TEAM INC
Form DEF 14A
August 23, 2013
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Schedule 14A Information

Proxy Statement Pursuant to Section 14(a) of the

Securities Exchange Act of 1934

Filed by the Registrant x Filed by a party other than the Registrant ¨

Check the appropriate box:

¨ Preliminary Proxy Statement
¨ **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
x Definitive Proxy Statement 2013 Annual Meeting of Shareholders
¨ Definitive Additional Materials
¨ Soliciting Material Pursuant to § 240.14a-11(c) or § 240.14a-12

TEAM, INC.

(Name of Registrant as Specified In Its Charter)

(Name of Person(s) Filing Proxy Statement, if other than the Registrant)

Payment of Filing Fee (Check the appropriate box):

x No fee required

¨ Fee computed on table below per Exchange Act Rules 14a-6(i)(1) and 0-11.

(1) Title of each class of securities to which transaction applies:

(2) Aggregate number of securities to which transaction applies:

(3) Per unit price or other underlying value of transaction computed pursuant to Exchange Act Rule 0-11 (set forth the amount on which the filing fee is calculated and state how it was determined):

(4) Proposed maximum aggregate value of transaction:

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¨ Fee paid previously with preliminary materials.

¨ Check box if any part of the fee is offset as provided by Exchange Act Rule 0-11(a)(2) and identify the filing for which the offsetting fee was paid previously. Identify the previous filing by registration statement number, or the Form or Schedule and the date of its filing.

(1) Amount Previously Paid:

(2) Form, Schedule or Registration Statement No.:

(3) Filing Party:

(4) Date Filed:

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13131 Dairy Ashford

Sugar Land, Texas 77478

(281) 331-6154

Notice of 2013 Annual Meeting of Shareholders and Proxy Statement

August 23, 2013

To Our Shareholders:

On behalf of our Board of Directors, it is my pleasure to invite you to attend the 2013 Annual Meeting of Shareholders of Team, Inc. The Annual Meeting will be held on Thursday, September 26, 2013 at 3:00 p.m., local time, at our headquarters located at 13131 Dairy Ashford, Sugar Land, Texas 77478. A notice of the meeting, a Proxy Statement and a proxy card containing information about the matters to be voted upon are enclosed.

In addition to the Proxy Statement, you should have also received a copy of our Annual Report on Form 10-K for the fiscal year ended May 31, 2013. We encourage you to read the Form 10-K. It includes information about our operations as well as our audited, consolidated financial statements. If you did not receive a copy of our 2013 Annual Report on Form 10-K, it, along with this Proxy Statement, are available on our website at *www.teamindustrialservices.com/proxy2013*.

Please use this opportunity to take part in the affairs of our company by voting on the business to come before this meeting. Whether or not you plan to attend the meeting, please complete, sign, date and return the accompanying proxy card in the enclosed postage-paid envelope or vote electronically via the Internet or by telephone. See *About the Annual Meeting How do I vote by proxy?* in the Proxy Statement for more details. Instructions for each type of voting are included with the instructions on your proxy card and the Notice of Internet Availability of Proxy Materials. Returning the proxy card or voting electronically does *not* deprive you of your right to attend the meeting and to vote your shares in person for the matters to be acted upon at the meeting. However, if your shares are held through a broker or other nominee, you must obtain a legal proxy from the record holder of your shares in order to vote at the meeting.

Sincerely,

Chairman of the Board of Directors

and Chief Executive Officer

Important Notice Regarding the Availability of Proxy Materials for the 2013 Annual Meeting.

Our Proxy Statement and 2013 Annual Report are available at

www.teamindustrialservices.com/proxy2013

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TEAM, INC.

13131 Dairy Ashford

Sugar Land, Texas 77478

NOTICE OF 2013 ANNUAL MEETING OF SHAREHOLDERS

Time and Date:	3:00 p.m., local time, on Thursday, September 26, 2013
Location:	Team, Inc. 13131 Dairy Ashford Sugar Land, Texas 77478
Items of Business:	Proposal One Election of two nominees named in the Proxy Statement as Class III Directors to serve a three-year term; Proposal Two Ratification of the appointment of KPMG LLP as the Company s registered public accounting firm for fiscal year ending May 31, 2014; Proposal Three Consideration of an advisory vote on Named Executive Officer compensation; Proposal Four Approval of a proposed Amendment to Increase the Authorized Shares of Common Stock; and Such other business as may properly come before the meeting, or any adjournment thereof.
Documents:	We have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Proxy Statement, a proxy card and our 2013 Annual Report and by notifying you of the availability of our proxy materials on the Internet. This Proxy Statement and our 2013 Annual Report are available at *www.teamindustrialservices.com/proxy2013*. Our 2013 Annual Report, including our Form 10-K for the year ended May 31, 2013, does not form a part of the material for the solicitation of proxies.
Record Date:	The shareholders of record of our Common Stock as of the close of business on Thursday, August 8, 2013 will be entitled to vote at the Annual Meeting, or any adjournment thereof. A complete list of shareholders of record of our Common Stock entitled to vote at the Annual Meeting will be maintained in our principal executive offices at 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478 for ten days prior to the Annual Meeting and will also be available at the Annual Meeting.
Proxy Voting:	It is important that your shares be represented and voted at the Annual Meeting. You can vote your shares in one of four ways:

(1) By Mail fully complete and return the proxy card in the enclosed envelope.

(2) By Internet visit the website listed on your proxy card and follow the instructions.

(3) By Telephone call the telephone number on your proxy card and follow the instructions.

(4) In Person attend the Annual Meeting to vote in person. You can revoke a proxy at any time prior to its exercise at the Annual Meeting by following the instructions in the Proxy Statement.

YOUR VOTE IS IMPORTANT.

PLEASE SIGN, DATE AND RETURN THE ACCOMPANYING PROXY CARD PROMPTLY.

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TEAM, INC.

13131 Dairy Ashford

Sugar Land, Texas 77478

PROXY STATEMENT

GENERAL

These proxy materials are being provided to you in connection with the 2013 Annual Meeting of Shareholders of Team, Inc. (the Annual Meeting). This Proxy Statement, the accompanying proxy card and the Company s 2013 Annual Report on Form 10-K were first mailed to our shareholders on or about August 23, 2013. This Proxy Statement contains important information for you to consider when deciding how to vote on the matters to be brought before the Annual Meeting. Please read it carefully.

In accordance with rules promulgated by the Securities and Exchange Commission (SEC), we have elected to provide access to our proxy materials both by sending you this full set of proxy materials, including a Proxy Statement, a proxy card and our 2013 Annual Report on Form 10-K and by notifying you of the availability of our proxy materials on the Internet. This Proxy Statement and our 2013 Annual Report on Form 10-K are available at *www.teamindustrialservices.com/proxy 2013*. Our 2013 Annual Report on Form 10-K does not form a part of the material for the solicitation of proxies.

Unless otherwise indicated, the terms Team, Inc., Team, the Company, we, our and us are used in these proxy materials to refer to Team, We are incorporated in the state of Delaware and our company website can be found at *www.teamindustrialservices.com*. Our stock is traded on the New York Stock Exchange (NYSE) under the symbol TISI and our fiscal year ends May 31 of each year.

ABOUT THE ANNUAL MEETING

Who is soliciting my vote?

The Board of Directors of Team, Inc. (the Board) is soliciting your vote in connection with our Annual Meeting.

What is the purpose of the Annual Meeting?

The meeting will be our regular Annual Meeting of Shareholders. You will be voting on the following matters at our Annual Meeting:

1. Proposal One Election of two nominees named in the Proxy Statement as Class III directors to serve a three-year term;

2. Proposal Two Ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for fiscal year 2014;

3. Proposal Three Consideration of an advisory vote on Named Executive Officer compensation;

4. Proposal Four Approval of a proposed Amendment to Increase the Authorized Shares of Common Stock; and

5. Such other business as may properly come before the Annual Meeting, or any adjournment thereof.

How does the Board of Directors recommend I vote?

The Board recommends a vote:

Proposal One For the election of Emmett J. Lescroart and Sidney B. Williams as Class III directors;

Proposal Two For the ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the year ending May 31, 2014;

Proposal Three For the approval of Team, Inc. s compensation of its Named Executive Officers as disclosed in this Proxy Statement; and

Proposal Four For a proposed Amendment to Increase the Authorized Shares of Common Stock as disclosed in this Proxy Statement.

Who is entitled to vote at the Annual Meeting?

The Board has set Thursday, August 8, 2013 as the record date for the Annual Meeting (the Record Date). All shareholders who owned our Common Stock, par value $0.30 per share (the Common Stock), at the close of business on the Record Date may attend and vote at the Annual Meeting.

How many votes can be cast by all shareholders?

Each share of Common Stock is entitled to one vote. There is no cumulative voting. There were 20,589,041 shares of Common Stock outstanding and entitled to vote on the Record Date.

How many votes must be present to hold the Annual Meeting?

A majority of the outstanding shares of Common Stock as of the Record Date must be present at the Annual Meeting in order to hold the Annual Meeting and to conduct business. This is called a quorum. Your shares are counted as present at the Annual Meeting if you are present at the Annual Meeting and vote in person, a proxy card has been properly submitted by you or on your behalf, or you have voted on the Internet or by telephone. Both abstentions and broker non-votes are counted as present for the purpose of determining the presence of a quorum. A broker non-vote is a share of Common Stock that is beneficially owned by a person or entity and held by a broker or other nominee, but for which the broker or other nominee (i) lacks the discretionary authority to vote on certain matters and (ii) has not received voting instructions from the beneficial owner in respect of these specific matters.

How many votes are required to approve each proposal in this Proxy Statement?

Election of Directors. Our directors are elected by a plurality of the votes cast. This means that the two individuals nominated for election to the Board who receive the most FOR votes (among votes properly cast in person or by proxy) will be elected.

Appointment of KPMG. To be approved, Proposal Two requires the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting, in person or by proxy.

Advisory Vote on Named Executive Officer Compensation. To be approved, Proposal Three requires the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting, in person or by proxy. A vote on this proposal is not binding on the Board or the Company. Although the vote is non-binding, our Compensation Committee will review and consider the voting results when evaluating the compensation program for our Named Executive Officers.

Approval of an Amendment to Increase the Authorized Shares of Common Stock. To be approved, Proposal Four requires the affirmative vote the holders of at least two-thirds of the shares of Common Stock outstanding and entitled to vote at the Annual Meeting.

Other Matters. An affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting, in person or by proxy, is generally required for action of any other matters that may properly come before the Annual Meeting.

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How do I vote by proxy?

You can vote your shares by completing and returning the proxy card accompanying this Proxy Statement. You also have the option of voting your shares on the Internet or by telephone. Your Internet or telephone vote authorizes the named proxies to vote shares in the same manner as if you marked, signed, and returned your proxy card or voting instruction card. Please see your proxy card or voting instruction card for more information on how to vote by proxy. If you vote by internet or telephone, do not return your proxy card. You may also vote in person by attending the Annual Meeting.

What if I don t vote for some of the items listed on my proxy card or voting instruction card?

If you return your signed proxy card or voting instruction card in the enclosed envelope but do not mark selections, it will be voted in accordance with the recommendations of the Board. The Board has designated André C. Bouchard and Ted W. Owen to serve as proxies. If you indicate a choice with respect to any matter to be acted upon on your proxy card or voting instruction card, your shares will be voted in accordance with your instructions.

If you are a beneficial owner and hold your shares in street name (that is, in the name of or through a broker, bank or other nominee) and do not return the voting instruction card, the broker or other nominee will determine if it has the discretionary authority to vote on each matter voted upon at the Annual Meeting. Under applicable rules, brokers have the discretion to vote on routine matters. All of the matters scheduled to be voted on at the Annual Meeting are non-routine except for Proposal Two, to ratify the appointment of KPMG LLP as the Company s independent registered public accounting firm for fiscal year ending May 31, 2014 and Proposal Four, to approve a proposed amendment to increase the authorized shares of common stock. Thus, your broker, bank or other nominee would not be able to vote on such non-routine matters. If your shares are held in street name, your broker, bank or other nominee will include a voting instruction card with this Proxy Statement. We strongly encourage you to vote your shares by following the instructions provided on the voting instruction card. Please return your proxy card to your broker, bank or other nominee and contact the person responsible for your account to ensure that a proxy card is voted on your behalf.

How are abstentions and broker non-votes counted?

In tabulating the voting result for Proposal One, Two and Three, shares that constitute broker non-votes are not considered voting power present with respect to that proposal. Thus, with respect to proposals One, Two and Three, broker non-votes will not affect the outcome, assuming a quorum is obtained. Broker non-votes will be considered voting power present for Proposal Four and thus will have the same effect as votes AGAINST Proposal Four (in as much as adoption of Proposal Four requires the affirmative vote of the holders of at least two-thirds of the shares of Common Stock outstanding and entitled to vote at the Annual Meeting). Abstentions are considered voting power present at the meeting and thus will have the same effect as votes AGAINST each of the matters scheduled to be voted on at the Annual Meeting (other than the election of directors).

Both abstentions and broker non-votes are counted as present for purposes of determining the existence of a quorum at the Annual Meeting.

Who pays for the proxy solicitation and how will the Company solicit votes?

We bear the expense of printing and mailing proxy materials. In addition to this solicitation of proxies by mail, our directors, officers, and other employees may solicit proxies by personal interview, telephone, facsimile, or email. These individuals will not be paid any additional compensation for any such solicitation. We will request brokers and other nominees who hold shares of Common Stock in their names to furnish proxy materials to beneficial owners of these shares. We will reimburse such brokers and other nominees for their reasonable expenses incurred in forwarding solicitation materials to these beneficial owners.

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Can I change or revoke my vote after I return my proxy card or voting instruction card?

Yes. Even if you sign the proxy card or voting instruction card in the form accompanying this Proxy Statement, vote by telephone, or vote on the Internet, you retain the power to revoke your proxy or change your vote. You can revoke your proxy or change your vote at any time before it is exercised at the Annual Meeting by providing written notice to our Corporate Secretary at: Team, Inc. Attn.: André C. Bouchard, Corporate Secretary, 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478, specifying such revocation. You may change your vote by timely delivering a valid, later-dated proxy or a later-dated vote by telephone or on the Internet or by voting in person at the Annual Meeting. However, please note that if you would like to vote at the Annual Meeting and you are not the shareholder of record, you must request, complete, and deliver a proxy from your broker or other nominee.

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PROPOSAL ONE ELECTION OF DIRECTORS

Nominees for Election

Our Amended and Restated Certificate of Incorporation and Bylaws provide that our Board will consist of not less than five persons, the exact number to be fixed from time-to-time by the Board. Our directors are divided into three classes designated as Class I, Class II and Class III. Each class consists, as nearly as possible, of one-third of the total number of directors constituting the entire Board. The Class I directors serve for a term expiring at the 2014 Annual Meeting of Shareholders, the Class II directors serve for a term expiring at the 2015 Annual Meeting and the Class III directors serve for a term expiring at the 2013 Annual Meeting of Shareholders. At each annual meeting, successors to the class of directors whose term expires at that annual meeting are elected for a term expiring at the third succeeding annual meeting. Each director holds office until the Annual Meeting for the year in which his or her term expires and until a successor has been elected and qualified, or until such director s earlier death, resignation, retirement, disqualification or removal.

At the Annual Meeting, two (2) directors will be elected for a three-year term expiring at the annual meeting to be held in 2016. Our Board has nominated the following two persons for election as Class III directors to serve a three-year term expiring on the date of our 2016 annual meeting of shareholders or until their successors are duly elected and qualified:

Emmett J. Lescroart and

Sidney B. Williams

Biographical information about each of the nominees is provided under *The Board of Directors and its Committees*, below.

Vote Required and Board Recommendation

Our directors are elected by a plurality of the votes cast. This means that the two individuals nominated for election to the Board who receive the most FOR votes (among votes properly cast in person or by proxy) will be elected. Shareholders may not cumulate their votes for the election of directors. Unless contrary instructions are set forth in the proxies, the persons with full power of attorney to act as proxies at the Annual Meeting will vote all shares represented by such proxies for the election of the nominees named therein as directors. Should any of the nominees become unable or unwilling to accept nomination or election, it is intended that the persons acting under the proxy will vote for the election, in the nominee s stead, of such other persons as our Board may recommend. We have no reason to believe that any of the nominees will be unable or unwilling to stand for election or to serve if elected.

The Board of Directors unanimously recommends that you vote *FOR* the election of each of the nominees named above.

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PROPOSAL TWO RATIFICATION OF THE APPOINTMENT OF KPMG LLP AS THE COMPANY S INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

The Audit Committee of the Board has appointed KPMG LLP as the independent registered public accounting firm of the Company to audit its consolidated financial statements and the effectiveness of its internal controls over financial reporting for the fiscal year ending May 31, 2014, and the Board has determined that it would be desirable to request that our shareholders ratify such appointment.

KPMG LLP has served as the independent registered public accounting firm of the Company and its subsidiaries since May 2002. KPMG LLP is considered by the Audit Committee and by the management of the Company to be well-qualified. Representatives of KPMG LLP will be present at the Annual Meeting and will have the opportunity to make a statement if they desire to do so and to respond to appropriate questions from shareholders.

Shareholder ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm is not legally required. Nevertheless, at the recommendation of the Audit Committee, our Board has directed that the appointment of KPMG LLP be submitted for shareholder ratification as a matter of good corporate practice. If our shareholders do not ratify the appointment of KPMG LLP at the Annual Meeting, the Audit Committee will reconsider whether to retain KPMG LLP. Even if the appointment is ratified, the Audit Committee, in its discretion, may direct the appointment of a different independent registered public accounting firm at any time during the year if it determines that such a change would be in the best interests of the Company and its shareholders.

Vote Required and Board Recommendation

The proposal to ratify the appointment of KPMG LLP as the Company s independent registered public accounting firm for the fiscal year ending May 31, 2014 requires the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting in person or by proxy.

The Board of Directors unanimously recommends a vote FOR ratification of the appointment of KPMG LLP as the Company s independent registered public accounting firm for the year ending May 31, 2014.

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PROPOSAL THREE ADVISORY VOTE ON NAMED EXECUTIVE OFFICER COMPENSATION

We are asking you to vote, in an advisory manner, to approve the executive compensation philosophy, policies and procedures described in in the *Compensation Discussion and Analysis* section of our 2013 Proxy Statement, and the compensation of our Named Executive Officers, as disclosed in our 2013 Proxy Statement.

In the section entitled *Compensation Discussion and Analysis*, you will find a description of our executive compensation practices and objectives. Please also refer to the compensation tables and narrative discussion appearing under *Executive Compensation and Other Matters*, which provide detailed information about the compensation of our Named Executive Officers. Our Compensation Committee and Board believe that our compensation practices are effective in achieving our executive compensation objectives and that the compensation of our Named Executive Officers as disclosed in this Proxy Statement reflects and supports the appropriateness of our executive compensation philosophy and practices.

This Proposal Three, commonly known as the say on pay proposal, gives the Company s shareholders the opportunity to express their views on the compensation of our Named Executive Officers. This vote is not intended to address any specific item of compensation, but rather the overall compensation of our Named Executive Officers described in this Proxy Statement.

Accordingly, we invite you to carefully review the sections in this proxy entitled *Compensation Discussion and Analysis* and *Executive Compensation and Other Matters* and cast a vote to approve the following non-binding resolution:

RESOLVED, that the compensation paid to the Company s Named Executive Officers, as disclosed pursuant to Item 402 of Regulation S-K, including the Compensation Discussion and Analysis, compensation tables and narrative discussion, is hereby APPROVED.

Vote Required and Board Recommendation

To be approved, Proposal Three requires the affirmative vote of a majority of the shares of Common Stock represented at the Annual Meeting in person or by proxy.

A vote on this proposal is not binding on the Board or the Company. Although the vote is non-binding, our Compensation Committee will review and consider the voting results when evaluating the compensation program for our Named Executive Officers.

The Board of Directors recommends that shareholders vote FOR approval of the Company s compensation of its Named Executive Officers as disclosed in this Proxy Statement.

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PROPOSAL FOUR PROPOSED AMENDMENT TO INCREASE THE AUTHORIZED SHARES OF COMMON STOCK

The Board of Directors has approved a proposal to amend the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company s Common Stock from 30 million to 60 million. The proposed amendment would replace the first sentence of Article IV of our Amended and Restated Certificate of Incorporation with the following language:

The aggregate number of shares which the corporation shall have the authority to issue is 60,500,000 shares, of which 60,000,000 shares shall be common shares, par value $0.30 each (Common Stock) and of which 500,000 shares shall be preferred shares, par value $100.00 each (Preferred Stock), issuable in series.

The Board of Directors believes it is in the best interests of the Company to increase the number of authorized shares of Common Stock in order to provide the Company greater flexibility in considering and planning for future corporate needs, including, but not limited to, stock dividends, grants under equity compensation plans, stock splits, financings, potential strategic transactions, including mergers, acquisitions, and business combinations, as well as other general corporate transactions. The Board of Directors believes that additional authorized shares of Common Stock will enable the Company to take timely advantage of market conditions and favorable financing and acquisition opportunities that become available to the Company without the delay and expense associated with convening a special meeting of the Company s stockholders.

The Company has no current plan, commitment, arrangement, understanding or agreement regarding the issuance of the additional shares of Common Stock that will result from the Company s adoption of the proposed amendment. Except as otherwise required by law or by a regulation of the New York Stock Exchange, the newly authorized shares of Common Stock will be available for issuance at the discretion of the Board of Directors (without further action by the stockholders) for various future corporate needs, including those outlined above. While adoption of the proposed amendment would not have any immediate dilutive effect on the proportionate voting power or other rights of the Company s existing stockholders, any future issuance of additional authorized shares of the Company s Common Stock may, among other things, dilute the earnings per share of the Common Stock and the equity and voting rights of those holding Common Stock at the time the additional shares are issued.

In addition to the corporate purposes mentioned above, an increase in the number of authorized shares of the Company s Common Stock may make it more difficult to, or discourage an attempt to, obtain control of the Company by means of a takeover bid that the Board of Directors determines is not in the best interest of the Company and its stockholders. However, the Board of Directors does not intend or view the proposed increase in the number of authorized shares of the Company s Common Stock as an anti-takeover measure and is not aware of any attempt or plan to obtain control of the Company.

Any newly authorized shares of the Company s Common Stock will be identical to the shares of Common Stock now authorized and outstanding. The proposed amendment will not affect the rights of current holders of the Company s Common Stock, none of whom have preemptive or similar rights to acquire the newly authorized shares.

Required Vote

Approval of the proposed Amendment to the Company s Amended and Restated Certificate of Incorporation to increase the number of authorized shares of the Company s Common Stock requires the affirmative vote of the holders of two-thirds of the shares of Common Stock outstanding and entitled to a vote at the Annual Meeting.

The Board of Directors recommends that shareholders vote FOR approval of the proposed Amendment to Increase the Authorized Shares of the Company s Common Stock from 30 million to 60 million.

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CORPORATE GOVERNANCE

Corporate Governance Principles and Materials

We are committed to the enhancement of long-term shareholder value with the highest standards of integrity and ethics. With that in mind, our Board has adopted a set of Corporate Governance Principles that, along with our Amended and Restated Certificate of Incorporation and Bylaws, provide an effective corporate governance framework for Team that reflects our core values and provides a foundation for our governance. In support of our Corporate Governance Principles, our Board has adopted charters for each of the committees of the Board, a Code of Ethical Conduct for all of our directors, officers and employees and a Corporate Social Responsibility Policy. We believe that we have established procedures and have practices in place which are designed to enhance and protect the interests of our shareholders.

The following corporate governance materials are available and can be viewed and downloaded from our website at *www.teamindustrialservices.com* on the Investors page under Corporate Governance :

(i) the Company s Corporate Governance Principles;

(ii) charters for the Audit Committee, the Compensation Committee, the Executive Committee and the Corporate Governance and Nominating Committee;

(iii) the Company s Code of Ethical Conduct; and

(iv) the Company s Corporate Social Responsibility Policy.

A copy of these materials is available to shareholders free of charge upon written request to the Company s Secretary at: Team, Inc., Attention: André C. Bouchard, Corporate Secretary, 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478.

Director Independence

Our Board believes that the interests of our shareholders are best served by having a predominate number of objective, independent representatives on the Board. Consistent with the rules of the NYSE, our Corporate Governance Principles require that a majority of our Board be composed of independent directors. A director will be considered independent only if the Board affirmatively determines that the director does not have any direct or indirect material relationship with Team that may impair, or appear to impair, the director s ability to make independent judgments.

On an annual basis each member of our Board and each executive officer is required to complete a directors and officers questionnaire that includes disclosure of any transactions with the Company in which the member of the Board or executive officer, or any member of his immediate family, has a direct or indirect material interest. In addition, each member of the Board conducts an annual self-evaluation with respect to the Board and any committees on which the member serves.

The Board has evaluated all relationships between each of our directors and director nominees and has determined that, except for Mr. Hawk, all the directors are independent as that term is defined in the applicable rules of the NYSE and consistent with our Corporate Governance Principles. In making this determination, the Board considered any transactions and relationships between each director or his immediate family and the Company and its subsidiaries, including those reported under *Compensation Committee Interlocks and Insider Participation* and *Transactions with Related Persons*, below. The purpose of this review was to determine whether any such relationships or transactions were material and, therefore, inconsistent with a determination that the director is independent. With the exception of the Chief Executive Officer (CEO), Mr. Hawk, no director or nominee is currently, or was within the past three years, employed by the Company, its subsidiaries or affiliates. In addition, there are no family relationships between any nominees, directors and senior executive officers of the Company. Mr. Hawk is not independent because of his employment as the CEO.

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Our Board will continue to monitor the standards for director independence established under applicable law and the NYSE listing requirements and will ensure that our Corporate Governance Principles remain consistent with those standards.

Leadership Structure

Our Board has determined that its current structure, with a combined CEO and Chairman of the Board, an independent Lead Director, and independent directors, is in the best interests of the Company and its shareholders. Specifically, our Board has found that having our CEO serve as Chairman is in the best interests of the Company s shareholders, because this structure makes the best use of our CEO s extensive knowledge of the Company and its industry, as well as fostering greater communication between the Company s management and the Board.

Our Board designated the position of Lead Independent Director in order to clarify and centralize the work of the independent directors. To further clarify the role of the independent directors in the governance of the Company, our Board established duties and responsibilities for the position of Lead Director. Mr. Waters was appointed to this position by the independent directors and has served as our Lead Director since June 2007. The Lead Director (i) presides at all meetings of the Board at which the Chairman is not present, including executive sessions of the independent directors, and sets agendas for executive sessions; (ii) assists the Chairman in the management of Board meetings; (iii) monitors and responds directly to shareholder and other stakeholder questions and comments that are directed to the Lead Director or to the independent directors as a group, with consultation with the Chairman and CEO or other directors or management as the Lead Director deems appropriate; (iv) reviews and coordinates meeting agendas, information, number of Board meetings and schedules for the Board; (v) ensures personal availability for consultation and communication with independent directors and with the Chairman and CEO or management, as appropriate; (vi) provides guidance on director orientation; and (vii) calls special meetings of the independent directors in accordance with our Bylaws, as the Lead Director deems appropriate. Our Senior Vice President, Administration, General Counsel and Secretary supports the Lead Director in fulfilling the Lead Director role.

Our Board has adopted Corporate Governance Principles that require that a majority of the Board be composed of independent directors. Our Audit, Compensation, and Corporate Governance and Nominating Committees are composed entirely of independent directors. In addition, our Board provides for regularly scheduled meetings of the independent directors. During fiscal 2013, the independent directors met as a group 5 times. These meetings were conducted, without any member of management or employees of Team present (except by invitation), to discuss matters related to the oversight and governance of Team, compliance with NYSE and SEC rules, and the performance of our senior executives.

Communications with the Board of Directors

Our Board has established a process for our shareholders and other interested parties to communicate with the Lead Director, the Board as a whole, the independent directors as a group, any Board Committee, or any individual member of the Board. Such communication should be in writing, addressed to the Board or an individual director to: Team, Inc., 13131 Dairy Ashford, Suite 600, Sugar Land, Texas 77478, c/o André C. Bouchard, Corporate Secretary. All such correspondence is reviewed by our Secretary s office, which forwards the material to the applicable director.

Director Education

In accordance with our Corporate Governance Principles, each member of the Board is provided with a membership in the National Association of Corporate Directors and is encouraged to participate in continuing director education programs paid for by the Company.

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Succession Planning

Our Board has the responsibility to ensure that the leadership of our Company is meeting the current and future needs of Team. The Compensation Committee annually reports to the Board on succession planning and collaborates with the Board to evaluate potential successors to our CEO and other senior executives. As part of this process, the Compensation Committee solicits views from the non-management members of the Board and from senior management of the Company.

Share Ownership Guidelines; Restrictions on Trading in Company Securities

In an effort to more closely link our non-employee directors financial interests with those of our shareholders, our Board established share ownership guidelines for our non-management directors. Under these guidelines, our non-management directors are expected to own Common Stock of Team valued at a minimum of $150,000. Newly appointed directors are expected to meet or exceed these guidelines within three years of joining the Board. All of our directors currently meet or exceed these share ownership guidelines.

In an effort to align the financial interests of our senior executives with those of our shareholders, our Board established share ownership guidelines for our senior executives. Under these guidelines, our CEO is expected to own Common Stock of Team valued at three times his base salary. The guideline for the rest of our senior executives is one times their base salary. Newly appointed senior executives are expected to meet or exceed these guidelines within five years of entering their respective positions. Our CEO and all of our executive officers meet or exceed these share ownership guidelines.

Because short-range speculation in our securities based on fluctuations in the market may cause conflicts of interests with our shareholders, our Insider Trading Policy and our Corporate Governance Principles, applicable to our directors and executive officers, prohibit trading in options, warrants, and puts and calls related to our securities and prohibit selling our securities short. In addition, unless approved by our General Counsel, our Insider Trading Policy and our Corporate Governance Principles prohibit our directors and executive officers from holding our securities in margin accounts or pledging our securities as collateral for a loan. In evaluating requests to hold our securities in a margin account or pledge our securities, our General Counsel considers a number of factors, including, but not limited to: the total stock holdings of the individual, the amount of Company securities to be pledged or secured, the potential impact of a margin or loan call, the position of the individual with our Company, whether the pledge is part of a loan where lender has recourse against all assets of the individual and whether the pledge excludes Company shares required to meet our share ownership guidelines. No director or executive officer of the Company holds our securities in a margin account or has our securities pledged as collateral for a loan.

Board s Role in Risk Oversight

Our Board has responsibility for the oversight of risks that could affect the Company. This oversight is conducted primarily through the Board with respect to significant matters, including the strategic direction of the Company, and by the various committees of the Board in accordance with their charters. The Board satisfies its risk oversight responsibilities through receipt of reports from each committee chair regarding the committee s considerations and actions, as well as through regular reports directly from executives responsible for oversight and management of particular risks within Team. The Board continually works, with the input of the Company s senior executives to assess and analyze the most likely areas of future risk for Team. On an annual basis our senior management updates and reviews our enterprise risk management process with the Board. Directors also have complete and open access to all of our employees and are free to, and do, communicate directly with our management. In addition to our formal compliance programs, the Board encourages management to promote a corporate culture that incorporates risk management into the Company s corporate strategy and day-to-day business operations.

Overview of Risk of Company Compensation Policies and Practices

The Compensation Committee, with the assistance of the Company s other independent directors and senior management, has determined that the Company s compensation policies and practices do not motivate imprudent

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risk taking. This determination has taken into account the following design elements of our compensation policies and practices: mixture of cash and equity compensation, mixture of performance time horizons, use of financial metrics balanced to promote long term Company goals, avoidance of uncapped awards, executive share ownership and holding requirements, no defined benefit or special executive retirement benefit plans and a rigorous auditing, monitoring and enforcement environment. The Committee continues to monitor its compensation policies and practices to determine whether its risk management objectives are being satisfied.

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THE BOARD OF DIRECTORS AND ITS COMMITTEES

The following table sets forth the names and ages of the nominees for election as directors and the current members of the Board who will continue serving following the Annual Meeting, as well as background information relating directly to such individuals experience, qualifications, attributes and skills to serve as a director of our Company. The persons who have been nominated for election and are to be voted upon at the Annual Meeting are listed first, with continuing directors following thereafter.

Director Nominees

The Board unanimously recommends a vote *FOR* the election of the nominees listed below.

Set forth below is certain information as of August 1, 2013 concerning the nominees for election at the Annual Meeting as Class III directors, including the business experience of each nominee for at least the past five years:

Name	Age	Present Position With the Company	Director Since
Emmett J. Lescroart	62	Director	2004
Sidney B. Williams	79	Director	1973

Mr. Lescroart is a Managing Director of EJL Capital, LLC, a private investment banking firm and has been in this position since 2001. He is also an independent private investor managing his personal investments and has done this since 1996. Mr. Lescroart was Managing Director of Chapman Associates from 2005 until June 2008. For twenty years prior to 1996, he was employed with the Cooperheat Company in positions of increasing responsibility and authority, becoming CEO in 1983 and remaining in that position until resigning in 1996 to pursue his personal investments business. In August 2004, we acquired certain of the assets of a successor to the Cooperheat entity. The Company believes that Mr. Lescroart s business expertise, including his background managing and directing public and private companies and his specific experience managing a public company in our industry later acquired by Team, give him a deep understanding of our business and the necessary qualifications and skills to serve as a director.

Mr. Williams is the sole shareholder of a professional corporation which is a partner in the law firm of Chamberlain, Hrdlicka, White, Williams & Martin in Houston, Texas. He has been a partner in that firm for more than the past five years. Mr. Williams has been a member of our Board since the inception of the Company and in the past has provided the Company with legal counsel. The Company believes that Mr. Williams 40 years of service on the Board, his historical association as our attorney and the legal services he has provided to numerous clients, including publicly traded companies, give Mr. Williams a unique perspective on Team and the challenges we face and provide him with the necessary qualifications and skills to serve as a director.

Directors Continuing in Office

Set forth below is certain information as of August 1, 2013 concerning the directors continuing in office until the expiration of their respective terms, including the business experience of each director for at least the past five years:

Name	Age	Present Position With the Company	Director Since	Class	Expiration of Present Term
Philip J. Hawk	59	Chairman and CEO	1998	Class I	2014
Vincent D. Foster	56	Director	2005	Class II	2015
Jack M. Johnson	75	Director	1992	Class II	2015
Louis A. Waters	75	Lead Director	1998	Class I	2014

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Mr. Hawk was appointed as our Chairman of the Board and CEO in November 1998. Prior to 1998, Mr. Hawk served as the CEO of another public company and worked as a consultant for an international business consulting firm advising major public companies on business strategies. Mr. Hawk also served as a director of NCI Building Systems, Inc. from 2004 to 2009. As CEO, Mr. Hawk has been responsible for setting the Company s strategic direction. The Company believes that Mr. Hawk s strong business and leadership skills, as well as his comprehensive knowledge of the Company and our industry, give him a thorough understanding of our business and the necessary qualifications and skills to serve as a director.

Mr. Foster has served as the Chairman and Chief Executive Officer of Main Street Capital Corporation (NYSE), a specialty investment company, since March 2007. Mr. Foster has also been Senior Managing Director of Main Street Capital Partners, LLC (and its predecessor firms), a corporate investment firm, since 1997. Mr. Foster currently serves as a director of Quanta Services, Inc. Mr. Foster previously served as a director of U.S. Concrete, Inc. from 1999 to 2010, Carriage Services, Inc. from 1999 to 2011, and HMS Income Fund, Inc. from June 2012 to March 2013. In addition, Mr. Foster served as a founding director of the Texas TriCities Chapter of the National Association of Corporate Directors from 2004 to 2011. Prior to 1997, Mr. Foster, a CPA who also holds a J.D. degree, had a 19 year career with a major international accounting firm, where he was a partner from 1988 to 1997. The Company believes Mr. Foster s qualifications to serve on the Board include his significant contributions and service to Team, his experience as chief executive officer of a public corporation, his many years of service on boards of other public companies and his extensive tax, accounting, merger and acquisitions, financial and corporate governance expertise.

Mr. Johnson has been Managing General Partner of Wintermann & Company, a partnership that manages approximately 25,000 acres of real estate in Texas used in farming, ranching and oil and gas exploration activities, for more than the past five years. Mr. Johnson serves as President of Winco Agriproducts, an agricultural products company that primarily processes rice for seed and commercial sale, as a director of Security State Bank in Anahuac, Texas and as a director of the Colorado Land Trust, a non-profit organization. From 1989 to 1993, Mr. Johnson served on the board of directors and as chairman of the Lower Colorado River Authority, a non-profit public utility serving more than one million residents in central and southeast Texas. The Company believes that Mr. Johnson s business expertise, including his background managing and directing public and private companies, provides him with the necessary qualifications and skills to serve as a director.

Mr. Waters manages the Waters Group, a private equity company specializing in technology and industrial companies. He was the Founding Chairman of Browning-Ferris Industries, Inc. and served that company from its inception in 1969 until his retirement in March 1997. Mr. Waters was also a Founding Chairman of Tyler Technologies, Inc. (NYSE) serving that company from September 1997 until he retired in March 2002. Mr. Waters serves as the Lead Director of Team s Board. The Company believes that Mr. Waters years of service on the Board, his financial and business expertise, including a diversified background of managing and directing public companies, including certain national banking institutions, give him a thorough understanding of our business and the necessary qualifications and skills to serve as a director.

Meetings and Committees of the Board

Board of Directors

Currently, our Board is comprised of six directors, each serving a three-year term or until his successor is duly elected and qualified.

Our Board held 7 meetings during the fiscal year ended May 31, 2013. No director attended fewer than 75% of the meetings held during the period for which he served as a member of the Board and the committees on which he served. We do not have a formal policy regarding director attendance at our annual meetings of shareholders; however, we do encourage all directors to attend all meetings of shareholders. All directors were in attendance at our 2012 Annual Meeting of Shareholders.

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Our Board has an Executive Committee, an Audit Committee, a Compensation Committee, and a Corporate Governance and Nominating Committee. Each committee maintains its own written charter, which can be viewed and downloaded from our website at *www.teamindustrialservices.com* on the Investors page under Corporate Governance.

Executive Committee

Our Executive Committee is currently composed of Messrs. Hawk (Chairman), Waters and Williams. The Executive Committee is responsible for assisting with the general management of the business and affairs of Team as needed during intervals between meetings of the Board. The Executive Committee had no meetings during fiscal 2013.

Audit Committee

Our Audit Committee is currently composed of Messrs. Foster (Chairman), Johnson, Waters and Williams. The Audit Committee is charged with the duties of recommending the appointment of the independent auditor; reviewing their fees and approving the services to be performed; ensuring that proper guidelines are established for the dissemination of financial information to the shareholders; meeting periodically with the independent auditors, the Board and certain officers of Team and its subsidiaries, including the General Counsel and Director of Audit Services in executive session without other members of management present, to en

714,964

298,293

Interest income

52,981

21,273

22,937

14,332

Other income (expense)

8,248

(3,369

)

4,034

(3,110

)

Interest expense

(142,728

)

(167,189

)

(65,995

)

(96,732

)

Income (loss) before tax expense

1,193,392

(958,983

)

675,940

212,783

Tax expense (benefit)

572,174

(288,612

)

338,679

62,739

Net income (loss)

$

621,218

$

(670,371

)

$

337,261

$

150,044

BASIC EARNINGS (LOSS) PER COMMON SHARE:

Basic profit (loss) per common share	$ 0.11	$ (0.12)	$ 0.06	$ 0.03

Weighted average common shares

5,772,864

5,749,964

5,772,864

5,749,964

DILUTED EARNINGS (LOSS) PER COMMON SHARE:

Diluted profit (loss) per common share:

$

0.10

$

(0.12

)

$

0.06

$

0.03

Weighted average diluted common shares

5,976,008

5,749,964

5,976,008

5,749,964

The accompanying notes are an integral part of these statements

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HENRY BROS. ELECTRONICS, INC. AND SUBSIDIARIES

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

	(Unaudited) Six months ended June 30,	
	2008	**2007**
Cash flows from operating activities:		
Net income (loss)	$621,218	$(670,371)
Adjustments to reconcile net income (loss) from operations to net cash provided by operating activities:		
Depreciation and amortization	386,822	394,101
Bad debt expense	109,099	110,465
Provision for obsolete inventory	30,000	55,000
Stock option expense	112,000	86,405
Deferred income taxes	95,149	(294,000)
Changes in operating assets and liabilities:		
Accounts receivable	98,516	1,565,448
Inventory	135,610	113,034
Costs in excess of billings and estimated profits	(1,015,915)	52,494
Retainage receivable	(207,453)	163,940
Other assets	(8,748)	4,115
Prepaid expenses and income tax receivable	304,059	(640,749)
Accounts payable	(718,533)	993,841
Accrued expenses	596,407	(1,709,621)
Billings in excess of cost and estimated profits	423,853	264,251
Deferred income	(4,229)	(80,315)
Other liabilities	37,926	148,189
Net cash provided by operating activities	995,781	556,227
Cash flows from investing activities:		
Purchase of business, net of cash acquired	(37,500)	
Purchase of property and equipment	(173,815)	(74,367)
Net cash used in investing activities	(211,315)	(74,367)
Cash flows from financing activities:		
Recovery from Stockholder - net of legal fees	59,443	
Net proceeds from revolving bank lines		788,000
Payments of bank loans	(108,546)	(101,675)
Repayments of other debt	(158,697)	(47,404)
Capitalized lease payments	(82,761)	(62,262)
Net cash (used in) provided by financing activities	(290,561)	576,659

Increase in cash and cash equivalents	493,905	1,058,519
Cash and cash equivalents - beginning of period	3,277,450	199,854
Cash and cash equivalents - end of period	$3,771,355	$1,258,373
Supplemental disclosure of cash flow information:		
Amount paid for the period for:		
Interest	$142,728	$164,697
Taxes	$225,000	$175,500
Non-cash investing and financing activities:		
Equipment financed	$168,519	$42,425
Surrender shares to purchase fixed assets	$14,080	$

The accompanying notes are an integral part of these statements

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HENRY BROS. ELECTRONICS, 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, 2007	5,926,065	$59,261	$17,165,893	$(3,291,061)	$13,934,092
Recovery from shareholder, net			59,443		59,443
Surrender shares to purchase fixed asset	(3,200)	(32)	(14,048)		(14,080)
Stock based compensation			112,000		112,000
Net income June 30, 2008				621,218	621,218
Balance at June 30, 2008	5,922,865	$59,229	$17,323,288	$(2,669,844)	$14,712,673

The accompanying notes are an integral part of these statements

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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, 2008 and for the three and six month periods ended June 30, 2008 and 2007 are unaudited, and reflect all adjustments (consisting only of normal recurring adjustments) which the Company considers necessary for the fair presentation of the Company s financial position as of June 30, 2008, the results of its operations for the three and six month periods ended June 30, 2008 and 2007, and cash flows and changes in stockholders equity for the six month periods ended June 30, 2008 and 2007. The Company s December 31, 2007 balance sheet information was derived from the audited consolidated financial statements for the year ended December 31, 2007, 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, 2008, 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, 2007.

Description of Business:

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.

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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 six months ended June 30, 2008 and 2007:

	June 30,	
	2008	2007
New Jersey/New York	47%	42%
California	19%	24%
Texas	4%	5%
Arizona	11%	4%
Colorado	8%	8%
Virginia/Maryland	9%	12%
Integration segment	98%	95%
Specialty segment	2%	5%
Inter-segment		
Total revenue	100%	100%

2**. Summary of Significant Accounting Policies:**

Principles of Consolidation:

The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries (the Subsidiaries). All significant intercompany balances and transactions have been eliminated in the consolidation.

Use of Estimates:

The preparation of the condensed consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Significant items subject to such estimates and assumptions include revenue recognition, the carrying amount of property, plant and equipment, acquired intangibles and goodwill, valuation allowances for receivables, inventories and deferred income tax assets, warranties, and stock-based compensation. Actual results could differ from those estimates. There have been no significant changes to the Summary of Significant Accounting Policies disclosure contained in the Company s Annual Report Form 10-K as of December 31, 2007.

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HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (UNAUDITED) (continued)

Recently Issued Accounting Pronouncements:

The Company does not anticipate the adoption of recently issued accounting pronouncements to have a significant impact on the Company s results of operations, financial position or cash flows.

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. Potentially dilutive shares are not included in earnings per share for the six months ended June 30, 2007 as their inclusion would be antidilutive.

4. Stock Based Compensation

For the three months ended June 30, 2008 and 2007, the Company charged $58,000 and $56,250, respectively, to operations for stock based compensation expense. For the six months ended June 30, 2008 and 2007, the Company charged $112,000 and $113,775, respectively, to operations for stock based compensation expense.

A summary of stock option activity for the six months ended June 30, 2008 under the Company s various Stock Option Plan s follows:

	Number of Shares		Weighted Average Exercise Price	
	Outstanding	Exercisable	Outstanding	Exercisable
January 1, 2008	916,900	334,329	$4.87	$5.68
Granted at market	65,000		5.34	
Exercised				
Forfeited or expired	(3,200)		5.85	
Outstanding At June 30, 2008	978,700	390,600	$4.90	$5.79

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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, 2008 was estimated assuming no expected dividends and the following weighted-average assumptions:

Expected Life (years)	5	
Expected volatility	48.88	%
Risk-free interest rates	3.09	%
Dividend Yield		
Weighted-average grant-date fair value	$2.80	

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, 2008	December 31, 2007
Cost incurred on uncompleted contracts	$59,445,449	$43,011,153
Billings on uncompleted contracts	57,235,350	41,393,116
	$2,210,099	$1,618,037

Included in accompanying Balance Sheets under the following captions:

	June 30, 2008	December 31, 2007
Costs in excess of billings and estimated profits	$4,210,954	$3,195,039
Billing in excess of costs and estimated profits	2,000,855	1,577,002
	$2,210,099	$1,618,037

6. 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 Banknorth s prime rate (5.0% at June 30, 2008 and 8.25% at December 31, 2007) through April 30, 2009, when all amounts outstanding under the Revolving loan come due. The Revolving Loan was originally due May 1, 2007; however, in December 2006 TD Banknorth provided the Company a one year extension. In March 2008, TD Banknorth provided the Company an additional one year extension. The Revolving Loan now comes due on April 30, 2009. The Company is currently in the process of finalizing an increase in the Revolving Loan to $8 million, which is expected to come due on June 30, 2010.

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HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (UNAUDITED) (continued)

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 continuing through June 30, 2010. Interest under the Term Loan is 6.75%.

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, 2008 and December 31, 2007. TD Banknorth provided the Company with a waiver associated with the bank covenants in default on May 14, 2008 and March 28, 2008. As a condition of the waiver, the Company agreed to grant TD Banknorth a first priority security interest on its accounts receivable.

Long-term debt included the following balances:

	June 30, 2008	December 31, 2007
Term loan at 6.75% interest payable in monthly installments of $19,730 thru June 30, 2010	$215,974	$324,520
Revolving line at the prime rate of interest, payable in monthly installments thru April 30, 2009	3,635,897	3,635,897
Corporate insurance financed at 8.49% in monthly installments thru October 1, 2008	40,194	172,807
Capitalized lease obligations due in monthly installments, with interest ranging from 6.4% to 11.7% payable through May 31, 2012	651,386	595,587
Other miscellaneous debt	17,274	7,573
	4,560,725	4,736,384
Less: Current Portion	(476,026)	(634,948)
Revolving loan	(3,635,897)	(3,635,897)
	$448,802	$465,539

7. Income Taxes

Income tax expense for interim reporting is based on an estimated overall effective tax rate for the year ending December 31, 2008. The Company s overall effective tax rate during the six months ended June 30, 2008 is estimated to have been approximately 47.9%, as compared to a tax benefit during the same period last year due to the loss incurred for the six months ended June 30, 2007. The estimated overall effective income tax rate for fiscal 2008 has not been impacted by any material

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HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (UNAUDITED) (continued)

discrete items. The overall estimated effective tax rate is based on expectations and other estimates which are monitored closely, but are subject to change. The Company adopted the provisions of FASB Interpretation No. 48, Accounting for Uncertainty in Income Taxes an interpretation of FASB Statement No. 109 as of January 1, 2007. As a result of the adoption of FIN 48, the Company recognized an increase of $38,561 in the liability for unrecognized tax benefits and a decrease to the January 1, 2007 balance of retained earnings. There have been no significant changes in the quarter ended June 30, 2008.

The effective tax rate for the three months ended June 30, 2008 and 2007 was 50.1% and 29.5%, respectively, and was 47.9% for the six months ended June 30, 2008. For the six months ended June 30, 2007, principally as a result of the loss before tax incurred by the Company, there was an overall tax benefit. This benefit was partially offset by state income taxes for those jurisdictions that were profitable during the period. The higher tax rate in 2008 is a result of the Company operating in multiple states and jurisdictions with higher tax rates, combined with the impact of not providing a state tax benefit on the Airorlite subsidiary net operating losses for the current year.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (UNAUDITED) (continued)

8. Segment Data

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

	Three months ended June 30,		Six months ended June 30,	
	2008	**2007**	**2008**	**2007**
Revenue				
Integration	$14,735,036	$12,693,742	$30,533,724	$23,337,516
Specialty	450,161	915,894	603,398	1,143,421
Inter-segment	(61,246)	(88,438)	(107,125)	(88,438)
Total Revenue	$15,123,951	$13,521,198	$31,029,997	$24,392,499
Operating Profit (Loss)				
Integration	$1,504,864	$841,662	$3,520,033	$562,046
Specialty	23,889	80,537	(581,436)	(78,972)
Corporate	(813,789)	(623,906)	(1,663,706)	(1,292,772)
Total Operating (Loss) Profit	$714,964	$298,293	$1,274,891	$(809,698)

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

	June 30, 2008	December 31, 2007
Total Assets:		
Integration	$ 26,541,547	$26,821,570
Specialty	1,698,856	1,198,340
Corporate	5,029,514	4,311,660
Total Assets	$ 33,269,917	$32,331,570

9. Contingent Liabilities

In July 2007, an accident occurred in Corona, California involving one of the Company s vehicles. The operator of a motorcycle was killed in the accident. His family has commenced litigation against the former Company employee who was driving the vehicle, as well as the Company. The litigation is still in an early stage. While the Company believes any recovery would be fully covered by its insurance, there can be no assurance to that effect.

HENRY BROS. ELECTRONICS, INC AND SUBSIDIARIES

NOTES TO CONDENSED CONSOLIDATED FINANCIAL

STATEMENTS (UNAUDITED) (continued)

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.

10. Recovery from Shareholder

During the quarter ended March 31, 2008, the Company was notified that a member of its Board of Directors, Richard D. Rockwell, was in technical violation of Section 16(b) of the Securities and Exchange Act of 1934 as a result of certain purchases and sales of the Company s common stock in 2007. After a review of the details related to such trading, it was determined that certain trades made by Mr. Rockwell between September 27, 2007 and October 1, 2007 required the disgorgement of profits to the Company in the aggregate amount of $67,714. Such amount was paid to the Company by Mr. Rockwell on January 29, 2008. The Company also incurred legal fees of $8,271 to settle this matter.

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 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, Company common stock and bank debt. We currently have a $5 million credit facility with TD Banknorth, which includes a $1 million term loan of which $215,974 was outstanding at June 30, 2008. As part of our credit facility, we also have a $4 million revolving credit facility. Borrowings under the revolving credit facility were $3,635,897 at June 30, 2008. The Company is currently in the process of finalizing an increase in the Revolving Loan to $8 million, which is expected to come due on June 30, 2010. 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, or the sale of equity securities, or the sale of existing Company assets.

TRENDS

Excluding the effect from the L-3 Contract discussed below, we anticipate our overall average operating margins for our business to be 4% for the year ended December 31, 2008, as compared to an essentially breakeven operating margin in 2007 and (6.2)% in 2006. In addition, our revenue forecast for 2008 remains at $65 million, which is also exclusive of the effect from the L-3 Contract discussed below.

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 March 2008, L-3 Communications (L-3) announced that it was awarded a contract by the U.S. Marines to supply Tactical Video Capture Systems (TVCS) at military training sites in the United States and overseas. As the prime contractor, L-3 will lead a team of suppliers, including Henry Bros Electronics, and seven other contractors also serving the project, in the implementation of L-3 s Praetorian next-generation, open-architecture 3D intelligent video observation system (the L-3 Contract). The Company will be the lead sub contractor in the team responsible for furnishing and installing the sensor elements of the system whose purpose is to enhance training effectiveness. During the second quarter, we continued to execute on the mobilization effort to support the contract with L-3. Such mobilization efforts included: (1) the site surveys for the initial locations, design and engineering of the plan layout and components, (2) development of various operating procedures and workflows specific to the site and project, and (3) the hiring and training of installation staff. To date, in addition to leveraging the vast knowledge and capabilities of our corporate staff, we have hired 16 installation technicians, project managers and engineers dedicated to this project. This three-year contract on the implementation of the TVCS at military training sites for the U.S. Marines in the U.S. and oversees is expected to commence installation late in the third fiscal quarter. This project was awarded to Praetorian, an L-3 company, and is valued at over $326 million, of which we have a significant work share. The Company expects to receive initial purchase orders in the amount of $5.8 million under our previously disclosed subcontractor agreement with L-3 prior to the end of August 2008.

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 the 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.

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Three Months Ended June 30, 2008 compared to June 30, 2007

	(Unaudited) Three months ended June 30,		
	2008	**2007**	**% change**
Revenue	$15,123,951	$13,521,198	11.9 %
Cost of revenue	11,503,335	10,240,919	12.3 %
Gross profit	3,620,616	3,280,279	10.4 %
Operating expenses:			
Selling, general & administrative expenses	2,905,652	2,981,986	-2.6 %
Operating profit	714,964	298,293	139.7 %
Interest income	22,937	14,332	60.0 %
Other income (expense)	4,034	(3,110)	229.7 %
Interest expense	(65,995)	(96,732)	-31.8 %
Income before tax expense	675,940	212,783	217.7 %
Tax expense	338,679	62,739	439.8 %
Net income	$337,261	$150,044	124.8 %

Revenue - Revenue for the three months ended June 30, 2008 was $15,123,951, representing an increase of $1,602,753 or 11.9%, as compared to revenue of $13,521,198 for the three months ended June 30, 2007. New Jersey s revenues increased significantly as a result of work completed on contracts for several large public agencies in the New York Metropolitan area. In addition, for the three months ended June 30, 2008, the Company experienced continued revenue improvement from our Arizona and Virginia subsidiaries, partially offset by a decline in revenue from our California Banking and Airorlite subsidiaries.

Cost of Revenue - Cost of revenue for the three months ended June 30, 2008 was $11,503,335 as compared to $10,240,919 for the three months ended June 30, 2007. The gross profit margin for the three months ended June 30, 2008 was 23.9% as compared to 24.3% for the three months ended June 30, 2007. Offsetting the stronger margins in our New Jersey, Virginia and California s integration business was a significant decline in margin from our Airorlite business. For the three months ended June 30, 2008, the Airorlite business operated at breakeven, compared to a profit in the same period of the prior year. Additionally, margins were lower in the California Banking business for the three months ended June 30, 2008 versus the same period in the prior year, principally as a result of the lower revenues for the period and a write-down of inventory. California s integration margins were higher in the second quarter 2008 compared to the same period in 2007, principally as the result of cost overruns on a number of projects that were quoted late in 2006 and early 2007 which pulled down the margins in the 2007 period. Partially offsetting the decline to the overall margins in the second quarter of 2008, was a shift to higher margin jobs due to tighter controls over the proposal and job acceptance procedures and improved labor utilization.

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Selling, General and Administrative Expenses - Selling, general and administrative expense was $2,905,652 for the three months ended June 30, 2008 as compared to $2,981,986 for the three months ended June 30, 2007. This decrease of 2.6% or $76,334 was mainly attributable to higher labor utilization in the second quarter of 2008 versus the same period in the prior year as discussed above, lower bad debt expense and lower professional fees incurred in the three months ended June 30, 2008, partially offset by the investment in higher corporate infrastructure costs.

Interest Income Interest income for the three months ended June 30, 2008 was $22,937 as compared to $14,332 for the three months ended June 30, 2007. This increase was attributable to higher cash balances during the three month period ended June 30, 2008 versus the same period in the prior year.

Interest Expense - Interest expense for the three months ended June 30, 2008 was $65,995 as compared to $96,732 for the three months ended June 30, 2007. The average outstanding debt balance was $224,776 higher in the three month period ended June 30, 2008 versus that in the three months ended June 30, 2007. The average prime rate of interest paid was 250 basis points lower in the 2008 period than it was in 2007.

Tax Expense The effective tax rate for the three months ended June 30, 2008 was 50.1%, based upon income before tax expense of $675,940. The higher tax rate is a result of the Company operating in multiple states and jurisdictions with higher tax rates, combined with the impact of not providing a state tax benefit on the Airorlite subsidiary losses. The effective tax rate for the three months ended June 30, 2007 was 29.5%, based upon income before tax expense of $212,783.

Net Income - As a result of the above noted factors our net income was $337,261 for the three months ended June 30, 2008 compared to net income of $150,044 for the three months ended June 30, 2007. This resulted in diluted earnings per share of $0.06 on weighted average diluted common shares outstanding of 5,976,008 for the three months ended June 30, 2008, as compared to diluted income per share of $0.03 on weighted average diluted common shares outstanding of 5,749,964 for the three month period ended June 30, 2007.

Six Months Ended June 30, 2008 compared to June 30, 2007

	(Unaudited) Six months ended June 30,		
	2008	**2007**	**% change**
Revenue	$31,029,997	$24,392,499	27.2 %
Cost of revenue	23,866,396	18,956,044	25.9 %
Gross profit	7,163,601	5,436,455	31.8 %
Operating expenses:			
Selling, general & administrative expenses	5,888,710	6,246,153	-5.7 %
Operating profit (loss)	1,274,891	(809,698)	257.5 %
Interest income	52,981	21,273	149.1 %
Other income (expense)	8,248	(3,369)	344.8 %
Interest expense	(142,728)	(167,189)	-14.6 %
Income (loss) before tax expense	1,193,392	(958,983)	224.4 %
Tax expense (benefit)	572,174	(288,612)	298.3 %
Net income (loss)	$621,218	$(670,371)	192.7 %

Revenue - Revenue for the six months ended June 30, 2008 was $31,029,997, representing an increase of $6,637,498 or 27.2%, as compared to revenue of $24,392,499 for the six months ended June 30, 2007. New Jersey s revenues increased significantly as a result of work completed for several large public agencies in the New York Metropolitan area and the continued revenue improvement from our Arizona subsidiary. Improved revenues from our Colorado subsidiary also contributed to the higher revenues for the six months ended June 30, 2008, compared to the same period in the prior year. These increases were partially offset by a decline in revenue from our California Banking and Airorlite subsidiaries.

Cost of Revenue - Cost of revenue for the six months ended June 30, 2008 was $23,866,396 as compared to $18,956,044 for the six months ended June 30, 2007. The gross profit margin for the six months ended June 30, 2008 was 23.1% as compared to 22.3% for the six months ended June 30, 2007, mainly resulting from stronger margins in our New Jersey and California operations. In the first half of 2007, New Jersey experienced a margin decline as the result of cost overruns on a number of installations. Similarly, California s margins were lower in the first half 2007 compared to the same period in 2008, as the result of cost overruns on a number of projects that were quoted late in 2006 and early 2007. Also contributing to the improved margins in the first half of 2008 was a shift to higher margin jobs and improved labor utilization. Partially offsetting the improved margins were significant losses incurred in the first quarter of 2007 in our Airorlite Subsidiary in order to complete work on certain open contracts.

Selling, General and Administrative Expenses - Selling, general and administrative expense was $5,888,710 for the six months ended June 30, 2008 as compared to $6,246,153 for the six months ended June 30, 2007. This decrease of 5.7% or $357,443 was mainly attributable to higher labor

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utilization in the first half of 2008 versus the same period in the prior year discussed above, partially offset by higher bad debt expense and higher professional fees incurred in the six months ended June 30, 2008.

Interest Income Interest income for the six months ended June 30, 2008 was $52,981 as compared to $21,273 for the six months ended June 30, 2007. This increase was attributable to higher cash balances during the six month period ended June 30, 2008 versus the same period in the prior year.

Interest Expense - Interest expense for the six months ended June 30, 2008 was $142,728 as compared to $167,189 for the six months ended June 30, 2007. The average outstanding debt balance was $577,008 higher in the six month period ended June 30, 2008 versus that in the six months ended June 30, 2007. The average prime rate of interest paid was 288 basis points lower in the 2008 period than it was in 2007.

Tax Expense (Benefit) The effective tax rate for the six months ended June 30, 2008 was 47.9%, based upon income before tax expense of $1,193,392. The reason for the higher rate is consistent with the three month Tax Expense (Benefit) disclosure above. For the six months ended June 30, 2007, principally as a result of the loss before tax incurred by the Company, there was an overall tax benefit of $288,612. This benefit was partially offset by state income taxes for those jurisdictions that were profitable during the period.

Net Income (Loss) - As a result of the above noted factors our net income was $621,218 for the six months ended June 30, 2008 compared to a net loss of $670,371 for the six months ended June 30, 2007. This resulted in diluted earnings per share of $0.10 on weighted average diluted common shares outstanding of 5,976,008 for the six months ended June 30, 2008, as compared to diluted loss per share of $(0.12) on weighted average diluted common shares outstanding of 5,749,964 for the six month period ended June 30, 2007.

Liquidity and Capital Resources - As of June 30, 2008, we had cash and cash equivalents of $3,771,355. Our net current assets were $7,901,911 at June 30, 2008 versus $6,971,732 at December 31, 2007. Total debt at June 30, 2008 was $4,560,724 compared to the December 31, 2007 balance of $4,736,384. Borrowings under the revolving credit facility were $3,635,897 at June 30, 2008 and December 31, 2007. The Company is required to maintain certain financial and reporting covenants and restrictions on dividend payments under the terms of the Loan Agreement with TD Banknorth, N.A. The Company was not in compliance with certain of these bank covenants at December 31, 2007 and March 31, 2008. TD Banknorth, N.A. provided the Company with a waiver associated with the bank covenants in default on March 28, 2008 and May 14, 2008. As a condition of the waiver, the Company agreed to grant TD Banknorth a first security interest on its accounts receivable.

Cash provided by operating activities was $995,781 during the six months ended June 30, 2008. The most significant use of cash resulted from a net increase in costs in excess of billings and estimated profits of $1,015,915. This was offset by an increase in accrued expenses of $596,407 and billings in excess of costs and profits of $423,853.

Cash used in investing activities was $211,315 and was for the purchase of property and equipment and an earn-out payment associated with the CIS acquisition.

Cash from financing activities used $290,561, of which $350,004 represents the repayments of bank loans and other debt, partially offset by a net recovery from shareholder of $59,443.

The anticipated cash flow from our base business is expected to be sufficient to support the initial funding of the L-3 Contract, as we will be incurring certain costs in advance of receiving firm orders from L-3. These costs will be deferred until such orders are received. However, in the interest of increasing our bonding line, providing for anticipated increased requirements for working capital, and positioning ourselves to be in a position to take advantage of strategic investment opportunities that come up from time-to-time, the Company is currently in the process of finalizing an increase in the Revolving Loan to $8 million, which is expected to come due on June 30, 2010.

Backlog and Bookings

Booked orders decreased 53.7% to $10,328,622 in the second quarter of 2008 as compared to $22,319,535 in the second quarter of 2007. The Company s backlog as of June 30, 2008 was $17,609,108. The greater volume of booked orders in the second quarter of 2007 versus second quarter 2008 was due to the booking by the Company of several large public agency jobs, which were not duplicated in the second quarter 2008. In addition, the work completed on these jobs in the second half of 2007 and in the first half of 2008 is the primary factor in the decline in the backlog. However, as discussed above in Trends , our revenue forecast for 2008 remains at $65 million.

Booked orders decreased 23.6% to $22,071,938 in the second half of 2008 as compared to $28,888,432 in the second half of 2007, for the reason noted above.

Critical Accounting Polices

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, 2007. 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, 2008, there was $3,635,897 outstanding under this credit facility.

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, 2008. Based on such evaluation, such officers have concluded that, as of June 30, 2008, the Company s disclosure controls and procedures are effective.

(b) Changes in Internal Control Over Financial Reporting

During the three months ended June 30, 2008, 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

In July 2007, an accident occurred in Corona, California involving one of the Company s vehicles. The operator of a motorcycle was killed in the accident. His family has commenced litigation against the former Company employee who was driving the vehicle, as well as the Company. The litigation is still in an early stage. While the Company believes any recovery would be fully covered by its insurance, there can be no assurance to that effect.

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

Item 1A. Risk Factors

As of the quarter ended June 30, 2008 there were no material changes to the risk factors discussed in the Company s Annual Report on Form 10-K for the year ended December 31, 2007.

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.

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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 14, 2008	By: /s/ JAMES E. HENRY James E. Henry Chairman, Chief Executive Officer, Treasurer and Director
Date: August 14, 2008	By: /s/ BRIAN REACH Brian Reach President, Secretary, Chief Operating Officer and Director
Date: August 14, 2008	By: /s/ JOHN P. HOPKINS John P. Hopkins Chief Financial Officer