2005 was $40,677 as compared to $49,019 for the six months ended June 30, 2004. The decrease of $8,342 is due to having a lower average debt balance for the six months ended June 30, 2005 of $1,520,513 versus $2,076,333 for the three months ended June 30, 2004.

Three Months Ended June 30, 2005 and June 30, 2004

Sales - Sales for the three months ended June 30, 2005 were $10,198,826 representing an increase of $3,674,336 or 56.3% as compared to $6,524,490 for the three months ended June 30, 2004. The New Jersey region was the primary contributor to the sales growth of the company during the three months ended June 30, 2005 as compared to the June 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 June 30, 2005 was $7,304,677 as compared to $4,995,689 for the three months ended June 30, 2004. The gross profit margin for the three months ended June 30, 2005 was 28.4% as compared to 23.4% for the three months ended June 30, 2004. We attribute this 5.0% increase in the gross profit margin to improved cost control in all of the Company`s regions.

Selling, General and Administrative Expenses - Selling, general and administrative expenses were $2,303,795 for the three months ended June 30, 2005 as compared to $1,599,389 for the three months ended June 30, 2004. This increase of 44.0% or $704,406 was due to hiring additional employees.

Interest Income - Interest income for the three months ended June 30, 2005 was $5,663 as compared to $1,879 for three months ended June 30, 2004. This was an increase of $3,784.

Interest Expense - Interest expense for the three months ended June 30, 2005 was $20,856 as compared to $24,211 for the three months ended June 30, 2004. The average debt balance for the three months ended June 30, 2005 was $1,391,328 as compared to $2,192,489 for the three months ended June 30, 2004.

Liquidity and Capital Resources - As of June 30, 2005, we had cash and cash equivalents of $1,439,737. On June 30, 2005, Diversified Security Solutions Inc. (the "Company") entered into a loan agreement (the "Loan Agreement") with Hudson United Bank ("Hudson") pursuant to which Hudson extended a four million dollar two-year credit facility (the "Revolving Loan"), to the Company and refinanced one million dollars of existing debt into a five year term loan (the "Term Loan").

The Revolving Loan

Pursuant to the Loan Agreement, and so long as no Default or Event of Default exists, the Company can request advances under the Revolving Loan. Beginning on August 1, 2005, and continuing every month thereafter until the termination date of the Revolving Loan, provided that no event of default has occurred, the Company shall pay all accrued but unpaid interest only at an interest rate equal to the floating commercial loan rate of Hudson announced by it from time to time at its prime rate. The entire accrued and unpaid interest thereon and all fees and other amounts payable under the loan agreement and loan documents with Hudson shall be due and payable in full on May 1, 2007 unless it is terminated sooner as a result of an event of default.

The proceeds of advances under the Revolving Loan shall be used by the Company for working capital and acquisition financing.

The Term Loan

Beginning on July 30, 2005 and continuing every month thereafter, the Company shall repay the Term Loan in sixty equal consecutive monthly installments of principal and interest of $19,729.65 until June 30, 2010 unless it is terminated sooner as a result of an event of default at which time the entire unpaid principal balance of the Term Loan together with all accrued but unpaid interest shall be immediately due and payable. The Term Loan Interest Rate is 6.75%.

The proceeds of advances under the Term Loan were used by the Company solely to refinance existing indebtedness to Hudson.

During the six months ended June 30, 2005, net cash used in operating activities was $1,482,942 due in large part to the increase in our accounts receivable resulting from our growth in sales. We purchased property and equipment of $55,056 and reduced out debt by $272,501. 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, which netted the Company 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 continue to grow.

Critical Accounting Policies

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.

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.

(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.

Part II - Other Information

Item 1. Legal Proceedings

Not applicable

Item 2. Changes in Securities

Not applicable

Item 3. Defaults Upon Senior Securities

Not applicable

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

Not applicable

Item 5. Other Information

Not applicable

Item 6. Exhibits and Report on Form 8-K

(a) 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

(b) Reports on Form 8-K

On April 15, 2005, the Company filed and 8-K reporting an Item 5.02 Event regarding resignation of its Chief Financial Officer

On May 9, 2005, the Company filed and 8-K reporting an Item 2.02 Event reporting that it issued a press release announcing the Company's financial results for the quarter ended March 31, 2005.

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.

Date: August 11, 2005

/s/ JAMES E. HENRY

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

Date: August 11, 2005

/s/ IRVIN F. WITCOSKY

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

Date: August 11, 2005

/s/ PHILIP A. TIMPANARO

Philip A. Timpanaro
Chief Financial Officer