
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM S-8

**REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933**

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

(Exact name of registrant as specified in its charter)

Delaware
(State or other jurisdiction of
incorporation or organization)

13-3818604
(I.R.S. Employer
Identification No.)

**4820 Eastgate Mall
San Diego, California 92121**
(Address of Principal Executive Offices)(Zip Code)

**IntegCom Corp. 1999 Incentive Stock Option Plan
Diversified Security Solutions, Inc. 2002 Stock Option Plan
Henry Bros. Electronics, Inc. 2006 Stock Option Plan
Henry Bros. Electronics, Inc. 2007 Stock Option Plan**
(Full titles of the plans)

Deanna H. Lund
Executive Vice President and Chief Financial Officer
Kratos Defense & Security Solutions, Inc.
4820 Eastgate Mall
San Diego, California 92121
(Name and address of agent for service)

(858) 812-7300
(Telephone number, including area code, of agent for service)

Copy to:

Deyan Spiridonov, Esq.
Paul, Hastings, Janofsky & Walker LLP
4747 Executive Drive, 12th Floor
San Diego, California 92121

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

Large accelerated filer

Accelerated filer

Non-accelerated filer (Do not check if a smaller reporting company)

Smaller reporting company

CALCULATION OF REGISTRATION FEE

Title of securities to be registered(1)(2)	Amount to be registered (3)	Proposed maximum offering price per share(4)	Proposed maximum aggregate offering price	Amount of registration fee
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IntegCom Corp. 1999 Incentive Stock Option Plan	92,117	\$ 3.56	\$ 327,936.52	\$ 23.38
Common Stock, par value \$0.001 per share				
Diversified Security Solutions, Inc. 2002 Stock Option Plan				
Common Stock, par value \$0.001 per share	17,050	\$ 5.21	\$ 88,830.50	\$ 6.33
Henry Bros. Electronics, Inc. 2006 Stock Option Plan				
Common Stock, par value \$0.001 per share	128,069	\$ 3.39	\$ 434,153.91	\$ 30.96
Henry Bros. Electronics, Inc. 2007 Stock Option Plan				
Common Stock, par value \$0.001 per share	128,840	\$ 3.51	\$ 452,228.40	\$ 32.24

- (1) Pursuant to an Agreement and Plan of Merger, made and entered into as of October 5, 2010 (the "**Merger Agreement**"), by and among Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "**Registrant**"), Hammer Acquisition Inc., a Delaware corporation and wholly owned subsidiary of the Registrant, and Henry Bros. Electronics, Inc., a Delaware corporation ("**HBE**"), as amended, the Registrant assumed all of the outstanding options to purchase stock of HBE issued pursuant to the plans listed below (the "**HBE Plans**"). Pursuant to the terms of the Merger Agreement, all of the options issued under the HBE Plans were converted into the right to receive shares of the Registrant's common stock, par value \$0.001 per share ("**Common Stock**").
- (2) Each share of Common Stock includes a right to purchase one one-hundredth of a share of Series C Preferred Stock of the Registrant, par value \$0.001 per share, under certain circumstances.
- (3) Pursuant to Rule 416(a), this Registration Statement shall also cover any additional shares of the Registrant's Common Stock that may be offered or issued in connection with any stock dividend, stock split, recapitalization or other similar transaction effected without receipt of consideration that increases the number of outstanding shares of Common Stock.
- (4) Estimated solely for the purpose of calculating the amount of the registration fee pursuant to Rule 457(h) of the Securities Act of 1933, as amended (the "**Securities Act**"), the price per share and aggregate offering price are based upon the weighted average exercise price of the outstanding options under each HBE Plan.

INTRODUCTORY NOTE

On December 15, 2010, the Registrant completed the previously announced merger (the "**Merger**") of Hammer Acquisition Inc., a wholly owned subsidiary of the Registrant, with and into HBE, whereby HBE became a wholly owned subsidiary of the Registrant. Upon the completion of the Merger, each option to purchase HBE common stock that was outstanding and unexercised immediately prior to such time (each, an "**HBE Option**"), was converted into and became an option to purchase Common Stock of the Registrant and the Registrant assumed each HBE Option in accordance with the terms (as in effect as of the date of the Merger Agreement) of the applicable HBE Plan and the option agreement pursuant to which such HBE Option was granted.

PART I

INFORMATION REQUIRED IN THE SECTION 10(a) PROSPECTUS

The document(s) containing the information specified in Part I will be sent or given to employees as specified by Rule 428(b)(1) of the Securities Act. Such documents are not being filed with the Securities and Exchange Commission (the "**Commission**") either as part of this Registration Statement or as prospectuses or prospectus supplements pursuant to Rule 424 of the Securities Act. Such documents and the documents incorporated by reference in this Registration Statement pursuant to Item 3 of Part II hereof, taken together, constitute a prospectus that meets the requirements of Section 10(a) of the Securities Act.

PART II

INFORMATION REQUIRED IN THE REGISTRATION STATEMENT

Item 3. Incorporation of Documents by Reference.

The following documents filed with the Commission by the Registrant are incorporated by reference in this Registration Statement:

- (a) The Registrant's latest annual report on Form 10-K filed pursuant to Sections 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended (the "**Exchange Act**"), containing audited financial statements for the Registrant's fiscal year ended December 27, 2009 as filed with the Commission on March 11, 2010;
- (b) The Registrant's quarterly reports on Form 10-Q for its fiscal quarter ended March 28, 2010, filed with the Commission on April 29, 2010; its fiscal quarter ended June 27, 2010, filed with the Commission on August 6, 2010; and its fiscal quarter ended September 26, 2010, filed with the Commission on November 5, 2010;
- (c) The Registrant's current reports on Form 8-K, filed with the Commission on January 7, 2010, February 5, 2010, March 8, 2010, March 10, 2010, April 12, 2010, April 29, 2010, May 17, 2010, May 25, 2010, August 5, 2010, October 7, 2010, November 4, 2010, November 15, 2010, November 30, 2010 and December 16, 2010;
- (d) The description of the Registrant's Common Stock contained in the Registrant's Registration Statement on Form 8-A filed under Section 12(g) of the Exchange Act on September 3, 1999, including any subsequent amendment or report filed for the purpose of amending such description; and

(e) The description of the Registrant's purchase rights for Series C Preferred Stock, par value \$0.001 per share, contained in the Registrant's Registration Statement on Form 8-A filed under Section 12(g) of the Exchange Act on December 17, 2004, including any subsequent amendment or report filed for the purpose of amending such description.

All documents filed by the Registrant pursuant to Sections 13(a), 13(c), 14 or 15(d) of the Exchange Act after the date of this Registration Statement and prior to the filing of a post-effective amendment which indicates that all securities offered have been sold or which de-registers all securities then remaining unsold, are incorporated by reference in this Registration Statement and are a part hereof from the date of filing of such documents. Any statement contained in a document incorporated or deemed to be incorporated by reference herein shall be deemed to be modified or superseded for purposes of this Registration Statement to the extent that a statement contained herein or in any other subsequently filed document which also is or is deemed to be incorporated by reference herein modifies or supersedes such statement. Any statement so modified or superseded shall not be deemed, except as so modified or superseded, to constitute a part of this Registration Statement.

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Item 4. Description of Securities.

Not applicable.

Item 5. Interests of Named Experts and Counsel.

Not applicable.

Item 6. Indemnification of Directors and Officers.

Section 145 of the Delaware General Corporation Law authorizes a court to award or a corporation's board of directors to grant indemnification to directors and officers on terms sufficiently broad to permit such indemnification under certain circumstances for liabilities (including reimbursement for expenses incurred) arising under the Securities Act. Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is therefore unenforceable. The Registrant's amended and restated bylaws provide for indemnification of its directors, officers, employees and agents to the maximum extent permitted by the Delaware General Corporation Law. The Registrant's amended and restated certificate of incorporation provides that the liability of its directors for monetary damages shall be eliminated to the fullest extent permitted under applicable law. The Registrant has entered into indemnification agreements with its officers and directors and it maintains directors and officers liability insurance.

Item 7. Exemption From Registration Claimed.

Not applicable.

Item 8. Exhibits.

The following is a list of exhibits filed as part of this Registration Statement, which are incorporated herein:

<u>Exhibit No.</u>	<u>Description</u>
4.1	IntegCom Corp. 1999 Incentive Stock Option Plan and form of Incentive Stock Option Agreement.
4.2	Diversified Security Solutions, Inc. 2002 Stock Option Plan and forms of Stock Option Agreements.
4.3	Henry Bros. Electronics, Inc. 2006 Stock Option Plan and form of Stock Option Agreement.
4.4	Henry Bros. Electronics, Inc. 2007 Stock Option Plan and form of Stock Option Agreement.
5.1	Opinion of Paul, Hastings, Janofsky & Walker LLP.
23.1	Consent of Independent Registered Public Accounting Firm.
23.2	Consent of Paul, Hastings, Janofsky & Walker LLP (contained in Exhibit 5.1 to this Registration Statement).
24.1	Power of Attorney (contained on the signature pages of this Registration Statement).

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Item 9. Undertakings.

(a) The undersigned Registrant hereby undertakes:

(1) To file, during any period in which offers or sales are being made, a post-effective amendment to this Registration Statement:

(i) To include any prospectus required by Section 10(a)(3) of the Securities Act;

(ii) To reflect in the prospectus any facts or events arising after the effective date of this Registration Statement (or the most recent post-effective amendment thereof) which, individually or in the aggregate, represent a fundamental change in the information set forth in this Registration

Statement. Notwithstanding the foregoing, any increase or decrease in volume of securities offered (if the total dollar value of securities offered would not exceed that which was registered) and any deviation from the low or high end of the estimated maximum offering range may be reflected in the form of prospectus filed with the Commission pursuant to Rule 424(b) if, in the aggregate, the changes in volume and price represent no more than 20 percent change in the maximum aggregate offering price set forth in the "Calculation of Registration Fee" table in the effective Registration Statement;

(iii) To include any material information with respect to the plan of distribution not previously disclosed in this Registration Statement or any material change to such information in this Registration Statement;

Provided, however, that paragraphs (a)(1)(i) and (a)(1)(ii) do not apply if the Registration Statement is on Form S-8, and the information required to be included in a post-effective amendment by those paragraphs is contained in reports filed with or furnished to the Commission by the Registrant pursuant to Section 13 or Section 15(d) of the Exchange Act that are incorporated by reference in this Registration Statement.

(2) That, for the purpose of determining any liability under the Securities Act, each such post-effective amendment shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(3) To remove from registration by means of a post-effective amendment any of the securities being registered which remain unsold at the termination of the offering.

(b) The undersigned Registrant hereby undertakes that, for purposes of determining any liability under the Securities Act, each filing of the Registrant's annual report pursuant to Section 13(a) or 15(d) of the Exchange Act (and, where applicable, each filing of an employee benefit plan's annual report pursuant to Section 15(d) of the Exchange Act) that is incorporated by reference in this Registration Statement shall be deemed to be a new registration statement relating to the securities offered therein, and the offering of such securities at that time shall be deemed to be the initial *bona fide* offering thereof.

(h) Insofar as indemnification for liabilities arising under the Securities Act may be permitted to directors, officers and controlling persons of the Registrant pursuant to the foregoing provisions, or otherwise, the Registrant has been advised that in the opinion of the Commission such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable. In the event that a claim for indemnification against such liabilities (other than the payment by the Registrant of the expenses incurred or paid by a director, officer or controlling person of the Registrant in the successful defense of any action, suit or proceeding) is asserted by such director, officer or controlling person in connection with the securities being registered, the Registrant will, unless in the opinion of its counsel the matter has been settled by controlling precedent, submit to a court of appropriate jurisdiction the question whether such indemnification by it is against public policy as expressed in the Securities Act and will be governed by the final adjudication of such issue.

SIGNATURES

Pursuant to the requirements of the Securities Act, the Registrant certifies that it has reasonable grounds to believe that it meets all of the requirements for filing on Form S-8 and has duly caused this Registration Statement to be signed on its behalf by the undersigned, thereunto duly authorized, in the City of San Diego, State of California, on this 17th day of December, 2010.

KRATOS DEFENSE & SECURITY SOLUTIONS, INC.

By: /s/ Eric M. DeMarco
Eric M. DeMarco
President and Chief Executive Officer

POWER OF ATTORNEY

KNOW ALL PERSONS BY THESE PRESENTS, that each person whose signature appears below constitutes and appoints, jointly and severally, Eric M. DeMarco and Deanna H. Lund his attorneys-in-fact, each with the power of substitution, for him in any and all capacities, to sign any amendments to this Registration Statement on Form S-8 (including post-effective amendments), and to file the same, with all exhibits thereto, and other documents in connection therewith, with the SEC, hereby ratifying and confirming all that each of said attorneys-in-fact, or his substitute or substitutes, may do or cause to be done by virtue hereof.

Pursuant to the requirements of the Securities Act, this Registration Statement has been signed by the following persons in the capacities and on the dates indicated.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/ Eric M. DeMarco</u> Eric M. DeMarco	President, Chief Executive Officer and Director (Principal Executive Officer)	December 17, 2010
<u>/s/ Deanna H. Lund</u> Deanna H. Lund	Executive Vice President and Chief Financial Officer (Principal Financial Officer)	December 17, 2010
<u>/s/ Laura Siegal</u> Laura Siegal	Vice President and Corporate Controller (Principal Accounting Officer)	December 17, 2010
<u>/s/ Scott I. Anderson</u> Scott I. Anderson	Director	December 8, 2010

<u>/s/ Bandel L. Carano</u> Bandel L. Carano	Director	December 17, 2010
<u>/s/ William A. Hoglund</u> William A. Hoglund	Director	December 10, 2010
<u>/s/ Scot B. Jarvis</u> Scot B. Jarvis	Director	December 17, 2010
<u>/s/ Samuel N. Liberatore</u> Samuel N. Liberatore	Director	December 8, 2010

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EXHIBIT INDEX

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Incentive Stock Option Plan
of
INTEGCOM CORP.

1. PURPOSE

This Incentive Stock Option Plan (the "Plan") is intended as an incentive for and encouragement of stock ownership by certain officers and employees of IntegCom Corp. and its subsidiary corporations (collectively the "Corporation") so that they may acquire or increase their proprietary interest in the success of the Corporation, and to encourage them to remain in its employ. It is further intended that Options issued pursuant to this Plan shall constitute qualified incentive stock options within the meaning of Section 422 of the Internal Revenue Code of 1986, as amended (the "Code"). The term "subsidiary corporation" shall be defined in the same manner as such term is defined in Section 424(f) of the Code and shall include subsidiary corporations which become such after the adoption of the Plan.

2. ADMINISTRATION

The Plan shall be administered by a committee called the Compensation Committee (sometimes hereinafter the "Committee") appointed by the Board of Directors of the Corporation. The Compensation Committee shall consist of two or more members of the Corporation's Board of Directors. The Board of Directors may, from time to time, remove members from, or add members to, the Compensation Committee. Vacancies on the Committee, howsoever caused, shall be filled by the Board of Directors. The Compensation Committee shall select one of its members as Chairperson, and shall hold meetings at such times and places as it may determine. Action by a majority of the Committee shall be the valid acts of the Committee.

The Compensation Committee shall determine which of the eligible employees of the Corporation (determined under Article 3 hereof) shall be granted options, when such options shall be granted and the number of shares and terms with respect to each such option;

The Compensation Committee may prescribe rules and regulations for administering the Plan, if the Compensation Committee shall determine it necessary or convenient to do so.

The Compensation Committee shall decide any questions arising as to the interpretation or application of any provision under the Plan, any rule or regulation and any Option granted under the Plan. The Compensation Committee's decisions shall be final and conclusive.

No member of the Compensation Committee or the Board of Directors shall be liable for any action or determination made in good faith with respect to the Plan or any Option granted under it.

3. ELIGIBILITY

The persons eligible to receive Options are such officers and employees of the Corporation as the Compensation Committee shall select from time to time. An Optionee may hold more than one Option, but only on the terms and subject to the restrictions hereafter set forth. No person shall be eligible to receive an Option for a larger number of shares than is awarded to him by the Compensation Committee.

4. STOCK

The stock subject to the Options shall be shares of the Corporation's common stock authorized but unissued or reacquired, par value .01 per share, hereafter sometimes called Common Stock. The aggregate number of shares which may be issued under Options shall not exceed 500,000, subject to adjustment as provided in paragraph (G) of Article 5, below.

In the event that any outstanding Option under the Plan for any reason expires or is terminated, the shares of Common Stock allocable to the unexercised portion of such Option may again be subjected to an Option under the Plan.

5. TERMS AND CONDITIONS OF OPTIONS

Stock Options granted pursuant to the Plan shall be authorized by the Board of Directors and shall be evidenced by agreements in such form as the Compensation Committee shall from time to time approve, which agreements shall comply with and be subject to the following terms and conditions:

(A) Number of Shares Each Option shall state the number of shares to which it pertains.

(B) Option Price

(1) Each Option shall state the Option price, which shall be not less than 100% of the fair market value of the shares of Common Stock of the Corporation on the date of the granting of the Option; provided, however, that if the Option is granted to an Optionee who, at the time of the grant owns (as determined in accordance with Section 424(d) of the Code) stock of the Corporation possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the corporation (or of a parent or a subsidiary corporation, as those terms are defined in Section 424 of the Code, such ownership to be determined by application of the applicable attribution rules under the Code) then the option price shall be not less than 110% of the fair market value of the shares of Common Stock of the Corporation on the date of the granting of the Option.

(2) During such time as such stock is not listed upon an established stock exchange or exchanges or NASDAQ System the fair market value per share shall be the mean between dealer "bid" and "ask" prices of the Common Stock in the over-the-counter market on the day the Option is granted, as reported by the National Association of Securities Dealers, Inc. If the stock is listed upon an established stock exchange or exchanges or NASDAQ System, such fair market value shall be deemed to be the highest closing price of the Common Stock on such stock exchange or exchanges or system, the day the Option is granted or if no sale of the Corporation's Common Stock shall have been made on any stock exchange or such system on that day, then on the next preceding day on which there was a sale of such stock. If the stock is neither listed on an established stock

exchange or the NASDAQ System nor traded over-the-counter, the Committee shall determine such fair market value under the general principles of valuing the stock of corporations whose shares are not publicly traded. Subject to the foregoing, the Board of Directors and the Committee in fixing the Option price shall have full authority and discretion and shall be fully protected in doing so.

(C) Medium and Time of Payment

The option price shall be payable in United States dollars upon the exercise of the option, and the exercise of any option and the delivery of the optioned shares shall be contingent upon receipt by the Corporation of the full purchase price paid in cash or by check; provided, however, the Compensation Committee, in its sole discretion, may accept other forms of payment, including, but not limited to, other stock of the Corporation then owned by the Optionee.

(D) Term and Exercise of Options

(1) Each Option shall specify the dates upon which such Options can be exercised, and shall designate the maximum number of shares granted by the Option that can be exercised on such dates. To the extent that the maximum number of shares permitted to be exercised on such date or dates are not so exercised, such shares may be so exercised at any subsequent date not later than ten (10) years after the Option was granted; provided, however, that no Option granted to an Optionee who, at the time of the grant, owns stock of the Corporation (as determined in accordance with Section 424(d) of the Code) possessing more than 10% of the total voting power of all classes of stock of the Corporation, shall be exercisable more than five (5) years after such Option was granted.

(2) Except as otherwise specifically provided herein:

(a) No option granted hereunder shall be exercisable until the first anniversary of the grant thereof, when it shall become and remain exercisable for 33 % of the shares covered thereby. Each such option shall become and remain exercisable for an additional 33 % of the shares covered thereby on the second and third anniversaries of the grant thereof.

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(b) An Optionee may exercise a portion of an option from the date that portion first becomes exercisable until the option expires or is otherwise terminated; and

(c) In the case of any fractional share resulting from any calculation under the Plan, the shares available for exercise shall be determined to the nearest lower number of whole shares

(3) An Optionee's exercise of an option granted under the Plan as to one or more of the shares shall not be effective until the Corporation has received from the Optionee (a) written notice of the optionee's intent to do so in a form satisfactory to the Committee which specifies the number of shares to be purchased along with (b) the purchase price.

(4) No Option shall be transferable by the Optionee other than by will or the applicable laws of descent and distribution. During the lifetime of the Optionee, the Option shall be exercisable only by him and shall not be assignable or transferable by him, and no other person shall acquire any rights therein.

(E) Termination of Employment.

No option may be exercised after the termination of the employment of the Optionee by the Corporation except as hereinafter provided, specifically subject, however, to the provisions of paragraph (E) of this Article 5:

(1) Retirement. Options granted under the Plan may be exercised within three (3) months after the Retirement (as hereinafter defined) of the Optionee and the options shall be exercisable for all of the shares covered thereby, notwithstanding the provisions of paragraph (D)(2) of this Article V. For purposes of the Plan, "Retirement" shall mean any termination of employment with the Corporation occurring after the completion of ten (10) years of service with the Corporation and the attainment of age sixty (60) by the Optionee.

(2) Disability. Options granted under the Plan may be exercised within three (3) months after the termination of the employment of the Optionee by reason of the Disability (as hereinafter defined) of the Optionee and the option shall be exercisable for all of the shares covered thereby, notwithstanding the provisions of paragraph (D)(2) of this Article V. For purposes of this Plan, an Optionee shall be deemed to have incurred a "Disability" if a disinterested duly licensed medical doctor appointed by the Corporation determines that the Optionee is totally and permanently prevented, as a result of physical or mental infirmity, injury, or disease, either occupational or nonoccupational in cause, from holding the job or position with the Corporation or engaging in the employment activity, or a comparable job or employment activity with the Corporation, which the Optionee held or customarily engaged in prior to the occurrence of the disability (provided, however, that disability hereunder shall not include any disability incurred or resulting from the Optionee's having engaged in a criminal act or enterprise, or any disability consisting of or resulting from the Optionee's chronic alcoholism, addiction to narcotics or an intentionally self-inflicted injury).

(3) Death.

(i) If an Optionee shall die while employed by the Corporation or within three (3) months after termination of employment with the Corporation by reason of Retirement or Disability, the options granted under this Plan to such deceased Optionee shall be exercisable within one (1) year after the date of the Optionee's death and the options shall be exercisable for all of the shares covered thereby, notwithstanding the provisions of paragraph (D)(2) of this Article V.

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(ii) If an Optionee shall die within three (3) months after termination of employment with the Corporation for a reason other than Retirement or Disability, the options granted under this Plan to such deceased Optionee shall be exercisable within one (1) year after the date of the Optionee's death, but the options may not be exercised for more than the number of Shares, if any, as to which the options were exercisable by the Optionee immediately prior to his death.

The legal representative, if any, of the deceased Optionee's estate, otherwise the appropriate legatees or distributees of the deceased Optionee's estate, may exercise the option on behalf of such deceased Optionee.

(4) Involuntary Termination of Employment. Options granted under the Plan may be exercised within thirty (30) days after the Involuntary Termination of Employment (as hereinafter defined) of the Optionee with the Corporation and the options shall be exercisable for all of the shares covered thereby, notwithstanding the provisions of paragraph (D)(2) of this Article V. For purposes of the Plan, "Involuntary Termination of Employment" shall mean any termination of an Optionee's employment with the Corporation by reason of the discharge, firing or other involuntary termination of employment by action of the Corporation, other than an involuntary termination for cause as described in subparagraph (6) of this paragraph (E).

(5) Voluntary Termination of Employment. Options granted under the Plan shall terminate upon the Voluntary Termination of Employment (as hereinafter defined) of the Optionee with the Corporation. For purposes of the Plan "Voluntary Termination of Employment" shall mean any voluntary termination of employment with the Corporation by reason of the Optionee's quitting or otherwise voluntarily leaving the Corporation's employ other than a voluntary termination of employment by reason of Retirement or a voluntary termination of employment constituting a termination for cause as described in subparagraph (6) of this paragraph (E).

(6) Termination for Cause. Anything contained herein to the contrary notwithstanding, if the termination of an Optionee's employment with the Corporation is as a result of or caused by:

- (a) the Optionee's theft or embezzlement from the Corporation,
- (b) the Optionee's violation of a material term or condition of his employment,
- (c) the Optionee's unauthorized disclosure of confidential information of the Corporation,
- (d) the Optionee's conviction for a crime of moral turpitude,
- (e) the Optionee's unauthorized compiling or amassing of trade secrets or other intellectual property owned by the Corporation,
- (f) the Optionee's commission of any act in competition with the Corporation,

(g) The Optionee's violation of any employment rule or practice adopted by the Corporation prohibiting the illegal use of drugs, within the sense of 42 USC ss.12111(6), and/or prohibiting the use of alcohol on any property or in any vehicle owned, leased or otherwise used or occupied by the Corporation,

(h) The Optionee's violation of any employment rule or practice adopted by the Corporation that employees shall not be under the influence of alcohol and/or shall not be engaging in the illegal use of drugs, within the sense of 42 USC ss.12111(6), on any property or in any vehicle owned, lease or otherwise used or occupied by the Corporation,

- (i) The Optionee's repeated unauthorized absence from his place of work, or

(j) the Optionee's engaging in or his commission of any other act or activity or conduct which in the opinion of the Committee is adverse to the best interests of the Corporation, then any options, whether or not exercised, and any and all rights granted to such Optionee under the Plan shall become null and void effective as of the date of the occurrence of the event which results in the Optionee ceasing to be an employee of the Corporation, and any purported exercise of any option hereunder by or on behalf of said Optionee on or after such date shall be of no effect.

(F) Redemption

Notwithstanding any provision of the Plan or the terms of any option issued under the Plan, the Board of Directors retain the right, exercisable at its sole discretion, to cause the Corporation to redeem any accrued but unexercised Options of any Optionee whose employment with the Corporation has been terminated, or if the Optionee is the personal representative or beneficiary of a deceased former employee of the Corporation, by paying to such Optionee an amount equal to the difference between the Option price and the then fair market value of the stock, as determined in accordance with Article 5(B) of the Plan. The Board of Directors may exercise such right at any time prior to the issuance of the optioned shares, and regardless of whether the Optionee has given or the Corporation has received any notice of the Optionee's intent to exercise any options.

(G) Adjustment of Shares

Subject to any required action by the stockholders, the number of shares of Common Stock covered by each outstanding Option, and the price for each such share, shall be proportionally adjusted for any increase or decrease in the number of issued shares of Common Stock of the Corporation resulting from a subdivision or consolidation of shares or the payment of a stock dividend (but only on the Common Stock) or any other increase or decrease in the number of such shares effected without receipt of consideration by the Corporation.

Subject to any required action by the stockholders, if the Corporation shall be the surviving corporation in any merger or consolidation, each outstanding Option shall pertain to and apply to the securities to which a holder of the number of shares of Common Stock subject to the Option would have been entitled. A dissolution or liquidation of the Corporation or a merger or consolidation in which the Corporation is not the surviving corporation, shall cause each outstanding Option to terminate; provided, however, that each Optionee shall, in such event, have the right immediately prior to such dissolution

or liquidation, or merger or consolidation in which the Corporation is not the surviving Corporation, to exercise his option in whole or in part without regard to the limitations contained in the Option.

In the event of a change in the common Stock of the Corporation as presently constituted which is limited to a change of all its authorized shares into the same number of shares with the stated par value the share resulting from any such change shall be deemed to be the Common Stock within the meaning of the Plan.

Except as hereinbefore expressly provided in this paragraph (G) of Article 5, the Optionee shall have no rights by reason of the subdivision or consolidation of shares of stock of any class or the payment of any stock dividend or any other increase or decrease in the number of shares of stock of any class or by reason of any dissolution, liquidation, merger or consolidation or spin-off of assets or stock of another corporation, and any issue by the Corporation of shares of stock of any class, or securities convertible into shares of stock of any class, shall not affect the number or price of shares of Common Stock subject to the Option.

The grant of any Option pursuant to the Plan shall not affect in any way the right or power of the Corporation to make adjustments, reclassifications, reorganizations or changes of its capital or business structure or to merge, consolidate, dissolve, liquidate, sell, or transfer all or any part of its business or assets.

(H) Maximum Value of Stock with Respect to Which Options Are Exercisable for First Time in Any Calendar Year

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(1) If the aggregate fair market value of the shares of stock (determined as of the time of grant of such option(s)) with respect to which incentive stock options are exercisable for the first time by an optionee during any calendar year (under all such plans of the Corporation and its parent and subsidiary corporations, if any) exceeds \$100,000 then only the first \$100,000 of such shares so purchased shall be treated as exercised under this Plan, and any excess over \$100,000 so purchased shall be treated as options which are not incentive stock options; provided, however, that this rule shall be applied by taking options into account in the order or sequence in which they were granted.

(2) For purposes of computing the annual limitation, the fair market value of Common Stock of the Corporation granted under this Plan shall be aggregated with the fair market value of any other stock of the Corporation granted to such optionee under this Plan or any other plan or plans maintained by the Corporation.

(I) Rights as a Stockholder

An Optionee shall have no rights as a stockholder with respect to any shares covered by his Option until the date of issuance of a stock certificate to him for such shares. No adjustment shall be made for dividends (ordinary or extraordinary, whether in cash, securities or other property) or distributions or other rights for which the record date is prior to the date such stock certificate is issued, except as provided in Article 5(G) hereof.

(J) Modification, Extension and Renewal of Options

Subject to the terms and conditions and within the limitations of the Plan, the Board of Directors may modify, extend or renew outstanding Options granted under the Plan, or accept the surrender of outstanding Options (to the extent not theretofore exercised) and authorize the granting of new Options in substitution therefore (to the extent not theretofore exercised). However, no modification of an Option shall, without the consent of the Optionee, alter or impair any rights or obligations under any Option theretofore granted under the plan.

(K) Investment Purposes

Each Option under the Plan shall be granted on the condition that the purchases of Common Stock thereunder shall be for investment purposes, and not with a view to resale or distribution, except that in the event the Common Stock subject to such Option is registered under the Securities Act of 1933, as amended, or in the event a resale of such stock without such registration would otherwise be permissible, such condition shall be inoperative if in the opinion of counsel for the Corporation such condition is not required under the Securities Act of 1933 or any other applicable law, regulation or rule of any governmental agency. Each Optionee shall give to the Company an investment letter, in a form prescribed by the Board of Directors, as a condition precedent to the issuance of certificates representing shares exercised by such Optionee.

(L) Other Provisions

The Option agreements authorized under the Plan shall contain such other provisions, including, without limitation, restrictions upon the exercise of the Option, as the Compensation Committee and the Board of Directors of the Corporation shall deem advisable. Any such Option agreement shall contain such limitations and restrictions upon the exercise of the Option, and the amount of such Option, as shall be necessary in order that such Option will be an "incentive stock Option" as defined in Section 422 of the Code or to conform to any change in the law.

6. TERM OF PLAN

Options may be granted pursuant to the Plan from time to time within a period of ten years from the date the Plan is adopted, or the date the Plan is approved by the Stockholders, whichever is earlier.

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7. INDEMNIFICATION OF COMMITTEE

In addition to such other rights of indemnification as they may have as directors or as members of the Compensation Committee, the members of the Compensation Committee shall be indemnified by the Corporation against reasonable expenses, including attorneys' fees actually and necessarily incurred in connection with the defense of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason

of any action, suit or proceeding, or in connection with any appeal therein, to which they or any of them may be a party by reason of any action taken or failure to act under or in connection with the Plan or any Option granted thereunder, and against all amounts paid by them in settlement thereof (provided such settlement is approved by independent legal counsel selected by the Corporation) or paid by them in satisfaction of a judgment in any such action, suit or proceeding, except in relation to matters as to which it shall be adjudged in such action, suit or proceeding that such Committee member is liable for negligence or misconduct in the performance of his duties; provided that within 60 days after institution of any such action, suit, or proceeding a Committee member shall in writing offer the Corporation the opportunity at its own expense, to handle and defend the same.

8. AMENDMENT OF THE PLAN

The Board of Directors of the Corporation may, insofar as permitted by law, from time to time, with respect to any share at the time not subject to Options, suspend or discontinue the Plan or revise or amend it in any respect whatsoever except that, without approval of the stockholders, no such revision or amendment shall change the number of shares subject to the Plan, change the designation of the class of employees eligible to receive Options, decrease the price at which Options may be granted, remove the administration of the Plan from the Compensation Committee, or render any member of the Compensation Committee eligible to receive an Option under the Plan while serving thereon. Furthermore, the Plan may not, without the approval of the stockholders, be amended in any way that will cause Options issued under it to fail to meet the requirements of incentive stock Options as defined in Section 422 of the Code.

9. APPLICATION OF FUNDS

The proceeds received by the Corporation from the sale of Common Stock issued pursuant to Options will be used for general corporate purposes.

10. GRANTING OF OPTIONS.

The granting of any option pursuant to this Plan shall be entirely in the discretion of the Compensation Committee and nothing herein contained shall be construed to give any employee any right to participate under this Plan or to receive any option under it. The granting of an option shall impose no duty upon the Optionee to exercise such option.

Neither the adoption and maintenance of the Plan nor the granting of an option pursuant to this Plan shall be deemed to constitute a contract of employment between the Corporation and any employee or to be a condition of the employment of any person. Nothing herein contained shall be deemed to (a) give to any employee the right to be retained in the employ of the Corporation; (b) interfere with the right of the Corporation to discharge or retire any employee at any time; (c) give to the Corporation the right to require an employee to remain in its employ; or (d) interfere with the employee's right to terminate his employment at any time.

11. INTERPRETATION.

The terms of this Plan are subject to all present and future regulations and rulings of the Secretary of the Treasury or his delegate relating to the qualification of Incentive Stock Options under Section 422 of the Code. If any provision of the Plan conflicts with any such regulation or ruling, that provision of the Plan shall be void and of no effect. As used in this Plan, each person of either gender when appropriate, shall be interpreted as a reference to either gender. He singular shall be construed as including the plural and the plural the singular as the sense requires.

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12. EFFECTIVE DATE: APPROVAL OF STOCKHOLDERS

The Plan shall not take effect until approved by the holders of a majority of the outstanding shares of Common Stock of the Corporation, which approval must occur within the period beginning twelve months before and ending twelve months after the date the Plan is adopted by the Board of Directors. Adopted this _____ day of December 1999, by the Board of Directors and Shareholders

INTEGCOM CORP.

by: _____
President

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INTEGCOM CORP.

Incentive Stock Option Agreement

Agreement made this __ day of _____, 1999 between IntegCom Corp., a Delaware Corporation (the "Company" or "ITC"), _____, an employee of the Company residing at _____ (the "Employee").

NOW THEREFORE in consideration of the premises, it is agreed by and between the parties hereto as follows:

1. Grant of Option

The Company hereby grants the Employee the right, privilege and Option to purchase up to _____ of its shares of Common Stock, par value \$__ per share, at an exercise price of \$__ per share in the manner and subject to the terms and conditions provided herein and in the Company's Incentive Stock Option Plan (the "Plan") dated December 30, 1999. Any conflict between the terms and conditions of the Plan and those of this Agreement shall be resolved in accordance with the Plan.

2. Times of Exercise

The Option covered by this Agreement may be exercised by the Employee at any time from the date hereof until _____, _____, _____ in whole or in part or until its expiration or termination as provided herein or in the Plan, provided further that:

(A) If Employee, on the date hereof owns stock of the Corporation possessing more than 10% of the total voting power of all classes of stock of the Corporation, the Option covered by this Agreement may be exercised by the Employee from the date hereof until not more than five (5) years after the date hereof. For purposes of this Section 2, stock ownership and voting power shall be determined as provided in the Plan.

(B) The option granted vests and may be only exercisable at the rate of 33 1/3% of the shares covered hereby per year at each anniversary date.

3. Method of Exercise

The Option shall be exercised by delivering a written notice of an intent to exercise to a member of the Compensation Committee at the Company's principal offices, accompanied by the purchase price, in United States Dollars, for the number of shares of Common Stock of the Company specified to be purchased. Unless otherwise authorized in writing on behalf of the Compensation Committee, the purchase price will be paid by bank check, money order or the Employee's personal check. The written notice of intent to exercise shall indicate the number of shares to be purchased and the total exercise price applicable thereto. The Company shall, within 30 days of receiving such notice and the purchase price, whichever is later, deliver a stock certificate(s) in the appropriate number of shares. The date of delivery of such stock certificate(s) may be extended by mutual agreement of the Company and the Employee or due to any law or regulation which may require the Company to take action with respect to the shares covered by such notice prior to issuance thereof.

4. Termination of Option

Except as otherwise stated herein or the Plan, the Option, to the extent that it has not been exercised, shall terminate upon the occurrence of any of the following events:

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(A) Upon the Employee's termination of employment which is a voluntary termination of employment, other than upon retirement;

(B) Within thirty (30) days after the Employee's termination of employment which is an involuntary termination of employment;

(C) Within three (3) months after either the Employee's retirement or his termination by reason of a disability;

(C) Within one year after the Employee's death — and in such case, only by his or her executor, administrator or personal representative — but only to the extent that such Option was exercisable as of the date of death of such employee; or

(D) Upon the occurrence of any event described in subparagraphs(D)(6)(a) through (i) of Article 5.

(E) _____, 200_ (representing the expiration of five years from the grant of this Option).

For these purposes, the terms "voluntary termination of employment", "retirement" "involuntary termination of employment" and "retirement" and "disability" have the same meanings they do in the Plan.

Notwithstanding any other provision of this option, the Board of Directors has retained the right, exercisable at its sole discretion, to cause the Corporation to redeem any accrued but unexercised Options of any Optionee whose employment with the Corporation has been terminated or of an Optionee who is the personal representative or beneficiary of a deceased former employee of the Corporation, by paying to such Optionee an amount equal to the difference between the Option price and the then fair market value of the stock, as determined in accordance with Article 5(B) of the Plan.

The Compensation Committee will interpret the Plan and events to determine which, if any, paragraphs of this Section 4 shall apply, and if and when an event described in subparagraphs (E)(6)(a) through (j) of Article 5 has occurred.

5. Reclassification. Consolidation or Merger

This Option is subject to certain anti-dilution provisions set forth in the Plan concerning, among other things, increases or decreases in the number of shares outstanding, merger, consolidation, changes in common stock as presently constituted.

6. Rights Prior to Exercise of Option

This Option is non-assignable and non-transferable by the Employee, except in the event of his or her death as specified in the Plan. During the Employee's lifetime it is exercisable only by him or her. The Employee shall have no rights as a stockholder of the Company merely because he or she has been granted this Option. Such rights only accrue upon exercise of the Option, in whole or In part, payment of the appropriate exercise price, and issuance and delivery of the underlying shares as provided in this Agreement.

7. Restrictions on Dispositions

All shares acquired by the Employee shall be deemed restricted securities as that term is defined under the Securities Act of 1933, as amended(the "Act"), and may not be sold or transferred unless certain conditions are met. It is understood that the shares so acquired hereunder are to be purchased for investment only and not with a view to, or for, sale in connection with any public offering or distribution. The stock certificates representing such shares shall contain a legend delineating all the restrictions to which such shares are subject.

8. Plan and Its Amendment

This Option has been granted pursuant to the Plan which was adopted by the Company's Board of Directors and its shareholders. The option is subject to all terms and conditions of the Plan including but not limited to those concerning amendment and the term of the Plan.

9. Binding Effect

This Agreement shall inure to the benefit of and be binding upon the parties hereto and their respective heirs, executors, administrators and assigns. The laws of the State of New Jersey shall govern the interpretation and enforceability of this Agreement.

IN WITNESS WHEREOF the parties hereto have caused this Agreement to be executed on the day and year first above written.

INTEGCOM CORP.

BY: _____
President

AGREED AND ACCEPTED
as of the date first written above

BY: _____
Employee

DIVERSIFIED SECURITY SOLUTIONS, INC.
2002 STOCK OPTION PLAN

1. Purpose of Plan. This 2002 Stock Option Plan (the 'Plan') is designed to assist Diversified Security Solutions, Inc. (the 'Company') in attracting and retaining the services of employees, Non-Employee Directors (as hereinafter defined) and such consultants as may be designated and to provide them with an incentive and inducement to contribute fully to the further growth and development of the business of the Company and its subsidiaries.

2. Legal Compliance. It is the intent of the Plan that all options granted under it shall be either 'Incentive Stock Options' ('ISOs'), as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the 'Code'), or non-qualified stock options ('NQOs'); provided, however, ISOs shall be granted only to employees of the Company. An option shall be identified as an ISO or NQO in writing in the document or documents evidencing the grant of the option. All options that are not so identified as ISOs are intended to be NQOs. It is the further intent of the Plan that it conform in all respects with the requirements of Rule 16b-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ('Rule 16b-3'). To the extent that any aspect of the Plan or its administration shall at any time be viewed as inconsistent with the requirements of Rule 16b-3 or, in connection with ISOs, the Code, such aspect shall be deemed to be modified, deleted or otherwise changed as necessary to ensure continued compliance with such provisions.

3. Definitions. In addition to other definitions contained elsewhere in the Plan, as used in the Plan the following terms have the following meanings unless the context requires a different meaning:

'Board' means the Board of Directors of the Company.

'Code' means the Internal Revenue Code of 1986, as the same may from time to time be amended.

'Committee' means the committee referred to in Section 5 hereof.

'Common Stock' means the Common Stock of the Company, par value \$.01 per share.

'Designated Beneficiary' means the person designated by an optionee to be entitled on his death to any remaining rights arising out of an option, such designation to be made in accordance with such regulations as the Committee or Board may establish.

'Fair Market Value' means the closing price of the Common Stock on the American Stock Exchange on the date immediately proceeding the date of grant (the 'Closing Price') or if the Common Stock is no longer traded on the American Stock Exchange, the Closing Price on Nasdaq or any other automated quotation system, or if the Common Stock shall not be included in any automated quotation system, as determined by the Committee or the Board in good faith based on all relevant factors.

'Non-Employee Directors' means a director who is not currently an officer of or employed by the Company or any of its majority-owned subsidiaries.

'Stock Options' means any stock options granted to an optionee under the Plan.

'Stock Option Agreement' means a stock option agreement entered into pursuant to the Plan.

4. Stock Options: Stock Subject to Plan.

The stock to be issued upon exercise of Stock Options granted under the Plan shall consist of authorized but unissued shares, or of treasury shares, of Common Stock, as determined from time to time by the Board. The maximum number of shares for which Stock Options may be granted under the Plan is 230,000 shares, subject to adjustment as provided in Section 9 of the Plan. If any Stock Option granted under the Plan should expire or terminate for any reason whatsoever without having been exercised in full, the unpurchased shares shall become available for new option grants.

5. Administration.

(a) The Plan shall be administered by the Compensation Committee or, if such Committee is not appointed, then it shall be administered by the Board. Options may be granted by the Board or the Committee. For purposes of the Plan, the Board or its appointed Committee shall be referred to as the 'Committee.' The Committee, if any, shall be appointed by the Board and shall consist of not less than two members. The Board shall establish the number of members to serve on the Committee, shall fill all vacancies or create new openings on the Committee, and may remove any member of the Committee at any time with or without cause. The Committee shall select its own chairman and shall adopt, alter or repeal such rules and procedures as it may deem proper and shall hold its meetings at such times and places as it may determine. The Committee shall keep minutes of its meetings and of actions taken by it without a meeting. A majority of the Committee present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee without a meeting, shall be the acts of the Committee.

(b) Unless otherwise determined by the Board, the Committee shall have full and final authority in its discretion, but subject to the express provisions of the Plan, to:

(i) prescribe, amend and rescind rules and regulations relating to the Plan;

(ii) interpret the Plan and the respective Stock Options; and

(iii) make all other determinations necessary or advisable for administering the Plan. All determinations and interpretations by the Committee or the Board shall be binding and conclusive upon all parties. No member of the Committee or the Board shall be liable for any action or determination made in good faith in respect of the Plan or any Stock Option granted under it.

(c) The provisions of this Section 5 shall survive any termination of the Plan.

6. Grants of Options.

(a) Employees, employee directors, Non-Employee Directors, Employees of the Company or any of its subsidiaries shall be eligible to be selected by the Committee to receive stock option grants.

(b) Subject to the provisions of the Plan, the Committee shall determine and designate the persons to whom grants will be made, the number of Stock Options to be granted and the terms and conditions of each grant.

7. Terms and Exercise of Stock Option.

(a) Unless otherwise determined by the Committee, each Stock Option shall terminate no later than ten years (or such shorter term as may be fixed by the Committee) after the date on which it shall have been granted. The date of termination pursuant to this paragraph is referred to hereinafter as the 'termination date' of the option.

(b) Stock Options shall be exercisable at such time or times and in such installments, if any, as the Committee or Board may determine. In the event any Stock Option is exercisable in installments, any shares which may be purchased during any year or other period which are not purchased during such year or other period may be purchased at any time or from time to time during any subsequent year or period during the term of the Stock Option unless otherwise provided in the Stock Option Agreement.

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(c) A Stock Option shall be exercised by written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of shares as to which the Stock Option is being exercised and shall be accompanied by payment in full of the purchase price for such shares; provided, however, that an optionee at his or her discretion may, in lieu of cash payment, to the Company, (i) deliver Common Stock already owed by him or her, valued at fair market value on the date of delivery, as payment for the exercise of any Stock Option provided such shares have been owned by the optionee for at least six months prior to exercise or were not acquired, directly or indirectly, from the Company, or (ii) instruct a broker to notify the Company of optionee's exercise and sell stock to cover the exercise price and tax withholding. In the event a Stock Option is being exercised, in whole or in part pursuant to Section 8(c) hereof by any person other than the optionee, a notice of election shall be accompanied by proof satisfactory to the Company of the rights of such person to exercise said Stock Option. An optionee shall not, by virtue of the granting of a Stock Option, be entitled to any rights of a shareholder in the Company and such optionee shall not be considered a record holder of shares purchased by him or her until the date on which he or she shall actually be recorded as the holder of such shares upon the stock records of the Company. The Company shall not be required to issue any fractional shares upon exercise of any Stock Option and shall not be required to pay to the person exercising the Stock Option the cash equivalent of any fractional share interest unless so determined by the Committee.

(d) In the event an optionee elects to deliver Common Stock already owned by such optionee or to request that Common Stock be withheld in accordance with subsection (c) above, upon exercise of a Stock Option granted hereunder, the Company shall be entitled to require as a condition thereto that the optionee remit an amount which the Company deems sufficient to satisfy all Federal, state and other governmental withholding tax requirements related thereto. The Company shall have the right, in lieu of or in addition to the foregoing to withhold such sums from compensation otherwise due to the optionee.

8. Other Stock Option Conditions.

(a) Except as expressly permitted by the Board, no Stock Option shall be transferred by the optionee otherwise than by will or by the laws of descent and distribution. During the lifetime of the optionee the Stock Option shall be exercisable only by such optionee, by his or her legal representative or by a transferee permitted under the terms of the grant of the Stock Option.

(b) Unless otherwise determined by the Committee, in the event of the termination of an optionee's employment by the Company at any time for any reason (excluding disability or death), the portion of his or her Stock Option which is exercisable at the date of termination of employment and all rights thereunder shall terminate on the date of termination of the optionee's relationship with the Company, except that the optionee shall have the right to exercise his or her Stock Option (to the extent that the optionee was entitled to exercise it as of the date of termination), within three (3) months of the date of termination, but in no event later than the termination date of his or her Stock Option; provided, however, if the optionee is terminated for cause, the Stock Option shall terminate on the date of termination of employment. The Committee or the Board, may determine, in their sole discretion, whether the date of termination will be based on the last day the optionee performed services for the Company rather than the date of termination. Notwithstanding the foregoing, unless otherwise determined by the Committee, in the event an optionee is permanently and totally disabled (within the meaning of section 105(d)(4), or any successor section, of the Code), the portion of his or her Stock Option which is exercisable at the date of disability and all rights thereunder shall be exercisable by the optionee (or his or her legal representative) at any time within six (6) months of termination of employment — but in no event later than the termination date of his Stock Option.

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(c) Unless otherwise determined by the Committee, if an optionee shall die while in the employ of the Company, the portion of his or her Stock Option which is exercisable at the date of death may be exercised by his or her designated beneficiary or beneficiaries (or if none have been effectively designated, by his or her executor, administrator or the person to whom his or her rights under his or her Stock Option shall pass by will or by the laws of descent and distribution) at any time within six (6) months after the date of death, but not later than the termination date of his or her Stock Option.

(d) Nothing in the Plan or in any option granted pursuant hereto shall confer on an employee any right to continue in the employ of the Company or prevent or interfere in any way with the right of the Company to terminate his employment at any time, with or without cause.

(e) Notwithstanding anything to the contrary herein, in the event a Non-Employee Director has served his full term, his Stock Options that are exercisable shall be exercisable until the termination date of his Stock Option. If a Non-Employee Director shall die while serving on the Board, the portion of

his Stock Option which is exercisable at the date of death may be exercised by his designated beneficiary or beneficiaries (or, a person who has been effectively designated, by his executor, administrator or the person to whom his rights under his Stock Option shall pass by his will or by the laws of descent and distribution) at any time within one year after the date of his death, but not later than the termination date of his Stock Option. Nothing in the Plan or in any Stock Option granted pursuant hereto shall confer on any Non-Employee Director any right to continue as a director of the Company.

(f) Each Stock Option granted pursuant to the Plan shall be evidenced by a written Stock Option Agreement duly executed by the Company and the optionee, in such form and containing such provisions as the Committee may from time to time authorize or approve.

9. Adjustments. The Stock Option Agreements shall contain such provisions as the Committee shall determine to be appropriate for the adjustment of the kind and number of shares subject to each outstanding Stock Option, or the Stock Option prices, or both, in the event of any changes in the outstanding Common Stock of the Company by reason of stock dividends, stock splits, liquidation, recapitalizations, reorganizations, mergers, consolidations, combinations or exchanges of shares or the like. In the event of any such change or changes in the outstanding Common Stock, and as often as the same shall occur, the kind and aggregate number of shares available under the Plan may be appropriately adjusted by the Committee or the Board, whose determination shall be binding and conclusive.

10. Amendment and Termination.

(a) Unless the Plan shall have been otherwise terminated as provided herein, it shall terminate on, and no option shall be granted thereunder, after May 9, 2012. The Board may at any time prior to that date alter, suspend or terminate the Plan as it may deem advisable, except that it may not without further shareholder approval (i) increase the maximum number of shares subject to the Plan (except for changes pursuant to Section 9); (ii) permit the grant of options to anyone other than the officers, employee directors, Non-Employee

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Directors and consultants; (iii) change the manner of determining the minimum stock exercise prices (except for changes pursuant to Section 9); or (iv) extend the period during which Stock Options may be granted or exercised. Except as otherwise hereinafter provided, no alteration, suspension or termination of the Plan may, without the consent of the optionee to whom any Stock Option shall have theretofore been granted (or the person or persons entitled to exercise such Stock Option under Section 8(c) of the Plan), terminate such optionee's Stock Option or adversely affect such optionee's rights thereunder.

(b) Anything herein to the contrary notwithstanding, in the event that the Board shall at any time declare it advisable to do so in connection with any proposed sale or conveyance of all or substantially all of the property and assets of the Company or of any proposed consolidation or merger of the Company (each of the foregoing a 'Change of Control Event'), the Company may (i) accelerate the vesting schedule in such manner as the Company may decide in its sole discretion, or (ii) give written notice to the holder of any Stock Option that the portion of his or her Stock Option which is exercisable on the date of the notice may be exercised only within thirty (30) days after the date of such notice but not thereafter, and all rights under said Stock Option which shall not have been so exercised shall terminate at the expiration of such thirty (30) days, provided that the proposed sale, conveyance, consolidation or merger to which such notice shall relate shall be consummated within six (6) months after the date of such notice. If such Change of Control Event shall not be consummated within said time period, no unexercised rights under any Stock Option shall be affected by such notice except that such Stock Option may not be exercised between the date of expiration of such thirty (30) days and the date of the expiration of such six month period. Alternatively, outstanding Stock Options under the Plan may be assumed or converted to similar options in any surviving or acquiring entity, but, if the surviving or acquiring entity shall refuse to assume, or convert, said Stock Options, they shall be terminated if not exercised according to the requirements set forth above.

11. Option Exercise Price. The price per share to be paid by the optionee at the time an ISO is exercised shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the optioned Common Stock on the date immediately preceding the date on which the Stock Option is granted. No ISO may be granted under the Plan to any person who, at the time of such grant, owns (within the meaning of Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company unless the exercise price of such ISO is at least equal to one hundred and ten percent (110%) of Fair Market Value. The price per share to be paid by the optionee at the time an NQO is exercised shall not be less than eighty-five percent (85%) of the Fair Market Value on the date immediately preceding the date on which the NQO is granted, as determined by the Committee.

12. Ceiling of ISO Grants. The aggregate Fair Market Value (determined at the time any ISO is granted) of the Common Stock with respect to which an optionee's ISOs, together with incentive stock options granted under any other plan of the Company are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. If an optionee holds such incentive stock options that become first exercisable (including as a result of acceleration of exercisability under the Plan) in any one year for shares having a fair market value at the date of grant in excess of \$100,000, then the most recently granted of such ISOs, to the extent that they are exercisable for shares having an aggregate Fair Market Value in excess of such limit, shall be deemed to be NQOs.

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13. Indemnification. Any member of the Committee or the Board who is made, or threatened to be made, a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person is or was a member of the Committee or the Board insofar as it relates to the Plan shall be indemnified by the Company, and the Company may advance such person's related expenses, to the full extent permitted by law and/or the Certificate of Incorporation or By-laws of the Company.

14. Effective Date of the Plan; Termination of the Plan and Stock Options. The Plan shall become effective on the date of adoption by the Board, provided, however, that the Plan shall be subject to approval by the affirmative vote of the holders of the majority of Common Stock of the Company on or before December 31, 2002.

15. Expenses. Except as otherwise provided herein for the payment of Federal, State and other governmental taxes, the Company shall pay all fees and expenses incurred in connection with the Plan and the issuance of the stock hereunder.

16. Government Regulations, Registrations and Listing of Stock.

(a) The Plan, and the grant and exercise of Stock Options thereunder, and the Company's obligation to sell and deliver stock under such Stock Options shall be subject to all applicable Federal and State laws, rules and regulations and to such approvals by any regulatory or governmental agency as may, in the opinion of the Company, be necessary or appropriate.

(b) The Company may in its discretion require, whether or not a registration statement under the Securities Act of 1933 and the applicable rules and regulations thereunder (collectively the 'Act') is then in effect with respect to shares issuable upon exercise of any Stock Option or the offer and sale of such shares is exempt from the registration provisions of such Act, that as a condition precedent to the exercise of any Stock Option the person exercising the Stock Option give to the Company a written representation and undertaking satisfactory in form and substance to the Company that such person is acquiring the shares for his or her own account for investment and not with a view to the distribution or resale thereof and otherwise establish to the Company's satisfaction that the offer or sale of the shares issuable upon exercise of the Stock Option will not constitute or result in any breach or violation of the Act or any similar act or statute or law or regulation in the event that a Registration statement under the Act is not then effective with respect to the Common Shares issued upon the exercise of such Stock Option; the Company may place upon any stock certificate appropriate legends referring to these restrictions on disposition under the Act.

(c) In the event the class of shares issuable upon the exercise of any Stock Option is listed on any national securities exchange or Nasdaq, the Company shall not be required to issue a certificate for such shares upon the exercise of any Stock Option, or to list the shares so issuable on such national securities exchange or Nasdaq.

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STOCK OPTION AGREEMENT

(Non-Employee Director)

Henry Bros. Electronics, Inc., a Delaware corporation ("Company"), as of _____ hereby grants to _____ ("Optionee"), having an address at _____ to provide an incentive to _____ contribute to the further growth of the Company, an option ("Option") to purchase all or part of an aggregate of _____ shares ("Shares") of the Company's Common Stock, par value \$.01 per share ("Common Stock"), on the terms and conditions hereinafter set forth:

1. **Purchase Price.** The purchase price for the Shares shall be _____ per Share, said price being the fair market value for the Common Stock of the Company on the date immediately prior to the date the Option was granted, subject to adjustment as provided in Section 5 below.

2. **Term of Option; Exercise.**

(a) The Option shall terminate on _____, unless earlier terminated in accordance with the terms hereof. The Option shall be exercisable in whole or in part, as determined by the Optionee, in accordance with paragraph (b) of this Section.

(b) The Option is fully exercisable as of the date hereof. The Option or appropriate portion thereof shall be exercised by fifteen (15) days' written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of Shares as to which the Option is being exercised and shall be accompanied by payment in full of the purchase price for such Shares, provided, however, that Optionee at his or her discretion may, in lieu of cash payment to the Company, (i) deliver Common Stock of the Company already owned by Optionee free and clear of any lien thereof or affecting title thereto, valued at fair market value on the date of delivery, as payment of the purchase price for such Shares provided such delivered shares have been held by Optionee for at least six months prior to exercise, or were not acquired directly or indirectly from the Company or (ii) instruct a broker to notify the Company of the Optionee's exercise and sell stock to cover the exercise price and tax withholding.

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(c) The purchase price shall be payable in United States dollars, and may be paid in cash or by certified check on a United States bank or by other means acceptable to the Company including, but not limited to, those listed herein. In no event shall the Company be required to issue any Shares (i) until counsel for the Company determines that the Company has complied with all applicable securities or other laws and/or all requirements of any national securities exchange or Nasdaq on which the Common Stock may then be listed, and (ii) unless Optionee reimburses the Company for any tax withholding required and supplies the Company with such information and data as the Company may deem necessary.

(d) As used herein, the term "fair market value" shall mean the last sale price of the Common Stock on the American Stock Exchange (the "AMEX") on the last day on which the Company's shares of Common Stock were traded immediately preceding (i) the date of delivery, in the case of delivery of Common Stock already owned by the Optionee as payment for the exercise of the Option, or (ii) the date the stock certificate(s) evidencing the Shares as to which the Option is being exercised is received by the Company, in the case of Optionee's request that the Company withhold, from the number of Shares obtained upon the exercise of the Option, that number of Shares having an aggregate fair market value equal to the purchase price for the number of Shares as to which the Option is being exercised. The "last sale price" shall be that reported by the AMEX or AMEX's successor, or if not reported on AMEX, the fair market value of such Common Stock as determined by the Company's Compensation Committee or Board of Directors in good faith based on all relevant factors.

(e) Optionee shall not, by virtue of the granting of the Option, be entitled to any rights of a shareholder in the Company and shall not be considered a record holder of any Shares purchased by him until the date on which he shall actually be recorded as the holder of such Shares upon the stock records of the Company. The Company shall not be required to issue any fractional Shares upon exercise of the Option and shall not be required to pay to the Optionee the cash equivalent of any fractional Share interest.

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3. **Restrictions on Transfer.**

(a) No Option shall be transferred by the Optionee otherwise than by will or by the laws of decent and distribution. During the lifetime of the Optionee, the Option or appropriate portion thereof shall be exercisable only by Optionee or by Optionee's legal representative.

(b) In the event that the Optionee ceases to serve as a member of the Board of Directors of the Company (the "Board") at any time for any reason (excluding death), the Option and all rights shall be exercisable by the Optionee at any time within three (3) months thereafter, but in no event later than the termination date of his or her Option; provided, however, and notwithstanding anything to the contrary herein, in the event Optionee has served his full term on the Board of the Directors, the Option shall be exercisable by Optionee until the termination date of the Option.

(c) If the Optionee shall die while serving as a Director of the Company, the Option may be exercised by Optionee's designated beneficiary or beneficiaries (or if none have been effectively designated, by Optionee's executor, administrator or the person to whom Optionee's rights under the Option shall pass by Optionee's will or by the laws of descent and distribution) at any time within one year after the Optionee's death, but not later than the termination date of the Option.

4. Securities Act Matters.

(a) Optionee shall not at any time transfer or dispose of any Shares except pursuant to either (i) a registration statement under the Act which registration statement has become effective as to the Shares being sold or (ii) a specific exemption from registration under the Act, but only after Optionee has first obtained either a "no-action" letter from the SEC, following full and adequate disclosure of all facts relating to such proposed transfer, or a favorable opinion from and acceptable to counsel to the Company that the proposed transfer or other disposition complies with and is not in violation of the Act or any applicable state "blue sky" or securities laws.

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5. Anti-Dilution Provisions.

(a) Subject to the provisions of paragraph 5(b) below, if at any time or from time to time prior to expiration of the Option there shall occur any change in the outstanding Common Stock of the Company by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, reorganization, liquidation or the like, then and as often as the same shall occur, the kind and number of Shares subject to the Option, or the purchase price per Share, or both, shall be adjusted by the Board in such manner as it may deem appropriate and equitable, the determination of the Board shall be binding and conclusive. Failure of the Board to provide for any such adjustment shall be conclusive evidence that no adjustment is required.

(b) The Board shall have the right to engage a firm of independent certified public accountants, which may be the Company's regular auditors, to make any computation provided for in this Section, and a certificate of that firm showing the required adjustment shall, in the absence of a determination by the Board be conclusive and binding.

6. **Notices.** All notices and other communications required or permitted under this Agreement shall be in writing and shall be given either by (i) personal delivery against receipt, or (ii) first class registered or certified mail, return receipt requested. Any such communication shall be deemed to have been given on the date of receipt in the manner specified in clause (i) of the preceding sentence and on the second day after the date of mailing in the cases referred to in clause (ii) of the preceding sentence. All such communications to the Company shall be addressed to it, to the attention of its Secretary at its then principal office and to the Optionee at the address set forth above or such other address as may be designated by like notice hereunder.

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7. **Miscellaneous.** This Agreement cannot be changed except in writing signed by the party to be charged. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed exclusively in New Jersey. The Option has been granted pursuant to the Company's 2002 Stock Option Plan. This Agreement is in all respects subject to the terms and conditions of said Plan. The Option is a Non-Qualified Stock Option. Optionee shall execute this Agreement and return it to the Company within thirty (30) days after the mailing or delivery by the Company of this Agreement. If Optionee shall fail to execute and return this Agreement within said thirty (30) day period, the Option shall automatically terminate. The section headings in this Agreement are solely for convenience of reference and shall not affect its meaning or interpretation.

HENRY BROS. ELECTRONICS, INC.

OPTIONEE:

By: _____
Brian Reach
Secretary

By: _____

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STOCK OPTION AGREEMENT

(Employee)

Henry Bros. Electronics, Inc., a Delaware corporation ("Company"), as of _____ hereby grants to _____ ("Optionee"), having an address at _____ to provide an incentive to contribute to the further growth of the Company, an option ("Option") to purchase all or part of an aggregate of ("Shares") of the Company's Common Stock, par value \$.01 per share ("Common Stock"), on the terms and conditions hereinafter set forth:

1. **Purchase Price.** The purchase price for the Shares shall be _____ per Share, said price being the fair market value for the Common Stock of the Company on the date immediately prior to the date the Option was granted, subject to adjustment as provided in Section 5 below.

2. **Term of Option; Exercise.**

(a) The Option shall terminate on November 8, 2011, unless earlier terminated in accordance with the terms hereof. The Option shall be exercisable in whole or in part, as determined by the Optionee, in accordance with paragraph (b) of this Section.

(b) The Option is exercisable to the extent of _____ Shares on _____ and an additional _____ Shares on each of _____, and _____. The Option or appropriate portion thereof shall be exercised by fifteen (15) days' written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of Shares as to which the Option is being exercised and shall be accompanied by payment in full of the purchase price for such Shares, provided, however, that Optionee at his or her discretion may, in lieu of cash payment to the Company, (i) deliver Common Stock of the Company already owned by Optionee free and clear of any lien thereof or affecting title thereto, valued at fair market value on the date of delivery, as payment of the purchase price for such Shares provided such delivered shares have been held by Optionee for at least six months prior to exercise, or were not acquired directly or indirectly from the Company or (ii) instruct a broker to notify the Company of the Optionee's exercise and sell stock to cover the exercise price and tax withholding.

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(c) The purchase price shall be payable in United States dollars, and may be paid in cash or by certified check on a United States bank or by other means acceptable to the Company including, but not limited to, those listed herein. In no event shall the Company be required to issue any Shares (i) until counsel for the Company determines that the Company has complied with all applicable securities or other laws and/or all requirements of any national securities exchange or Nasdaq on which the Common Stock may then be listed, and (ii) unless Optionee reimburses the Company for any tax withholding required and supplies the Company with such information and data as the Company may deem necessary.

(d) As used herein, the term "fair market value" shall mean the last sale price of the Common Stock on the American Stock Exchange (the "AMEX") on the last day on which the Company's shares of Common Stock were traded immediately preceding (i) the date of delivery, in the case of delivery of Common Stock already owned by the Optionee as payment for the exercise of the Option, or (ii) the date the stock certificate(s) evidencing the Shares as to which the Option is being exercised is received by the Company, in the case of Optionee's request that the Company withhold, from the number of Shares obtained upon the exercise of the Option, that number of Shares having an aggregate fair market value equal to the purchase price for the number of Shares as to which the Option is being exercised. The "last sale price" shall be that reported by the AMEX or AMEX's successor, or if not reported on AMEX, the fair market value of such Common Stock as determined by the Company's Compensation Committee or Board of Directors in good faith based on all relevant factors.

(e) Optionee shall not, by virtue of the granting of the Option, be entitled to any rights of a shareholder in the Company and shall not be considered a record holder of any Shares purchased by him until the date on which he shall actually be recorded as the holder of such Shares upon the stock records of the Company. The Company shall not be required to issue any fractional Shares upon exercise of the Option and shall not be required to pay to the Optionee the cash equivalent of any fractional Share interest.

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3. **Restrictions on Transfer.**

(a) No Option shall be transferred by the Optionee otherwise than by will or by the laws of descent and distribution. During the lifetime of the Optionee, the Option or appropriate portion thereof shall be exercisable only by Optionee or by Optionee's legal representative.

(b) In the event that the Optionee ceases to be employed by the Company at any time for any reason (excluding termination for cause, disability or death), the Option and all rights thereunder shall be exercisable by the Optionee at any time within thirty days thereafter, but in no event later than the termination date of the Option specified in Section 2(a). The right of the Optionee to exercise the Option or any portion of the Option, shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

(c) In the event Optionee's employment is terminated for cause, the Option and all rights thereunder shall terminate at 5:00 p.m. on the date of termination of employment. The right of Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination for cause. For purposes of this Agreement termination "for cause" shall include the occurrence of any of the following acts or events by or relating to Optionee: (i) habitual insobriety of Optionee while performing his duties for the Company; (ii) theft or embezzlement from Company or any other material acts of dishonesty; (iii) repeated insubordination respecting reasonable orders or directions of Company's President, which remains uncured for more than twenty (20) days after written notice thereof by Company to Optionee; (iv) conviction of a crime (other than traffic violations and minor misdemeanors) or (v) any material breach of any of Optionee's obligations under Optionee's employment agreement with the Company if any such agreement is then in effect.

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(d) In the event Optionee's employment is terminated due to the Optionee's permanent and total disability (within the meaning of Section 105(d) (4), or any successor section, of the Internal Revenue Code of 1986, as amended), the Option shall be exercisable by the Optionee (or his or her legal representative) at any time within six months of the termination of Optionee's employment, but in no event later than the termination date of the Option specified in Section 2(a). The right of the Optionee to exercise the Option or any portion of the Option, shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

(e) If the Optionee shall die while serving as an employee of the Company the Option may be exercised by Optionee's designated beneficiary or beneficiaries (or if none have been effectively designated, by Optionee's executor, administrator or the person to whom Optionee's rights under the Option shall pass by Optionee's will or by the laws of descent and distribution) at any time within six months after the date of Optionee's death but not later than the termination date of the Option specified in Section 2(a). The right of the Optionee's beneficiary or legal representative to exercise the Option or any portion of the Option, shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee was entitled to exercise as of the date of death.

4. **Securities Act Matters.**

(a) Optionee shall not at any time transfer or dispose of any Shares except pursuant to either (i) a registration statement under the Act which registration statement has become effective as to the Shares being sold or (ii) a specific exemption from registration under the Act, but only after Optionee has first obtained either a "no-action" letter from the SEC, following full and adequate disclosure of all facts relating to such proposed transfer, or a favorable opinion from and acceptable to counsel to the Company that the proposed transfer or other disposition complies with and is not in violation of the Act or any applicable state "blue sky" or securities laws.

5. **Anti-Dilution Provisions.**

(a) Subject to the provisions of paragraph 5(b) below, if at any time or from time to time prior to expiration of the Option there shall occur any change in the outstanding Common Stock of the Company by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, reorganization, liquidation or the like, then and as often as the same shall occur, the kind and number of Shares subject to the Option, or the purchase price per Share, or both, shall be adjusted by the Board of Directors of the Company ("Board") in such manner as it may deem appropriate and equitable, the determination of the Board shall be binding and conclusive. Failure of the Board to provide for any such adjustment shall be conclusive evidence that no adjustment is required.

(b) The Board shall have the right to engage a firm of independent certified public accountants, which may be the Company's regular auditors, to make any computation provided for in this Section, and a certificate of that firm showing the required adjustment shall, in the absence of a determination by the Board be conclusive and binding.

6. **Notices.** All notices and other communications required or permitted under this Agreement shall be in writing and shall be given either by (i) personal delivery against receipt, or (ii) first class registered or certified mail, return receipt requested. Any such communication shall be deemed to have been given on the date of receipt in the manner specified in clause (i) of the preceding sentence and on the second day after the date of mailing in the cases referred to in clause (ii) of the preceding sentence. All such communications to the Company shall be addressed to it, to the attention of its Secretary at its then principal office and to the Optionee at the address set forth above or such other address as may be designated by like notice hereunder.

7. **Miscellaneous.** This Agreement cannot be changed except in writing signed by the party to be charged. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed exclusively in New Jersey. The Option has been granted pursuant to the Company's 2002 Stock Option Plan. This Agreement is in all respects subject to the terms and conditions of said Plan. The Option is an Incentive Stock Option, as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended. Optionee shall execute this Agreement and return it to the Company within thirty (30) days after the mailing or delivery by the Company of this Agreement. If Optionee shall fail to execute and return this Agreement within said thirty (30) day period, the Option shall automatically terminate. The section headings in this Agreement are solely for convenience of reference and shall not affect its meaning or interpretation.

Henry Bros. Electronics, Inc.

Optionee:

By _____
Secretary

By _____

HENRY BROS. ELECTRONICS, INC.
2006 STOCK OPTION PLAN

1. **PURPOSE OF PLAN.** This 2006 Stock Option Plan (the 'Plan') is designed to assist Henry Bros. Electronics, Inc. (the 'Company') in attracting and retaining the services of employees, Non-Employee Directors (as hereinafter defined) and such consultants as may be designated and to provide them with an incentive and inducement to contribute fully to the further growth and development of the business of the Company and its subsidiaries.

2. **LEGAL COMPLIANCE.** It is the intent of the Plan that all options granted under it shall be either 'Incentive Stock Options' ('ISOs'), as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the 'Code'), or non-qualified stock options ('NQOs'); provided, however, ISOs shall be granted only to employees of the Company. An option shall be identified as an ISO or NQO in writing in the document or documents evidencing the grant of the option. All options that are not so identified as ISOs are intended to be NQOs. It is the further intent of the Plan that it conform in all respects with the requirements of Rule 16b-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ('Rule 16b-3'). To the extent that any aspect of the Plan or its administration shall at any time be viewed as inconsistent with the requirements of Rule 16b-3 or, in connection with ISOs, the Code, such aspect shall be deemed to be modified, deleted or otherwise changed as necessary to ensure continued compliance with such provisions.

3. **DEFINITIONS.** In addition to other definitions contained elsewhere in the Plan, as used in the Plan the following terms have the following meanings unless the context requires a different meaning:

'Board' means the Board of Directors of the Company.

'Code' means the Internal Revenue Code of 1986, as the same may from time to time be amended.

'Committee' means the committee referred to in Section 5 hereof.

'Common Stock' means the Common Stock of the Company, par value \$.01 per share.

'Designated Beneficiary' means the person designated by an optionee to be entitled on his death to any remaining rights arising out of an option, such designation to be made in accordance with such regulations as the Committee or Board may establish.

'Fair Market Value' means the closing price of the Common Stock on the American Stock Exchange on the date immediately proceeding the date of grant (the 'Closing Price') or if the Common Stock is no longer traded on the American Stock Exchange, the Closing Price on Nasdaq or any other automated quotation system, or if the Common Stock shall not be included in any automated quotation system, as determined by the Committee or the Board in good faith based on all relevant factors.

'Non-Employee Directors' means a director who is not currently an officer of or employed by the Company or any of its majority-owned subsidiaries.

'Stock Options' means any stock options granted to an optionee under the Plan.

'Stock Option Agreement' means a stock option agreement entered into pursuant to the Plan.

4. **STOCK OPTIONS: STOCK SUBJECT TO PLAN.**

The stock to be issued upon exercise of Stock Options granted under the Plan shall consist of authorized but unissued shares, or of treasury shares, of Common Stock, as determined from time to time by the Board. The maximum number of shares for which Stock Options may be granted under the Plan is 250,000 shares, subject to adjustment as provided in Section 9 of the Plan. If any Stock Option granted under the Plan should expire or terminate for any reason whatsoever without having been exercised in full, the unpurchased shares shall become available for new option grants.

5. **ADMINISTRATION.**

(a) The Plan shall be administered by the Compensation Committee or, if such Committee is not appointed, then it shall be administered by the Board. Options may be granted by the Board or the Committee. For purposes of the Plan, the Board or its appointed Committee shall be referred to as the 'Committee.' The Committee, if any, shall be appointed by the Board and shall consist of not less than two members. The Board shall establish the number of members to serve on the Committee, shall fill all vacancies or create new openings on the Committee, and may remove any member of the Committee at any time with or without cause. The Committee shall select its own chairman and shall adopt, alter or repeal such rules and procedures as it may deem proper and shall hold its meetings at such times and places as it may determine. The Committee shall keep minutes of its meetings and of actions taken by it without a meeting. A majority of the Committee present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee without a meeting, shall be the acts of the Committee.

(b) Unless otherwise determined by the Board, the Committee shall have full and final authority in its discretion, but subject to the express provisions of the Plan, to:

(i) prescribe, amend and rescind rules and regulations relating to the Plan;

(ii) interpret the Plan and the respective Stock Options; and

(iii) make all other determinations necessary or advisable for administering the Plan. All determinations and interpretations by the Committee or the Board shall be binding and conclusive upon all parties. No member of the Committee or the Board shall be liable for any action or determination made in good faith in respect of the Plan or any Stock Option granted under it.

(c) The provisions of this Section 5 shall survive any termination of the Plan.

6. GRANTS OF OPTIONS.

(a) Employees, employee directors, Non-Employee Directors, Employees of the Company or any of its subsidiaries shall be eligible to be selected by the Committee to receive stock option grants.

(b) Subject to the provisions of the Plan, the Committee shall determine and designate the persons to whom grants will be made, the number of Stock Options to be granted and the terms and conditions of each grant.

7. TERMS AND EXERCISE OF STOCK OPTION.

(a) Unless otherwise determined by the Committee, each Stock Option shall terminate no later than ten years (or such shorter term as may be fixed by the Committee) after the date on which it shall have been granted. The date of termination pursuant to this paragraph is referred to hereinafter as the 'termination date' of the option.

(b) Stock Options shall be exercisable at such time or times and in such installments, if any, as the Committee or Board may determine. In the event any Stock Option is exercisable in installments, any shares which may be purchased during any year or other period which are not purchased during such year or other period may be purchased at any time or from time to time during any subsequent year or period during the term of the Stock Option unless otherwise provided in the Stock Option Agreement.

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(c) A Stock Option shall be exercised by written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of shares as to which the Stock Option is being exercised and shall be accompanied by payment in full of the purchase price for such shares; provided, however, that an optionee at his or her discretion may, in lieu of cash payment, to the Company, (i) deliver Common Stock already owed by him or her, valued at fair market value on the date of delivery, as payment for the exercise of any Stock Option provided such shares have been owned by the optionee for at least six months prior to exercise or were not acquired, directly or indirectly, from the Company, or (ii) instruct a broker to notify the Company of optionee's exercise and sell stock to cover the exercise price and tax withholding. In the event a Stock Option is being exercised, in whole or in part pursuant to Section 8(c) hereof by any person other than the optionee, a notice of election shall be accompanied by proof satisfactory to the Company of the rights of such person to exercise said Stock Option. An optionee shall not, by virtue of the granting of a Stock Option, be entitled to any rights of a shareholder in the Company and such optionee shall not be considered a record holder of shares purchased by him or her until the date on which he or she shall actually be recorded as the holder of such shares upon the stock records of the Company. The Company shall not be required to issue any fractional shares upon exercise of any Stock Option and shall not be required to pay to the person exercising the Stock Option the cash equivalent of any fractional share interest unless so determined by the Committee.

(d) In the event an optionee elects to deliver Common Stock already owned by such optionee or to request that Common Stock be withheld in accordance with subsection (c) above, upon exercise of a Stock Option granted hereunder, the Company shall be entitled to require as a condition thereto that the optionee remit an amount which the Company deems sufficient to satisfy all Federal, state and other governmental withholding tax requirements related thereto. The Company shall have the right, in lieu of or in addition to the foregoing to withhold such sums from compensation otherwise due to the optionee.

8. OTHER STOCK OPTION CONDITIONS.

(a) Except as expressly permitted by the Board, no Stock Option shall be transferred by the optionee otherwise than by will or by the laws of descent and distribution. During the lifetime of the optionee the Stock Option shall be exercisable only by such optionee, by his or her legal representative or by a transferee permitted under the terms of the grant of the Stock Option.

(b) Unless otherwise determined by the Committee, in the event of the termination of an optionee's employment by the Company at any time for any reason (excluding disability or death), the portion of his or her Stock Option which is exercisable at the date of termination of employment and all rights thereunder shall terminate on the date of termination of the optionee's relationship with the Company, except that the optionee shall have the right to exercise his or her Stock Option (to the extent that the optionee was entitled to exercise it as of the date of termination), within three (3) months of the date of termination, but in no event later than the termination date of his or her Stock Option; provided, however, if the optionee is terminated for cause, the Stock Option shall terminate on the date of termination of employment. The Committee or the Board, may determine, in their sole discretion, whether the date of termination will be based on the last day the optionee performed services for the Company rather than the date of termination. Notwithstanding the foregoing, unless otherwise determined by the Committee, in the event an optionee is permanently and totally disabled (within the meaning of section 105(d) (4), or any successor section, of the Code), the portion of his or her Stock Option which is exercisable at the date of disability and all rights thereunder shall be exercisable by the optionee (or his or her legal representative) at any time within six (6) months of termination of employment — but in no event later than the termination date of his Stock Option.

(c) Unless otherwise determined by the Committee, if an optionee shall die while in the employ of the Company, the portion of his or her Stock Option which is exercisable at the date of death may be exercised by his or her designated beneficiary or beneficiaries (or if none have been effectively designated, by his or her executor, administrator or the person to whom his or her rights under his or her Stock Option shall pass by will or by the laws of descent and distribution) at any time within six (6) months after the date of death, but not later than the termination date of his or her Stock Option.

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(d) Nothing in the Plan or in any option granted pursuant hereto shall confer on an employee any right to continue in the employ of the Company or prevent or interfere in any way with the right of the Company to terminate his employment at any time, with or without cause.

(e) Notwithstanding anything to the contrary herein, in the event a Non-Employee Director has served his full term, his Stock Options that are exercisable shall be exercisable until the termination date of his Stock Option. If a Non-Employee Director shall die while serving on the Board, the portion of his Stock Option which is exercisable at the date of death may be exercised by his designated beneficiary or beneficiaries (or, a person who has been effectively designated, by his executor, administrator or the person to whom his rights under his Stock Option shall pass by his will or by the laws of descent and distribution) at any time within one year after the date of his death, but not later than the termination date of his Stock Option. Nothing in the Plan or in any Stock Option granted pursuant hereto shall confer on any Non-Employee Director any right to continue as a director of the Company.

(f) Each Stock Option granted pursuant to the Plan shall be evidenced by a written Stock Option Agreement duly executed by the Company and the optionee, in such form and containing such provisions as the Committee may from time to time authorize or approve.

9. **ADJUSTMENTS.** The Stock Option Agreements shall contain such provisions as the Committee shall determine to be appropriate for the adjustment of the kind and number of shares subject to each outstanding Stock Option, or the Stock Option prices, or both, in the event of any changes in the outstanding Common Stock of the Company by reason of stock dividends, stock splits, liquidation, recapitalizations, reorganizations, mergers, consolidations, combinations or exchanges of shares or the like. In the event of any such change or changes in the outstanding Common Stock, and as often as the same shall occur, the kind and aggregate number of shares available under the Plan may be appropriately adjusted by the Committee or the Board, whose determination shall be binding and conclusive.

10. **AMENDMENT AND TERMINATION.**

(a) Unless the Plan shall have been otherwise terminated as provided herein, it shall terminate on, and no option shall be granted thereunder, after. The Board may at any time prior to that date alter, suspend or terminate the Plan as it may deem advisable, except that it may not without further shareholder approval (i) increase the maximum number of shares subject to the Plan (except for changes pursuant to Section 9); (ii) permit the grant of options to anyone other than the officers, employee directors, Non-Employee Directors and consultants; (iii) change the manner of determining the minimum stock exercise prices (except for changes pursuant to Section 9); or (iv) extend the period during which Stock Options may be granted or exercised. Except as otherwise hereinafter provided, no alteration, suspension or termination of the Plan may, without the consent of the optionee to whom any Stock Option shall have theretofore been granted (or the person or persons entitled to exercise such Stock Option under Section 8(c) of the Plan), terminate such optionee's Stock Option or adversely affect such optionee's rights thereunder.

(b) Anything herein to the contrary notwithstanding, in the event that the Board shall at any time declare it advisable to do so in connection with any proposed sale or conveyance of all or substantially all of the property and assets of the Company or of any proposed consolidation or merger of the Company (each of the foregoing a 'Change of Control Event'), the Company may (i) accelerate the vesting schedule in such manner as the Company may decide in its sole discretion, or (ii) give written notice to the holder of any Stock Option that the portion of his or her Stock Option which is exercisable on the date of the notice may be exercised only within thirty (30) days after the date of such notice but not thereafter, and all rights under said Stock

Option which shall not have been so exercised shall terminate at the expiration of such thirty (30) days, provided that the proposed sale, conveyance, consolidation or merger to which such notice shall relate shall be consummated within six (6) months after the date of such notice. If such Change of Control Event shall not be consummated within said time period, no unexercised rights under any Stock Option shall be affected by such notice except that such Stock Option may not be exercised between the date of expiration of such thirty (30) days and the date of the expiration of such six month period. Alternatively, outstanding Stock Options under the Plan may be assumed or converted to similar options in any surviving or acquiring entity, but, if the surviving or acquiring entity shall refuse to assume, or convert, said Stock Options, they shall be terminated if not exercised according to the requirements set forth above.

11. **OPTION EXERCISE PRICE.** The price per share to be paid by the optionee at the time an ISO is exercised shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the optioned Common Stock on the date immediately preceding the date on which the Stock Option is granted. No ISO may be granted under the Plan to any person who, at the time of such grant, owns (within the meaning of Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company unless the exercise price of such ISO is at least equal to one hundred and ten percent (110%) of Fair Market Value. The price per share to be paid by the optionee at the time an NQO is exercised shall not be less than eighty-five percent (85%) of the Fair Market Value on the date immediately preceding the date on which the NQO is granted, as determined by the Committee.

12. **CEILING OF ISO GRANTS.** The aggregate Fair Market Value (determined at the time any ISO is granted) of the Common Stock with respect to which an optionee's ISOs, together with incentive stock options granted under any other plan of the Company are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. If an optionee holds such incentive stock options that become first exercisable (including as a result of acceleration of exercisability under the Plan) in any one year for shares having a fair market value at the date of grant in excess of \$100,000, then the most recently granted of such ISOs, to the extent that they are exercisable for shares having an aggregate Fair Market Value in excess of such limit, shall be deemed to be NQOs.

13. **INDEMNIFICATION.** Any member of the Committee or the Board who is made, or threatened to be made, a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person is or was a member of the Committee or the Board insofar as it relates to the Plan shall be indemnified by the Company, and the Company may advance such person's related expenses, to the full extent permitted by law and/or the Certificate of Incorporation or By-laws of the Company.

14. **EFFECTIVE DATE OF THE PLAN; TERMINATION OF THE PLAN AND STOCK OPTIONS.** The Plan shall become effective on the date of adoption by the Board, provided, however, that the Plan shall be subject to approval by the affirmative vote of the holders of the majority of Common Stock of the Company on or before December 31, 2006.

15. **EXPENSES.** Except as otherwise provided herein for the payment of Federal, State and other governmental taxes, the Company shall pay all fees and expenses incurred in connection with the Plan and the issuance of the stock hereunder.

16. **GOVERNMENT REGULATIONS, REGISTRATIONS AND LISTING OF STOCK.**

(a) The Plan, and the grant and exercise of Stock Options thereunder, and the Company's obligation to sell and deliver stock under such Stock Options shall be subject to all applicable Federal and State laws, rules and regulations and to such approvals by any regulatory or governmental agency as may, in the opinion of the Company, be necessary or appropriate.

(b) The Company may in its discretion require, whether or not a registration statement under the Securities Act of 1933 and the applicable rules and regulations thereunder (collectively the 'Act') is then in effect with respect to shares issuable upon exercise of any Stock Option or the offer and sale of such shares is exempt from the registration provisions of such Act, that as a

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condition precedent to the exercise of any Stock Option the person exercising the Stock Option give to the Company a written representation and undertaking satisfactory in form and substance to the Company that such person is acquiring the shares for his or her own account for investment and not with a view to the distribution or resale thereof and otherwise establish to the Company's satisfaction that the offer or sale of the shares issuable upon exercise of the Stock Option will not constitute or result in any breach or violation of the Act or any similar act or statute or law or regulation in the event that a Registration statement under the Act is not then effective with respect to the Common Shares issued upon the exercise of such Stock Option; the Company may place upon any stock certificate appropriate legends referring to the restrictions on disposition under the Act.

(c) In the event the class of shares issuable upon the exercise of any Stock Option is listed on any national securities exchange or Nasdaq, the Company shall not be required to issue a certificate for such shares upon the exercise of any Stock Option, or to list the shares so issuable on such national securities exchange or Nasdaq.

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STOCK OPTION AGREEMENT

(Employee)

Henry Bros. Electronics, Inc., a Delaware corporation ("Company"), as of September 11, 2007 hereby grants to _____ ("Optionee"), having an address at _____, an option ("Option") to purchase all or part of an aggregate of _____ shares ("Shares") of the Company's Common Stock, par value \$.01 per share ("Common Stock"), on the terms and conditions hereinafter set forth:

1. **Purchase Price.** The purchase price for the Shares shall be _____ per Share, said price being the fair market value for the Common Stock of the Company on the date immediately prior to the date the Option was granted, subject to adjustment as provided in Section 5 below.

2. **Term of Option; Exercise.**

(a) The Option shall terminate on _____, unless earlier terminated in accordance with the terms hereof. The Option shall be exercisable in whole or in part, as determined by the Optionee, in accordance with paragraph (b) of this Section.

(b) The Option is exercisable to the extent of _____ Shares on each of _____, _____, &nb
sp; _____, and _____. The Option or appropriate portion thereof may be exercised by fifteen (15) days' written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of Shares as to which the Option is being exercised and shall be accompanied by payment in full of the purchase price for such Shares, provided, however, that Optionee at his or her discretion may, in lieu of cash payment to the Company, (i) deliver Common Stock of the Company already owned by Optionee free and clear of any lien thereof or affecting title thereto, valued at fair market value on the date of delivery, as payment of the purchase price for such Shares provided such delivered shares have been held by Optionee for at least six months prior to exercise, or were not acquired directly or indirectly from the Company or (ii) instruct a broker to notify the Company of the Optionee's exercise and sell stock to cover the exercise price and tax withholding.

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(c) The purchase price shall be payable in United States dollars, and may be paid in cash or by certified check on a United States bank or by other means acceptable to the Company including, but not limited to, those listed herein. In no event shall the Company be required to issue any Shares (i) until counsel for the Company determines that the Company has complied with all applicable securities or other laws and/or all requirements of any national securities exchange or Nasdaq on which the Common Stock may then be listed, and (ii) unless Optionee reimburses the Company for any tax withholding required and supplies the Company with such information and data as the Company may deem necessary.

(d) As used herein, the term "fair market value" shall mean the last sale price of the Common Stock on the American Stock Exchange (the "AMEX") on the last day on which the Company's shares of Common Stock were traded immediately preceding (i) the date of delivery, in the case of delivery of Common Stock already owned by the Optionee as payment for the exercise of the Option, or (ii) the date the stock certificate(s) evidencing the Shares as to which the Option is being exercised is received by the Company, in the case of Optionee's request that the Company withhold, from the number of Shares obtained upon the exercise of the Option, that number of Shares having an aggregate fair market value equal to the purchase price for the number of Shares as to which the Option is being exercised. The "last sale price" shall be that reported by the AMEX or AMEX's successor, or if not reported on AMEX, the fair market value of such Common Stock as determined by the Company's Compensation Committee or Board of Directors in good faith based on all relevant factors.

(e) Optionee shall not, by virtue of the granting of the Option, be entitled to any rights of a shareholder in the Company and shall not be considered a record holder of any Shares purchased by him until the date on which he shall actually be recorded as the holder of such Shares upon the stock records of the Company. The Company shall not be required to issue any fractional Shares upon exercise of the Option and shall not be required to pay to the Optionee the cash equivalent of any fractional Share interest.

3. **Restrictions on Transfer.**

(a) No Option shall be transferred by the Optionee otherwise than by will or by the laws of decedent and distribution. During the lifetime of the Optionee, the Option or appropriate portion thereof shall be exercisable only by Optionee or by Optionee's legal representative.

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(b) In the event that the Optionee ceases to be employed by the Company at any time for any reason (excluding termination for cause, disability or death), the Option and all rights thereunder shall be exercisable by the Optionee at any time within three months thereafter, but in no event later than the termination date of the Option specified in Section 2(a). The right of the Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

(c) In the event Optionee's employment is terminated for cause, the Option and all rights thereunder shall terminate at 5:00 p.m. on the date of termination of employment. The right of Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination for cause. For purposes of this Agreement termination "for cause" shall include the occurrence of any of the following acts or events by or relating to Optionee: (i) habitual insobriety of Optionee while performing his duties for the Company; (ii) theft or embezzlement from Company or any other material acts of dishonesty; (iii) repeated insubordination respecting reasonable orders or directions of Company's President, which remains uncured for more than twenty (20) days after written notice thereof by Company to Optionee; (iv) conviction of a crime (other than traffic violations and minor misdemeanors) or (v) any material breach of any of Optionee's obligations under Optionee's employment agreement with the Company if any such agreement is then in effect.

(d) In the event Optionee's employment is terminated due to the Optionee's permanent and total disability (within the meaning of Section 105(d) (4), or any successor section, of the Internal Revenue Code of 1986, as amended), the Option shall be exercisable by the Optionee (or his or her legal representative) at any time within six months of the termination of Optionee's employment, but in no event later than the termination date of the Option. The right of the Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

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(e) If the Optionee shall die while serving as an employee of the Company the Option may be exercised by Optionee's designated beneficiary or beneficiaries (or if none have been effectively designated, by Optionee's executor, administrator or the person to whom Optionee's rights under the Option shall pass by Optionee's will or by the laws of descent and distribution) at any time within six months after the date of Optionee's death but not later than the termination date of the Option. The right of the Optionee's beneficiary or legal representative to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee was entitled to exercise as of the date of death.

4. **Securities Act Matters.**

(a) Optionee shall not at any time transfer or dispose of any Shares except pursuant to either (i) a registration statement under the Act which registration statement has become effective as to the Shares being sold or (ii) a specific exemption from registration under the Act, but only after Optionee has first obtained either a "no-action" letter from the SEC, following full and adequate disclosure of all facts relating to such proposed transfer, or a favorable opinion from and acceptable to counsel to the Company that the proposed transfer or other disposition complies with and is not in violation of the Act or any applicable state "blue sky" or securities laws.

5. **Anti-Dilution Provisions.**

(a) Subject to the provisions of paragraph 5(b) below, if at any time or from time to time prior to expiration of the Option there shall occur any change in the outstanding Common Stock of the Company by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, reorganization, liquidation or the like, then and as often as the same shall occur, the kind and number of Shares subject to the Option, or the purchase price per Share, or both, shall be adjusted by the Board of Directors of the Company ("Board") in such manner as it may deem appropriate and equitable, the determination of the Board shall be binding and conclusive. Failure of the Board to provide for any such adjustment shall be conclusive evidence that no adjustment is required.

(b) The Board shall have the right to engage a firm of independent certified public accountants, which may be the Company's regular auditors, to make any computation provided for in this Section, and a certificate of that firm showing the required adjustment shall, in the absence of a determination by the Board be conclusive and binding.

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6. **Change in Control Provisions.** Notwithstanding anything herein to the contrary,

(a) With respect to Options granted pursuant hereto, upon (i) the occurrence of a change in control of the Company, as such term is defined below, and (ii) the related or resulting termination without cause by the Company or the successor company of Optionee's employment, all such Options will immediately accelerate and be fully vested and exercisable.

(b) In the event that, as a result of the aforementioned change in control, there no longer exists a public market for the Company's securities, the stock issued upon exercise of the aforementioned Options will be immediately purchased by the Company or successor company at the average closing price of the common stock for the ten trading days prior to the termination date of employment.

(c) **Definition of "Change in Control"**. For purposes of this Agreement, a "Change in Control" means the happening of any of the following, but only with respect to Options awarded prior thereto:

- (i) the consummation of a transaction that would result in the reorganization, merger or consolidation of the Company, respectively, with one or more persons in which the Company is not the surviving entity;
- (ii) the acquisition of substantially all of the assets of the Company or of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the outstanding securities of the Company entitled to vote generally in the election of directors, by any person or by any persons acting in concert; or
- (iii) the occurrence of any event in connection with an actual or threatened election contest or threatened solicitation or proxies or consents (all within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) if, immediately following such event, more than fifty percent (50%) of the members of the board of directors of the Company are not individuals who were members of the Board of Directors on the later of the date of this Option Grant or two years from the termination date of employment;

provided, however, that in no event shall a Change in Control be deemed to have occurred as a result of any acquisition or securities or assets of the Company or any of its subsidiaries by the Company or any subsidiary of the Company. For purposes of this section, the term "person" shall have the meaning assigned to it under sections 13(d) (3) or 14(d)(2) of the Exchange Act.

7. **Notices.** All notices and other communications required or permitted under this Agreement shall be in writing and shall be given either by (i) personal delivery against receipt, or (ii) first class registered or certified mail, return receipt requested. Any such communication shall be deemed to have been given on the date of receipt in the manner specified in clause (i) of the preceding sentence and on the second day after the date of mailing in the cases referred to in clause (ii) of the preceding sentence. All such communications to the Company shall be addressed to it, to the attention of its Secretary at its then principal office and to the Optionee at the address set forth above or such other address as may be designated by like notice hereunder.

8. **Miscellaneous.** This Agreement cannot be changed except in writing signed by the party to be charged. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed exclusively in New Jersey. The Option has been granted pursuant to the Company's 2006 Stock Option Plan. This Agreement is in all respects subject to the terms and conditions of said Plan. The Option is an Incentive Stock Option; as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended. Optionee shall execute this Agreement and return it to the Company within thirty (30) days after the mailing or delivery by the Company of this Agreement. If Optionee shall fail to execute and return this Agreement within said thirty (30) day period, the Option shall automatically terminate. The section headings in this Agreement are solely for convenience of reference and shall not affect its meaning or interpretation.

Henry Bros. Electronics, Inc.

Optionee:

By _____
Brian Reach,
Secretary

HENRY BROS. ELECTRONICS, INC.
2007 STOCK OPTION PLAN

1. Purpose of Plan. This 2007 Stock Option Plan (the 'Plan') is designed to assist Henry Bros. Electronics, Inc. (the 'Company') in attracting and retaining the services of employees, Non-Employee Directors (as hereinafter defined) and such consultants as may be designated and to provide them with an incentive and inducement to contribute fully to the further growth and development of the business of the Company and its subsidiaries.

2. Legal Compliance. It is the intent of the Plan that all options granted under it shall be either 'Incentive Stock Options' ('ISOs'), as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended (the 'Code'), or non-qualified stock options ('NQOs'); provided, however, ISOs shall be granted only to employees of the Company. An option shall be identified as an ISO or NQO in writing in the document or documents evidencing the grant of the option. All options that are not so identified as ISOs are intended to be NQOs. It is the further intent of the Plan that it conform in all respects with the requirements of Rule 16b-3 of the Securities and Exchange Commission under the Securities Exchange Act of 1934, as amended ('Rule 16b-3'). To the extent that any aspect of the Plan or its administration shall at any time be viewed as inconsistent with the requirements of Rule 16b-3 or, in connection with ISOs, the Code, such aspect shall be deemed to be modified, deleted or otherwise changed as necessary to ensure continued compliance with such provisions.

3. Definitions. In addition to other definitions contained elsewhere in the Plan, as used in the Plan the following terms have the following meanings unless the context requires a different meaning:

'Board' means the Board of Directors of the Company.

'Code' means the Internal Revenue Code of 1986, as the same may from time to time be amended.

'Committee' means the committee referred to in Section 5 hereof.

'Common Stock' means the Common Stock of the Company, par value \$.01 per share.

'Designated Beneficiary' means the person designated by an optionee to be entitled on his death to any remaining rights arising out of an option, such designation to be made in accordance with such regulations as the Committee or Board may establish.

'Fair Market Value' means the closing price of the Common Stock on the American Stock Exchange on the date immediately preceding the date of grant (the 'Closing Price') or if the Common Stock is no longer traded on the American Stock Exchange, the Closing Price on Nasdaq or any other automated quotation system, or if the Common Stock shall not be included in any automated quotation system, as determined by the Committee or the Board in good faith based on all relevant factors.

'Non-Employee Directors' means a director who is not currently an officer of or employed by the Company or any of its majority-owned subsidiaries.

'Stock Options' means any stock options granted to an optionee under the Plan.

'Stock Option Agreement' means a stock option agreement entered into pursuant to the Plan.

4. Stock Options: Stock Subject to Plan.

The stock to be issued upon exercise of Stock Options granted under the Plan shall consist of authorized but unissued shares, or of treasury shares, of Common Stock, as determined from time to time by the Board. The maximum number of shares for which Stock Options may be granted under the Plan is 250,000 shares, subject to adjustment as provided in Section 9 of the Plan. If any Stock Option granted under the Plan should expire or terminate for any reason whatsoever without having been exercised in full, the unpurchased shares shall become available for new option grants.

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5. Administration.

(a) The Plan shall be administered by the Compensation Committee or, if such Committee is not appointed, then it shall be administered by the Board. Options may be granted by the Board or the Committee. For purposes of the Plan, the Board or its appointed Committee shall be referred to as the 'Committee.' The Committee, if any, shall be appointed by the Board and shall consist of not less than two members. The Board shall establish the number of members to serve on the Committee, shall fill all vacancies or create new openings on the Committee, and may remove any member of the Committee at any time with or without cause. The Committee shall select its own chairman and shall adopt, alter or repeal such rules and procedures as it may deem proper and shall hold its meetings at such times and places as it may determine. The Committee shall keep minutes of its meetings and of actions taken by it without a meeting. A majority of the Committee present at any meeting at which a quorum is present, or acts approved in writing by all members of the Committee without a meeting, shall be the acts of the Committee.

(b) Unless otherwise determined by the Board, the Committee shall have full and final authority in its discretion, but subject to the express provisions of the Plan, to:

- (i) prescribe, amend and rescind rules and regulations relating to the Plan;
- (ii) interpret the Plan and the respective Stock Options; and
- (iii) make all other determinations necessary or advisable for administering the Plan. All determinations and interpretations by the Committee or the Board shall be binding and conclusive upon all parties. No member of the Committee or the Board shall be liable for any action or determination made in good faith in respect of the Plan or any Stock Option granted under it.

(c) The provisions of this Section 5 shall survive any termination of the Plan.

6. Grants of Options.

(a) Employees, employee directors, Non-Employee Directors, Employees of the Company or any of its subsidiaries shall be eligible to be selected by the Committee to receive stock option grants.

(b) Subject to the provisions of the Plan, the Committee shall determine and designate the persons to whom grants will be made, the number of Stock Options to be granted and the terms and conditions of each grant.

7. Terms and Exercise of Stock Option.

(a) Unless otherwise determined by the Committee, each Stock Option shall terminate no later than ten years (or such shorter term as may be fixed by the Committee) after the date on which it shall have been granted. The date of termination pursuant to this paragraph is referred to hereinafter as the 'termination date' of the option.

(b) Stock Options shall be exercisable at such time or times and in such installments, if any, as the Committee or Board may determine. In the event any Stock Option is exercisable in installments, any shares which may be purchased during any year or other period which are not purchased during such year or other period may be purchased at any time or from time to time during any subsequent year or period during the term of the Stock Option unless otherwise provided in the Stock Option Agreement.

(c) A Stock Option shall be exercised by written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of shares as to which the Stock Option is being exercised and shall be accompanied by payment in full of the purchase price for such shares; provided, however, that an optionee at his or her discretion may, in lieu of cash payment, to the Company, (i) deliver Common Stock already owned by him or her, valued at fair market value on the date of delivery, as payment for the exercise of any Stock Option provided such shares have been owned by the optionee for at least six months prior to exercise or were not acquired, directly or indirectly, from the Company, or (ii) instruct a broker to notify the Company of optionee's exercise and sell stock to cover the exercise price and tax withholding. In the event a Stock Option is being exercised, in whole or in part pursuant to Section 8(c) hereof by any person other than the optionee, a notice of election shall be accompanied by proof satisfactory to the Company of the rights of such person to exercise said Stock Option. An optionee shall not, by virtue of the granting of a Stock Option, be entitled to any rights of a shareholder in the Company and such optionee shall not be considered a record holder of shares purchased by him or her until the date on which he or she shall actually be recorded as the holder of such shares upon the stock records of the Company. The Company shall not be required to issue any fractional shares upon exercise of any Stock Option and shall not be required to pay to the person exercising the Stock Option the cash equivalent of any fractional share interest unless so determined by the Committee.

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(d) In the event an optionee elects to deliver Common Stock already owned by such optionee or to request that Common Stock be withheld in accordance with subsection (c) above, upon exercise of a Stock Option granted hereunder, the Company shall be entitled to require as a condition thereto that the optionee remit an amount which the Company deems sufficient to satisfy all Federal, state and other governmental withholding tax requirements related thereto. The Company shall have the right, in lieu of or in addition to the foregoing to withhold such sums from compensation otherwise due to the optionee.

8. Other Stock Option Conditions.

(a) Except as expressly permitted by the Board, no Stock Option shall be transferred by the optionee otherwise than by will or by the laws of descent and distribution. During the lifetime of the optionee the Stock Option shall be exercisable only by such optionee, by his or her legal representative or by a transferee permitted under the terms of the grant of the Stock Option.

(b) Unless otherwise determined by the Committee, in the event of the termination of an optionee's employment by the Company at any time for any reason (excluding disability or death), the portion of his or her Stock Option which is exercisable at the date of termination of employment and all rights thereunder shall terminate on the date of termination of the optionee's relationship with the Company, except that the optionee shall have the right to exercise his or her Stock Option (to the extent that the optionee was entitled to exercise it as of the date of termination), within three (3) months of the date of termination, but in no event later than the termination date of his or her Stock Option; provided, however, if the optionee is terminated for cause, the Stock Option shall terminate on the date of termination of employment. The Committee or the Board, may determine, in their sole discretion, whether the date of termination will be based on the last day the optionee performed services for the Company rather than the date of termination. Notwithstanding the foregoing, unless otherwise determined by the Committee, in the event an optionee is permanently and totally disabled (within the meaning of section 105(d)(4), or any successor section, of the Code), the portion of his or her Stock Option which is exercisable at the date of disability and all rights thereunder shall be exercisable by the optionee (or his or her legal representative) at any time within six (6) months of termination of employment — but in no event later than the termination date of his Stock Option.

(c) Unless otherwise determined by the Committee, if an optionee shall die while in the employ of the Company, the portion of his or her Stock Option which is exercisable at the date of death may be exercised by his or her designated beneficiary or beneficiaries (or if none have been effectively designated, by his or her executor, administrator or the person to whom his or her rights under his or her Stock Option shall pass by will or by the laws of descent and distribution) at any time within six (6) months after the date of death, but not later than the termination date of his or her Stock Option.

(d) Nothing in the Plan or in any option granted pursuant hereto shall confer on an employee any right to continue in the employ of the Company or prevent or interfere in any way with the right of the Company to terminate his employment at any time, with or without cause.

(e) Notwithstanding anything to the contrary herein, in the event a Non-Employee Director has served his full term, his Stock Options that are exercisable shall be exercisable until the termination date of his Stock Option. If a Non-Employee Director shall die while serving on the Board, the portion of his Stock Option which is exercisable at the date of death may be exercised by his designated beneficiary or beneficiaries (or, a person who has been effectively designated, by his executor, administrator or the person to whom his rights under his Stock Option shall pass by his will or

by the laws of descent and distribution) at any time within one year after the date of his death, but not later than the termination date of his Stock Option. Nothing in the Plan or in any Stock Option granted pursuant hereto shall confer on any Non-Employee Director any right to continue as a director of the Company.

(f) Each Stock Option granted pursuant to the Plan shall be evidenced by a written Stock Option Agreement duly executed by the Company and the optionee, in such form and containing such provisions as the Committee may from time to time authorize or approve.

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9. Adjustments. The Stock Option Agreements shall contain such provisions as the Committee shall determine to be appropriate for the adjustment of the kind and number of shares subject to each outstanding Stock Option, or the Stock Option prices, or both, in the event of any changes in the outstanding Common Stock of the Company by reason of stock dividends, stock splits, liquidation, recapitalizations, reorganizations, mergers, consolidations, combinations or exchanges of shares or the like. In the event of any such change or changes in the outstanding Common Stock, and as often as the same shall occur, the kind and aggregate number of shares available under the Plan may be appropriately adjusted by the Committee or the Board, whose determination shall be binding and conclusive.

10. Amendment and Termination.

(a) Unless the Plan shall have been otherwise terminated as provided herein, it shall terminate on, and no option shall be granted thereunder, after. The Board may at any time prior to that date alter, suspend or terminate the Plan as it may deem advisable, except that it may not without further shareholder approval (i) increase the maximum number of shares subject to the Plan (except for changes pursuant to Section 9); (ii) permit the grant of options to anyone other than the officers, employee directors, Non-Employee Directors and consultants; (iii) change the manner of determining the minimum stock exercise prices (except for changes pursuant to Section 9); or (iv) extend the period during which Stock Options may be granted or exercised. Except as otherwise hereinafter provided, no alteration, suspension or termination of the Plan may, without the consent of the optionee to whom any Stock Option shall have theretofore been granted (or the person or persons entitled to exercise such Stock Option under Section 8(c) of the Plan), terminate such optionee's Stock Option or adversely affect such optionee's rights thereunder.

(b) Anything herein to the contrary notwithstanding, in the event that the Board shall at any time declare it advisable to do so in connection with any proposed sale or conveyance of all or substantially all of the property and assets of the Company or of any proposed consolidation or merger of the Company (each of the foregoing a 'Change of Control Event'), the Company may (i) accelerate the vesting schedule in such manner as the Company may decide in its sole discretion, or (ii) give written notice to the holder of any Stock Option that the portion of his or her Stock Option which is exercisable on the date of the notice may be exercised only within thirty (30) days after the date of such notice but not thereafter, and all rights under said Stock Option which shall not have been so exercised shall terminate at the expiration of such thirty (30) days, provided that the proposed sale, conveyance, consolidation or merger to which such notice shall relate shall be consummated within six (6) months after the date of such notice. If such Change of Control Event shall not be consummated within said time period, no unexercised rights under any Stock Option shall be affected by such notice except that such Stock Option may not be exercised between the date of expiration of such thirty (30) days and the date of the expiration of such six month period. Alternatively, outstanding Stock Options under the Plan may be assumed or converted to similar options in any surviving or acquiring entity, but, if the surviving or acquiring entity shall refuse to assume, or convert, said Stock Options, they shall be terminated if not exercised according to the requirements set forth above.

11. Option Exercise Price. The price per share to be paid by the optionee at the time an ISO is exercised shall not be less than one hundred percent (100%) of the Fair Market Value of one share of the optioned Common Stock on the date immediately preceding the date on which the Stock Option is granted. No ISO may be granted under the Plan to any person who, at the time of such grant, owns (within the meaning of Section 424(d) of the Code) stock possessing more than ten percent (10%) of the total combined voting power of all classes of stock of the Company unless the exercise price of such ISO is at least equal to one hundred and ten percent (110%) of Fair Market Value. The price per share to be paid by the optionee at the time an NQO is exercised shall not be less than one hundred percent (100%) of the Fair Market Value on the date immediately preceding the date on which the NQO is granted, as determined by the Committee.

12. Ceiling of ISO Grants. The aggregate Fair Market Value (determined at the time any ISO is granted) of the Common Stock with respect to which an optionee's ISOs, together with incentive stock options granted under any other plan of the Company are exercisable for the first time by such optionee during any calendar year shall not exceed \$100,000. If an optionee holds such incentive stock options that become first exercisable (including as a result of acceleration of exercisability under the Plan) in any one year for shares having a fair market value at the date of grant in excess of \$100,000, then the most recently granted of such ISOs, to the extent that they are exercisable for shares having an aggregate Fair Market Value in excess of such limit, shall be deemed to be NQOs.

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13. Indemnification. Any member of the Committee or the Board who is made, or threatened to be made, a party to any action or proceeding, whether civil or criminal, by reason of the fact that such person is or was a member of the Committee or the Board insofar as it relates to the Plan shall be indemnified by the Company, and the Company may advance such person's related expenses, to the full extent permitted by law and/or the Certificate of Incorporation or By-laws of the Company.

14. Effective Date of the Plan; Termination of the Plan and Stock Options. The Plan shall become effective on the date of adoption by the Board, provided, however, that the Plan shall be subject to approval by the affirmative vote of the holders of the majority of Common Stock of the Company on or before December 31, 2007.

15. Expenses. Except as otherwise provided herein for the payment of Federal, State and other governmental taxes, the Company shall pay all fees and expenses incurred in connection with the Plan and the issuance of the stock hereunder.

16. Government Regulations, Registrations and Listing of Stock.

(a) The Plan, and the grant and exercise of Stock Options thereunder, and the Company's obligation to sell and deliver stock under such Stock Options shall be subject to all applicable Federal and State laws, rules and regulations and to such approvals by any regulatory or governmental agency as may, in the opinion of the Company, be necessary or appropriate.

(b) The Company may in its discretion require, whether or not a registration statement under the Securities Act of 1933 and the applicable rules and regulations thereunder (collectively the 'Act') is then in effect with respect to shares issuable upon exercise of any Stock Option or the offer and sale of such shares is exempt from the registration provisions of such Act, that as a condition precedent to the exercise of any Stock Option the person exercising the Stock Option give to the Company a written representation and undertaking satisfactory in form and substance to the Company that such person is acquiring the shares for his or her own account for investment and not with a view to the distribution or resale thereof and otherwise establish to the Company's satisfaction that the offer or sale of the shares issuable upon exercise of the Stock Option will not constitute or result in any breach or violation of the Act or any similar act or statute or law or regulation in the event that a Registration statement under the Act is not then effective with respect to the Common Shares issued upon the exercise of such Stock Option; the Company may place upon any stock certificate appropriate legends referring to the restrictions on disposition under the Act.

(c) In the event the class of shares issuable upon the exercise of any Stock Option is listed on any national securities exchange or Nasdaq, the Company shall not be required to issue a certificate for such shares upon the exercise of any Stock Option, or to list the shares so issuable on such national securities exchange or Nasdaq.

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STOCK OPTION AGREEMENT

(Employee)

Henry Bros. Electronics, Inc., a Delaware corporation ("Company"), as of February 25, 2008 hereby grants to _____ ("Optionee"), having an address at _____, an option ("Option") to purchase all or part of an aggregate of _____ shares ("Shares") of the Company's Common Stock, par value \$.01 per share ("Common Stock"), on the terms and conditions hereinafter set forth:

1. **Purchase Price.** The purchase price for the Shares shall be _____ per Share, said price being the fair market value for the Common Stock of the Company on the date immediately prior to the date the Option was granted, subject to adjustment as provided in Section 5 below.

2. **Term of Option; Exercise.**

(a) The Option shall terminate on _____, unless earlier terminated in accordance with the terms hereof. The Option shall be exercisable in whole or in part, as determined by the Optionee, in accordance with paragraph (b) of this Section.

(b) The Option is exercisable to the extent of _____ Shares on each of _____, _____, _____ and _____. The Option or appropriate portion thereof may be exercised by fifteen (15) days' written notice to the Secretary or Treasurer of the Company at its then principal office. The notice shall specify the number of Shares as to which the Option is being exercised and shall be accompanied by payment in full of the purchase price for such Shares, provided, however, that Optionee at his or her discretion may, in lieu of cash payment to the Company, (i) deliver Common Stock of the Company already owned by Optionee free and clear of any lien thereof or affecting title thereto, valued at fair market value on the date of delivery, as payment of the purchase price for such Shares provided such delivered shares have been held by Optionee for at least six months prior to exercise, or were not acquired directly or indirectly from the Company or (ii) instruct a broker to notify the Company of the Optionee's exercise and sell stock to cover the exercise price and tax withholding.

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(c) The purchase price shall be payable in United States dollars, and may be paid in cash or by certified check on a United States bank or by other means acceptable to the Company including, but not limited to, those listed herein. In no event shall the Company be required to issue any Shares (i) until counsel for the Company determines that the Company has complied with all applicable securities or other laws and/or all requirements of any national securities exchange or Nasdaq on which the Common Stock may then be listed, and (ii) unless Optionee reimburses the Company for any tax withholding required and supplies the Company with such information and data as the Company may deem necessary.

(d) As used herein, the term "fair market value" shall mean the last sale price of the Common Stock on the American Stock Exchange (the "AMEX") on the last day on which the Company's shares of Common Stock were traded immediately preceding (i) the date of delivery, in the case of delivery of Common Stock already owned by the Optionee as payment for the exercise of the Option, or (ii) the date the stock certificate(s) evidencing the Shares as to which the Option is being exercised is received by the Company, in the case of Optionee's request that the Company withhold, from the number of Shares obtained upon the exercise of the Option, that number of Shares having an aggregate fair market value equal to the purchase price for the number of Shares as to which the Option is being exercised. The "last sale price" shall be that reported by the AMEX or AMEX's successor, or if not reported on AMEX, the fair market value of such Common Stock as determined by the Company's Compensation Committee or Board of Directors in good faith based on all relevant factors.

(e) Optionee shall not, by virtue of the granting of the Option, be entitled to any rights of a shareholder in the Company and shall not be considered a record holder of any Shares purchased by him until the date on which he shall actually be recorded as the holder of such Shares upon the stock records of the Company. The Company shall not be required to issue any fractional Shares upon exercise of the Option and shall not be required to pay to the Optionee the cash equivalent of any fractional Share interest.

3. **Restrictions on Transfer.**

(a) No Option shall be transferred by the Optionee otherwise than by will or by the laws of decent and distribution. During the lifetime of the Optionee, the Option or appropriate portion thereof shall be exercisable only by Optionee or by Optionee's legal representative.

(b) In the event that the Optionee ceases to be employed by the Company at any time for any reason (excluding termination for cause, disability or death), the Option and all rights thereunder shall be exercisable by the Optionee at any time within three months thereafter, but in no event later than the termination date of the Option specified in Section 2(a). The right of the Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

(c) In the event Optionee's employment is terminated for cause, the Option and all rights thereunder shall terminate at 5:00 p.m. on the date of termination of employment. The right of Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination for cause. For purposes of this Agreement termination "for cause" shall include the occurrence of any of the following acts or events by or relating to Optionee: (i) habitual insobriety of Optionee while performing his duties for the Company; (ii) theft or embezzlement from Company or any other material acts of dishonesty; (iii) repeated insubordination respecting reasonable orders or directions of Company's President, which remains uncured for more than twenty (20) days after written notice thereof by Company to Optionee; (iv) conviction of a crime (other than traffic violations and minor misdemeanors) or (v) any material breach of any of Optionee's obligations under Optionee's employment agreement with the Company if any such agreement is then in effect.

(d) In the event Optionee's employment is terminated due to the Optionee's permanent and total disability (within the meaning of Section 105(d) (4), or any successor section, of the Internal Revenue Code of 1986, as amended), the Option shall be exercisable by the Optionee (or his or her legal representative) at any time within six months of the termination of Optionee's employment, but in no event later than the termination date of the Option. The right of the Optionee to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee is entitled to exercise as of the date of termination.

(e) If the Optionee shall die while serving as an employee of the Company the Option may be exercised by Optionee's designated beneficiary or beneficiaries (or if none have been effectively designated, by Optionee's executor, administrator or the person to whom Optionee's rights under the Option shall pass by Optionee's will or by the laws of descent and distribution) at any time within six months after the date of Optionee's death but not later than the termination date of the Option. The right of the Optionee's beneficiary or legal representative to exercise the Option or any portion of the Option shall apply only to that portion of the Option which has accrued in accordance with Section 2(b) of this Agreement and which Optionee was entitled to exercise as of the date of death.

4. **Securities Act Matters.**

(a) Optionee shall not at any time transfer or dispose of any Shares except pursuant to either (i) a registration statement under the Act which registration statement has become effective as to the Shares being sold or (ii) a specific exemption from registration under the Act, but only after Optionee has first obtained either a "no-action" letter from the SEC, following full and adequate disclosure of all facts relating to such proposed transfer, or a favorable opinion from and acceptable to counsel to the Company that the proposed transfer or other disposition complies with and is not in violation of the Act or any applicable state "blue sky" or securities laws.

5. **Anti-Dilution Provisions.**

(a) Subject to the provisions of paragraph 5(b) below, if at any time or from time to time prior to expiration of the Option there shall occur any change in the outstanding Common Stock of the Company by reason of any stock dividend, stock split, combination or exchange of shares, merger, consolidation, recapitalization, reorganization, liquidation or the like, then and as often as the same shall occur, the kind and number of Shares subject to the Option, or the purchase price per Share, or both, shall be adjusted by the Board of Directors of the Company ("Board") in such manner as it may deem appropriate and equitable, the determination of the Board shall be binding and conclusive. Failure of the Board to provide for any such adjustment shall be conclusive evidence that no adjustment is required.

(b) The Board shall have the right to engage a firm of independent certified public accountants, which may be the Company's regular auditors, to make any computation provided for in this Section, and a certificate of that firm showing the required adjustment shall, in the absence of a determination by the Board be conclusive and binding.

6. **Change in Control Provisions.** Notwithstanding anything herein to the contrary,

(a) With respect to Options granted pursuant hereto, upon (i) the occurrence of a change in control of the Company, as such term is defined below, and (ii) the related or resulting termination without cause by the Company or the successor company of Optionee's employment, all such Options will immediately accelerate and be fully vested and exercisable.

(b) In the event that, as a result of the aforementioned change in control, there no longer exists a public market for the Company's securities, the stock issued upon exercise of the aforementioned Options will be immediately purchased by the Company or successor company at the average closing price of the common stock for the ten trading days prior to the termination date of employment.

(c) **Definition of "Change in Control".** For purposes of this Agreement, a "Change in Control" means the happening of any of the following, but only with respect to Options awarded prior thereto:

(i) the consummation of a transaction that would result in the reorganization, merger or consolidation of the Company, respectively, with one or more persons in which the Company is not the surviving entity;

(ii) the acquisition of substantially all of the assets of the Company or of the beneficial ownership (within the meaning of Rule 13d-3 promulgated under the Exchange Act) of more than 50% of the outstanding securities of the Company entitled to vote generally in the election of directors, by any person or by any persons acting in concert; or

(iii) the occurrence of any event in connection with an actual or threatened election contest or threatened solicitation or proxies or consents (all within the meaning of Rule 14a-11 of Regulation 14A promulgated under the Exchange Act) if, immediately following such event, more than fifty percent (50%) of the members of the board of directors of the Company are not individuals who were members of the Board of Directors on the later of the date of this Option Grant or two years from the termination date of employment;

provided, however, that in no event shall a Change in Control be deemed to have occurred as a result of any acquisition or securities or assets of the Company or any of its subsidiaries by the Company or any subsidiary of the Company. For purposes of this section, the term "person" shall have the meaning assigned to it under sections 13(d) (3) or 14(d)(2) of the Exchange Act.

7. **Notices.** All notices and other communications required or permitted under this Agreement shall be in writing and shall be given either by (i) personal delivery against receipt, or (ii) first class registered or certified mail, return receipt requested. Any such communication shall be deemed to have been given on the date of receipt in the manner specified in clause (i) of the preceding sentence and on the second day after the date of mailing in the cases referred to in clause (ii) of the preceding sentence. All such communications to the Company shall be addressed to it, to the attention of its Secretary at its then principal office and to the Optionee at the address set forth above or such other address as may be designated by like notice hereunder.

8. **Miscellaneous.** This Agreement cannot be changed except in writing signed by the party to be charged. This Agreement shall be governed by and construed in accordance with the laws of the State of New Jersey applicable to agreements made and to be performed exclusively in New Jersey. The Option has been granted pursuant to the Company's 2007 Stock Option Plan. This Agreement is in all respects subject to the terms and conditions of said Plan. The Option is an Incentive Stock Option; as such term is defined in Section 422 of the Internal Revenue Code of 1986, as amended. Optionee shall execute this Agreement and return it to the Company within thirty (30) days after the mailing or delivery by the Company of this Agreement. If Optionee shall fail to execute and return this Agreement within said thirty (30) day period, the Option shall automatically terminate. The section headings in this Agreement are solely for convenience of reference and shall not affect its meaning or interpretation.

Henry Bros. Electronics, Inc.

Optionee:

By _____
Brian Reach,
Secretary

December 17, 2010

76942.00006

Kratos Defense & Security Solutions, Inc.
4820 Eastgate Mall
San Diego, CA 92121

Re: Registration Statement on Form S-8

Ladies and Gentlemen:

We have acted as counsel to Kratos Defense & Security Solutions, Inc., a Delaware corporation (the "Company"), in connection with the Registration Statement on Form S-8 to be filed by the Company with the U.S. Securities and Exchange Commission (the "Commission") on or about the date hereof (the "Registration Statement") to effect registration under the Securities Act of 1933, as amended (the "Securities Act"), of 366,076 shares (the "Shares") of the Company's common stock, \$0.001 par value per share (the "Common Stock"), including the preferred stock purchase rights associated with such Shares, to be issued upon the vesting and exercise of outstanding options under the IntegCom Corp. 1999 Incentive Stock Option Plan, the Diversified Security Solutions, Inc. 2002 Stock Option Plan, the Henry Bros. Electronics, Inc. 2006 Stock Option Plan and the Henry Bros. Electronics, Inc. 2007 Stock Option Plan (collectively, the "HBE Plans").

As such counsel and for purposes of our opinion set forth below, we have examined and relied upon originals or copies, certified or otherwise identified to our satisfaction, of such documents, resolutions and corporate records furnished to us by the Company, certificates of public officials and other documents and instruments as we have deemed necessary or appropriate as a basis for the opinion set forth below, including, without limitation:

- (i) the Registration Statement;
 - (ii) the Amended and Restated Certificate of Incorporation of the Company, certified December 14, 2010 by the Secretary of State of the State of Delaware;
 - (iii) the Amended and Restated Bylaws of the Company;
 - (iv) the HBE Plans and the forms of agreements related thereto;
-
- (v) a certificate from the Secretary of State of the State of Delaware as to the existence and good standing of the Company under the laws of the State of Delaware as of December 14, 2010 (the "Good Standing Certificate");
 - (vi) the Agreement and Plan of Merger, dated October 5, 2010 (the "Merger Agreement"), by and among the Company, Hammer Acquisition Inc., a Delaware corporation and wholly owned subsidiary of the Company, and Henry Bros. Electronics, Inc., a Delaware corporation, as amended; and
 - (vii) the resolutions adopted by the Company's board of directors on October 1, 2010, approving the execution and delivery of, and the performance by the Company of its respective obligations under, the Merger Agreement.

In addition to the foregoing, we have made such investigations of law as we have deemed necessary or appropriate as a basis for the opinion set forth herein.

In such examination and in rendering the opinion expressed below, we have assumed, without independent investigation or verification: (i) the genuineness of all signatures on all agreements, instruments, corporate records, certificates and other documents submitted to us; (ii) the authenticity and completeness of all agreements, instruments, corporate records, certificates and other documents submitted to us as originals; (iii) that photocopy, electronic, certified, conformed, facsimile and other copies submitted to us of original agreements, instruments, corporate records, certificates and other documents conform to the original agreements, instruments, corporate records, certificates and other documents, and that all such original agreements, instruments, corporate records, certificates and other documents were authentic and complete; (iv) the legal capacity and authority of all individuals executing agreements, instruments, corporate records, certificates and other documents submitted to us; (v) the due authorization, execution and delivery of all agreements, instruments, corporate records, certificates and other documents by all parties thereto; (vi) that the statements contained in the certificates and comparable documents of public officials, officers and representatives of the Company and other persons on which we have relied for the purposes of this opinion letter are true and correct; (vii) that there has not been any change in the good standing status of the Company from that reported in the Good Standing Certificate; and (viii) that the officers and directors of the Company have properly exercised their fiduciary duties. As to all questions of fact material to this opinion letter, and as to the materiality of any fact or other matter referred to herein, we have relied (without independent investigation) upon representations and certificates or comparable documents of officers and representatives of the Company.

Based upon the foregoing, and in reliance thereon, and subject to the limitations, qualifications and exceptions set forth herein, we are of the opinion that the Shares, when issued and sold as described in the Registration Statement and in accordance with the terms of the Merger Agreement, the applicable HBE Plans and the award agreements thereunder (including the receipt by the Company of the full consideration therefor), will be validly issued, fully paid and nonassessable.

Without limiting any of the other limitations, exceptions and qualifications stated elsewhere herein, we express no opinion with respect to the applicability or effect of the laws of any jurisdiction other than the Delaware General Corporation Law, the applicable provisions of the Delaware Constitution and reported judicial decisions interpreting these laws, as in effect on the date hereof.

This opinion letter deals only with the specified legal issues expressly addressed herein, and you should not infer any opinion that is not explicitly stated herein from any matter addressed in this opinion letter.

This opinion letter is rendered solely to you in connection with the issuance and delivery of the Shares as described in the Registration Statement and in accordance with the terms of the Merger Agreement, the applicable HBE Plans and the award agreements thereunder. This opinion letter is rendered to you as of the date hereof, and we assume no obligation to advise you or any other person with regard to any change after the date hereof in the circumstances or the law that may bear on the matters set forth herein even if the change may affect the legal analysis or a legal conclusion or other matters in this opinion letter.

We hereby consent to the filing of this opinion letter as Exhibit 5.1 to the Registration Statement. In giving such consent, we do not hereby admit that we are within the category of persons whose consent is required under Section 7 of the Securities Act or the rules or regulations of the Commission thereunder.

Very truly yours,

/s/ Paul, Hastings, Janofsky & Walker LLP

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We have issued our reports dated March 10, 2010 with respect to the consolidated financial statements and internal control over financial reporting included in the Annual Report on Form 10-K for the year ended December 27, 2009, of Kratos Defense & Security Solutions, Inc., which are incorporated by reference in this Registration Statement. We consent to the incorporation by reference in the Registration Statement of the aforementioned reports.

/s/ GRANT THORNTON LLP

San Diego, CA
December 17, 2010
