Henry Bros. Electronics, Inc.
Form PREM14A
October 25, 2010

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

SCHEDULE 14A
(RULE 14a-101)

INFORMATION REQUIRED IN
PROXY STATEMENT

SCHEDULE 14A INFORMATION

Proxy Statement Pursuant to Section 14(a) of the
Securities Exchange Act of 1934

Filed by the Registrant o

Filed by a Party other than the Registrant o

Check the appropriate box:

þ Preliminary Proxy Statement
o **Confidential, for Use of the Commission Only (as permitted by Rule 14a-6(e)(2))**
o Definitive Proxy Statement
o Definitive Additional Materials
o Soliciting Material Pursuant to § 240.14a-12

HENRY BROS. ELECTRONICS, INC.
(Name of Registrant as Specified in Its Charter)

(Name of Person(s) Filing Proxy Statement, if Other Than the Registrant)

Payment of Filing Fee (Check the appropriate box):

o No fee required.

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

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

Common Stock, par value $.01 per share of Henry Bros. Electronics, Inc. (Henry Bros. common stock)

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

6,210,366 shares of Henry Bros. common stock issued and outstanding and 1,000,499 options to purchase Henry Bros. common stock with a per share exercise price less than the per share merger consideration of $7.00 per share of Henry Bros. common stock

(3)

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

Solely for the purpose of calculating the filing fee, the underlying value of the transaction was calculated as the sum of: (a) 6,210,366 shares of Henry Bros. common stock multiplied by $7.00 per share, and (b) options to purchase 1,000,499 shares of Henry Bros. common stock multiplied by $2.39 (which is the difference between $7.00 and the weighted average exercise price for the options having an exercise price of less than $7.00 of $4.61 per share). The filing fee, calculated in accordance with Exchange Act Rule 0-11(c)(1) and the Commission s Fee Rate Advisory for Fiscal Year 2010, was determined by multiplying the maximum aggregate value of the transaction by .0000713 ($71.30 per million dollars).

(4) Proposed maximum aggregate value of transaction:

$45,863,755

(5) Total fee paid:
$3,270.09

o Fee paid previously with preliminary materials.

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

(1) Amount Previously Paid:

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

(3) Filing Party:

(4) Date Filed:

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PRELIMINARY PROXY STATEMENT, SUBJECT TO COMPLETION, OCTOBER 25, 2010

HENRY BROS. ELECTRONICS, INC.
17-01 Pollitt Drive
Fair Lawn, New Jersey 07410

November [ ], 2010

Dear Stockholder:

It is our pleasure to invite you to the Henry Bros. Electronics, Inc. 2010 Annual Meeting of Stockholders to be held on December [ ], 2010, at [ ] a.m., Eastern Time, at our offices located at 17-01 Pollitt Drive, Fair Lawn, NJ 07410.

At the annual meeting, you will be asked to adopt the previously announced merger agreement pursuant to which Kratos Defense & Security Solutions, Inc. has agreed to acquire Henry Bros. Electronics, Inc. in an all-cash transaction valued at approximately $45 million. The proposed transaction and merger agreement, which was unanimously approved by our board of directors on October 4, 2010, provide for a cash payment to Henry Bros. stockholders of $7.00 per share, without interest, for each outstanding share of their Henry Bros. common stock.

You are also being asked to approve adjournment of our 2010 Annual Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the meeting to adopt the merger agreement.

In addition, you are being asked at the annual meeting to elect seven directors to serve until the next annual meeting of stockholders, or until their respective successors are duly elected and qualified. The directors nominated, if elected, have agreed to resign upon closing of the transactions contemplated by the merger agreement. Further, you are being asked to ratify the appointment of EisnerAmper LLP as the Company s independent registered accounting firm for the fiscal year ending December 31, 2010.

Our board of directors unanimously recommends that you vote

FOR the adoption of the merger agreement,

FOR the proposal to adjourn the meeting, if necessary, to permit further solicitation of proxies,

FOR the election of each nominee for director, and

FOR ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm.

The accompanying notice of annual meeting and proxy statement provide additional information regarding the matters to be voted on at the annual meeting. **Please read these materials carefully.**

Whether or not you plan to attend the annual meeting, once you have read the accompanying materials, please take the time to vote, sign, date and promptly return the enclosed proxy card in the enclosed postage-paid envelope.

Submitting a proxy now will not affect your right to vote your Henry Bros. shares in person if you choose to attend the annual meeting in person.

Note: If your shares are held by your bank, brokerage firm or other nominee, you must provide them instructions on how to vote on your behalf or they will be unable to vote your shares on the proposals to adopt the merger agreement, to adjourn the meeting to permit further solicitation of proxies, and the election of nominees for director, all of which are considered non-discretionary items under the rules of the under the rules of the New York Stock Exchange. In the absence of instructions on how to vote on your behalf, your bank, broker or nominee can vote your shares on the proposal for ratification of the selection of the independent registered public accounting firm which is considered a discretionary item. Your bank, broker or nominee will include a voting instruction card with this proxy statement. We strongly encourage you to cause your shares to be voted by following the instructions provided on the voting instruction card. Please return your proxy card to your nominee and contact the person responsible for your account to ensure that a proxy card is voted on your behalf.

Remember, **YOUR VOTE IS VERY IMPORTANT** regardless of the number of shares you own.

Very truly yours,

/s/ James E. Henry
James E. Henry
Chief Executive Officer

Neither the Securities and Exchange Commission nor any state securities regulatory agency has approved or disapproved the merger, passed upon the merits or fairness of the merger or passed upon the adequacy or accuracy of the disclosure in this document. Any representation to the contrary is a criminal offense.

This proxy statement is dated [ ], 2010 and is first being mailed out to stockholders on or about [ ], 2010

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HENRY BROS. ELECTRONICS, INC.
17-01 Pollitt Drive
Fair Lawn, New Jersey 07410

NOTICE OF ANNUAL MEETING OF STOCKHOLDERS
To Be Held [ ], 2010

TO: THE STOCKHOLDERS OF
HENRY BROS. ELECTRONICS, INC.:

NOTICE IS HEREBY GIVEN that the 2010 Annual Meeting of Stockholders of HENRY BROS. ELECTRONICS, INC. (Henry Bros.) will be held at Henry Bros. offices at 17-01 Pollitt Drive, Fair Lawn, NJ 07410, on Wednesday, [ ], 2010, at [ ] a.m., Eastern Time, for the following purposes:

1. To consider and vote on a proposal to adopt the Agreement and Plan of Merger, dated as of October 5, 2010, among Kratos Defense & Security Solutions, Inc., Hammer Acquisition Inc. and Henry Bros., as such agreement may be amended from time to time;

2. To approve adjournment of our 2010 Annual Meeting, if necessary, to permit further solicitation of proxies if there are not sufficient votes at the time of the meeting to adopt the merger agreement;

3. To elect seven directors to serve until the next Annual Meeting of Stockholders and until their respective successors have been duly elected and qualified;

4. To ratify the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for 2010; and

5. To transact such other business as may properly come before the Annual Meeting or any adjournment or postponement thereof.

Our Board of Directors has fixed the close of business on November 2, 2010 as the record date for the Annual Meeting and only holders of shares of record at that time will be entitled to notice of and to vote at the Annual Meeting of Stockholders or any adjournment or postponement thereof. Stockholders are entitled to one vote for each share of Henry Bros. common stock held of record by such stockholder as of the record date.

Under Delaware law, Henry Bros. stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on the merger agreement and comply with the other Delaware law procedures explained in the accompanying proxy statement.

Regardless of whether you plan to attend the Annual Meeting in person, we request that you complete, sign, date and return the enclosed proxy prior to the Annual Meeting to ensure that your shares will be present in person or represented at the Annual Meeting. Properly executed proxy cards with no instructions indicated on the proxy card will be voted FOR the adoption of the merger agreement, FOR the adjournment of the Annual Meeting, if necessary,

to solicit additional proxies in the event there are insufficient votes at the time of such adjournment to adopt the merger agreement, FOR the election of the seven nominees for director, and FOR the ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for 2010. If you attend the Annual Meeting, you may revoke your proxy and vote in person if you wish, even if you have previously returned your proxy card. Your prompt attention is greatly appreciated.

OUR BOARD OF DIRECTORS UNANIMOUSLY RECOMMENDS THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT, FOR THE ADJOURNMENT OF THE ANNUAL MEETING TO A LATER DATE OR TIME, IF NECESSARY, TO SOLICIT ADDITIONAL PROXIES IN THE EVENT THERE ARE INSUFFICIENT VOTES AT THE TIME OF SUCH ADJOURNMENT TO ADOPT THE MERGER AGREEMENT, FOR THE ELECTION OF THE SEVEN NOMINEES FOR DIRECTOR, AND FOR THE RATIFICATION OF EISNERAMPER LLP AS HENRY BROS. INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2010.

By Order of the Board of Directors,

/s/ James E. Henry
James E. Henry
Chief Executive Officer

Fair Lawn, New Jersey
November [ ], 2010

INTERNET AVAILABILITY OF PROXY MATERIALS

Under rules adopted by the Securities and Exchange Commission, we are now furnishing our proxy statement and annual report on the Internet in addition to mailing paper copies of the materials to each stockholder of record. Instructions on how to access and review the proxy materials on the Internet can also be found on the proxy card sent to stockholders of record.

Important Notice Regarding the Availability of Proxy Materials
for the Stockholder Meeting to be Held on [ ], 2010

This Proxy Statement and our Annual Report on Form 10-K for the year ended December 31, 2009 are available and can be accessed directly at the following Internet address:
http://phx.corporate-ir.net/phoenix.zhtml?c=130008&p=irol-sec

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HENRY BROS. ELECTRONICS, INC.
17-01 Pollitt Drive
Fair Lawn, New Jersey 07410

PROXY STATEMENT
FOR
ANNUAL MEETING OF STOCKHOLDERS
To Be Held December [ ], 2010

Dated: November [ ], 2010

The enclosed proxy is solicited by the Board of Directors (the Board) of Henry Bros. Electronics, Inc., a Delaware corporation (Henry Bros.), from the holders of common stock, par value $.01 per share, of Henry Bros. (the Common Stock), in connection with its 2010 Annual Meeting of Stockholders to be held at Henry Bros. offices at 17-01 Pollitt Drive, Fair Lawn, NJ 07410 on [ ], December [ ], 2010, at [ ] a.m., Eastern Time (Annual Meeting), and any adjournment or postponement thereof, for the purposes set forth in the accompanying Notice of Annual Meeting.

SUMMARY

The following summary highlights information in this proxy statement and may not contain all the information that is important to you. Accordingly, we encourage you to read carefully this entire proxy statement, its annexes and the documents referred to in this proxy statement. We sometimes make reference to Henry Bros. Electronics, Inc. and its subsidiaries in this proxy statement by using the terms Henry Bros., the company, we, our or us. Each item in this summary includes a page reference directing you to a more complete description of the item in this proxy statement.

The Parties to the Merger (Page 14)

Henry Bros. Electronics, Inc.

We provide technology-based integrated electronic security systems, services and emergency preparedness consultation to commercial enterprises and government agencies. We have offices in Arizona, California, Colorado, Maryland, New Jersey, New York, Texas and Virginia.

Kratos Defense & Security Solutions, Inc.

Kratos Defense & Security Solutions, Inc., a Delaware corporation (Kratos), is a United States national security solutions provider. Kratos provides mission critical products, solutions and services for United States national and homeland security. Principal areas of expertise include command, control, communications, computing, combat systems, intelligence, surveillance, and reconnaissance, sensor development, unmanned system solutions and support, weapon systems upgrade and sustainment; design, engineering, manufacturing and integration of military products, tactical and other shelters; military weapon range operations; critical network engineering services; information assurance and cybersecurity solutions; security and surveillance systems; and critical infrastructure security system design, integration and operation.

Hammer Acquisition Inc.

Hammer Acquisition Inc., a Delaware corporation (Merger Sub) and a wholly-owned subsidiary of Kratos, was formed solely for the purpose of facilitating Kratos acquisition of Henry Bros. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement.

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The Merger (Page 14)

The Agreement and Plan of Merger, dated as of October 5, 2010, which we refer to as the merger agreement, among Henry Bros., Kratos, and Merger Sub, provides that Merger Sub, a wholly-owned subsidiary of Kratos, will merge with and into Henry Bros. As a result of the merger, Henry Bros. will become a wholly-owned subsidiary of Kratos. Upon completion of the proposed merger, shares of Henry Bros. common stock will no longer be listed on The NASDAQ Capital Market.

Merger Consideration (Page 32)

At the effective time of the merger, each outstanding share of Henry Bros. common stock (other than shares of Henry Bros. common stock held by any holder who has properly exercised appraisal rights of such shares in accordance with Section 262 of the General Corporation Law of the State of Delaware (which we refer to as Delaware law or the DGCL), as described in this proxy statement) will be converted into the right to receive $7.00 in cash, without interest and less applicable withholding taxes. We refer to the $7.00 per share in this proxy statement as the per-share merger consideration.

Treatment of Stock Options (Page 45)

Kratos will assume all Henry Bros. options in connection with the merger. At the effective time of the merger, options to acquire Henry Bros. common stock outstanding will automatically be converted into options to acquire Kratos common stock under the terms and conditions of the stock option plan under which it was issued and the terms and conditions of the stock option agreement by which it is evidenced. The number of shares of Kratos common stock subject to each such option will be equal to the number of shares of Henry Bros. common stock subject to such option immediately prior to the effective time multiplied by 0.6552, rounding down to the nearest whole share, and the per share exercise price under each such option will be adjusted by dividing the per share exercise price under such option by 0.6552 and rounding up to the nearest cent.

Reasons for the Merger (Page 22)

In reaching its decision to adopt and approve, and declare advisable, the merger agreement, the merger and the other transactions contemplated by the merger agreement, Henry Bros. board of directors consulted with Henry Bros. management, as well as its financial and legal advisors, and considered a number of factors that the board members believed supported their decision.

Recommendation of Henry Bros. Board of Directors (Page 24)

Henry Bros. board of directors deemed that the merger and the other transactions contemplated by the merger agreement together represent a transaction that is fair to, advisable and in the best interests of Henry Bros. and its stockholders, and unanimously adopted and approved, and declared advisable, the merger agreement, the merger and the other transactions contemplated thereby. Henry Bros. board of directors unanimously recommends that Henry Bros. stockholders vote FOR the adoption of the merger agreement and FOR the adjournment of the annual meeting, if necessary, to solicit additional proxies.

Interests of Henry Bros. Directors and Executive Officers in the Merger (Page 46)

Henry Bros. directors and executive officers have economic interests in the merger that may be different from, or in addition to, their interests as Henry Bros. stockholders. Our board of directors was aware of and considered these interests, among other matters, in reaching its decision to adopt and approve, and declare advisable, the merger

agreement, the merger and the other transactions contemplated under the merger agreement. In addition, executive officers and directors of Henry Bros. have rights to indemnification and directors and officers liability insurance that will survive completion of the proposed merger.

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Security Ownership of Directors and Executive Officers (Page 59)

As of November 2, 2010, the record date for determining stockholders entitled to vote at the annual meeting, the directors and executive officers of Henry Bros. beneficially owned in the aggregate [ ] shares, or approximately [ ]%, of Henry Bros. outstanding common stock entitled to vote at the annual meeting.

Voting Agreements (Page 52)

In connection with the transactions contemplated by the merger agreement, each member of our board of directors, including Richard D. Rockwell, our Chairman, James E. Henry, our Vice-Chairman and Chief Executive Officer, and Brian Reach, our President and Chief Operating Officer, who collectively beneficially owned, as of the record date, approximately [ ]%, of the total outstanding shares of Henry Bros. common stock, has entered into a voting agreement with Kratos, to, among other things, vote their respective shares of Henry Bros. common stock in favor of the adoption of the merger agreement and the adjournment proposal, in each case, unless the merger agreement has been terminated.

Opinion of Imperial Capital, LLC (Page 25)

On October 4, 2010, Henry Bros. financial advisor, Imperial Capital, LLC (which we refer to as Imperial Capital), rendered its oral opinion to our board of directors (which was subsequently confirmed in writing by delivery of Imperial Capital s written opinion) to the effect that, as of October 4, 2010, the $7.00 per share in cash consideration is fair, from a financial point of view, to the holders of Henry Bros. common stock in connection with the merger.

The full text of the written opinion of Imperial Capital, dated October 4, 2010, is attached as Appendix C to this proxy statement. The written opinion of Imperial Capital sets forth, among other things, the assumptions made, procedures followed, factors considered, and qualifications and limitations on the review undertaken in connection with rendering the opinion. Imperial Capital provided its opinion for the information and assistance of our board of directors in connection with its consideration of the merger agreement. The Imperial Capital opinion does not constitute a recommendation as to any action Henry Bros. or holders of our common stock should take in connection with the merger or any aspect thereof.

Appraisal Rights (Page 72)

Under Delaware law, Henry Bros. stockholders who do not vote in favor of the adoption of the merger agreement will have the right to seek appraisal of the fair value of their shares as determined by the Delaware Court of Chancery if the merger is completed, but only if they submit a written demand for such an appraisal prior to the vote on the adoption of the merger agreement and comply with the other Delaware law procedures explained in this proxy statement.

Conditions to the Closing of the Merger (Page 40)

The obligation of us on the one hand, and Kratos and Merger Sub, on the other hand, to complete the merger is subject to satisfaction or waiver of specified conditions set forth in the merger agreement.

Termination of the Merger Agreement (Page 42)

The merger agreement may be terminated at any time prior to the consummation of the merger under specified circumstances set forth in the merger agreement.

Termination Fee (Page 44)

Upon termination of the merger agreement under specified circumstances, we may be required to pay a termination fee to Kratos of $1,788,000.

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Solicitations of Alternative Proposals (Page 37)

During the period beginning on the date of the merger agreement, and continuing until 11:59 p.m. on November 14, 2010 (the No-Shop Period Start Date), we may solicit acquisition proposals (as defined in the merger agreement) from third parties, provide non-public information to any person pursuant to a confidentiality agreement on terms with respect to confidentiality not more favorable to such person than those contained in our confidentiality agreement with Kratos, and participate in discussions and negotiate with third parties with respect to acquisition proposals. To the extent that we provide a third party with nonpublic information that was not previously made available to Kratos or Merger Sub, we must promptly (and in any event within 24 hours) make such information available to Kratos and Merger Sub.

Our board of directors will determine, in its good faith judgment, after consultation with an independent financial advisor, whether any proposal received during the go shop period could reasonably be expected to result in a proposal more favorable to Henry Bros. stockholders from a financial point of view than the merger.

Starting on the No-Shop Period Start Date, we have agreed that we will not, nor will we permit any of our subsidiaries, or any of our respective officers, directors, employees, agents, attorneys, accountants, advisors or other representatives, to directly or indirectly:

- solicit, initiate, or knowingly encourage, induce or facilitate the making, submission or announcement of any acquisition proposal or take any action that would reasonably be expected to lead to any such inquiries or the making of any such proposal or offer;
- furnish any information regarding us to any person in connection with or in response to an acquisition proposal or an inquiry or indication of interest that could reasonably be expected to lead to an acquisition proposal;
- engage in discussions or negotiations with any person with respect to any acquisition proposal;
- approve, endorse or recommend any acquisition proposal; or
- enter into any letter of intent or similar document or any contract having a primary purpose of effectuating, or which would effect, any acquisition proposal.

Notwithstanding these restrictions, under certain circumstances, we may, before the merger agreement is approved by our stockholders, respond to an unsolicited bona fide written proposal for an alternative acquisition or terminate the merger agreement and enter into an acquisition agreement with respect to a superior proposal, so long as we comply with certain terms of the merger agreement applicable to the circumstances in which the board of directors may change its recommendation with respect to the merger agreement, including negotiating with Kratos and Merger Sub in good faith to make adjustments to the merger agreement prior to termination and, if required, paying a termination fee. We can also continue discussions commenced prior to the No-Shop Period Start Date with third parties to further acquisition proposals previously submitted.

Regulatory Approvals (Page 52)

No filing is required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), in connection with the merger and, therefore, there is no applicable waiting period under the HSR Act for the merger to be consummated. We are not aware of any regulatory requirements or governmental approvals or actions that may be required to consummate the merger, except for compliance with the applicable regulations of the Securities and Exchange Commission (the SEC) in connection with this proxy statement, other than as described herein.

Effective Time of the Merger (Page 31)

We are working with Kratos to complete the merger as soon as practicable and are targeting completion of the merger during the fourth quarter of 2010. However, we cannot predict the exact timing of the

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completion of the proposed merger and whether the merger will be consummated. In order to consummate the merger, Henry Bros. stockholders must adopt the merger agreement and the other closing conditions under the merger agreement must be satisfied or, to the extent legally permitted, waived.

Material U.S. Federal Income Tax Consequences of the Merger (Page 49)

If you are a U.S. Holder (as defined below), the receipt of cash in exchange for your shares of Henry Bros. common stock in the merger will be a taxable transaction for U.S. federal income tax purposes. In general, you will recognize gain or loss in an amount equal to the difference, if any, between (i) the amount of cash you receive pursuant to the merger (determined before any applicable withholding) and (ii) your adjusted tax basis in the Henry Bros. shares. If you are a Non-U.S. Holder (as defined below), any gain realized on your receipt of cash in the merger generally will not be subject to U.S. federal income tax unless certain circumstances apply (as discussed below). Because of the complexities of the tax laws, all stockholders should consult their tax advisors to determine the particular tax consequences to them related to the merger (including the application and effect of any state, local or foreign income and other tax laws).

Market Information for Common Stock (Page 75)

The closing sale price of Henry Bros. common stock on October 5, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, was $4.60 per share. The closing sale price of Henry Bros. common stock as listed on NASDAQ on [ ], 2010, the most recent practicable date before this proxy statement was printed, was $[ ].

The merger consideration of $7.00 per share of Henry Bros. common stock represents a 52.2% premium over the closing price of Henry Bros. common stock as listed on NASDAQ on October 5, 2010, the last trading day before the date the proposed transaction with Kratos was publicly announced, a 68.7% premium over the closing price of Henry Bros. common stock on October 1, 2010, the last trading day prior to delivery of the fairness opinion and the approval of the signing of the definitive agreement; and premiums of 70.3%, 76.3%, 91.8% and 75.0%, respectively, over the Henry Bros. common stock average market price corresponding to the 30-day, 60-day, 90-day and 180-day periods prior to October 1, 2010.

You are encouraged to obtain current market quotations for Henry Bros. common stock in connection with voting your shares.

Delisting and Deregistration of Common Stock (Page 53)

If the merger is completed, Henry Bros. common stock will no longer be listed on NASDAQ or any other exchange or quotation system and will be deregistered under the Securities Exchange Act of 1934, as amended (the Exchange Act).

QUESTIONS AND ANSWERS ABOUT THE ANNUAL MEETING AND THE MERGER

The following questions and answers address briefly some questions you may have regarding the proposed merger and the annual meeting. These questions and answers may not address all questions that may be important to you as a holder of shares of Henry Bros. common stock. For important additional information, please refer to the more detailed discussion contained elsewhere in this proxy statement, the annexes to this proxy statement and the documents referred to in this proxy statement.

The Annual Meeting

Q: Why am I receiving these materials?

A: You are receiving this proxy statement and proxy card because you owned shares of Henry Bros. common stock as of November 2, 2010, the record date for the 2010 annual meeting. Henry Bros. board of directors is providing these proxy materials to give you information for use in determining how to vote in connection with the annual meeting of Henry Bros. stockholders.

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Q: When and where will the annual meeting of stockholders be held?

A: The annual meeting of Henry Bros. stockholders (which we refer to as the annual meeting) will be held on [ ], December [ ], 2010, starting at [ ] a.m. Eastern Time at the offices of Henry Bros. at 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410.

Q: What are the proposals that will be voted on at the annual meeting?

A: You will be asked to consider and vote on the following proposals:

to adopt the merger agreement;

to approve the adjournment of the annual meeting, if necessary, to permit the further solicitation of proxies if there are not sufficient votes at the time of the meeting to adopt the merger agreement;

to elect seven directors to serve on our board of directors;

to ratify the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for the fiscal year ending December 31, 2010; and

to act on other matters and transact such other business, as may properly come before the meeting.

Q: Who is entitled to attend and vote at the annual meeting?

A: The record date for the annual meeting is November 2, 2010. If you own shares of Henry Bros. common stock of record as of the close of business on the record date for determining stockholders entitled to notice of and to vote at the annual meeting, you are entitled to notice of, and to vote at, the annual meeting or any adjournment or postponement of the annual meeting. As of the record date, there were approximately [ ] shares of Henry Bros. common stock issued and outstanding.

Q: How does the Henry Bros. board of directors recommend that I vote on the proposals?

A: Our board of directors recommends that you vote:

FOR the proposal to adopt the merger agreement;

FOR adjournment of the annual meeting, if necessary, to permit the further solicitation of proxies;

FOR each of our nominees for director;

FOR ratification of the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for the fiscal year ending December 31, 2010.

Q: How many votes are required to adopt the merger agreement?

A: The adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Henry Bros. common stock. In connection with the transactions contemplated by the merger agreement, each member of our Board of Directors, including Richard D. Rockwell, our Chairman, James E. Henry, our

Vice-Chairman and Chief Executive Officer, and Brian Reach, our President and Chief Operating Officer, who collectively beneficially owned, as of the record date, approximately [ ]%, of the total outstanding shares of Henry Bros. common stock, has entered into a voting agreement with Kratos, which provides, among other things, that they will vote their respective shares of Henry Bros. common stock in favor of the adoption of the merger agreement, unless the merger agreement has been terminated.

Q: How many votes are required for Henry Bros. stockholders to approve the other proposals at the annual meeting?

A: The affirmative vote of a majority of the votes cast by all stockholders present in person or by proxy at the annual meeting will be required for the ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm and the proposal to adjourn the meeting, if necessary, to permit further solicitation of proxies. The director nominees will be elected by a plurality of the votes cast at the annual meeting.

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Q: What constitutes a quorum for the annual meeting?

A: The presence of holders of a majority of the shares entitled to vote that are outstanding on the record date, present in person or represented by proxy, will constitute a quorum for the annual meeting.

Q: What do I need to do now?

A: After carefully reading and considering the information contained in this proxy statement, including the annexes and the other documents referred to in this proxy statement, please cause your shares to be voted as described below.

Q: How many votes do I have?

A: You have one vote for each share of Henry Bros. common stock you own as of the record date.

Q: How are votes counted?

A: Votes will be counted by the inspector of election appointed for the annual meeting, who will separately count FOR, AGAINST, ABSTAIN and withheld votes.

With respect to (i) the proposal to adopt the merger agreement, (ii) the proposal to adjourn the meeting, if necessary, to permit further solicitation of proxies, and (iii) the proposal to ratify the selection by the audit committee of our independent registered public accounting firm, you may vote FOR, AGAINST, or ABSTAIN. Because under Delaware law adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Henry Bros. common stock as of the record date, failures to vote or abstentions on the proposal to adopt the merger agreement will have the same effect as votes AGAINST the adoption of the merger agreement. Because failures to vote and abstentions on the proposal to adjourn the meeting, if necessary, to permit further solicitations of proxies, or the proposal to ratify the selection by the audit committee of our independent registered public accounting firm are not considered votes cast, such failures to vote and abstentions will not be counted in determining the total number of votes cast or the number of votes cast FOR or AGAINST such proposals.

For the election of directors, you may vote FOR all of our nominees or you may WITHHOLD your vote for one or more of our nominees. Withheld votes will not count as votes cast for such nominee, but will count for the purpose of determining whether a quorum is present. As a result, if you withhold your vote, it has no effect on the outcome of the vote to elect such directors.

If you sign your proxy card without indicating your vote, your shares will be voted FOR the adoption of the merger agreement, FOR adjournment of the meeting, if necessary, to permit further solicitation of proxies, FOR each of our seven nominees for director, FOR ratification of the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm and in accordance with the recommendation of our board of directors on any other matters properly brought before the meeting for a vote.

Q: What is the difference between holding shares as a stockholder of record and as a beneficial owner?

A: If your shares are registered directly in your name with Henry Bros. transfer agent, Continental Stock Transfer & Trust Company, you are considered, with respect to those shares, the stockholder of record. The proxy statement and proxy card have been sent directly to you by Henry Bros.

If your shares are held in a stock brokerage account or by a bank or other nominee, you are considered the beneficial owner of shares held in street name. The proxy statement has been forwarded to you by your broker, bank or nominee who is considered, with respect to those shares, the stockholder of record. As the beneficial owner, you have the right to direct your broker, bank or nominee how to vote your shares by using the voting instruction card included in the mailing or by following their instructions for providing voting instructions by telephone or the Internet, if applicable.

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Q: How do I cause my shares to be voted if I am a stockholder of record?

A: You may cause your shares to be voted:

by completing, signing and dating each proxy card you receive and returning it in the enclosed prepaid envelope; or

by appearing in person and voting at the annual meeting.

Submitting your proxy card will not prevent you from voting in person at the annual meeting. You are encouraged to submit a proxy by mail even if you plan to attend the annual meeting in person to ensure that your shares of Henry Bros. common stock are present in person or represented at the annual meeting.

If you sign your proxy card without indicating your vote, your shares will be voted FOR the adoption of the merger agreement, FOR adjournment of the meeting, if necessary, to permit further solicitation of proxies, FOR each of our seven nominees for director, FOR ratification of the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm, and in accordance with the recommendation of our board of directors on any other matters properly brought before the meeting for a vote.

Q: How do I vote if my shares are held by my brokerage firm, bank, trust or other nominee?

A: If your shares are held in a brokerage account or by another nominee, such as a bank or trust, then the brokerage firm, bank, trust or other nominee is considered to be the stockholder of record with respect to those shares. However, you still are considered to be the beneficial owner of those shares, with your shares being held in street name. Street name holders generally cannot vote their shares directly and must instead instruct the brokerage firm, bank, trust or other nominee how to vote their shares. Under the rules of the New York Stock Exchange, your brokerage firm, bank, trust or other nominee will not be permitted to vote your shares for you at the annual meeting on non-discretionary items, which are the proposal for the adoption of the merger agreement, the proposal to adjourn the annual meeting, if necessary, to solicit additional proxies, and the election of the nominees for director, if you do not instruct it how to vote. The proposal for the ratification of EisnerAmper, LLP as Henry Bros. independent registered public accounting firm for 2010 is considered a discretionary item and is the sole proposal that your nominee may vote your shares if you provide your nominee with your proxy but do not instruct it how to vote. Therefore, it is important that you promptly follow the directions provided by your brokerage firm, bank, trust or other nominee regarding how to instruct them to vote your shares. If you wish to vote in person at the annual meeting, you must bring a proxy from your brokerage firm, bank, trust or other nominee authorizing you to vote at the annual meeting.

In addition, because any shares you may hold in street name will be deemed to be held by a different stockholder than any shares you hold of record, shares held in street name will not be combined for voting purposes with shares you hold of record. To be sure your shares are voted, you should instruct your brokerage firm, bank, trust or other nominee to vote your shares. Shares held by a corporation or business entity must be voted by an authorized officer of the entity.

Q: May I change my vote after I have mailed my signed proxy card?

A: Yes. You may revoke your proxy and change your vote at any time before your proxy card is voted at the annual meeting. If you are a registered stockholder, you can do this in one of three ways. First, you can send a written, dated notice to the Corporate Secretary of Henry Bros., stating that you would like to revoke your proxy. Second,

you can complete, date and submit a new proxy card by mail. Third, you can attend the meeting and vote in person. Your attendance alone will not revoke your proxy. If you have instructed a broker to vote your shares, you must follow directions received from your broker to change those instructions.

If you hold your shares in street name and you have instructed a broker to vote your shares, the above-described options for changing your vote do not apply, and instead you must follow the instructions from your broker to change your vote.

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Q: What does it mean if I get more than one proxy card or voting instruction card?

A: If your shares are registered differently or are held in more than one account, you will receive more than one proxy or voting instruction card. Please complete and return all of the proxy cards or voting instruction cards you receive to ensure that all of your shares are voted.

Q: May I vote in person?

A: Yes. You may attend the annual meeting and vote your shares of common stock in person. If you hold shares in street name, you must provide a legal proxy executed by your bank or broker in order to vote your shares at the annual meeting.

The Merger

Q: What is the proposed transaction?

A: Henry Bros. and Kratos have entered into a definitive agreement pursuant to which, subject to the terms and conditions of the merger agreement, Kratos will acquire Henry Bros. through the merger of a wholly-owned subsidiary of Kratos with and into Henry Bros. Henry Bros. will be the surviving corporation (which we refer to as the surviving corporation) in the merger and will continue as a wholly-owned subsidiary of Kratos.

Q: What will a Henry Bros. stockholder be entitled to receive when the merger occurs?

A: If the proposed merger is completed, for every share of Henry Bros. common stock held of record at the time of the merger, Henry Bros. stockholders will be entitled to receive $7.00 per share in cash, without interest, less any applicable withholding taxes. This does not apply to shares held by Henry Bros. stockholders, if any, who have perfected their appraisal rights under Delaware law.

Q: How does the merger consideration compare to the market price of Henry Bros. common stock?

A: The merger consideration of $7.00 per share of Henry Bros. common stock represents a 52.2% premium over the closing price of Henry Bros. common stock as listed on NASDAQ on October 5, 2010, the last trading day before the date the proposed transaction with Kratos was publicly announced, a 68.7% premium over the closing price of Henry Bros. common stock on October 1, 2010, the last trading day prior to delivery of the fairness opinion and the approval of the signing of the definitive agreement which occurred on October 4, 2010; and premiums of 70.3%, 76.3%, 91.8% and 75.0%, respectively, over the Henry Bros. common stock average market price corresponding to the 30-day, 60-day, 90-day and 180-day periods prior to October 1, 2010. You are encouraged to obtain current market quotations for Henry Bros. common stock in connection with voting your shares.

Q: What are the material federal income tax consequences of the merger to me?

A: If you are a U.S. Holder (as defined below), the receipt of cash in exchange for your shares of Henry Bros. common stock in the merger will be a taxable transaction for U.S. federal income tax purposes. In general, you will recognize gain or loss in an amount equal to the difference, if any, between (i) the amount of cash you receive pursuant to the merger (determined before any applicable withholding) and (ii) your adjusted tax basis in the Henry Bros. shares. If you are a Non-U.S. Holder (as defined below), any gain realized on your receipt of cash in the merger generally will not be subject to U.S. federal income tax unless certain circumstances apply (as discussed below). Because of the complexities of the tax laws, all stockholders should consult their tax advisors

to determine the particular tax consequences to them related to the merger (including the application and effect of any state, local or foreign income and other tax laws). For a more detailed discussion of the material federal income tax consequences of the merger to you, see Material U.S. Federal Income Tax Consequences of the Merger on page 49.

Q: When do you expect the merger to be completed?

A: We are working with Kratos to complete the merger as soon as practicable and are targeting completion of the merger during the fourth quarter of 2010. However, the merger is subject to various closing conditions,

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including Henry Bros. stockholder approval, and it is possible that the failure to timely meet these closing conditions or other factors outside of our control could require us to complete the merger at a later time or not at all.

Q: Should I send in my stock certificates now?

A: No. After the merger is completed, you will be sent a letter of transmittal with detailed written instructions for exchanging your shares of Henry Bros. common stock for the merger consideration. If your shares are held in street name by your brokerage firm, bank, trust or other nominee, you will receive instructions from your brokerage firm, bank, trust or other nominee as to how to effect the surrender of your street name shares in exchange for the merger consideration. **PLEASE DO NOT SEND IN YOUR CERTIFICATES NOW.**

Q: What happens if I sell my shares of Henry Bros. common stock before the annual meeting?

A: The record date for stockholders entitled to vote at the annual meeting is earlier than the date of the annual meeting and the expected closing date of the merger. If you transfer your shares of Henry Bros. common stock after the record date but before the annual meeting, you will, unless special arrangements are made, retain your right to vote at the annual meeting but will transfer the right to receive the merger consideration to the person to whom you transfer your shares. In addition, if you sell your shares prior to the annual meeting or prior to the effective time of the merger, you will not be eligible to exercise your appraisal rights in respect of the merger. For a more detailed discussion of your appraisal rights and the requirements for perfecting your appraisal rights, see Appraisal Rights on page 72 and Appendix D.

Q: Am I entitled to appraisal rights in connection with the merger?

A: Stockholders are entitled to appraisal rights under Section 262 of the Delaware law, provided they satisfy the special criteria and conditions set forth in Section 262 of Delaware law. You should be aware that the fair value of your shares as determined under Delaware law could be more than, the same as, or less than the merger consideration you would receive pursuant to the merger agreement if you did not seek appraisal of your shares. We encourage you to read the Delaware statute carefully and consult with legal counsel if you desire to exercise your appraisal rights. For more information regarding appraisal rights, see Appraisal Rights on page 72. In addition, a copy of Section 262 of Delaware law is attached as Appendix D to this proxy statement.

Q: What will happen to the directors who are up for election if the merger agreement is adopted?

A: If the merger agreement is adopted by stockholders and the merger is completed, our directors will no longer be directors of the surviving corporation after the consummation of the merger. Our current directors, including those elected at the annual meeting, will serve only until the merger is completed.

Q: Will members of our board of directors or management hold any equity interest in Kratos following the merger?

A: After the merger, pursuant to the terms of his employment agreement with Kratos, Mr. Henry will receive restricted stock units to acquire Kratos common stock and will be eligible to receive additional restricted stock units for the years ended 2011, 2012 and 2013. The license agreement between Kratos, Henry Bros. and Mr. Henry, provides that Mr. Henry will purchase between $3.0 and $4.0 million shares of Kratos common stock pursuant to a Rule 10b5-1 trading plan to be entered into by Mr. Henry within 15 days following the effective time of the merger. For a more detailed discussion of the employment agreement and the license agreement, see Interests of Henry Bros. Directors and Executive Officers in the Merger on page 46.

In addition, because Kratos will be converting all outstanding stock options to purchase Henry Bros. common stock into options to purchase Kratos common stock, all of our other directors and certain members of our executive management, including Mr. Reach, Mr. Hopkins, Mr. Smith and Mr. Peckham, may, if they exercise such options after the effective time of the merger, hold shares of Kratos common stock following the merger.

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Q: How can I obtain additional information about Henry Bros.?

A: We will provide a copy of our Annual Report on Form 10-K for the year ended December 31, 2009, as filed with the Securities and Exchange Commission, or SEC, on March 23, 2010, excluding certain exhibits, and other filings with the SEC, without charge to any stockholder who makes a written or oral request to our Corporate Secretary by writing to: Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attention: Corporate Secretary. Our Annual Report on Form 10-K, and other SEC filings also may be accessed on the Internet at www.sec.gov or on the Investor Relations page of our website at www.hbe-inc.com. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement and, therefore, is not incorporated by reference. For a more detailed description of the information available, please refer to Where You Can Find More Information.

THE ANNUAL MEETING

Date, Time and Place.

The annual meeting will be held on [ ], December [ ], 2010, starting at [ ] a.m. Eastern Time at Henry Bros. offices at 17-01 Pollitt Drive, Fair Lawn, NJ 07410.

Purpose.

You will be asked to consider and vote upon (i) the adoption of the merger agreement, pursuant to which Merger Sub will be merged with and into Henry Bros., with Henry Bros. continuing as the surviving corporation, (ii) the proposal to adjourn the meeting, if necessary, to permit further solicitation of proxies (iii) the election of directors, (iv) ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm, and (v) such other business as may properly come before the annual meeting or any adjournments of the annual meeting.

Record Date and Quorum.

You are entitled to vote at the annual meeting if you owned shares of Henry Bros. common stock at the close of business on November 2, 2010, the record date for the annual meeting. You will have one vote for each share of Henry Bros. common stock that you owned on the record date. As of November 2, 2010, the record date there were [ ] shares of Henry Bros. common stock issued and outstanding and entitled to vote. The presence, in person or by proxy, of a majority of Henry Bros. common stock issued, outstanding and entitled to vote at the annual meeting will constitute a quorum for the purpose of the annual meeting. In the event that a quorum is not present at the annual meeting, the meeting may be adjourned to solicit additional proxies.

Vote Required.

The adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Henry Bros. common stock. The approval of any proposal to adjourn the annual meeting to a later date or time, if necessary, to solicit additional proxies in the event there are insufficient votes at the time of such adjournment to adopt the merger agreement requires the affirmative vote of a majority of the votes cast by holders of Henry Bros. common stock, even if less than a quorum. The director nominees will be elected by a plurality of the votes cast at the annual meeting. The ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm requires the affirmative vote of a majority of the votes cast by holders of Henry Bros. common stock at the annual meeting.

Because the adoption of the merger agreement requires an affirmative vote of a majority of the outstanding shares of Henry Bros. common stock for approval, the failure to provide your broker or nominee with voting instructions, or abstentions, will have the same effect as a vote AGAINST the proposal to adopt the merger agreement.

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Because the proposal to adjourn the annual meeting, if necessary, to solicit additional proxies requires the affirmative vote of a majority of the votes cast by holders of Henry Bros. common stock at the annual meeting, even if less than a quorum, and because your broker or nominee does not have discretionary authority to vote on the proposal, the failure to instruct your broker or nominee with voting instructions on how to vote your shares will result in a broker non-vote, which will have no effect on the approval of that proposal. Likewise, any abstentions will have no effect on the vote on this proposal.

Because the nominees for director are elected by a plurality of the votes cast at the annual meeting and because your broker or nominee does not have discretionary authority to vote on the election of the nominees for director, the failure to instruct your broker or nominee on how to vote your shares will result in a broker non-vote. Broker non-votes and votes withheld in the election of directors will not be counted towards the election of any person as a director.

In the absence of instructions on how to vote on your behalf, your bank, broker or nominee will be able to vote your shares on the proposal for ratification of the selection of the independent registered public accounting firm which is considered a discretionary item. Abstentions and broker non-votes, if any, will not be counted as votes cast with respect to such matter.

Prior to the annual meeting, we will select one or more inspectors of election for the annual meeting. Such inspector will canvas the stockholders present in person at the annual meeting, count their votes and count the votes represented by proxies presented.

Voting and Proxies.

Any stockholder of record entitled to vote at the annual meeting may submit a proxy by returning the enclosed proxy card by mail, or by voting in person at the annual meeting. If you do not return your proxy card or attend the annual meeting and vote in person, your shares of Henry Bros. common stock will not be voted, which will have the same effect as a vote AGAINST the adoption of the merger agreement. Even if you plan to attend the annual meeting, if you hold your shares of common stock in your own name as the stockholder of record, please cause your shares to be voted by completing, signing, dating and returning the enclosed proxy card.

If you return your signed proxy card, but do not mark the boxes showing how you wish to vote, your shares will be voted FOR the proposal to adopt the merger agreement, FOR the proposal to adjourn the annual meeting, if necessary, to solicit additional proxies, if applicable, FOR the election of the seven nominees, and FOR the ratification of EisnerAmper LLP as Henry Bros. independent registered public accounting firm.

If your shares of Henry Bros. common stock are held in street name, you should instruct your broker, bank, trust or other nominee on how to vote such shares of common stock using the instructions provided by your broker or nominee. If your shares of Henry Bros. common stock are held in street name, you must obtain a legal proxy from such nominee in order to vote in person at the annual meeting.

If you fail to provide your nominee with instructions on how to vote your shares of Henry Bros. common stock, your broker or nominee will not be able to vote such shares at the annual meeting on the proposal to adopt the merger agreement, the proposal to adjourn the meeting, if necessary, to permit further solicitation of proxies, and the election of the seven nominees for director, all of which are considered non-discretionary items under the rules of the New York Stock Exchange.

Revocability of Proxy.

Any stockholder of record of Henry Bros. common stock may revoke his or her proxy at any time, unless noted below, before it is voted at the annual meeting by any of the following actions:

delivering to Henry Bros. Corporate Secretary a signed written notice of revocation bearing a date later than the date of the proxy, stating that the proxy is revoked;

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attending the annual meeting and voting in person (your attendance at the meeting will not, by itself, revoke your proxy; you must vote in person at the meeting); or

delivering a new proxy, relating to the same shares of Henry Bros. common stock and bearing a later date.

Written notices of revocation and other communications with respect to the revocation of any proxies should be addressed to:

Henry Bros. Electronics, Inc.
17-01 Pollitt Drive
Fair Lawn, New Jersey 07410
Attn: Corporate Secretary

If you are a street name holder of Henry Bros. common stock, you may change your vote by submitting new voting instructions to your brokerage firm, bank, trust or other nominee. You must contact your nominee to obtain instructions as to how to change or revoke your proxy.

SOLICITATIONS

The cost of preparing, assembling and mailing this Proxy Statement, the Notice of Annual Meeting and the enclosed proxy is to be borne by Henry Bros. In addition to the use of mail, employees of Henry Bros. may solicit personally and by telephone. Henry Bros. employees will receive no compensation for soliciting proxies other than their regular salaries. Henry Bros. may request banks, brokers and other custodians, nominees and fiduciaries to forward copies of the proxy material to their principals and to request authority for the execution of proxies. Henry Bros. may reimburse such persons for their expenses in so doing.

CAUTIONARY STATEMENT CONCERNING FORWARD-LOOKING INFORMATION

This proxy statement contains certain forward-looking statements within the meaning of the safe harbor provisions of the United States Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that are not historical facts. Words such as expect(s) , feel(s) , believe(s) , will , may , anticipate(s) , intend(s) and s expressions are intended to identify such forward-looking statements. These statements include, but are not limited to, the expected timing of the acquisition; the ability of Kratos and Henry Bros. to close the acquisition; the performance of the parties under the terms of the merger agreement and related transaction documents; and statements regarding future performance. All of such information and statements are subject to certain risks and uncertainties, the effects of which are difficult to predict and generally beyond the control of Henry Bros., that could cause actual results to differ materially from those expressed in, or implied or projected by, the forward-looking information and statements. Investors are cautioned not to place undue reliance on these forward-looking statements that speak only as of the date of this proxy statement. Investors are also urged to carefully review and consider the various disclosures in Henry Bros. SEC periodic and interim reports, including but not limited to its Annual Report on Form 10-K for the fiscal year ended December 31, 2009, Quarterly Reports on Form 10-Q for the fiscal quarters ended March 31, 2010 and June 30, 2010, and Current Reports on Form 8-K filed from time to time by Henry Bros., and the following factors:

uncertainties associated with the acquisition of Henry Bros. by Kratos;

uncertainties as to the timing of the merger;

the failure to receive approval of the transaction by the stockholders of Henry Bros.;

the ability of the parties to satisfy closing conditions to the transaction;

changes in economic, business, competitive, technological and/or regulatory factors;

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the outcome of any legal proceedings that have been or may be instituted against Henry Bros. and/or others relating to the merger agreement; and

failure of a party to comply with its obligations under the merger agreement and the related transaction documents.

Consequently, all of the forward-looking statements we make in this document are qualified by the information contained herein, including, but not limited to, (i) the information contained under this heading and (ii) the information contained under the headings Risk Factors and Forward-Looking Statements and in our consolidated financial statements and notes thereto included in our most recent filings on Forms 10-Q and 10-K which are available at no charge from the SEC through its website at www.sec.gov. We are under no obligation to publicly release any revision to any forward-looking statement to reflect any future events or occurrences.

You should carefully consider the cautionary statements contained or referred to in this section in connection with any subsequent written or oral forward-looking statements that may be issued by us or persons acting on our behalf.

THE MERGER

THE PARTIES TO THE MERGER

Henry Bros. Electronics, Inc.

Henry Bros Electronics, Inc., a Delaware corporation, provides technology-based integrated electronic security systems, services and emergency preparedness consultation to commercial enterprises and government agencies. Henry Bros. has offices in Arizona, California, Colorado, Maryland, New Jersey, New York, Texas and Virginia. Henry Bros. principal executive offices are located at 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410 and our telephone number is (201) 794-6500. Henry Bros. common stock is listed on The NASDAQ Capital Market under the symbol HBE .

Kratos Defense & Security Solutions, Inc.

Kratos Defense & Security Solutions, Inc., a Delaware corporation, is a United States national security solutions provider. Kratos provides mission critical products, solutions and services for United States national and homeland security. Principal areas of expertise include command, control, communications, computing, combat systems, intelligence, surveillance, and reconnaissance, sensor development, unmanned system solutions and support, weapon systems upgrade and sustainment; design, engineering, manufacturing and integration of military products, tactical and other shelters; military weapon range operations; critical network engineering services; information assurance and cybersecurity solutions; security and surveillance systems; and critical infrastructure security system design, integration and operation. Kratos principal executive offices are located at 4820 Eastgate Mall, Suite 200, San Diego, CA 92121 and its telephone number is (858) 812-7300. Kratos common stock is listed on The NASDAQ Global Select Market under the symbol KTOS .

Hammer Acquisition Inc.

Merger Sub was formed solely for the purpose of facilitating Kratos acquisition of Henry Bros. Merger Sub has not carried on any activities to date, except for activities incidental to its formation and activities undertaken in connection with the transactions contemplated by the merger agreement. Upon completion of the proposed merger, Merger Sub will merge with and into Henry Bros. and will cease to exist. Merger Sub s principal executive offices are located at

4820 Eastgate Mall, Suite 200, San Diego, CA 92121 and its telephone number is (858) 812-7300.

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BACKGROUND OF THE MERGER

Over the past several years, our board of directors has periodically reviewed, with our senior management, the long-term strategic direction for Henry Bros. in light of our financing capabilities and markets served, economic climate, competitive position and other conditions and developments. These discussions have included the possibility of, among other things, business combinations involving Henry Bros. and other security system integrators, particularly in view of the increasing competition and ongoing consolidation in our industry. In an effort to maximize stockholder value, our management and board of directors have also considered a variety of business strategies, including the pursuit of organic growth, strategic alliances, Department of Defense market partners and acquisitions, as well as our prospects as a small public company.

The system integration space in which Henry Bros. operates is highly fragmented and competitive. Many of our competitors are significantly larger, have longer operating histories, larger customer bases, greater brand recognition and significantly greater financial, marketing and other resources. As a result, many customers perceive such larger competitors to be more stable in the long term, which places Henry Bros. at a competitive disadvantage, although Henry Bros. services may be equally competitive. Historically, it has been very difficult for smaller participants in our industry, including Henry Bros., to achieve and maintain profitability and revenue growth. For example, Henry Bros. was profitable in fiscal years 2005 and 2008, but operated at a net loss for fiscal years 2006, 2007 and 2009.

Consolidation in the industry also places Henry Bros. at a greater disadvantage, as it creates additional larger system integrators. In addition, as a small market capitalization company, Henry Bros. has experienced difficulty in attracting a following in the stock market, resulting in a lack of liquidity. This has impaired Henry Bros. ability to use its stock as currency for acquisitions, and has created practical trading issues for its stockholders.

Since 2001, our board of directors and management team focused on a growth strategy pursuant to which Henry Bros. would seek to increase profitability by pursuing larger projects and the completion of strategic acquisitions to expand its business. During that time, Henry Bros. executed this strategy by completing seven acquisitions, entering into three strategic alliances and by hiring additional sales personnel. Despite those efforts, as noted above, Henry Bros. has been unable to maintain consistent growth and profitability over the last five years. Although Henry Bros. stands to benefit from record backlog and booked orders this fiscal year, the capital required to fill such orders and support increased performance bonding requirements under new contracts may create working capital challenges by 2010 year-end.

In light of the market dynamics and pressures described above, our board of directors and management team has been actively evaluating ways for Henry Bros. to remain competitive and to increase its revenues and financial performance. Thus, in December 2009, Henry Bros. Chief Executive Officer James E. Henry and Henry Bros. President and Chief Operating Officer Brian Reach agreed to the request of representatives of Imperial Capital to meet to discuss the state of the security integration market and Henry Bros. competitive positioning within that market.

In March 2010, representatives of Imperial Capital met with Messrs. Henry and Reach to discuss a potential business opportunity for Henry Bros. During that meeting, the parties discussed the possibility of an M&A transaction between Henry Bros. and Kratos.

On April 21, 2010, an Imperial Capital representative introduced Messrs. Henry and Reach to Ben Goodwin, President of Kratos Public Safety and Security Segment. During that meeting, Mr. Goodwin communicated Kratos interest in growing its system integration business through a potential combination of Henry Bros. business with Kratos Public Safety and Security business.

Between April 23-26, 2010, an Imperial Capital representative fielded several calls from Kratos during which Kratos indicated a potential interest in acquiring Henry Bros. The Imperial Capital representative informed Henry Bros. that Kratos would need detailed financial information and projections in order to evaluate the Company.

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On April 27, 2010, Messrs. Henry and Reach were informed by a representative of Imperial Capital that Kratos was potentially interested in acquiring Henry Bros. and indicated that, based on the information available to Kratos at that time, it would only be willing to pay $6.00 per share to acquire Henry Bros. The Imperial Capital representative stated that he believed that in order to move Kratos up from that price, Henry Bros. would have to make its case with its financial condition and projections, which would include projected business and operating synergies.

In order to engage in further discussions with Kratos and to ensure the confidentiality of non-public information regarding Henry Bros., on April 28, 2010, Henry Bros. and Kratos signed a Non-Disclosure Agreement.

On May, 3, 2010, Mr. Reach met with Mr. Goodwin and an Imperial Capital representative to discuss Henry Bros. business, financial history and 2010 guidance. It was agreed that the next step would be to meet with Eric DeMarco, Kratos Chief Executive Officer and President. Moreover, Imperial Capital agreed to help analyze whether a business combination would make sense from a financial standpoint.

On May 12, 2010, during a regularly scheduled meeting of Henry Bros. board of directors, Mr. Henry reported on Henry Bros. discussions with Kratos. Mr. Henry noted, however, that due to Henry Bros. operating net loss in fiscal year 2009, as well as the limited time it had to demonstrate a turnaround in its financial condition, that it would be advisable to delay substantive discussions until after the availability of financial results for the fiscal quarter ended June 30, 2010. Mr. Henry also reported that he had been approached in March 2010 by Company A and Company B, individually, regarding their interests in pursuing a combination with Henry Bros. Although there had been follow-up discussions with both companies, Henry Bros. management indicated that it did not believe either company had the resources to finance such a transaction and the discussions never reached a stage where terms were discussed beyond an initial indication of interest from each of the companies to pay Henry Bros. stockholders $6.00 per share.

On June 17, 2010, Messrs. Henry and Reach attended a meeting at Kratos San Diego Headquarters. In addition to Mr. DeMarco, Mr. Goodwin, an Imperial Capital representative, Deanna Lund, Kratos Chief Financial Officer, Fred Thomas, Kratos General Manager of Public Safety and Securities Business and Laura Siegal, Kratos Vice President and Corporate Controller also attended the meeting. Representatives of Henry Bros. and Kratos gave presentations on their respective businesses. During the meeting, Mr. DeMarco communicated Kratos desire to combine its system integration business with that of Henry Bros. and operate the combined businesses under the Henry Bros. brand name. The price and terms of a strategic transaction were not discussed at this meeting. Moreover, Henry Bros. and Kratos decided to hold off discussing a potential transaction until the release of Henry Bros. financial information for the fiscal quarter ended June 30, 2010 and updated financial forecasts.

Between July 14, 2010 and August 4, 2010, Henry Bros. prepared financial projections for the six-months ended 2010 and full fiscal years 2011-2012 in anticipation of a meeting to discuss whether the parties should contemplate a business combination. Based on Henry Bros. record backlog of booked orders for the fiscal quarter ended June 30, 2010 and improved guidance for 2010, Mr. Reach requested that Imperial Capital get more clarity from Kratos as to what it would be willing to pay to acquire Henry Bros.

On August 5, 2010, Mr. Henry and Mr. Reach attended a meeting at Imperial Capital s offices. Mr. Goodwin and an Imperial Capital representative were also present at that meeting. During that meeting, Messrs. Henry and Reach provided Mr. Goodwin with certain financial information of Henry Bros. In addition, the parties discussed Henry Bros. business, and its growth prospects, with and without a combination with Kratos public safety and security business.

On August 11, 2010, the Henry Bros. board of directors held a regularly scheduled meeting. Representatives of Moses & Singer LLP (M&S), Henry Bros. legal counsel, were also present at such meeting by telephone. Mr. Henry provided an overview of Kratos history, operations and financial condition and proceeded to update the board on the

status of the Henry Bros. conversations with Kratos over the last few months.

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On August 16, 2010, Kratos furnished a letter of intent to Henry Bros. pursuant to which Kratos proposed to acquire all of Henry Bros. outstanding capital stock for a purchase price of $7.00 per share. The letter of intent required Henry Bros. response no later than 5:00 p.m. (Eastern Time) on August 20, 2010. The letter of intent also provided that (i) consideration would be paid all in cash or in a combination of 50% cash and 50% Kratos common stock, at Kratos election, with the valuation of Kratos stock to be based on its average closing price for the 20 days preceding execution of a definitive agreement; (ii) all Henry Bros. directors and officers, as well as all stockholders represented on the board of directors (which held approximately 60% of the Henry Bros. outstanding shares), would be subject to irrevocable proxies to vote in support of the merger, i.e., lock-up agreements , without any contractual exceptions; (iii) no stock options would be accelerated and only stock options that were both vested and in-the-money would be assumed, all others would be canceled; (iv) a no shop covenant, meaning that Henry Bros. could not solicit potential bidders after signing of a definitive agreement with Kratos (subject to a customary fiduciary out); (v) Henry Bros. would be subject to a force the vote provision which would require Henry Bros. to submit the merger for approval by the stockholders even if the board withdrew its recommendation pursuant to its fiduciary duties and (vi) a break-up fee of 4% of the announced value of the transaction in the event the board withdrew its recommendation in favor of the acquisition.

On August 17, 2010, Henry Bros. board of directors met to discuss Kratos proposal, the hiring of a financial advisor and any strategic alternatives to Kratos proposal. Mr. Reach arranged to have three financial advisors attend the meeting, including Imperial Capital. The Henry Bros. board interviewed each of the three firms. A discussion ensued with the Imperial Capital representative with respect to Imperial Capital s relationship with, and past representations of, Kratos. The Imperial Capital representative noted that Imperial Capital had represented SYS Technologies in 2008 in its acquisition by Kratos. The Imperial Capital representative reported that Imperial Capital rendered a fairness opinion for Kratos in 2008 in connection with Kratos acquisition of Digital Fusion and had participated as an underwriter in a recent debt offering by Kratos. The Imperial Capital representative noted that Imperial Capital s analysts covered Kratos.

On August 19, 2010, our board of directors held a telephonic meeting to discuss further the engagement of a financial advisor, Kratos proposal and alternatives to Kratos proposal. A representative of M&S attended the meeting. The board of directors reviewed the qualifications of the various financial advisors it had interviewed. The consensus was that Imperial Capital had the most extensive industry experience and would be in the best position to reach potential buyers because of its significant relationships throughout the security industry. It was also noted that Imperial Capital had a significant advantage over the other firms that had been interviewed due to its prior dealings with Kratos and, consequently, was in the best position to further discussions with Kratos, if the board of directors decided to proceed with further consideration of a transaction with Kratos. The board of directors then considered issues relating to Imperial Capital s independence. After review and discussion of this point, the board of directors appointed non-employee board members Jim Power and David Sands to interview representatives of Imperial Capital with respect to Imperial Capital s ability to be an independent advisor. After discussion, Henry Bros. board of directors decided to defer making a selection of financial advisors until Messrs. Power and Sands reported the results of their meeting with Imperial Capital.

On August 20, 2010, our board of directors held another telephonic meeting to discuss the engagement of a financial advisor, Kratos proposal and alternatives to Kratos proposal. Messrs. Sands and Power reported on their meeting with Imperial Capital representatives. After Messrs. Sands and Power s report, the board of directors discussed a number of issues concerning the possibility that Imperial Capital s prior dealings with Kratos could influence Imperial Capital s independence as a financial advisor. The board also considered representations by Imperial Capital to Messrs. Sands and Power that (i) if not hired by Henry Bros., Imperial Capital would not play a role, or receive any compensation from Kratos, in connection with a transaction with Henry Bros. and (ii) that Henry Bros. engagement of Imperial Capital would be subject to the review and approval of Imperial Capital s conflicts committee. After discussion, the board of directors concluded that Imperial Capital s reputation and experience in the physical security and system

integration industries, and its prior dealings with Kratos, would confer substantial benefits to Henry Bros. stockholders. Moreover, based on Imperial Capital s representations to Messrs. Sands and Powers that it could and would be able to provide the

board with independent advice, combined with the active oversight of the board throughout the acquisition and go shop process, the board concluded that the potential for any problems relating to conflicts of interest by Imperial Capital would, in the view of the board, be acceptably minimized. The board also determined that hiring an additional financial advisor to work on the transaction was unnecessary given Imperial Capital s qualifications and experience in Henry Bros. industry and the greater transaction costs that would be passed on to the Henry Bros. stockholders would not be justified. Finally, the board determined that to not hire Imperial Capital would result in failing to provide Henry Bros. stockholders with the benefits of Imperial Capital s capabilities, without any assurance that costs would be reduced.

Messrs. Richard Rockwell, Henry and Reach were authorized to negotiate an engagement letter with Imperial Capital.

On August 25, 2010, Henry Bros. entered into a written engagement letter with Imperial Capital to act as its financial advisor for purposes of evaluating the Kratos offer and any strategic alternatives available to Henry Bros.

On August 25, 2010, Henry Bros. communicated to Kratos that it had engaged a financial advisor and that it intended to continue its review of its strategic alternatives, including the letter of intent received from Kratos, based on a process managed with the input of its financial advisor.

On August 26, 2010, our board of directors held a special meeting to discuss Henry Bros. strategic alternatives. A representative of Imperial Capital and representatives of M&S were also present by invitation of the board. The Imperial Capital representative discussed Henry Bros. strategic alternatives, including (i) maintaining the status quo (with or without making acquisitions), (ii) raising capital, (iii) entering into a transaction to go private or (iv) a sale or merger. The board discussed the competitive environment in the security integration business and other general developments in the industry. The Imperial Capital representative advised that the relative illiquidity of Henry Bros. stock would hinder its ability to make acquisitions (as had previously been experienced by Henry Bros. in the past), and the unwelcoming environment for micro-cap public companies in the debt and equity capital markets would limit Henry Bros. ability to raise capital.

At the same meeting of the board of directors, Kratos proposal dated August 16, 2010 was discussed with Imperial Capital. A representative of M&S explained various deal protection alternatives that the board could consider requesting in connection with the proposal.

On August 27, 2010, the board of directors reconvened the special meeting by telephone conference to discuss further Kratos letter of intent. The board determined at such time that it could not respond to Kratos letter of intent because it was still in the process of evaluating the Company s strategic alternatives. The board also determined that it would need certain deal protection terms in place before it could seriously consider entering into an agreement with Kratos. Consequently, at the direction of the board, Mr. Henry sent Kratos a letter advising it that (i) Henry Bros. was in the process of reviewing its strategic alternatives; (ii) any transaction would require adequate protections to enable Henry Bros. board to discharge its fiduciary duties to seek the best possible transaction for Henry Bros. stockholders, including a post-signing go shop period of appropriate duration, a bifurcated termination fee and a standard termination right in the event the board exercised a fiduciary out ; (iii) Henry Bros. would require additional information regarding Kratos business in order to evaluate Kratos stock if used as consideration in the transaction and (iv) Henry Bros. would not be seeking alternative acquirers at that time. Mr. Henry further noted that given the concentration of Henry Bros. stock, a force the vote provision was inappropriate.

The August 27 decision of the board to not negotiate Kratos $7.00 per share offer at such time or to seek alternative acquirers, or shop Henry Bros., prior to signing a definitive agreement was based on discussions with Imperial Capital. Imperial Capital indicated to the Henry Bros. board that (a) Kratos had stated to Imperial Capital that Kratos believed that it was making a fully valued offer and (b) there was a risk that Kratos would withdraw its offer if Henry

Bros. decided to canvass buyers. Moreover, Imperial Capital indicated that it believed that Henry Bros. would be in a better position to maximize stockholder value during a post signing go shop period with a signed $7 per share agreement with Kratos establishing a floor price than to engage in a pre-signing shopping process given Henry Bros. then current $4.25 per share price. Accordingly, the board decided to hold off on seeking potential bidders at such time and instead focused on

negotiating a go shop protection mechanism to ensure that Henry Bros. stockholders would have an opportunity to receive the highest possible price for their shares.

During the period of August 27, 2010 to September 2, 2010, Imperial Capital and our management team met several times to discuss these strategic alternatives and the likely universe of third parties who might be interested in a potential merger or other business combination involving Henry Bros.

On September 1, 2010, Henry Bros. received a letter from Kratos indicating that it would agree to proceed substantially with the deal protection measures requested by the board.

On September 2, 2010, our board of directors held a meeting to review and discuss the strategic alternatives available to Henry Bros. Representatives from Imperial Capital and M&S were also present at this meeting. Imperial Capital discussed with Henry Bros. board Henry Bros. business and the security integration and monitoring markets, as well as Henry Bros. strategic alternatives. Imperial Capital then discussed with Henry Bros. board of directors the strengths and weaknesses of each of the various strategic alternatives available to Henry Bros. and the likely universe of third parties, both strategic and financial, who might be interested in a potential acquisition of Henry Bros.

During the meeting, the directors discussed how Henry Bros. would be marketed through a go shop mechanism. The Imperial Capital representatives described the process and assured the board that any potential bidders would be provided the same information provided to Kratos and that Imperial Capital would attempt to create an active bidding process.

After their presentation and discussion with the directors, the Imperial Capital representatives left the meeting. The board then discussed, among other things, each of the strategic alternatives available to Henry Bros. in relation to Henry Bros. existing business plan and prospects, potential structures for strategic alternatives, and Henry Bros. financial condition and market position. The consensus of the board was that, based upon the factors discussed, Kratos offer of $7.00 per share was in the best interests of Henry Bros. stockholders and would deliver, in the view of the directors, a value to all stockholders that would only be otherwise exceeded if the most optimistic projections were realized. The realization of a $7.00 per share value in any scenario other than a sale to Kratos would be subject to significant risk. Thus, in light of the uncertainties and risks at this time with respect to the economy, Henry Bros. and the industry, the board concluded that the Kratos offer created optimal value at that time for the stockholders. Accordingly, the board authorized the negotiation of a letter of intent with Kratos at the $7.00 per share price. In addition, the board expressed a preference for an all cash offer because it still had not had an opportunity to complete its due diligence of Kratos in order to evaluate the value of its common stock. The board also expressed an interest that the transaction be consummated in 2010 in light of the expected increase in tax rates beginning January 1, 2011.

Between September 2, 2010 and September 10, 2010, Henry Bros. and M&S negotiated with Kratos and Paul, Hastings, Janofsky & Walker LLP (PHJW), outside legal counsel to Kratos, various aspects of the Kratos letter of intent.

On September 7, 2010, Henry Bros. board of directors held a telephonic meeting to discuss the negotiations with Kratos of the letter of intent. Also, present were representatives from Imperial Capital and M&S. During the meeting, the board of directors discussed the possibility of a mix of cash and Kratos common stock as consideration in a transaction between Henry Bros. and Kratos and the performance of due diligence on Kratos in the event that Kratos common stock formed part of the consideration in a transaction with Henry Bros. In addition, the board discussed with the representatives of M&S and Imperial Capital the different options available to it for negotiating several deal protection terms. The board also discussed the termination fee. At the conclusion of the discussion, a response to Kratos letter of intent was delivered at the direction of the board requesting: (i) mutual due diligence of the parties, (ii) the transaction be consummated via a tender offer (or two-step merger) instead of a one-step merger,

(iii) stockholder lock-up agreements would terminate upon termination by Henry Bros. of the acquisition based on a fiduciary out, (iv) deferment on treatment of stock options until more information was exchanged by the parties, (v) a 45-day go shop period, followed by a customary window-shop, which also would allow the board of directors to continue

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any discussions which commenced during the go shop period and (vi) a bifurcated termination fee equal to 1.5% of the announced equity value of the transaction payable during the go shop period that would rise to 3.0% if paid during the window-shop period, subject to increases to 2.0%/4.0% if actual expenses of Kratos were higher.

On September 8, 2010, Henry Bros. board of directors held a telephonic meeting to discuss the revised letter of intent received from Kratos in response to Henry Bros. letter dated September 7, 2010. Representatives of Imperial Capital and M&S were also present. The M&S representatives discussed with the board of directors the remaining issues arising out of the letter of intent with Kratos, including issues relating to the form of consideration, the means for valuing Kratos stock to the extent used as consideration and the treatment of Henry Bros. stock options in a transaction.

The board of directors also discussed a no litigation condition to closing proposed by Kratos and provided guidance to Imperial Capital and M&S with respect to the resolution of the issue.

The board proceeded to discuss the inclusion of a go shop mechanism. The board of directors concluded that such a provision was significant for Henry Bros. and that it needed to be adequate in duration. Thus, the board rejected the 20-day go shop orally communicated by Kratos.

The board of directors also discussed the expected change in the capital gains tax rate beginning January 1, 2011 and, consequently, insisted that Kratos would have to agree to complete the transaction by 2010 year-end.

Finally, the board of directors discussed the amount of the termination fee. Imperial Capital and M&S indicated that Kratos rejected Henry Bros. proposed bifurcated fee and would not agree to go lower than 4% of the enterprise value. A discussion ensued on the point during which the Imperial Capital representative noted that a termination fee of approximately $1,800,000 for this type of deal fell within market bounds for transactions of a similar size. The board insisted that if it was going to agree to a break-up fee of 4%, then it would have to be based on the announced equity value of the transaction rather than the announced total value of the transaction, which was higher. In addition, the Henry Bros. board indicated that the fee would not have to be paid if the board withdrew its recommendation because Kratos suffered a material adverse effect (which would only be a condition if the deal had Kratos stock as a component of consideration). The board directed that the letter of intent delivered by Kratos be further revised to reflect the board s position.

On September 9, 2010, Messrs. Henry, Reach and Rockwell of Henry Bros. and Messrs. DeMarco and Goodwin of Kratos held a telephonic meeting to discuss the proposed transaction. Representatives from Imperial Capital also attended. Messrs. Henry and DeMarco discussed the manner in which a stock payment by Kratos should be measured in the event Kratos used its stock as consideration. Mr. DeMarco explained that Kratos would only be willing to make such payment based on a fixed share exchange ratio and that the value of Kratos common stock to be issued would be based on the average closing price of such common stock for the 30 trading days immediately preceding the day of execution of a definitive agreement.

On September 10, 2010, Henry Bros. board of directors held a special meeting to discuss the further revised letter of intent received from Kratos on September 9, 2010. Representatives from Imperial Capital and M&S were also in attendance. Mr. Henry reported on his discussions with Kratos officers on September 9, 2010 and the board discussed issues related to accepting Kratos common stock with a fixed exchange ratio as part of the consideration. M&S discussed certain provisions in the Kratos letter of intent relating to the board s ability to terminate the definitive agreement under certain circumstances without payment of the break-up fee if Kratos suffers a material adverse effect. The Henry Bros. board of directors then authorized the execution of the Kratos letter of intent.

On September 10, 2010, Henry Bros. and Kratos executed a letter of intent, which provided for a period of exclusivity ending on the earlier of (i) October 9, 2010 or (ii) such date as Kratos advises Henry Bros. in writing of its decision to terminate discussions in respect of a transaction between Henry Bros. and Kratos. In addition, the letter of intent reflected that any merger agreement would contain a 40 day go shop period, within which Henry Bros. would be free to solicit competing proposals, followed by a customary window shop provision, which also would allow the board of directors to continue any discussions which commenced in the go shop

period, contain a cash break-up fee in an amount equal to 4% of the announced equity value of the transaction and contain matching rights in favor of Kratos, granting Kratos the right to match, or beat, any competing bid.

Between September 13, 2010 and October 4, 2010, Henry Bros., M&S and Richards, Layton & Finger, P.A., special Delaware counsel to Henry Bros., and Kratos and PHJW negotiated the terms and conditions of the proposed transaction and the various provisions in the proposed merger agreement and ancillary agreements and schedules.

On September 15, 2010, Messrs. Henry and Rockwell, Mr. DeMarco, Ms. Lund and representatives of Imperial Capital met in New York at a conference hosted by Imperial Capital. During that meeting, Messrs. Rockwell and DeMarco held a discussion concerning Kratos purchase of Henry Bros. common stock with cash versus a combination of cash and Kratos common stock. Specifically, Mr. Rockwell advocated the Henry Bros. board s previously expressed position that an all cash deal would be preferred, which would allow Henry Bros. stockholders the choice of whether to use any portion of the cash merger consideration to purchase Kratos common stock in the open market. Mr. DeMarco stated that Kratos had made the decision to purchase the Henry Bros. common stock with all cash rather than with a combination of cash and Kratos common stock.

On October 1, 2010, Henry Bros. was further informed by Kratos that it would assume all stock options for the purchase of the Company s common stock outstanding at the time of the merger, in the interest of employee retention, instead of its previously communicated position of cashing out in-the-money options but canceling all others. On October 1, 2010, the parties also agreed to change the transactions structure from a two-step merger to a one-step merger to address certain regulatory concerns.

On October 1, 2010, Henry Bros. board of directors held a special meeting to discuss the status of negotiations between Henry Bros. and Kratos. The Imperial Capital representative and representatives of M&S were also present. A representative of M&S informed the board that Kratos had elected to proceed with an all cash transaction and otherwise discussed the deal structure, the negotiations and the likely timing of a transaction.

Mr. Henry also advised the board that, for employee retention purposes, Kratos would assume all outstanding Henry Bros. stock options in accordance with the terms and conditions of the stock option plans and stock option agreements relating to them.

During the weekend of October 2-3, 2010, Henry Bros. and M&S and Kratos and PHJW negotiated final terms of the merger agreement and the ancillary agreements, and resolved all remaining due diligence items.

On October 4, 2010, Henry Bros. board of directors held a special meeting with representatives of M&S and Imperial Capital to discuss the proposed merger agreement, which was previously circulated to the members of the board and the status of negotiations between Henry Bros. and Kratos during the previous few days. M&S reviewed the proposed merger agreement with the board of directors. Imperial Capital and the board discussed Henry Bros. income statement and balance sheet, one- and three-year stock price performances, and certain other actual and projected revenue and EBITDA information upon which Imperial Capital relied for certain of its valuation analyses. Imperial Capital made a presentation at the meeting and gave its financial analysis and expressed its oral opinion (subsequently confirmed by its written opinion dated October 4, 2010) that, as of October 4, 2010, and subject to the assumptions, qualifications and limitations to be set forth in its respective written opinion, $7.00 per share of Henry Bros. common stock in cash to be received by the holders of shares of Henry Bros. common stock was fair, from a financial point of view, to the holders of Henry Bros. common stock in connection with the merger (you are urged to read the written opinion, which is set forth in its entirety in Appendix C to this proxy statement, and the discussion of the opinion under the caption The Merger Opinion of Imperial Capital, LLC). The entire board of directors was present during Imperial Capital s presentation. Following the presentation, Imperial Capital discussed the go shop process. Following the presentation and discussion of the go shop process, the representatives of Imperial Capital were excused from the meeting and the

meeting continued. The board of directors discussed Imperial Capital s opinion as to the fairness, from a financial point of view, of the consideration to the holders of Henry Bros. common stock in connection with the merger. M&S reviewed with Henry Bros. board its fiduciary duties with respect to the approval of the final merger agreement and in connection with a sale process. After a discussion, Henry Bros.

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board of directors unanimously authorized and approved the execution, delivery and performance of the definitive merger agreement and the consummation of the merger contemplated thereby.

On October 5, 2010, the definitive merger agreement was fully executed by authorized officers of Kratos and Henry Bros.

On October 6, 2010, the parties issued separate press releases announcing execution of the definitive merger agreement prior to the opening of trading of The NASDAQ Capital Market.

On October 6, 2010, Imperial Capital commenced soliciting third-party acquisition proposals as part of the 40 day post-signing go shop period as described in The Merger Permitted Solicitation of Acquisition Proposals on page 37. As part of the go shop process conducted to date, Imperial Capital has contacted 116 potential buyers (65 potential strategic buyers and 51 potential financial buyers). As of October 22, 2010, ten such potential buyers (six strategic buyers and four financial buyers) have signed nondisclosure agreements, of which three have participated in individual management presentations with Henry Bros. management team. Imperial Capital s engagement letter with Henry Bros. provides for an incentive fee for any incremental consideration above the current proposed merger consideration of $7.00 per share in connection with any superior proposal (as defined in the Merger Agreement) accepted by Henry Bros. board of directors as a result of the go shop process.

Reasons for the Merger; Recommendation of Henry Bros. Board of Directors

Reasons for the Merger

In the course of reaching its decision to approve the execution, delivery and performance of the definitive merger agreement and the consummation of the merger contemplated thereby, our board of directors consulted with our senior management, outside legal counsel and our financial advisor, and considered the following factors and potential benefits of the merger:

- discussions with our senior management team regarding our business, financial performance and condition, operations, competitive position, business strategy, strategic objectives and options and prospects, as well as risks involved in achieving these objectives and prospects; the nature of our business and the industry in which we compete; and current industry, national and local economic conditions, both on a historical and on a prospective basis, all of which led our board of directors to conclude that the merger presented an opportunity for our stockholders to realize greater value than the value likely to be realized by stockholders in the event we remained independent or pursued other alternatives;

- a review of the possible alternatives to a sale of Henry Bros., which included (i) remaining a stand- alone entity without obtaining financing, (ii) conducting a capital raise, (iii) entering into a transaction to go private or (iv) consummating strategic acquisitions, and an analysis of the strengths and weaknesses of each; the value to our stockholders of such alternatives; the timing and likelihood of actually achieving additional value from these alternatives; the likely universe of third parties who might be interested in entering into a strategic transaction with Henry Bros.; the risks of pursuing such alternatives and our board of directors assessment that none of these alternatives was reasonably likely to result in value for our stockholders greater than the consideration to be received by our stockholders in the merger. In this regard, our board of directors considered the highly competitive system integration space in which Henry Bros. operates, the number of large new entrants in the business aggressively undercutting profit margin, the financial constraints on growing its monitoring business, the growing inability to meet bonding requirements, the number of large contracts that may be difficult to replace and the consolidation in the industry, which the Henry Bros. believed to place Henry Bros. at a disadvantage and hinder its ability to achieve meaningful growth as an independent stand

alone company. While Henry Bros. was profitable in fiscal years 2005 and 2008, it has operated at a net loss for fiscal years 2006, 2007 and 2009;

the risks associated with Henry Bros. remaining a stand-alone company, including the increased competition, the challenges to growth as an independent company, the significant and increasing cost of complying with our obligations as a publicly traded company, our anticipated operating performance and competitive position;

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the current and historical market prices of our common stock, the current and historical market prices of our common stock relative to those of other industry participants and general market indices, the muted reaction of the stock market to the favorable 2010 guidance released on August 11, 2010 and the illiquidity of micro cap stocks in general;

the fact that the $7.00 per share of our common stock in cash to be paid as the consideration in the merger represented a 52.2% premium over the closing price of Henry Bros. common stock as listed on NASDAQ on October 5, 2010, the last trading day before the date the proposed transaction with Kratos was publicly announced, a 68.7% premium over the closing price of Henry Bros. common stock on October 1, 2010, the last trading day prior to delivery of the fairness opinion and the approval of the signing of the definitive agreement; and premiums of 70.3%, 76.3%, 91.8% and 75.0%, respectively, over the Henry Bros. common stock average market price corresponding to the 30-day, 60-day, 90-day and 180-day periods prior to October 1, 2010;

the financial analysis and opinion of Imperial Capital, dated as of, and delivered to Henry Bros. board of directors on, October 4, to the effect that, as of such date, and based upon and subject to the assumptions made, procedures followed, matters considered and limitations on the review undertaken set forth therein, the $7.00 per share of our common stock in cash to be received by the holders of shares of our common stock pursuant to the definitive merger agreement was fair, from a financial point of view, to such holders in connection with the merger. The full text of the written opinion of Imperial Capital, dated October 4, 2010, which sets forth the assumptions made, procedures followed, matters considered and limitations on the review undertaken in connection with the opinion is attached as Appendix C to this proxy statement and is incorporated herein by reference. For a further discussion of Imperial Capital s opinion, see The Merger Opinion of Imperial Capital, LLC beginning on page 25;

the belief by our board of directors that we had obtained the highest price per share that Kratos was willing to pay;

the belief of Henry Bros. board of directors that the merger was more favorable to Henry Bros. stockholders than the potential value that might result from other alternatives available, including continuing to operate in the ordinary course of business and the alternatives available pursuant to other strategic initiatives; and

the fact that the merger consideration is all cash, which provides certainty of value to our stockholders;

the availability of appraisal rights for Henry Bros. stockholders who properly exercise their statutory appraisal rights under Delaware law;

the terms of the definitive merger agreement and related voting agreement, as reviewed by our board of directors with our outside legal advisors, including:

- the structure of the merger;
- the representations and warranties;
- the conditions to our respective obligations;
- the ability of Henry Bros. to seek specific performance against Kratos in the event Kratos breaches the merger agreement;

the terms of the voting agreements with stockholders of Henry Bros., including the fact that such voting agreements terminate upon termination of the merger agreement;

the no solicitation terms of the merger agreement which entitle Henry Bros. to a 40-day post-signing go shop period during which Henry Bros. is permitted to both solicit interest in and receive from third parties expressions of interest in alternative transactions involving Henry Bros. and, after such 40-day period, permit Henry Bros. to continue discussions with persons who submit an acquisition

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proposal during the go-shop period and to respond to unsolicited acquisition proposals which are or are reasonably likely to result in a superior proposal; and

the ability of our board of directors, under specified circumstances, upon the payment to Kratos of a termination fee of $1,788,000, to terminate the definitive merger agreement to accept a superior proposal;

the board of directors ability to modify and change its recommendation of the transaction in certain circumstances if required by its fiduciary obligations to the stockholders; and

the likelihood that the merger would be consummated in light of the conditions to Kratos obligation to complete the merger, Kratos financial capability and the absence of any financing condition to Kratos obligation to complete the merger.

In the course of its deliberations, our board of directors also identified and considered a variety of risks and other countervailing factors, including:

the fact that our stockholders will not participate in any future growth potential of Henry Bros. or any synergies resulting from the merger;

the possibility that the merger might not be completed and the effect of the public announcement and pendency of the merger on our management attention, our ability to retain employees, our relationship with customers and suppliers, and our sales, operating results and stock price and our ability to attract and retain key management and sales, marketing and technical personnel;

the restrictions the definitive merger agreement imposes on soliciting competing bids after the expiration of the go shop period and the fact that we may be obligated to pay Kratos the $1,788,000 termination fee under specified circumstances;

the restrictions on the conduct of Henry Bros. business prior to completion of the merger, requiring Henry Bros. to conduct business only in the ordinary course, subject to specific limitations, which could delay or prevent Henry Bros. from undertaking business opportunities that may arise pending completion of the merger and the length of time between signing and closing when these restrictions are in place;

the fact that gains from a cash transaction would be taxable to our stockholders for United States federal income tax purposes; and

that, while the merger is expected to be completed, there can be no assurance that all conditions to the parties obligations to complete the merger will be satisfied, and as a result, it is possible that the merger may not be completed, even if the definitive merger agreement is adopted by our stockholders. See the section of this proxy statement entitled The Merger Agreement Conditions to the Closing of the Merger beginning on page 39.

Henry Bros. board of directors considered all of these factors as a whole and, on balance, concluded that they supported a favorable determination to enter into the merger agreement. The foregoing discussion of the information and factors considered by the board of directors is not exhaustive. In view of the wide variety of factors considered by the board of directors in connection with its evaluation of the proposed transaction and the complexity of these matters, the board did not consider it practical to, nor did it attempt to, quantify, rank or otherwise assign relative weights to the specific factors that it considered in reaching its decision. The board of directors evaluated the factors described above and reached a consensus that the proposed transaction was advisable to, fair to, and in the best

interests of, Henry Bros. and its stockholders. In considering the factors described above and any other factors, individual members of the board of directors may have viewed factors differently or given different weights or merits to different factors.

Our board of directors, by unanimous vote, has determined that it is advisable and in the best interests of Henry Bros. and our stockholders to consummate the merger and the other transactions contemplated by the merger agreement, and unanimously recommends that stockholders vote FOR the proposal to adopt the merger agreement. When you consider our board of directors

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recommendation, you should be aware that Henry Bros. directors may have interests in the merger that may be different from, or in addition to, your interests. These interests are described in Interests of Henry Bros. Directors and Executive Officers in the Merger.

OPINION OF IMPERIAL CAPITAL, LLC

Henry Bros. retained Imperial Capital to act as financial advisor to Henry Bros. in connection with the merger. On October 4, 2010, Imperial Capital rendered its oral opinion to the board of directors, subsequently confirmed in writing, that, as of such date, and based upon and subject to the assumptions, procedures, factors, qualifications and limitations set forth therein, the $7.00 per share in cash consideration is fair, from a financial point of view, to the holders of Henry Bros. common stock in connection with the merger.

The full text of Imperial Capital s written opinion, dated October 4, 2010, which sets forth the assumptions made, procedures followed, factors considered, and qualifications and limitations on the review undertaken by Imperial Capital in connection with its opinion is attached to this proxy statement as Appendix C. The description of Imperial Capital s opinion set forth in this proxy statement is qualified in its entirety by reference to the full text of Imperial Capital s written opinion attached as Appendix C. We encourage you to read Imperial Capital s opinion and this section carefully and in their entirety.

Imperial Capital s opinion was directed to the board of directors for the information and assistance of the board of directors in connection with its evaluation of the fairness, from a financial point of view, of the $7.00 per share in cash consideration to the holders of Henry Bros. Common Stock in connection with the merger and does not address any other aspect of the merger. **Imperial Capital s opinion does not constitute a recommendation as to any action Henry Bros. or holders of Henry Bros. Common Stock should take in connection with the merger or any aspect thereof. Imperial Capital s opinion does not address the merits of the underlying decision by Henry Bros. to engage in the merger or the relative merits of any alternatives discussed by the board of directors. In addition, Imperial Capital expresses no opinion as to the fairness of the amount or nature of any compensation to be received by any officers, directors or employees of any parties to the Transaction or any class of such persons.**

In arriving at its opinion, Imperial Capital made such reviews, analyses, and inquiries as it deemed necessary and appropriate under the circumstances. Imperial Capital, among other things:

- analyzed certain publicly available information of Henry Bros. that Imperial Capital believed to be relevant to its analysis, including Henry Bros. annual report on Form 10-K for the fiscal year ended December 31, 2009 and quarterly reports on Form 10-Q for the quarters ended March 31, 2010 and June 30, 2010;

- reviewed certain internal financial forecasts and budgets for Henry Bros. prepared and provided by Henry Bros. management;

- met with and held discussions with certain members of Henry Bros. management to discuss Henry Bros. operations and future prospects;

- reviewed public information with respect to certain other public companies with business lines and financial profiles which Imperial Capital deemed to be relevant;

- reviewed the implied financial multiples and premiums paid in merger and acquisition transactions which Imperial Capital deemed to be relevant;

reviewed current and historical market prices of Henry Bros. Common Stock, as well as the trading volume and public float of Henry Bros. Common Stock;

reviewed the Merger Agreement, including material schedules and exhibits, and related agreements; and

conducted such other financial studies, analyses and investigations and took into account such other matters as Imperial Capital deemed necessary, including Imperial Capital s assessment of general economic and monetary conditions.

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In giving its opinion, Imperial Capital relied upon the accuracy and completeness of the foregoing financial and other information and did not assume responsibility for independent verification of such information and did not conduct nor were furnished with any current independent valuation or appraisal of any assets of Henry Bros. or any appraisal or estimate of liabilities of Henry Bros. With respect to the financial forecasts, Imperial Capital assumed, with Henry Bros. consent, that they were reasonably prepared on bases reflecting the best currently available estimates and judgments of management of Henry Bros. as to the future financial performance of Henry Bros. Imperial Capital also relied upon the assurances of management of Henry Bros. that it was unaware of any facts that would make the information or financial forecasts provided to Imperial Capital incomplete or misleading. Imperial Capital assumed no responsibility for, and expressed no view as to, such financial forecasts or the assumptions on which they were based.

Imperial Capital s opinion was based upon financial, economic, market and other conditions as they existed and could be evaluated on the date of Imperial Capital s opinion and does not address the fairness of $7.00 per share cash consideration as of any other date. These conditions have been and remain subject to volatility and uncertainty, and Imperial Capital expressed no view as to the impact of such volatility and uncertainty after the date of its opinion on Henry Bros. or the contemplated benefits of the merger. In rendering Imperial Capital s opinion, Imperial Capital assumed, with Henry Bros. consent that (i) the final executed form of the Merger Agreement would not differ in any material respect from the draft that Imperial Capital examined, (ii) the parties to the Merger Agreement would comply with all the material terms of the Merger Agreement, and (iii) the merger would be consummated in accordance with the terms of the Merger Agreement without any adverse waiver or amendment of any material term or condition thereof. Imperial Capital also assumed that all governmental, regulatory or other consents and approvals necessary for the consummation of the merger would be obtained without any material adverse effect on Henry Bros. or the merger.

Summary of Financial Analyses

The following is a brief summary of the material financial analyses performed by Imperial Capital and reviewed with the board of directors of Henry Bros. on October 4, 2010 in connection with Imperial Capital s opinion. The financial analyses summarized below include information presented in tabular format. In order to fully understand Imperial Capital s financial analyses, the tables must be read together with the text of each summary. The tables alone do not constitute a complete description of the financial analyses. Considering the data below without considering the full narrative description of the financial analyses, including the methodologies and assumptions underlying the analyses, could create a misleading or incomplete view of Imperial Capital s financial analyses.

Selected Transactions Analysis

Imperial Capital reviewed and compared selected financial information for the merger with corresponding financial information for the following transactions involving the acquisition of companies Imperial Capital believes possess similar characteristics, including lines of business and financial profiles, to Henry Bros., which were announced since April 2008 and which Imperial Capital believes are comparable to the merger.

Date Announced	Target	Acquirer
August 2010	Reveal Imaging Technologies, Inc.	SAIC, Inc.
August 2010	Bower Security, Inc. and Shield Security, Inc.	Universal Protection Service, Inc.
July 2010	Infrared Engineering and Consultants Limited	China Star Film Group Limited
July 2010	Alphatronics BV	TKH Group NV
May 2010	EnviroTek, Inc.	Suffer

May 2010	Pieper GmbH	Moog Inc.
April 2010	Clifford & Snell Limited	R. Stahl AG

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Date Announced	Target	Acquirer
April 2010	Protection One, Inc.	GTCR Golder Rauner, LLC
April 2010	Communication Technology Centre BV	Halin BV
March 2010	RockWest Technology Group LLC	SCM Microsystems Inc.
March 2010	ADT France SA	Stanley Black & Decker, Inc.
November 2009	Adesta, LLC and Adesta, LP	G4S Technology North America
November 2009	Pinnacle Integrated Systems, Inc.	Comcam International Inc.
July 2009	Zhejiang Loyal Co., Ltd.	China Security & Surveillance Technology, Inc.
December 2008	Watch24 Security Services Pty Ltd.	Signature Security Group Pty Ltd.
November 2008	Colledge Trundle & Hall Limited	Balfour Beatty WorkPlace Limited
October 2008	Access Systems Integration, LLC	Michael Stapleton Associates, Ltd.
September 2008	JSC Videofon MV	Open joint stock company MegaFon
August 2008	Hafslund Sikkerhet AS	Securitas Direct AS
July 2008	SYSDAT GmbH	Cancom IT Systeme AG
July 2008	MAC Systems, Inc.	Siemens Building Technologies
July 2008	Utilitec B.V.	GSH Group plc
July 2008	HFP Corporation	Integrated Products and Services, Inc.
June 2008	Sonitrol Corporation	Stanley Works
June 2008	Winner Security Services, LLC	Tyco International
June 2008	Touchcom, Inc.	G4S plc
May 2008	Pinnacle Security LLC	Golden Gate Capital
May 2008	S3 Integration, LLC	ICx Technologies, Inc.

In its review of the selected transactions, Imperial Capital considered, among other things, the consideration paid in the selected transactions as a multiple of revenue for the latest twelve-month period and EBITDA for the latest twelve-month period. Financial data for the selected transactions were based on the most recent available filings with the SEC and on the Institutional Brokers Estimate System s estimates. Financial data for Henry Bros. was based on the most recent available filings with the SEC and on information provided by Henry Bros. management. This analysis indicated the following implied equity value per share ranges of Henry Bros. based on the selected transaction multiples applied to Henry Bros. (a) revenue for the latest twelve-month period ended June 30, 2010 and (b) EBITDA for the latest twelve-month period ended June 30, 2010.

Implied Equity Value per Share	Low	Mid[1]	High
Latest Twelve-Month Period Ended June 30, 2010 Revenue	$ 6.50	$ 6.87	$ 7.24
Latest Twelve-Month Period Ended June 30, 2010 EBITDA	$ 1.67	$ 1.82	$ 1.96

Selected Company Analysis

Imperial Capital reviewed and compared selected financial information for Henry Bros. with corresponding financial information for the following companies Imperial Capital believes possess similar characteristics, including lines of business and financial profiles, to Henry Bros.

Systems Integrators[2]

Diebold, Incorporated

[1] The mid-point of the range is based on the mean multiple of the selected transactions.
[2] Valuations for Systems Integrators were discounted by 20% to reflect order of magnitude size differences between such selected companies and Henry Bros.

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Niscayah Group OB

Diversified Contractors

EMCOR Group Inc.

Black Box Corp.

Layne Christensen Co.

Orion Marine Group, Inc.

XETA Technologies, Inc.

Pro-Tech Industries, Inc.

In its review of the selected companies, Imperial Capital considered, among other things, (i) market capitalization (computed using closing stock prices as of October 1, 2010), (ii) enterprise values, (iii) enterprise values as a multiple of revenue for the latest reported twelve-month period, estimated revenue for the 2010 calendar year and estimated revenue for the 2011 calendar year, and (iv) enterprise values as a multiple of EBITDA for the latest reported twelve-month period, estimated EBITDA for the 2010 calendar year and estimated EBITDA for the 2011 calendar year. Financial data for the selected companies were based on the most recent available filings with the SEC and on the Institutional Brokers Estimate System s estimates. Financial data for Henry Bros. was based on the most recent available filings with the SEC and on forecasts provided by Henry Bros. management. This analysis indicated the following implied equity value per share ranges of Henry Bros. based on the selected company trading multiples applied to Henry Bros. (a) revenue for the latest twelve-month period ended June 30, 2010, (b) EBITDA for the latest twelve-month period ended June 30, 2010 and (c) estimated EBITDA for the 2010 fiscal year:

Implied Equity Value per Share	**Low**	**Mid[3]**	**High**
Latest Twelve-Month Period Ended June 30, 2010 Revenue	$ 3.85	$ 4.25	$ 4.65
Latest Twelve-Month Period Ended June 30, 2010 EBITDA	$ 1.21	$ 1.36	$ 1.50
2010 Estimated EBITDA	$ 4.84	$ 5.40	$ 5.95

Discounted Cash Flow Analysis

Imperial Capital performed a discounted cash flow analysis of Henry Bros. as a stand-alone entity using forecasts for the period ranging from the final six months of fiscal year 2010 through the end of fiscal year 2015 (the ***forecast period***) provided by Henry Bros. management accounting for estimated taxes, depreciation and amortization, capital expenditures and changes in working capital, and using an assumed valuation date of June 30, 2010, and a company estimated effective tax rate of 49.3%. Imperial Capital calculated the implied present values of free cash flows for Henry Bros. for the forecast period using discount rates (based on the calculation of weighted average cost of capital of Henry Bros.) ranging from 23.0% to 27.0% (with an emphasis on 24.0% to 26.0%). Imperial Capital calculated the terminal values for Henry Bros. based on multiples of 5.7x to 6.7x (derived from calculating enterprise value as a multiple of latest twelve-month period EBITDA in the selected company analysis), with an emphasis on 6.0x to 6.5x, applied to 2015 EBITDA. The estimated terminal values were then discounted to implied present values using discount rates ranging from 23.0% to 27.0% (with an emphasis on 24.0% to 26.0%). This analysis resulted in a range of implied equity values per share of Henry Bros. Common Stock of approximately $5.45 to $7.00 (with an emphasis

on $5.81 to $6.58).

Leveraged Buyout Analysis

Imperial Capital performed a leveraged buyout analysis of Henry Bros. as a stand-alone entity using forecasts for the period ranging from the final six months of fiscal year 2010 through the end of fiscal year 2015 provided by Henry Bros. management, an assumed valuation date of June 30, 2010, and a company estimated

[3] The mid-point of the range is based on the mean multiple (excluding the high and low) of the selected companies.

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effective tax rate of 49.3%. The estimated implied enterprise values were calculated using target equity returns ranging from 22.5% to 27.5%, which is the expected range of rates of return that Imperial Capital believed a potential private equity investor would target. Imperial Capital calculated the returns on equity using an exit multiple of 6.2 (derived from the mean (excluding the high and low) of multiples derived from calculating enterprise value as a multiple of latest twelve-month period EBITDA in the selected company analysis) applied to 2015 EBITDA and a debt multiple based on available leverage of 3.0x EBITDA. This analysis resulted in a range of implied equity values per share of Henry Bros. Common Stock of approximately $5.61 to $6.67.

Premiums Paid Analysis

Imperial Capital reviewed and compared the premium to be paid to holders of Henry Bros. Common Stock with respect to the $7.00 per share cash consideration with corresponding control premiums that were paid in all U.S. public acquisitions announced in the last two years with an enterprise value of less than $200 million. Imperial Capital noted an average premium of 52.7% for all deals reviewed in the control premium study and an average premium of 65.5% for those deals in the control premium study with a premium between 0% and 200%. Imperial Capital noted that the premiums implied by the merger were (i) 68.7% over the October 1, 2010 Henry Bros. Common Stock market price, (ii) 70.3%, 76.3%, 91.8% and 75.0%, respectively, over the Henry Bros. Common Stock average market price corresponding to the 30-day, 60-day, 90-day and 180-day periods prior to October 1, 2010, and (iii) 71.6%, 76.3%, 91.3% and 75.0%, respectively, over the Henry Bros. Common Stock volume weighted average price corresponding to the 30-day, 60-day, 90-day and 180-day periods prior to October 1, 2010.

Overview of Analyses; Other Considerations

The summaries set forth above do not purport to be a complete description of all the analyses performed by Imperial Capital in arriving at its opinion. The preparation of a fairness opinion involves various determinations as to the most appropriate and relevant methods of financial analysis and the application of these methods to the particular circumstances and, therefore, such an opinion is not readily susceptible to partial analysis or summary description. Imperial Capital did not attribute any particular weight to any analysis or factor considered by it, but rather made qualitative judgments as to the significance and relevance of each analysis and factor. Accordingly, Imperial Capital believes, and advised the board of directors, that its analyses must be considered as a whole and that selecting portions of its analyses and the factors considered by it, without considering all analyses and factors, could create an incomplete view of the process underlying Imperial Capital s opinion. In performing its analyses, Imperial Capital made numerous assumptions with respect to industry performance, business and economic conditions and other matters, many of which are beyond the control of Henry Bros. The analyses performed by Imperial Capital are not necessarily indicative of actual values or future results, which may be significantly more or less favorable than suggested by such analyses. In addition, analyses relating to the value of businesses do not purport to be appraisals or to reflect the prices at which businesses or securities may actually be sold. Accordingly, such analyses and estimates are inherently subject to uncertainty, being based upon numerous factors or events beyond the control of the parties or their respective advisors. None of Henry Bros., Imperial Capital or any other person assumes responsibility if future results are materially different from those projected. The analyses supplied by Imperial Capital and its opinion were among several factors taken into consideration by the board of directors in making its decision to authorize Henry Bros. to enter into the Merger Agreement and should not be considered as determinative of such decision.

Miscellaneous

Pursuant to a letter agreement dated August 25, 2010, Henry Bros. engaged Imperial Capital to act as its financial advisor in connection with the merger. Under the terms of Imperial Capital s engagement, Henry Bros. has agreed to pay Imperial Capital for its financial advisory services in connection with the merger an aggregate fee of $1,200,000, a portion of which was payable in connection with Imperial Capital s opinion and a significant portion of which is

contingent upon consummation of the merger. Imperial Capital s engagement letter with Henry Bros. also provides for an incentive fee for any incremental consideration above the current

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proposed merger consideration of $7.00 per share in connection with any superior proposal (as defined in the Merger Agreement) accepted by Henry Bros. board of directors. In addition, Henry Bros. agreed to pay all fees, disbursements and out-of-pocket expenses incurred in connection with services to be rendered and to indemnify Imperial Capital and related parties against any liabilities arising out of or in connection with advice or services rendered or to be rendered pursuant to the engagement letter agreement. No portion of Imperial Capital s fee for the delivery of its opinion is contingent upon the consummation of the merger.

Henry Bros. selected Imperial Capital as its financial advisor based on its experience with merger transactions and familiarity with Henry Bros. Imperial Capital is a full-service investment banking firm offering a wide range of advisory, finance and trading services. In the past, Imperial Capital has provided investment banking services to Kratos unrelated to the merger, for which Imperial Capital has received compensation, including having acted as co-manager to Kratos in connection with Kratos May 2010 high yield notes offering and as financial advisor to Kratos in connection with Kratos acquisition of Digital Fusion, Inc. in December 2008. Imperial Capital also acted as advisor to SYS in connection with its sale to Kratos in July 2008. In the ordinary course of its business, Imperial Capital and its affiliates may actively trade the debt and equity securities of Henry Bros. and/or Kratos for Imperial Capital s own account and for the accounts of Imperial Capital s customers and, accordingly, may at any time hold a long or short position in such securities.

CERTAIN FINANCIAL PROJECTIONS

We do not as a matter of course prepare or make public long-term projections as to future revenues, earnings or other results due to, among other reasons, the uncertainty of the underlying assumptions and estimates. However, our management developed and provided to Imperial Capital in connection with its fairness opinion projections for Henry Bros. final six months of fiscal year 2010 and fiscal years 2011 through 2015. These financial projections were also provided to, and were considered by, our board of directors prior to our board s approval of the merger agreement. As described in the Background of the Merger section of this proxy statement, prior to the preparation of these financial projections, we provided to Kratos for due diligence purposes, certain financial projections.

None of Henry Bros., Kratos or their respective affiliates assumes any responsibility for the accuracy of the financial projections. The financial projections set forth below are included in this proxy statement solely because this information was provided to Imperial Capital and our board of directors, and not to influence your decision as to whether to vote for the proposal to adopt the merger agreement. The inclusion of the financial projections in this proxy statement should not be regarded as an indication that we, our board of directors, Imperial Capital, Kratos or any other recipient of the financial projections considered, or now considers, them to be material or to be reliable predictions of future results, and they should not be relied upon as such.

At the time the financial projections set forth below were prepared, the projections represented the best estimates and judgments of our management concerning the future financial performance of Henry Bros. While the financial projections were prepared in good faith, they are forward-looking statements that are subjective in many respects, and reflect numerous judgments, estimates and assumptions that are inherently uncertain, many of which are beyond our control, including estimates and assumptions regarding general economic conditions and the impact of such factors on our business. Important factors that may affect actual results and cause the financial projections not to be accurate include, but are not limited to, risks and uncertainties relating to our business (including our ability to achieve strategic goals, objectives and targets over the applicable periods), industry performance, general business and economic conditions, competition and other factors described under the captions Risk Factors and Forward-Looking Statements in our most recent annual and quarterly reports filed with the SEC on Forms 10-K and 10-Q, respectively, and the Cautionary Statement Concerning Forward-Looking Information section of this proxy statement. In addition, the financial projections do not reflect any events that could affect our prospects, including changes in general business or economic conditions, or any other transaction or event that has occurred since, or that may occur and that

was not anticipated at, the time the financial projections were prepared. The financial projections also cover multiple years and by their nature become subject to greater uncertainty with each successive year.

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There can be no assurance that the financial projections are or will be accurate or that our future financial results will not vary, even materially, from the financial projections. None of Henry Bros., Kratos or their respective affiliates, representatives or agents undertakes any obligation to update or otherwise to revise the financial projections to reflect circumstances existing or arising after the date such financial projections were generated or to reflect the occurrence of future events, even if any or all of the underlying estimates and assumptions are shown to be in error or to have changed.

	Henry Bros. Projections					
	6 Mo. 2010E	**2011E**	**2012E**	**2013E**	**2014E**	**2015E**
	($ in millions)					
Net Revenue	$ 51.7	$ 113.6	$ 87.4	$ 91.8	$ 99.2	$ 107.1
*Growth %**(1)***	*NA*	*43.9%*	*(23.0)%*	*5.0%*	*8.0%*	*8.0%*
Adjusted EBITDA***(2)***	$ 6.1	$ 14.1	$ 11.1	$ 12.4	$ 13.4	$ 14.5
Margin %	*11.9%*	*12.4%*	*12.7%*	*13.6%*	*13.6%*	*13.6%*
Adjusted EBIT***(3)***	$ 5.4	$ 12.4	$ 10.0	$ 11.3	$ 12.2	$ 13.2
Margin %	*10.4%*	*10.9%*	*11.5%*	*12.3%*	*12.3%*	*12.3%*
Unlevered Free Cash Flow***(4)***	$ (8.2)	$ 10.1	$ 9.8	$ 5.3	$ 5.4	$ 5.9

(1) Expressed as a percentage change over the prior year.

(2) Adjusted EBITDA reflects earnings before interest expense, taxes, depreciation and amortization, as adjusted to account for stock-based compensation.

(3) Adjusted EBIT reflects earnings before interest expense and taxes, as adjusted to account for stock-based compensation.

(4) Unlevered Free Cash Flow was calculated by using Adjusted EBIT and taking into account an estimated effective tax rate of 49.3%, and our management s estimates for depreciation and amortization, capital expenditures and changes in working capital.

Adjusted EBITDA and Adjusted EBIT are non-GAAP measures. We believe these non-GAAP financial measures are useful in evaluating operating performance and are regularly used by security analysts, institutional investors and other interested parties in reviewing our company. Non-GAAP financial measures are not intended to be a substitute for any GAAP financial measure and, as calculated, may not be comparable to other similarly titled measures of the performance of other companies.

There can be no assurance that any financial projections will be, or are likely to be, realized, or that the assumptions on which they are based will prove to be, or are likely to be, correct. None of Henry Bros., Kratos or their respective affiliates, advisors, officers, directors or representatives has made or makes any representation to any stockholders or any other person regarding the ultimate performance of Henry Bros. compared to the financial projections set forth above. Henry Bros. has not made any representation to Kratos, in the merger agreement or otherwise, concerning the financial projections. You are cautioned not to place undue reliance on this information in making a decision as to whether to vote for the proposal to adopt the merger agreement.

PROPOSAL NO. 1

ADOPTION OF THE MERGER AGREEMENT

The Merger Agreement

The following summary of the material terms of the merger agreement is qualified in its entirety by reference to the complete text of the merger agreement, which is incorporated by reference herein and attached hereto as Appendix A. Our stockholders are urged to read the full text of the merger agreement in its entirety.

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The Merger

Under the terms of the merger agreement, Hammer Acquisition Inc., a wholly owned subsidiary of Kratos, will be merged with and into Henry Bros., with Henry Bros. continuing as the surviving corporation. As a result of the merger, Henry Bros. will become a wholly owned subsidiary of Kratos.

Effective Time

Unless the parties agree otherwise, the closing of the merger shall occur within five days after the satisfaction or waiver of the last to be satisfied or waived of the closing conditions set forth in the merger agreement (other than those conditions that by their nature are to be satisfied at the closing, but subject to the satisfaction or waiver of such conditions). The merger shall become effective upon the filing of a certificate of merger with the Delaware Secretary of State unless we and Kratos agree to and specify a subsequent date or time in the certificate of merger. We are working with Kratos to complete the merger as soon as practicable and are targeting completion of the merger during the fourth quarter of 2010.

Merger Consideration

At the effective time of the merger, each outstanding share of our common stock, other than treasury shares, shares held by any of our wholly owned subsidiaries and those shares held by stockholders who perfected their appraisal rights will be canceled and automatically converted into the right to receive $7.00 in cash, without interest and less any applicable withholding tax, as adjusted to reflect fully the effect of any stock split, stock dividend, reverse stock split, reclassification, recapitalization or other similar transaction with respect to our common stock occurring after October 5, 2010 but prior to the effective time of the merger. Treasury shares and shares held by any of our wholly owned subsidiaries will be automatically canceled and cease to exist immediately prior to the effective time of the merger and no consideration shall be paid for such shares.

Exchange of Certificates and Payment Procedures

Kratos will designate a bank or trust company reasonably acceptable to us to act as exchange agent in the merger. As soon as reasonably practicable after the effective time of the merger, the exchange agent will mail to each holder of record of a certificate or certificates representing shares of our common stock a letter of transmittal and instructions for use in effecting the surrender of the certificates in exchange for the merger consideration. These instructions will also explain what to do in the event that a certificate has been lost, stolen or destroyed. Until surrendered, each certificate shall be deemed to represent only the right to receive upon surrender the merger consideration, without interest, into which the shares of our common stock previously represented by such certificate have been converted. No interest will be paid or will accrue on the cash payable upon the surrender of any certificate.

Kratos, the surviving corporation and the exchange agent will be entitled to deduct and withhold from any merger consideration payable to any holder of our common stock any amounts as may be required to be to be deducted or withheld therefrom. Any sum that is so deducted or withheld will be deemed to have been paid to the person with regard to whom it is withheld or deducted.

You should not return your stock certificates with the enclosed proxy card, and you should not forward your stock certificates to the payment agent without a letter of transmittal.

From and after the effective time, there will be no transfers on our stock transfer books of shares of our common stock that were outstanding immediately prior to the effective time. If, after the effective time, any person presents to the surviving corporation, Kratos or the exchange agent any certificates or any transfer instructions relating to shares cancelled in the merger, such person will be given a copy of the letter of transmittal and told to comply with the instructions in that letter of transmittal in order to receive the cash to which such person is entitled.

Any portion of the per-share merger consideration deposited with the exchange agent that remains unclaimed by former record holders of common stock for 12 months after the effective time will be delivered

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to the surviving corporation. Holders of common stock who have not surrendered their certificates or uncertificated shares by that time will thereafter only look to the surviving corporation for payment of the per-share merger consideration. None of the surviving corporation, Kratos, the exchange agent or any other person will be liable to any former holders of common stock for any amount properly paid to a public official pursuant to any applicable abandoned property, escheat or similar laws.

If you have lost a certificate, or if it has been stolen or destroyed, then before you will be entitled to receive the per-share merger consideration, you will have to make an affidavit of the loss, theft or destruction, and if required by Kratos, post a bond in a reasonable amount as indemnity against any claim that may be made against it, the exchange agent or the surviving corporation with respect to such certificate. These procedures will be described in the letter of transmittal that you will receive, which you should read carefully in its entirety.

Appraisal Rights

Shares of our common stock issued and outstanding immediately prior to the effective time of the merger that are held by any holder who

- has not voted such shares in favor of adoption of the merger agreement and approval of the merger at the annual meeting,
- is entitled to demand and properly exercises and perfects appraisal rights of such shares pursuant to Section 262 of the DGCL and complies in all respects with the provisions of such laws, and
- has not failed to perfect or otherwise effectively waived, withdrawn or lost the right to demand relief as a dissenting stockholder under the DGCL as of the effective time of the merger,

shall not be converted into the right to receive the merger consideration. Instead such holder shall only be entitled to payment of the fair value of such shares in accordance with the provisions of Section 262 of the DGCL. At the effective time of the merger, all such shares shall automatically be cancelled and shall cease to exist or be outstanding, and each holder shall cease to have any rights with respect to the shares, except for rights granted under Section 262 of the DGCL. In the event a holder fails to perfect or otherwise waives, withdraws or loses the right to appraisal under Section 262 of the DGCL, or a court of competent jurisdiction determines that such holder is not entitled to the relief provided by Section 262 of the DGCL, then the rights of such holder under Section 262 of the DGCL shall cease to exist and such holder s shares shall be deemed to have been converted at the effective time of the merger into the right to receive the merger consideration described above. We are required to give prompt notice to Kratos of any written demands for appraisal received by us, and Kratos has the right to direct, in compliance with applicable law, all negotiations and proceedings with respect to such demands. We may not, without Kratos prior written consent, voluntarily make any payment with respect to demands for appraisal, settle or offer to settle any such demands, waive any failure to timely deliver a written demand for appraisal or agree to take any of the foregoing actions.

These rights in general are discussed more fully under the section entitled Appraisal Rights. on page 72.

Representations and Warranties

We made a number of representations and warranties to Kratos and Merger Sub relating to, among other things:

- corporate organization and similar corporate matters;

our subsidiaries;

the authorization, execution, delivery and performance of the merger agreement and related matters with respect to us;

the vote required from our stockholders to adopt the merger agreement and approve the merger;

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the absence of any conflicts, violations, breaches, termination rights, defaults or acceleration of any obligations, as applicable, under our constituent documents, resolutions adopted by our board of directors and stockholders, applicable legal requirements, our governmental authorizations and our contracts, with respect to applicable legal requirements, governmental authorizations and our contracts, that would materially prevent or delay consummation of the merger or otherwise prevent us from performing our obligations under the merger agreement in any material respect or that would reasonably be expected to have a material adverse effect on us;

the consents, filings and notices required for us to execute, deliver and perform our obligations under the merger agreement and complete the merger, where failure to obtain such consents or to make such filings or notifications would materially prevent or delay consummation of the merger or otherwise prevent us from performing our obligations under the merger agreement in any material respect or would reasonably be expected to have a material adverse effect on us;

our capital structure;

documents we have filed with the Securities and Exchange Commission, the accuracy of certain specified financial statements filed since January 1, 2008 and other information contained in documents we filed with the SEC since January 1, 2008, and our compliance with the Sarbanes-Oxley Act of 2002 and other matters with respect to our internal controls and disclosure controls and procedures;

our existing accounts receivable and customers;

title to our material properties and tangible assets and rights to leasehold interests;

our intellectual property;

the absence of any undisclosed liabilities;

tax matters;

employment, labor and employee benefit matters;

our compliance with applicable laws;

environmental matters;

the absence of undisclosed pending legal proceedings;

the absence of certain undisclosed changes or events since June 30, 2010, including changes or events that have had a material adverse effect (as defined in the merger agreement) on us;

our material contracts and the absence of conflicts, breaches or defaults arising thereunder;

the compliance of each product sold or licensed by us with all applicable warranties and legal requirements at the time it was sold, except for any noncompliance that would not reasonably be expected to have a material adverse effect on such product (or the operation or performance thereof);

our satisfaction of state takeover statutes applicable to us and any provisions in our constituent documents or contracts relating to takeover or containing similar restrictions relating to the merger;

the opinion of our financial advisor;

brokers and other fees payable by us related to the merger;

the acquisition of and compliance with all governmental authorizations which are required for us or our subsidiaries to conduct our business in the manner in which such business is currently being conducted and as proposed to be conducted; and

the accuracy of information supplied by us in connection with this proxy statement.

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Kratos and Merger Sub made a number of representations and warranties in the merger agreement relating to, among other things:

- their corporate organization and similar corporate matters;
- the authorization, execution, delivery, performance and enforceability of the merger agreement and related matters with respect to Kratos and Merger Sub;
- the absence of any conflicts, violations, breaches, termination rights, defaults or acceleration of any obligations, as applicable, under Kratos or any of its subsidiaries constituent documents, resolutions adopted by their respective board of directors and stockholders, applicable legal requirements, their respective governmental authorizations and their respective contracts, except for violations and defaults that would not have a material adverse effect on Kratos or Merger Sub s ability to consummate the merger;
- the consents, filings and notices required for Kratos to execute, deliver and perform the merger agreement and complete the merger, where failure to obtain such consents or to make such filings or notifications would materially prevent or delay consummation of the merger or otherwise prevent Kratos from performing its obligations under the merger agreement in any material respect or would reasonably be expected to have a material adverse effect on Kratos and its subsidiaries;
- the accuracy and timeliness of the documents Kratos has filed with the SEC since January 1, 2008, the accuracy of certain specified financial statements filed since January 1, 2008 and its compliance with the Sarbanes-Oxley Act of 2002;
- the absence of undisclosed pending legal proceedings that challenge, or may have the effect of preventing, delaying, making illegal, or otherwise interfering with, the merger;
- the completeness and accuracy of the information Kratos and Merger Sub have supplied for inclusion or incorporation into this proxy statement;
- the sufficiency of Kratos resources to pay the merger consideration; and
- Merger Sub s lack of prior operating activity.

Covenants Relating to the Conduct of Business

Under the terms of the merger agreement and until the effective time of the merger, we agreed that we will:

- conduct our business and operations (a) in the ordinary course and in accordance with past practices, and (b) in compliance with all applicable legal requirements and the requirements of our material contracts;
- use commercially reasonable efforts to preserve intact our current business organization, keep available the services of our current officers and employees and maintain our relations and goodwill with all suppliers, customers, landlords, creditors, licensors, licensees, employees and other persons with whom we have business relationships;
- use commercially reasonable efforts to keep in full force all insurance policies in effect as of the date of the merger agreement; and

to the extent reasonably requested by Kratos, cause our officers to confer regularly with Kratos concerning the status of our business.

We also agreed that from the date of the merger agreement until the effective time, we will not, among other things:

declare, set aside or pay any dividend or make any other distribution in respect of any shares of our capital stock or other equity or voting interests, except for dividends by a direct or indirect wholly owned subsidiary of ours;

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split, combine, or reclassify any of our capital stock or other equity or voting interests, or issue or authorize the issuance of any other securities in respect of, in lieu of or in substitution for shares of our capital stock or other equity or voting interests;

repurchase, redeem or otherwise reacquire any shares of our capital stock or other securities, except pursuant to forfeiture conditions associated with restricted stock;

take any action that would result in a change of any term of any of our debt securities;

issue, deliver, sell, pledge or otherwise encumber any shares of our capital stock, any other equity or voting interests, any securities convertible into, or exchangeable for, any such shares, interests or securities or any rights (except that we can issue shares of our common stock upon the valid exercise of options outstanding as of the date of the merger agreement);

amend or propose to amend our charter documents, or effect or become a party to any merger, consolidation, share exchange, business combination, recapitalization, or similar transaction;

acquire any business or person or division thereof;

acquire any material assets or a license therefor, other than in the ordinary course of business consistent with past practice;

incur any capital expenditures, or any obligations or liabilities in connection therewith, except pursuant to existing contracts as of the date of the merger agreement or that, in the aggregate, would not exceed $75,000 during any fiscal quarter;

enter into any lease or sublease of real property or change, terminate or fail to exercise any right to renew any lease or sublease of real property;

sell, license, mortgage or otherwise encumber, subject to any encumbrance or otherwise dispose of any of our material properties or assets, other than the sale of inventory and the granting of licenses in the ordinary course of business consistent with past practices;

incur any indebtedness or guarantee the indebtedness of another person, except that we are permitted to comply with contract bonding requirements in the ordinary course of business consistent with past practices;

make any loans, advances or capital contributions to, or investments in, any person other than us or any of our direct or indirect wholly owned subsidiaries and other than customary travel advances to employees;

subject to certain exceptions, pay, discharge, settle or satisfy any material claims, liabilities or obligations;

waive, release, grant or transfer any right of material value under a material contract other than in the ordinary course of business consistent with past practices;

commence any legal proceeding;

enter into certain contracts;

change or terminate any existing contract, or waive, release or assign any rights or claims thereunder, in each case, in a manner materially adverse to us;

except as required by law, adopt or enter into any collective bargaining agreement or other labor union contract applicable to our employees or the employees of our subsidiaries or cause more than 20 employment losses (as defined in the merger agreement) to occur at any single site of employment;

hire any new employee at the level of manager or above or with an annual base salary in excess of $100,000, promote any employee except to fill a position vacated after the date of the merger agreement or engage any independent contractor whose engagement may not be terminated by us on 30 days notice or less;

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increase the compensation or benefits of, or pay any bonus to, any employee, officer, director or independent contractor, except for increases in base salary in the ordinary course of business consistent with past practices that were communicated to the employee, officer, director or independent contractor prior to the date of the merger agreement;

pay any employee, officer, director or independent contractor any benefit not provided for under a contract or employee benefit plan in effect on the date of the merger agreement, grant any new awards under any employee benefit plan or, subject to certain exceptions, adopt, enter into or amend any employee benefit plan or otherwise take certain actions with respect to employee benefit plans;

fail to accrue a reserve in our books and records and financial statements in accordance with past practices for all taxes payable by us or any of our subsidiaries, settle or compromise any legal proceeding relating to any material tax or make or revoke any material tax election;

change our fiscal year, revalue any of our material assets or make any changes in financial or tax accounting methods, principles or practices, in each case, except as required by GAAP or applicable law;

take any action (or omit to take any action) if such action (or omission) is reasonably likely to result in any of our representations and warranties set forth in the merger agreement that are qualified as to materiality becoming untrue (as so qualified) or any of our representations and warranties that are not so qualified becoming untrue in any material respect;

engage in any practices that would have the effect of accelerating the reporting of sales or the collection of receivables to an earlier fiscal quarter or delaying the recognition of expenses to a later fiscal quarter, in each case, otherwise than would be expected based on past practices;

change any of our pricing policies, product return policies, product maintenance policies, service policies, product modification or upgrade policies, personnel policies or other business policies in any material respect;

permit, or take any action or fail to take any action that could result in or increase the likelihood of (a) any transfer or disclosure by us of any of our source code or (b) a release from escrow of any of our source code that has been deposited or is required to be deposited in escrow under the terms of the relevant contract; or

authorize any of, or commit, resolve, or agree to take any of, the actions described in the foregoing bullet points.

Prior to the effective time of the merger, we have also agreed to promptly notify Kratos in writing of any material legal proceeding pending against us related to a tax matter.

Permitted Solicitation of Acquisition Proposals

During the period beginning on the date of the merger agreement, and continuing until 11:59 p.m. on November 14, 2010, the No-Shop Period Start Date, we may solicit acquisition proposals (as defined in the merger agreement) from third parties, provide non-public information to any person pursuant to a confidentiality agreement on terms with respect to confidentiality not more favorable to such person than those contained in our confidentiality agreement with Kratos, and participate in discussions and negotiate with third parties with respect to acquisition proposals. To the extent that we provide a third party with nonpublic information that was not previously made available to Kratos or Merger Sub, we must promptly (and in any event within 24 hours) make such information available to Kratos and

Merger Sub.

Starting on the No-Shop Period Start Date, we have agreed that we will not, nor will we permit any of our subsidiaries, or any of our respective officers, directors, employees, agents, attorneys, accountants, advisors or other representatives, to directly or indirectly:

> solicit, initiate, or knowingly encourage, induce or facilitate the making, submission or announcement of any acquisition proposal or take any action that would reasonably be expected to lead to any such inquiries or the making of any such proposal or offer;

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furnish any information regarding us to any person in connection with or in response to an acquisition proposal or an inquiry or indication of interest that could reasonably be expected to lead to an acquisition proposal;

engage in discussions or negotiations with any person with respect to any acquisition proposal;

approve, endorse or recommend any acquisition proposal; or

enter into any letter of intent or similar document or any contract having a primary purpose of effectuating, or which would effect, any acquisition proposal.

The merger agreement provides, however, that we may furnish non-public information and participate in discussions (on the terms set forth above) with respect to an acquisition proposal if such actions represent the continuation of discussions related to an acquisition proposal that was submitted to us during the period between the date of the merger agreement and the No-Shop Period Start Date. In addition, the merger agreement provides that, at any time prior to the adoption of the merger agreement by the required stockholder vote, we may, in response to a superior proposal (as defined in the merger agreement), or an acquisition proposal that is reasonably likely to result in a superior proposal, and subject to compliance with the merger agreement:

furnish nonpublic information with respect to us to the person or entity making such superior proposal, or acquisition proposal that is reasonably likely to result in a superior proposal, pursuant to a confidentiality agreement containing limitations on the use and disclosure of such nonpublic information, provided that all of such information not previously supplied to Kratos is provided to Kratos at least 24 hours prior to being furnished to such person or entity; and

participate in discussions or negotiations with the person or entity regarding such superior proposal, or acquisition proposal that is reasonably likely to result in a superior proposal,

provided, however, that the following conditions must be met:

our board of directors must determine in good faith, after consultation with outside counsel, that it is required to do so in order to comply with its fiduciary duties to our stockholders under applicable law; and

we must provide Kratos with at least 24 hours prior written notice that we intend to engage in any of the actions described above and identify the party making the superior offer, or acquisition proposal that is reasonably likely to result in a superior proposal.

The merger agreement further provides that any breach of the non-solicitation provisions by any of our officers, directors, employees, agents, attorneys, accountants, advisors or representatives shall be deemed to be a breach of the merger agreement by us.

The merger agreement defines the term superior proposal to mean any bona fide written offer (which is not obtained in violation of the merger agreement) made by a third party, other than Kratos, contemplating or otherwise relating to the acquisition, directly or indirectly, of more than 50% of the voting power of our common stock or 50% or more of our consolidated net revenues, net income or assets on terms that our Board determines, in its good faith judgment, after consultation with an independent financial advisor to be more favorable to our stockholders from a financial point of view than the terms of this merger; *provided,* that any such proposal shall not be deemed to be a superior proposal if any financing required to consummate the transaction contemplated by such offer is not committed and, in the good faith judgment of our Board, is not otherwise reasonably capable of being obtained by such third party.

The merger agreement allows us to take any action necessary in order to comply with Rule 14d-9 or Rule 14e-2 promulgated under the Exchange Act.

During the period beginning on the date of the merger agreement and ending on the No-Shop Period Start Date, we have agreed to advise Kratos of any written offer, proposal, inquiry or indication of interest we receive related to an acquisition proposal within two business days after receipt thereof. We must also advise

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Kratos of any material modification to any such offer, proposal, inquiry or indication of interest, and keep Kratos reasonably informed with respect to the status of any such acquisition proposal and any modification or proposed modification thereto. Likewise, after the No-Shop Period Start Date, we have agreed to promptly (and in no event later than two business days after receipt thereof) advise Kratos of any acquisition proposal or any inquiry or indication of interest that would reasonably be expected to lead to an acquisition proposal, including the identity of the person or entity making or submitting such acquisition proposal, inquiry or indication of interest and the terms thereof. We must also keep Kratos reasonably informed with respect to the status of any such acquisition proposal, inquiry or indication of interest and any modification or proposed modification thereto.

The merger agreement provides that neither our Board nor any committee of our Board will cause or permit us or any of our subsidiaries to enter into any acquisition agreement (other than the merger agreement) or will:

withhold, withdraw, qualify or modify in a manner adverse to Kratos or Merger Sub, or publicly propose to withhold, withdraw, qualify or modify in a manner adverse to Kratos or Merger Sub, the recommendation by our Board that our stockholders adopt the merger agreement;

adopt, approve or recommend, or propose to adopt, approve or recommend (publicly or otherwise), any acquisition proposal (other than the merger);

after the public announcement of the submission of an acquisition proposal (other than the merger), fail to publicly reaffirm, within ten business days after Kratos so requests in writing, our Board s recommendation that our stockholders adopt the merger agreement;

fail to recommend against, within ten business days after the commencement of such acquisition proposal on a Schedule TO, any acquisition proposal (other than the merger) subject to Regulation 14D under the Exchange Act in a Solicitation/Recommendation Statement on Schedule 14D-9; or

fail to include our Board s recommendation that our stockholders adopt the merger agreement in the proxy statement related to the merger.

The merger agreement provides, however, that at any time prior to obtaining the required vote of our stockholders to adopt the merger agreement, our Board or a committee of our Board may take any of the actions described in the foregoing bullet points if it determines in good faith, after consultation with its independent financial advisor and outside legal counsel, that (i) (a) it has received a superior proposal or (b) a material fact, event, change, development or set of circumstances (an intervening event) that was not known by our Board as of or at any time prior to the date of the merger agreement (other than, and not relating in any way to, an acquisition proposal) has occurred and is continuing, and (ii) the failure to take such action is reasonably likely to result in a breach of its fiduciary duties under applicable law; provided, however, that the following conditions must be met:

we must give Kratos at least three business days prior written notice of our intention to take such action, which notice (a) in the case of a superior proposal, shall specify the material terms and conditions of the superior proposal and include a copy of the relevant proposed transaction agreement and other material documents with the party making the superior proposal and (b) in the case of an intervening event, shall include a written explanation of our Board s basis for proposing to effect such action;

if requested by Kratos, we must negotiate in good faith with Kratos during such three business day notice period to enable Kratos to propose changes to the merger agreement that (a) in the case of a superior proposal, would cause such superior proposal to no longer constitute a superior proposal and (b) in the case of an intervening event, would obviate the need for our Board to effect the action;

our Board must consider in good faith (after consultation with its independent financial advisor and outside legal counsel) any changes to the merger agreement proposed by Kratos in writing and (a) in the case of a superior proposal, determine that the superior proposal would continue to constitute a superior proposal if such changes were to be given effect and (b) in the event of an intervening event,

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determine that the failure to take such action is reasonably likely to result in a breach of its fiduciary duties under applicable law if such changes were to be given effect; and

in the event of any material change to the financial or other material terms of a superior proposal or the facts and circumstances relating to the intervening event, as applicable, we must have delivered to Kratos an additional notice, together with any relevant documents, and the three business day notice period shall have recommenced.

Conditions to the Closing of the Merger

Conditions to Obligation of Kratos and Hammer Acquisition Inc. The obligations of Kratos and Merger Sub to effectuate the merger are subject to the satisfaction or waiver, on or prior to the closing date of the merger, of the following conditions, among others:

Our representations and warranties contained in the merger agreement shall be accurate in all respects without reference to any qualification as to materiality or material adverse effect, such that the aggregate effect of any inaccuracies in such representations and warranties will not have a material adverse effect on us, in each case as of the date of the merger agreement and as of the closing date of the merger with the same effect as though made as of the closing date of the merger, except for representations and warranties made as of a specific date, which shall have been accurate in all respects as of such date. Our representation regarding our capitalization shall have been accurate in all respects as of the date of the merger agreement and as of the closing date of the merger, except for de minimus inaccuracies.

We shall have performed or complied with any covenants or obligations required to be performed or complied with by us under the merger agreement at or prior to the closing date of the merger in all material respects.

There is no legal proceeding pending or threatened by any governmental body that challenges or seeks to restrain or prohibit the consummation of the merger.

No event, change or effect, individually or in the aggregate, with respect to us or our subsidiaries, has occurred and not been cured which had or would reasonably be expected to have, a material adverse effect (as such term is defined in the merger agreement) on us.

The merger agreement shall have been duly adopted, and the merger shall have been duly approved by our stockholders as required by the applicable laws.

No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the merger shall have been issued by any court of competent jurisdiction or other governmental body and remain in effect.

There is no law or order enacted, enforced, promulgated, amended, issued or deemed applicable to the merger that has or is reasonably likely to result in material damages in connection with the merger or has had or is reasonably likely to have any of the following consequences:

makes consummation of the merger illegal or otherwise restrains or prohibits the consummation of the merger; or

restrains, prohibits, adversely affects or limits the ownership or operation by Kratos, Merger Sub or any of their respective affiliates, of the business conducted by us or any of our affiliates, or materially restricts the

exercise or use of all or any material portion of our business or assets, or compels Kratos, Merger Sub or any of their respective affiliates to dispose of, license or hold separate all or any material portion of our business or assets, or seeks to impose any material limitations on the ability of Kratos, Merger Sub or any of their respective affiliates to conduct our business or own such assets, and

there shall not have been instituted, pending or overtly threatened in writing any action or proceeding by or before any governmental body that has resulted or is reasonably likely to result in any of the

consequences referred to in the two preceding bullet points, except for any legal proceedings made or brought by any stockholders of ours arising out of the transactions contemplated by the merger agreement.

Conditions to Our Obligation. Our obligation to effect the merger is subject to the satisfaction or waiver, on or prior to the closing date of the merger, of the following conditions:

- The representations and warranties of Kratos and Merger Sub contained in the merger agreement shall be accurate in all respects without reference to any qualification as to materiality or material adverse effect, such that the aggregate effect of any inaccuracies in such representations and warranties will not have a material adverse effect on Kratos, in each case as of the date of the merger agreement and as of the closing date of the merger with the same effect as though made as of the closing date of the merger, except for representations and warranties made as of a specific date, which shall have been accurate in all respects as of such date.

- Each of Kratos and Merger Sub shall have duly performed or complied with any covenants or obligations required to be performed or complied with by them under the merger agreement at or prior to the closing date of the merger in all material respects.

- The merger agreement shall have been duly adopted, and the merger shall have been duly approved by our stockholders as required by the applicable laws.

- No temporary restraining order, preliminary or permanent injunction or other order preventing the consummation of the merger shall have been issued by any court of competent jurisdiction or other governmental body and remain in effect, and there shall not be any laws enacted or deemed applicable to the merger that makes consummation of the merger illegal or otherwise prohibits or interferes with the consummation of the merger.

- There is no legal proceeding pending or threatened by any governmental body that challenges or seeks to restrain or prohibit the consummation of the merger.

The merger agreement defines the term material adverse effect with respect to us to mean an event, violation, inaccuracy, circumstance or other matter (considered together with all other matters that would constitute exceptions to our representations and warranties set forth in the merger agreement but for the presence of material adverse effect or other materiality qualifications, or any similar qualifications, in such representations and warranties) that had or would reasonably be expected to have a material adverse effect on (a) the business, financial condition, assets, operations or financial performance of us and our subsidiaries taken as a whole, or (b) our ability to consummate the merger or any of the other transactions contemplated by the merger agreement or to perform any of our obligations under the merger agreement. However, any such event, change, development or occurrence resulting from or arising out of the following shall not be deemed to constitute a material adverse effect :

- any changes in law, GAAP, or the adoption or amendment of financial accounting standards by the Financial Accounting Standards Board;

- any changes in the United States financial markets generally or that are the result of acts or war or terrorism that do not have a disproportionate effect (relative to other industry participants) on us and our subsidiaries taken as a whole;

- conditions affecting the security integration industry, and general national or international economic, financial or business conditions generally affecting the security integration industry, that, in each case, do not have a disproportionate effect (relative to other industry participants) on us and our subsidiaries taken as a whole;

political conditions (or changes in such conditions), acts of war, sabotage or terrorism, or natural disasters, weather conditions or other force majeure events, in each case, in the United States or any other country or region in the world;

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any actions taken or failure to take action, in each case, which Kratos has approved, consented to or requested, or compliance with the terms of, or the taking of any action required or contemplated by, the merger agreement, or the failure to take any action prohibited by the merger agreement;

changes in our stock price or the trading volume of our stock; and

legal proceedings made or brought against us by our stockholders arising out of the transactions contemplated by the merger agreement.

The merger agreement defines a material adverse effect with respect to Kratos to mean an event, violation, inaccuracy, circumstance or other matter (considered together with all other matters that would constitute exceptions to Kratos representations and warranties set forth in the merger agreement but for the presence of material adverse effect or other materiality qualifications, or any similar qualifications, in such representations and warranties) that had or would reasonably be expected to have a material adverse effect on (a) the business, condition, capitalization, assets, liabilities, operations or financial performance of Kratos and its subsidiaries taken as a whole, or (b) the ability of Kratos to consummate the merger or any of the other transactions contemplated by the merger agreement or to perform any of our obligations under the merger agreement. However, any such event, change, development or occurrence resulting from or arising out of the following shall not be deemed to constitute a material adverse effect :

any changes in law, GAAP, or the adoption or amendment of financial accounting standards by the Financial Accounting Standards Board;

any changes in the United States financial markets generally or that are the result of acts or war or terrorism that do not have a disproportionate effect (relative to other industry participants) on Kratos and its subsidiaries taken as a whole;

conditions affecting the security integration industry, and general national or international economic, financial or business conditions generally affecting the security integration industry, that, in each case, do not have a disproportionate effect (relative to other industry participants) on Kratos and its subsidiaries taken as a whole;

political conditions (or changes in such conditions), acts of war, sabotage or terrorism, or natural disasters, weather conditions or other force majeure events, in each case, in the United States or any other country or region in the world;

any actions taken or failure to take action, in each case, which we have approved, consented to or requested, or compliance with the terms of, or the taking of any action required or contemplated by, the merger agreement, or the failure to take any action prohibited by the merger agreement;

changes in Kratos stock price or the trading volume of Kratos stock; and

legal proceedings made or brought against Kratos by our stockholders or stockholders of Kratos arising out of the transactions contemplated by the merger agreement.

Termination

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time of the merger, whether before or after adoption of the merger agreement by our stockholders, by mutual written consent, or by either Kratos or us:

if the merger has not been consummated on or before February 28, 2011; *provided, however,* neither party may terminate the merger agreement if the failure to consummate the merger prior to the date set forth above resulted from or was principally caused by such party s failure to fulfill any of such party s obligations in the merger agreement; or

if a court of competent jurisdiction or other governmental body shall have issued a final and nonappealable order, decree or ruling, or shall have taken any other action, having the effect of permanently restraining, enjoining or otherwise prohibiting the merger; or

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if our stockholders do not adopt the merger agreement and approve the merger at our annual meeting (or any adjournment or postponement thereof); *provided, however,* that a party cannot terminate the merger agreement where the failure to obtain stockholder approval was caused by such party s failure to perform a material obligation required to be performed by such party at or prior to the effective time.

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time, whether before or after the merger agreement has been adopted by our stockholders, by us:

if we are not in material breach of our obligations or our representations and warranties under the merger agreement, and (a) Kratos or Merger Sub has breached any of their covenants or obligations under the merger agreement or (b) any of the representations and warranties of Kratos and Merger Sub set forth in the merger agreement were inaccurate when made or have become inaccurate, which such breach or inaccuracy, individually or in the aggregate, would have a material adverse effect on Kratos or Merger Sub s ability to consummate the merger; provided, however, that if such breach or inaccuracy is capable of being cured by Kratos or Merger Sub through the exercise of commercially reasonable efforts, we may not terminate on behalf of such breach or inaccuracy until the earlier of (i) 11 calendar days after our delivery of written notice of such breach or inaccuracy or (ii) February 28, 2011; and

if, at any time prior to the adoption of the merger agreement by our stockholders, (a) our Board has received an acquisition proposal that it determines in good faith (after consultation with its independent financial advisor and outside legal counsel) constitutes a superior proposal and the failure to enter into a definitive agreement relating to such superior proposal would reasonably be expected to result in a breach of its fiduciary duties, (b) we have not violated, in any material respect, any of the non-solicitation provisions set forth in the merger agreement, (c) we have complied with our obligation to give Kratos at least three business days prior written notice of our intention to take such action (including our obligation to specify the material terms and conditions of the superior proposal and to provide Kratos with a copy of the relevant transaction agreements with the party making such superior proposal), (d) if requested by Kratos, we have negotiated in good faith with Kratos during such three business day period to enable Kratos to propose changes to the terms of the merger agreement that would cause such superior proposal to no longer constitute a superior proposal, (e) our Board has considered in good faith (after consultation with its independent financial advisor and outside legal counsel) any changes to the merger agreement proposed in writing by Kratos and determined that such superior proposal would continue to constitute a superior proposal if such changes were accepted, (f) we delivered to Kratos additional notices and copies of relevant documents upon the occurrence of any material changes to the financial or other material terms of such superior proposal and provided Kratos with another three business day notice period and (g) concurrently with the termination of the merger agreement, we pay Kratos a termination fee equal to $1,788,000.

The merger agreement may be terminated and the merger may be abandoned at any time prior to the effective time, whether before or after stockholder approval has been obtained, by Kratos:

if Kratos is not in material breach of its obligations or its representations and warranties under the merger agreement, and (a) we have breached any of our covenants or obligations under the merger agreement or (b) any of our representations and warranties set forth in the merger agreement were inaccurate when made or have become inaccurate, which such breach or inaccuracy, individually or in the aggregate, would have a material adverse effect on our ability to consummate the merger; provided, however, that if such breach or inaccuracy is capable of being cured by us through the exercise of commercially reasonable efforts, Kratos may not terminate on behalf of such breach or inaccuracy until the earlier of (i) 15 calendar days after its delivery of written notice of such breach or inaccuracy or (ii) February 28, 2011; provided, however, that our failure to

comply with our non-solicitation obligations set forth in the merger agreement shall be deemed incapable of being cured;

at any time prior to the adoption of the merger agreement by our stockholders in the event a triggering event has occurred; and

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if, since the date of the merger agreement, any material adverse effect on us and our subsidiaries shall have occurred or there shall have occurred any event or circumstance that, in combination with any other events or circumstances, could reasonably be expected to have a material adverse effect on us and our subsidiaries.

The merger agreement defines the term triggering event to mean:

the failure of our Board to recommend that our stockholders vote to adopt the merger agreement, or the withdrawal or modification in a manner adverse to Kratos of our Board s recommendation;

our failure to include in this proxy statement our Board s recommendation;

the failure of our Board to reaffirm the Board s recommendation, within ten business days following Kratos written request, or to publicly state that the merger is in the best interests of our stockholders following the public announcement of the submission of an acquisition proposal (other than the merger);

the approval, endorsement or recommendation of any acquisition proposal (other than the merger) by our Board (whether or not a superior proposal);

our entry into any letter of intent or similar document or any contract relating to any acquisition proposal (other than the merger) (whether or not relating to a superior proposal);

a tender or exchange offer relating to our securities has been commenced and we have not sent our securityholders, within ten business days after the commencement of such tender or exchange offer, a statement disclosing that our Board recommends rejection of such tender or exchange offer;

an acquisition proposal (other than a tender or exchange offer or the merger) is publicly announced, and we fail to issue a press release announcing our opposition to such acquisition proposal within ten business days after such announcement; or

a material violation of the non-solicitation provisions set forth in the merger agreement by us, any of our subsidiaries or any of our respective directors, officers, employees, agents, attorneys, accountants, advisors or other representatives.

Expenses and Termination Fees

Except as set forth below, the merger agreement provides that regardless of whether the merger is consummated, all fees and expenses incurred by the parties shall be borne by the party incurring such expenses.

We will be obligated to pay Kratos a termination fee of $1,788,000 upon termination of the merger agreement:

by us in connection with a superior proposal; or

by Kratos in connection with a triggering event.

In addition, we will be obligated to pay the termination fee of $1,788,000 if the merger agreement is (a) terminated by Kratos because the merger has not been consummated by February 28, 2011 or because we breached a covenant or agreement or our representations or warranties were inaccurate; or (b) terminated by Kratos or by us because we did not obtain stockholder approval at our annual meeting (or any adjournment thereof), and at the time of termination, an

acquisition proposal has been made or publicly announced and not withdrawn and we enter into an acquisition agreement related to an acquisition proposal or consummate an acquisition proposal within six months following the date the merger agreement is terminated.

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Further Actions

We and Kratos agreed to use all commercially reasonable efforts to take, or cause to be taken, all actions necessary to consummate the merger and make effective the transactions contemplated by the merger agreement, including:

making all filings (if any) and giving all notices (if any) required to be made or given by such party;

using all commercially reasonable efforts to obtain each consent (if any) required to be obtained pursuant to any applicable legal requirements or contracts; and

using all commercially reasonable efforts to lift any restraint, injunction or other legal bar to the merger.

Public Announcements

We and Kratos agreed to consult with each other before issuing any press release or otherwise making any public statement with respect to the merger and related transactions. Unless otherwise required by applicable law, rule or regulation, we and Kratos further agreed that neither we nor Kratos will make any disclosure regarding the merger or any of the other transactions contemplated by the merger agreement prior to receiving the other party s consent (which shall not be unreasonably withheld, conditioned or delayed); provided, however, that we may each make (a) public disclosure reasonably required in our public SEC filings in connection with the transactions contemplated by the merger agreement and (b) public statements in response to specific questions by the press, analysts, investors and those attending industry conferences or conference calls, so long as such statements are not inconsistent with previous public disclosures.

Director and Officer Insurance and Indemnification

For a period of six years after the effective time of the merger, Kratos agreed that it will cause us as its wholly owned subsidiary to fully comply with all rights to indemnification existing in favor of our directors and officers under the provisions existing on the date of the execution of the merger agreement in our certificate of incorporation or bylaws or in any other indemnification agreements between us and such individuals that were in effect prior to the date of the execution of the merger agreement.

For a period of six years after the effective time, we, as a wholly owned subsidiary of Kratos, are required to cause to be maintained in effect the current policies of directors and officers liability insurance maintained by us (or policies of no less favorable coverage) only with respect to claims arising from facts existing or events which occurred at or before the effective time of the merger; provided, however, that in no event shall Kratos be required to expend more than 300% of the current annual premium paid by us for such insurance.

Stock Plans

At the effective time of the merger, each of our stock plans and each option which is outstanding under such stock plans immediately prior to the effective time of the merger (whether or not then vested or exercisable) shall be assumed by Kratos. Each option assumed by Kratos under the merger agreement shall continue to have, and be subject to, the same terms and conditions set forth in the applicable stock plans and the stock option agreements, immediately prior to the effective time of the merger, except that (a) each option will be exercisable for that number of whole shares of Kratos common stock equal to the product of the number of shares of our common stock that were issuable upon exercise of such option immediately prior to the effective time multiplied by the option exchange ratio, as

defined below, and rounded down to the nearest whole number of shares of Kratos common stock, and (b) the per share exercise price for the Kratos shares issuable upon exercise of such assumed options will be equal to the quotient determined by dividing the exercise price per share of our common stock at which such option was exercisable immediately prior to the effective time of the merger by the option exchange ratio, rounded up to the nearest whole cent.

For purposes of the merger agreement, the option exchange ratio shall be equal to 0.6552, which represents the fraction obtained by dividing $7.00 by the average closing sales price for one share of Kratos

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common stock on the NASDAQ National Market for the ten (10) trading-day period ending on the first business day immediately preceding the date of the merger agreement.

Kratos has agreed to maintain, at all times after the effective time, an effective S-8 registration statement covering the shares of Kratos common stock issuable upon exercise of any options assumed by Kratos in connection with the merger for so long as any such options are outstanding.

Amendment and Waiver

The merger agreement may be amended with the approval of the respective boards of directors of Kratos, Merger Sub and us at any time before or after our stockholders have adopted the merger agreement; provided, however, that after any such adoption of the merger agreement by our stockholders, no amendment shall be made which by law requires further approval of our stockholders without the further approval of our stockholders. Any amendment to the merger agreement must be in writing and signed on behalf of each of the parties.

The merger agreement provides that no failure on the part of any party to exercise any right, power or privilege under the merger agreement, and no delay on the part of any party in exercising any right, power or privilege under the merger agreement, operates as a waiver of such right, power or privilege; and no single or partial exercise of any such right, power or privilege shall preclude any other or further exercise thereof or of any other right, power or privilege.

The merger agreement further provides that no waiver that may be given by a party will be applicable except in the specific instance for which it is given, and no notice to or demand on one party will be deemed to be a waiver of any obligation of that party or of the right of the party giving such notice or demand to take further action without notice or demand as provided in the merger agreement.

Financing of the Merger

Kratos expects to fund the costs of the proposed merger out of available cash on hand and has represented to Henry Bros. that it has adequate cash to do so. The merger agreement does not contain any condition relating to the receipt of financing by Kratos.

Interests of Henry Bros. Directors and Executive Officers in the Merger

In considering the recommendation of our board of directors that you vote to approve the proposal to adopt the merger agreement, you should be aware that our directors and executive officers may have interests in the merger that may be different from, or in addition to, their interests as Henry Bros. stockholders. Our board of directors was aware of and considered these interests, among other matters, in reaching its decision to adopt and approve, and declare advisable, the merger agreement, the merger and the other transactions contemplated under the merger agreement.

Equity Compensation Awards

The merger agreement provides that, at the effective time, each Henry Bros. stock option (whether or not then vested or exercisable) will be converted into a Kratos stock option. Each option to purchase shares of Henry Bros. common stock that is outstanding immediately prior to the effective time of the merger will be automatically converted into an option to acquire, on substantially identical terms and conditions applicable to such Henry Bros. stock option immediately prior to the merger, a number of shares of Kratos common stock (rounded down to the nearest whole share) equal to the product of (a) each option will be exercisable for that number of whole shares of Kratos common stock equal to the product of the number of shares of our common stock that were issuable upon exercise of such option immediately prior to the effective time multiplied by 0.6552 and rounded down to the nearest whole number of

shares of Kratos common stock, and (b) the per share exercise price for the Kratos shares issuable upon exercise of such assumed options will be equal to the quotient determined by dividing the exercise price per share of our common stock at which such option was

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exercisable immediately prior to the effective time of the merger by 0.6552, rounded up to the nearest whole cent.

Pursuant to the terms of the Stock Option Agreement dated June 24, 2010, evidencing Mr. Reach s 100,000 options exercisable at $3.85 per share, none of which are vested or exercisable as of the date hereof, all such unvested options are accelerated and become fully vested and immediately exercisable upon the occurrence of a change of control of Henry Bros.

In addition, the terms of the respective Stock Option Agreements evidencing Mr. Reach s 50,000 options exercisable at $3.71 per share, 10,000 of which are not vested or exercisable as of the date hereof, Mr. Hopkins s 150,000 options exercisable at $3.71 per share, 30,000 of which are not vested or exercisable as of the date hereof, Mr. Smith s (i) 40,000 options exercisable at $4.26 per share, 16,000 of which are not vested or exercisable as of the date hereof, and (ii) 10,000 options exercisable at $4.11 per share, 4,000 of which are not vested or exercisable as of the date hereof, and Mr. Peckham s 50,000 options exercisable at $4.65 per share, 20,000 of which are not vested or exercisable as of the date hereof, provide that upon the occurrence of a change of control of Henry Bros. and the related, or resulting, termination without cause of such optionee s employment with Henry Bros. or successor company, all of such optionee s unvested options are accelerated and become fully vested and immediately exercisable.

The table below sets forth, as of [ ], 2010, for each of our directors and executive officers, the number of stock options with vesting that will accelerate, pursuant to the terms of the executive officer s stock option agreement with Henry Bros. at the closing of the merger and the dollar value of such accelerated stock options, as well as the number of all vested and unvested stock options held (including stock options with vesting that will accelerate at the closing of the merger) and the dollar value of all such vested and unvested stock options held. The table below does not take into account any additional acceleration of vesting of options that could occur upon termination of employment under specified circumstances pursuant to the applicable stock option agreements.

Name	Total Number of Options with Vesting Accelerating at the Closing	Dollar Value of Accelerated Options(1)	Total Number of All Options(2)	Dollar Value of All Options(1)
Directors:				
Richard D. Rockwell		$	6,000	$ 9,940
James E. Henry		$		$
Brian Reach	100,000	$ 315,000	150,000	$ 479,500
Robert De Lia, Sr.		$	14,000	$ 28,980
James W. Power		$	14,000	$ 26,620
Joseph P. Ritorto		$	14,000	$ 28,980
David Sands		$	14,000	$ 28,980
Executive Officers:				
John P. Hopkins			150,000	$ 493,500
Brian J. Smith		$	50,000	$ 138,500
Christopher Peckham		$	50,000	$ 117,500

(1) The dollar value of options is calculated by subtracting the per share exercise price of the options from $7.00 per share and multiplying the amount of this difference by the number of shares subject to the options.

(2) The number of all options includes options with vesting that will accelerate at the closing of the merger and options that remain unvested as of the closing of the merger, which will be converted into options for Kratos common stock.

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Employment Arrangements with the Surviving Corporation

Employment Agreement Between Kratos and James E. Henry

Pursuant to the terms of the Employment Agreement, Mr. Henry will be employed by Kratos as Executive Vice-President of the Public Safety & Security Business Unit of Kratos (the PSS Business Unit) for a period commencing at the effective time of the merger and continuing for five years, unless earlier terminated or otherwise renewed pursuant to the terms set forth therein. Mr. Henry will receive an annual base salary of $215,000, be eligible to participate in Kratos benefit plans, and be reimbursed for all reasonable and necessary out-of-pocket expenses incurred by him in the course of the performance of his duties under the Employment Agreement.

In addition to his base salary, the Employment Agreement also provides that Mr. Henry may, at the sole discretion of Kratos, be entitled to receive incentive compensation of up to 45% of his annual base salary, provided, however, that Mr. Henry will not be eligible for such incentive compensation for each of the years 2011, 2012, and 2013, unless Henry Bros. meets or exceeds certain annual goals based on revenues and earnings before interest, taxes, depreciation and amortization (EBITDA) as set forth by Kratos in a written annual bonus plan.

The Employment Agreement further provides that upon the completion of the merger Mr. Henry will be awarded 10,000 restricted stock units to acquire Kratos common stock (RSUs), 100% of which will vest on the five year anniversary of the date of grant, subject to Mr. Henry s continued employment with Kratos and subject to earlier vesting upon certain events as specified below. At the discretion of Kratos president and the compensation committee of Kratos board of directors, Mr. Henry will also be eligible to receive (i) additional grants of up to 10,000 RSUs per year if Mr. Henry achieves certain EBITDA and revenue goals for Henry Bros. for each of 2011, 2012, and 2013, 100% of which will vest on the five year anniversary of the date of grant, and subject to Mr. Henry s continued employment with Kratos, and (ii) further grants of RSUs on an annual basis. Upon Mr. Henry s termination of employment by Kratos without cause or upon a change of control (each as defined in the Employment Agreement) of Kratos, any unvested RSUs held by Mr. Henry shall become fully vested upon the date of such termination or change of control.

Under the terms of the Employment Agreement, Kratos may terminate Mr. Henry s employment for misconduct or cause (as defined in the Employment Agreement), as a result of his disability under certain circumstances, or for any other reason. Mr. Henry may terminate his employment for any reason upon 30 days written notice to Kratos. If Mr. Henry terminates his employment for any reason, he will be entitled to receive his base salary accrued through the date of termination and any accrued but unused paid time off.

If Kratos terminates Mr. Henry for misconduct or cause, he will be entitled to receive his base salary through the date of termination, reimbursement of business expenses and accrued but unused paid time off. If Mr. Henry s employment is terminated as a result of his disability, he will be entitled to receive his base salary through the date on which his employment is terminated, reimbursement for business expenses incurred prior to the date of termination, any earned and accrued incentive compensation and any accrued but unused paid time off. If Mr. Henry s employment is terminated as a result of his death, his estate or beneficiaries shall be entitled to receive his base salary earned prior to the date of termination, any accrued but unused vacation days, incentive compensation accrued but not yet paid and reimbursement for business expenses incurred prior to the date of termination.

If Kratos terminates Mr. Henry s employment without cause, he will be entitled to receive (i) his base salary accrued through the date of termination, (ii) any accrued but unused paid time off, (iii) reimbursement of business expenses, (iv) continued payment of his base salary for 12 months, (v) any accrued but unpaid incentive compensation (including the vesting of any unvested RSUs) and (vi) medical and dental benefits under the Consolidated Omnibus

Budget Reconciliation Act of 1985 for 12 months after the date of termination. The foregoing benefits and payments may be subject to a delay of up to six months as necessary to avoid the imposition of additional tax under Section 409A of the Code and any severance payments made pursuant to the Employment Agreement shall be contingent upon Mr. Henry s execution of a customary and standard employee release agreement.

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Finally, the Employment Agreement provides that, upon his termination from employment with Kratos, Mr. Henry shall be prohibited for a period of 24 months from and after his termination for misconduct or cause; or 12 months from and after his termination without cause from (i) competing, directly or indirectly, with the Business Unit in pursuit of customers or accounts to provide security services or products provided by the Business Unit and/or (ii) will not otherwise plan or organize any business activity that will solicit, sell or provide certain specified products and services in the states of Arizona, California, Colorado, Maryland, New Jersey, New York, Texas, Utah, and Virginia.

License Agreement Between Kratos, Henry Bros. and James E. Henry

Pursuant to the terms of the License Agreement, Mr. Henry has agreed to grant Kratos and its affiliates a worldwide, perpetual, irrevocable, fully paid-up, royalty-free, transferable right and license, with the right to sublicense, to use (i) Mr. Henry s likeness, image, voice and life story as they pertain to certain matters relating to Henry Bros. and its business and (ii) the Henry Bros. name and derivations thereof, solely in connection with the present and future products or services of Kratos and its affiliates relating to the system integration product and service field, state, federal and local government contracting, and defense and information technology products and services, which license shall be exclusive for such products and services within the specified field, and which license shall become non-exclusive upon the death of Mr. Henry. Mr. Henry has retained the right to use his likeness, image, voice and life story as they pertain to certain matters relating to Henry Bros. and its business and the Henry Bros. name and derivations thereof, outside the specified field and has the unrestricted right to use his name and biography in the specified field in a descriptive manner.

In connection with the execution of the License Agreement, Mr. Henry and Kratos also agreed, pursuant to the terms set forth in the License Agreement, that Mr. Henry enter into a trading plan, in accordance with Rule 10b5-1 of the Exchange Act, within 15 days following the effective time of the merger. The License Agreement provides that Mr. Henry will purchase between $3.0 and $4.0 million shares of Kratos common stock pursuant to the Rule 10b5-1 trading plan. Such purchases will not be contingent on the market price of Kratos common stock and the trading plan may not be terminated until all shares provided for under such plan have been purchased by Mr. Henry or at such time as Mr. Henry is no longer employed by Kratos.

The License Agreement is effective upon the effective time of the merger and continues in perpetuity, unless otherwise terminated by Kratos. Mr. Henry has no right to terminate the License Agreement.

Director and Officer Insurance and Indemnification

For a period of six years after the effective time of the merger, Kratos agreed that it will cause us as its wholly owned subsidiary to fully comply with all rights to indemnification existing in favor of our directors and officers under the provisions existing on the date of the execution of the merger agreement in our certificate of incorporation or bylaws or in any other indemnification agreements between us and such individuals that were in effect prior to the date of the execution of the merger agreement.

For a period of six years after the effective time, we, as a wholly owned subsidiary of Kratos, are required to cause to be maintained in effect the current policies of directors and officers liability insurance maintained by us (or policies of no less favorable coverage) only with respect to claims arising from facts existing or events which occurred at or before the effective time of the merger; provided, however, that in no event shall Kratos be required to expend more than 300% of the current annual premium paid by us for such insurance.

OUR BOARD OF DIRECTORS IS NOT AWARE OF ANY INTEREST OF A DIRECTOR OR EXECUTIVE OFFICER IN THE MERGER EXCEPT AS SPECIFIED ABOVE.

Material U.S. Federal Income Tax Consequences of the Merger

The following summary is a general discussion of the material U.S. federal income tax consequences to U.S. Holders (as defined below) whose shares of Henry Bros. common stock are exchanged for cash

pursuant to the merger. This summary is based on the current provisions of the Internal Revenue Code of 1986, as amended (which we refer to as the Code), applicable Treasury Regulations promulgated thereunder, judicial authority and administrative rulings, all of which are subject to change, possibly with retroactive effect or different interpretations. Any such change could alter the tax consequences to stockholders as described herein. We cannot assure you that the tax consequences described herein will not be challenged by the Internal Revenue Service (which we refer to as the IRS) or will be sustained by a court if challenged by the IRS. No ruling from the IRS has been or will be sought with respect to any aspect of the transactions described herein.

This summary is for the general information of our stockholders only and does not purport to be a complete analysis of all potential tax effects of the merger. For example, it does not consider the effect of any applicable state, local, foreign, estate or gift tax laws. In addition, this discussion does not address the tax consequences of transactions effectuated prior to or after the merger (whether or not such transactions occur in connection with the merger), including, without limitation, any exercise of an option or the acquisition or disposition of Henry Bros. shares other than pursuant to the merger.

In addition, this discussion does not address all aspects of U.S. federal income taxation that may affect particular Henry Bros. stockholders in light of their individual circumstances or Henry Bros. stockholders that are subject to special rules, such as:

- insurance companies;
- financial institutions and mutual funds;
- banks;
- retirement plans;
- regulated investment companies;
- real estate investment trusts;
- tax-exempt organizations;
- brokers or dealers in securities;
- traders in securities that elect to use a mark-to-market method of accounting for their securities;
- stockholders who hold Henry Bros. common stock as part of a hedge, straddle or conversion transaction;
- stockholders who hold Henry Bros. common stock as qualified small business stock for purposes of Section 1202 of the Code or section 1244 stock for purposes of Section 1244 of the Code;
- stockholders who are liable for the U.S. federal alternative minimum tax;
- stockholders who are partnerships or any other entity classified as a pass-through entity for U.S. federal income tax purposes;
- stockholders who acquired their Henry Bros. common stock pursuant to the exercise of a stock option or otherwise as compensation; or

stockholders whose functional currency for U.S. federal income tax purposes is not the U.S. dollar.

The following summary also does not address the tax consequences for the holders of stock options. This discussion assumes that stockholders hold their Henry Bros. common stock as a capital asset (generally, property held for investment).

For purposes of this discussion, the term U.S. Holder means a beneficial owner of shares of Henry Bros. common stock that is, for U.S. federal income tax purposes:

an individual who is a citizen or resident of the United States;

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a corporation (including any entity treated as a corporation for U.S. federal income tax purposes) created or organized in or under the laws of the United States, any state thereof, or the District of Columbia;

a trust if (i) a U.S. court is able to exercise primary supervision over the trust s administration and one or more U.S. persons are authorized to control all substantial decisions of the trust or (ii) it has a valid election in effect under applicable U.S. Treasury Regulations to be treated as a U.S. person; or

an estate, the income of which is subject to U.S. federal income tax regardless of its source.

If a partnership (or other entity treated as a partnership for U.S. federal income tax purposes) holds shares of Henry Bros. common stock, the U.S. federal income tax treatment of a partner in such entity will generally depend on the status of the partner and the activities of the partnership. If you are a partnership or a partner in a partnership holding shares of Henry Bros. common stock, you should consult your tax advisor as to the particular U.S. federal income tax consequences of exchanging your Henry Bros. common stock for cash pursuant to the merger. The term Non-U.S. Holder means a beneficial owner of shares of Henry Bros. common stock who is not a U.S. Holder.

HOLDERS OF HENRY BROS. COMMON STOCK ARE URGED TO CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX CONSEQUENCES TO THEM OF THE MERGER, INCLUDING THE APPLICABLE U.S. FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES, AND AS TO ANY TAX REPORTING REQUIREMENTS OF THE MERGER AND RELATED TRANSACTIONS, IN LIGHT OF THEIR OWN RESPECTIVE TAX SITUATIONS. THIS DISCUSSION WAS NOT INTENDED OR WRITTEN TO BE USED, AND IT CANNOT BE USED, BY ANY PERSON FOR THE PURPOSE OF AVOIDING ANY U.S. FEDERAL TAX PENALTIES THAT MAY BE IMPOSED ON SUCH PERSON.

Taxation of U.S. Holders. The receipt of cash in exchange for shares of Henry Bros. common stock pursuant to the merger will be a taxable transaction for U.S. federal income tax purposes. In general, a U.S. Holder who receives cash in exchange for shares of Henry Bros. common stock pursuant to the merger will recognize capital gain or loss for U.S. federal income tax purposes in an amount equal to the difference, if any, between (1) the amount of cash received (including any amount withheld) and (2) the holder s adjusted tax basis in such shares. Such gain or loss will be long-term capital gain or loss if the holder s holding period for such shares exceeds one year as of the date of the merger. Long-term capital gains of non-corporate U.S. Holders, including individuals, are generally eligible for reduced rates of federal income taxation. Under current law, long-term capital gain recognized by a non-corporate U.S. Holder on an exchange of Henry Bros. common stock for cash will be subject to U.S. federal income tax at a maximum rate of 15%. The deductibility of capital losses is subject to limitations. If a U.S. Holder acquired different blocks of Henry Bros. common stock at different times or different prices, such U.S. Holder must determine its tax basis and holding period separately with respect to each block of Henry Bros. common stock.

Taxation of Non-U.S. Holders. Any gain realized by a Non-U.S. Holder upon the receipt of cash in exchange for shares of Henry Bros. common stock in the merger generally will not be subject to U.S. federal income tax unless: (a) one of the following three conditions is met: (i) such gain is effectively connected with a U.S. trade or business conducted by the Non-U.S. Holder within the United States (or is attributable to the Non-U.S. Holder s permanent establishment in the United States if a treaty applies); (ii) in the case of a Non-U.S. Holder who is an individual, such individual is present in the United States for 183 days or more in the taxable year during which the merger occurs and certain other conditions are met; or (iii) in the case of a Non-U.S. Holder who owned, directly or indirectly, more than 5% of the shares of Henry Bros. common stock at any time during the five-year period ending on the date of the exchange of such shares in the merger, Henry Bros. is or has been a U.S. real property holding corporation within the meaning of Section 897(c)(2) of the Code (which Henry Bros. does not believe to be the case); and (b) the gain is not exempt from such tax under an applicable United States income tax treaty.

Individual Non-U.S. Holders who are subject to U.S. federal income tax because they were present in the United States for 183 days or more during the year of the merger are subject to U.S. federal income tax at a

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flat rate of 30% on their net gains (the total gains realized by them from sales or other taxable exchanges of U.S. capital assets, including any gains realized by them from the sale of shares of Henry Bros. common stock pursuant to the merger, minus any losses from sales or taxable exchanges of other U.S. capital assets recognized by them for U.S. federal income tax purposes during the year), subject to any relief to which the Non-U.S. Holder is entitled under an applicable United States income tax treaty. If a Non-U.S. Holder is engaged in a trade or business within the United States and gain from the sale of shares of Henry Bros. common stock pursuant to the merger is effectively connected with such trade or business (and, in the case of a Non-U.S. Holder who is eligible for benefits under an applicable U.S. income tax treaty, the gain is attributable to, or the shares of Henry Bros. common stock exchanged in the merger form part of the business property of, a permanent establishment in the United States of such Non-U.S. Holder), then the Non-U.S. Holder generally will be taxed on such gain in the same manner as if it was a U.S. Holder. In the case of a Non-U.S. Holder that is a corporation, such gain also may be subject to an additional U.S. branch profits tax at a 30% rate (or such lower rate as may be specified by an applicable income tax treaty).

Backup Withholding Tax and Information Reporting. A U.S. Holder (other than certain exempt stockholders, including corporations) whose shares of Henry Bros. common stock are exchanged for cash pursuant to the merger may, under certain circumstances, be subject to information reporting and backup withholding at the applicable rate (currently 28%), unless such holder (i) properly establishes an exemption from backup withholding or (ii) provides a correct taxpayer identification number on IRS Form W-9, certifies under penalties of perjury that it is not currently subject to backup withholding, and otherwise complies with the backup withholding rules. Backup withholding is not an additional tax. Any amounts withheld under the backup withholding rules may be refunded or credited against a holder s U.S. federal income tax liability, provided the required information is timely furnished to the IRS.

In general, a Non-U.S. Holder will not be subject to U.S. backup withholding and information reporting with respect to the receipt of cash in exchange for shares of Henry Bros. common stock pursuant to the merger if it provides the required certification that it is not a U.S. person or otherwise establishes an exemption from backup withholding, generally by properly completing and submitting to the paying agent or withholding agent an IRS Form W-8BEN (or an IRS Form W-8ECI if the gain is effectively connected with the conduct of a U.S. trade or business by such Non-U.S. Holder), provided that Henry Bros., the paying agent, or the withholding agent do not have actual knowledge (or reason to know) that the relevant Non-U.S. Holder is a U.S. person or that the conditions of any exemption are not satisfied. If the shares of common stock are held through a non-U.S. partnership or other flow-through entity, certain documentation requirements also may apply to the partnership or other flow-through entity. Backup withholding is not an additional tax and any amounts withheld under the backup withholding rules may be refunded or credited against a Non-U.S. Holder s U.S. federal income tax liability, if any, provided that the required information is furnished to the IRS in a timely manner.

Regulatory Approvals

No filing is required under the Hart-Scott-Rodino Antitrust Improvements Act of 1976, as amended (the HSR Act), in connection with the merger and, therefore, there is no applicable waiting period under the HSR Act for the merger to be consummated. At any time before or after completion of the proposed merger, notwithstanding that there is no requirement for a filing pursuant to the HSR Act, the Antitrust Division of the Department of Justice or the Federal Trade Commission could take such action under the antitrust laws as it deems necessary or desirable in the public interest, including seeking to enjoin the completion of the proposed merger or seeking divestiture of assets of Kratos. At any time before or after the completion of the proposed merger, any state could take such action under antitrust laws as it deems necessary or desirable in the public interest. Private parties may also seek to take legal action under antitrust laws under certain circumstances.

In addition, we do not believe that the merger is subject to or requires any filing under any foreign antitrust laws.

We are not aware of any other regulatory requirements or governmental approvals or actions that may be required to consummate the merger, except for compliance with the applicable regulations of the SEC in connection with this proxy statement.

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The Voting Agreements

In order to induce Kratos and Merger Sub to enter into the merger agreement, each of our directors who collectively owned approximately 60% of our outstanding shares entitled to vote at the annual meeting as of the close of business on the record date entered into individual voting agreements with Kratos. Pursuant to the voting agreements, our directors have agreed to vote their shares of our capital stock in favor of adoption of the merger agreement and the approval of the merger, and against any proposal adverse to the merger. Our directors and executive officers have also agreed to irrevocably appoint certain persons identified by Kratos as their lawful attorneys and proxies. These proxies give Kratos the right to vote the shares of our capital stock beneficially owned by these individuals, including shares of our capital stock acquired by them after the date of the voting agreement, in favor of the adoption of the merger agreement and the approval of the merger, in favor of the adoption of any proposal to adjourn the annual meeting, if necessary, for the solicitation of additional proxies, and against any proposal adverse to the merger.

None of the individuals who are parties to the voting agreements were paid additional consideration in connection with entering into a voting agreement.

Pursuant to the voting agreements, each individual who is a party thereto agreed not to sell shares of our capital stock and options owned, either directly or indirectly, by such individual until the termination of the voting agreement.

These voting agreements will terminate upon the earlier of the termination of the merger agreement, the effective time of the merger or the date that any amendment or change to the merger agreement is effected without the individual s consent that decreases the merger consideration. The form of voting agreement is attached to this proxy statement as Appendix B and you are encouraged to read it in its entirety.

Delisting and Deregistration of Common Stock

If the merger is completed, Henry Bros. common stock will no longer be listed on NASDAQ or any other exchange or quotation system and will be deregistered under the Exchange Act, as soon as practicable following the completion of the merger.

Required Vote

The adoption of the merger agreement requires the affirmative vote of a majority of the outstanding shares of Henry Bros. common stock as of the record date. Shares not voted at the Annual Meeting, abstentions and broker non-votes, if any, will all have the same effect as votes against the adoption of the merger agreement. Brokers who hold shares of Henry Bros. common stock as nominees do not have discretionary authority to vote such shares on this proposal.

OUR BOARD OF DIRECTORS IS UNANIMOUSLY RECOMMENDING THAT YOU VOTE FOR THE ADOPTION OF THE MERGER AGREEMENT.

PROPOSAL NO. 2

ADJOURNMENT OF THE ANNUAL MEETING

If we fail to receive a sufficient number of votes to adopt the merger agreement, we may propose to adjourn our 2010 annual meeting for the purpose of soliciting additional proxies to adopt the merger agreement. We currently do not intend to propose adjournment at our annual meeting if there are sufficient votes to adopt the merger agreement. If

approval of the proposal to adjourn our annual meeting for the purpose of soliciting additional proxies is submitted to our stockholders for approval, such approval requires the affirmative vote of a majority of the votes cast at the annual meeting. Abstentions or broker non-votes, if any, will have no effect as they will not be counted as votes cast with respect to this proposal.

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OUR BOARD OF DIRECTORS IS UNANIMOUSLY RECOMMENDING THAT YOU VOTE FOR THE PROPOSAL TO ADJOURN THE ANNUAL MEETING, IF NECESSARY, TO SOLICIT ADDITIONAL PROXIES.

PROPOSAL NO. 3

ELECTION OF DIRECTORS

The persons named in the accompanying proxy will vote for the election of the following seven persons as directors, all are currently members of our Board of Directors, to hold office until the next annual meeting of stockholders and until their respective successors have been elected and qualified. Unless directed otherwise, each proxy will be voted for the nominees named below. If a nominee becomes unable or declines to serve as a director at the date of the Annual Meeting, the persons named in the proxy card have the right to use their discretion to vote for a substitute. All of the nominees have consented to serve as directors if elected.

DIRECTORS AND EXECUTIVE OFFICERS

Name	Age	Position(s) with Henry Bros.
Richard D. Rockwell	55	Chairman and Director
James E. Henry	56	Vice-Chairman, Chief Executive Officer, Treasurer and Director
Brian Reach.	55	President, Chief Operating Officer, Secretary and Director
Robert L. De Lia Sr.	62	Director
James W. Power	81	Director
Joseph P. Ritorto	79	Director
David Sands	53	Director
John P. Hopkins	50	Chief Financial Officer
Brian J. Smith	56	Corporate Controller
Christopher Peckham	45	Chief Information Officer/Chief Security Officer

Information about Directors and Nominees

Richard D. Rockwell has served as a director of Henry Bros. since November 2007. In December 2009, Mr. Rockwell was named Chairman of our Board of Directors, having previously served as Vice-Chairman since November 2008. Mr. Rockwell also serves our Executive Committee as Chairman. Mr. Rockwell has been Owner and Chairman of Professional Security Technologies LLC, a full service security systems integrator since 1996. Mr. Rockwell has been Owner and President of Main Security Surveillance, Inc. since 2005. From 1982 to 2003, Mr. Rockwell was Founder, Owner and Chief Executive Officer of Professional Security Bureau, Ltd. (PSB), a security guard services company. In 2003 PSB, with annual revenues in excess of $100 million, was divested to Allied Security. From 1997 through 2003, Mr. Rockwell was co-founder and Chairman of TransNational Security Group, LLC (TSG). TSG afforded the member companies with opportunities for national sales and marketing, national contracting, and combined purchasing power. From 1995 to 2005, Mr. Rockwell was founder and owner of PeopleVision, a full service advertising and display manufacturing company. From 1981 to 1982, Mr. Rockwell was vice president, legal affairs of Metropolitan Maintenance Company, a publicly-traded company listed on the Boston stock exchange. Mr. Rockwell received a Bachelor of Arts from Ithaca College and a Juris Doctor from Western New England College of Law. We believe Mr. Rockwell s qualifications to sit on our Board include his experience as founder and executive of several companies in the security and security systems integration industries.

James E. Henry co-founded Henry Bros. predecessor company in 1989 and is our Chief Executive Officer, Treasurer and Director. Mr. Henry has served as the Vice-Chairman of our Board of Directors since December 2009. Mr. Henry served as President until March 2007 and served as Chairman from December

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2001 to December 2009. Mr. Henry graduated from the University of New Hampshire with a Bachelor of Science degree in electrical engineering. In addition to his other responsibilities, Mr. Henry has continued to design, install, integrate and market security and communications systems as well as manage Henry Bros. research and development. We believe Mr. Henry s qualifications to sit on our Board include his leadership role in founding Henry Bros., his experience as a CEO and President and business leader, and his experience in the security systems integration industry.

Brian Reach, in addition to his prior duties, was named Chief Operating Officer in August 2006 and President in March 2007. Mr. Reach has been a member of our Board of Directors since February 2004 and has served as our Vice-Chairman from June 2004 to November 2008 and as our Secretary since November 2004. From September 1999 until April 2002, Mr. Reach was the Chief Financial Officer of Globix Corporation, a provider of application, media and infrastructure management services. Globix s common stock is traded on the OTC Bulletin Board. From May 1997 to August 1999, Mr. Reach was the Chief Financial Officer of IPC Communications, a provider of integrated telecommunications equipment and services to the financial industry. During his tenure at IPC, Mr. Reach successfully guided IPC through its leveraged recapitalization and financially restructured IPC enabling it to invest in strategic acquisitions and next generation technologies. Prior to IPC, Mr. Reach was the Chief Financial Officer of Celadon Group, Inc. and Cantel Industries, Inc. Mr. Reach became a certified public accountant in 1980 and received his Bachelor of Science degree in accounting from the University of Scranton in 1977. We believe Mr. Reach s qualifications to sit on our Board include his experience as a President, COO, CFO and business leader, his experience financial reporting best practices and his experience with structuring and negotiating business transactions.

Robert L. De Lia, Sr. has been a member of our Board of Directors since May 2004. Currently, Mr. De Lia is vice president of TJ s Motorsport, a privately held company dedicated to supplying quality motor sport products. From 2002 to 2003, Mr. De Lia was the President and Chief Executive Officer of Airorlite Communications, Inc., a company that specializes in designing, manufacturing and maintaining wireless communications equipment used to enhance and extend emergency radio frequency services and cellular communication for both fixed and mobile applications. In April 2004, a wholly-owned subsidiary of Henry Bros. purchased all of the issued and outstanding shares of stock of Airorlite Communications, Inc. From 1987 to 1999, Mr. De Lia was the President and Chief Executive Officer of Fiber Options, Inc. Mr. De Lia graduated from the New York Institute of Technology in 1969. We believe Mr. De Lia s qualifications to sit on our Board include his years of experience as a CEO and business leader.

James W. Power has been a member of our Board of Directors since December 2005. Mr. Power is a director of RAE Systems, Inc., a manufacturer of equipment used to detect nuclear devices, hazardous materials and toxic chemicals; and the principal partner in J.W. Power & Associates. Mr. Power previously served as Chairman of the Board of MDI, Inc. and Chairman of the Board of InfoGraphic Systems Corp.; President and Chief Executive Officer of Martec\SAIC; President and Chief Executive Officer of Pinkerton Control Systems and has held senior executive positions with Cardkey Systems, Inc., Nitrol Corporation and TRW Data Systems. Previously, he has served as a director of National Semiconductor, ICS Corporation, and Citicorp Custom Credit and Citicorp Credit Services. We believe Mr. Power s qualifications to sit on our Board include his experience as a CEO and business leader, and his other public company board and board committee service.

Joseph P. Ritorto has been a member of our Board of Directors since January 2002. Mr. Ritorto is the co-founder of First Aviation Services, Inc., which is located in Teterboro Airport, Teterboro, New Jersey and provides a variety of aviation support services. Mr. Ritorto has been an officer, in various capacities, of First Aviation Services since 1986. Mr. Ritorto sold First Aviation Services to a group led by Goldman Sachs in May 2008. From 1991, until he retired in May 2001, Mr. Ritorto served as the Senior Executive Vice President and Chief Operating Officer of Silverstein Properties, Inc. In this capacity, Mr. Ritorto s responsibilities included overseeing operations and directing the lease administration of Silverstein owned and managed properties. We believe Mr. Ritorto s qualifications to sit on our

Board include his years of experience as an executive and business leader and his experience with aviation support services.

David Sands has been a member of our Board of Directors since 2005. Mr. Sands is a certified public accountant and a partner of Buchbinder Tunick & Company LLP where he is the head of the tax department.

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Mr. Sands is a member of the American Institute of Certified Public Accountants and the New York State Society of CPAs. Mr. Sands has also lectured at the New York University Summer Continuing Education and the Foundation for Accounting Education Programs. Mr. Sands received a Bachelor of Science from SUNY at Buffalo and a Master of Science in Taxation from Pace University. We believe Mr. Sands qualifications to sit on our Board include his years of leadership as a partner in a certified public accounting firm and his expertise in financial reporting best practices.

Non-Director Executive Officers and Significant Employees

John P. Hopkins was appointed Chief Financial Officer in August 2006. Prior to joining Henry Bros., Mr. Hopkins was Chief Financial Officer for Measurement Specialties, Inc., a designer and manufacturer of sensors and sensor-based consumer products. From July 2002 to August 2006, was Vice President, Finance from April 2001 to July 2002, and was Vice President and Controller from January 1999 to March, 2001, with Cambrex Corporation, a provider of scientific products and services to the life sciences industry. From 1988 to 1998, he held various senior financial positions with ARCO Chemical Company, a manufacturer and marketer of specialty chemicals and chemical intermediates. Mr. Hopkins is a Certified Public Accountant and was an Audit Manager for Coopers & Lybrand prior to joining ARCO Chemical. Mr. Hopkins holds a B.S. in Accounting from West Chester University, and an M.B.A. from Villanova University.

Brian J. Smith was appointed Corporate Controller in April 2007. Prior to joining Henry Bros., Mr. Smith was VP-General Manager NetVersant of New York, a provider of voice and data system infrastructure from 2002. From 1991 to 2002 Mr. Smith held various senior financial positions with Insilco Technologies, a manufacturer and distributor of electronic components. Mr. Smith is a Certified Public Accountant and began his career as an auditor for KPMG Peat Marwick. Mr. Smith holds a B.S. in Accounting from Fordham University.

Christopher Peckham was appointed Chief Information Officer / Chief Security Officer in September 2007. Prior to joining Henry Bros., Mr. Peckham was Director of Operations with Sungard Higher Education from 2003. From 1999 to 2003, Mr. Peckham served in several VP positions at Globix Corporation in the areas of Network and Systems Engineering, Operations, and Information Technology. Prior to that, he held positions in networking and systems at Icon CMT, PFMC, and NJIT. Mr. Peckham received the B.S., M.S., and Ph.D. degrees in electrical engineering from the New Jersey Institute of Technology and a MBA from Rutgers University.

CORPORATE GOVERNANCE

Director Independence; Meetings and Committees

Pursuant to our By-laws, our business, property and affairs are managed by or under the direction of the Board. Members of the Board are kept informed of our business through discussions with the Chief Executive Officer and other officers, by reviewing materials provided to them and by participating in meetings of the Board and its committees. We currently have seven members on our Board. The Board has determined that five of its members, Robert L. De Lia Sr., James W. Power, Joseph P. Ritorto, Richard D. Rockwell, and David Sands are independent within the meaning of Rule 5605(a)(2) of the National Association of Securities Dealers Marketplace Rules of the NASDAQ Stock Market (the NASDAQ Rules), and for purposes of Rule 10A-3 of the Exchange Act. During 2009, the Board held six meetings and acted by once by unanimous written consent and the committees held a total of seven meetings. Each incumbent Director attended more than 75% of the total number of meetings of the Board and the Board committees of which he was a member during the period he served as a Director in fiscal year 2009. The Board has established a compensation committee, an audit committee and a nominating committee. Each incumbent Director attended the 2009 Annual Meeting of Stockholders.

Audit Committee

Messrs. Power, Rockwell and Sands are the current members of the Audit Committee, each of whom is independent. Each member of the Audit Committee meets the financial literacy requirements of the NASDAQ

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Rules. The Audit Committee is responsible for the appointment, compensation and oversight of the work of any independent registered public accounting firm employed by Henry Bros. The Audit Committee also reviews with Henry Bros. independent registered public accounting firm the adequacy and effectiveness of our system of internal financial controls and accounting practices. The Audit Committee has adopted an Audit Committee Charter. This charter is available to the stockholders on our website, www.hbe-inc.com, and is also available in print to any stockholder upon written request to: Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attention: Corporate Secretary. The Audit Committee reviews and reassesses the adequacy of the Audit Committee Charter on an annual basis. The Audit Committee met two times during 2009. The Board has determined that Mr. Sands qualifies as an audit committee financial expert as defined by Item 407(d) of Regulation S-K.

The Audit Committee is appointed by the Board to assist the Board in monitoring:

the integrity of the financial statements of Henry Bros. Electronics, Inc.,

the independent auditor s qualifications and independence,

the performance of the independent registered public accounting firm of Henry Bros. Electronics, Inc., and

the compliance by Henry Bros. Electronics, Inc. with legal and regulatory requirements.

The Audit Committee meets with management periodically to consider the adequacy of the internal controls of Henry Bros. Electronics, Inc. and the objectivity of its financial reporting. The Audit Committee discusses these matters with the independent registered public accounting firm of Henry Bros. Electronics, Inc. and with appropriate Henry Bros. financial personnel.

The Audit Committee regularly meets privately with the independent registered public accounting firm who have unrestricted access to the committee.

The Audit Committee selects, evaluates and, where appropriate, replaces the independent registered public accounting firm, and review periodically their performance, fees and independence from management.

Each of the Directors who serves on the committee is independent for purposes of the NASDAQ Rules. That is, the Board has determined that none of Messrs. Power, Rockwell, and Sands has a relationship with Henry Bros. Electronics, Inc. that may interfere with his independence from Henry Bros. Electronics, Inc. and its management.

The Board has adopted a written charter setting out the audit related functions the committee is to perform. Upon recommendation by the Audit Committee, the Board amended and restated the charter effective November 8, 2007. The Board reviews the charter on an ongoing basis to assure that the functions and duties of the Audit Committee will continue to conform to such applicable regulations as they may be amended or modified in the future. The charter is available to stockholders on our website, www.hbe-inc.com.

Management has primary responsibility for Henry Bros. financial statements and the overall reporting process, including Henry Bros. system of internal controls. The independent registered public accounting firm audits the annual financial statements prepared by management, express an opinion as to whether those financial statements fairly present the financial position, results of operations and cash flows of Henry Bros. in conformity with accounting principles generally accepted in the United States and discuss with us any issues they believe should be raised with us. The Audit Committee monitors these processes, relying without independent verification on the information provided to us and on the representations made by management and the independent registered public accounting firm.

Compensation Committee

The Compensation Committee recommends to our Board the compensation to be paid to our officers and directors, administers our stock option plans and approves the grant of options under these plans. For a description of Henry Bros. processes and procedures for the consideration and determination of executive and director compensation, see the discussion contained herein under the caption Executive Compensation Compensation Discussion and Analysis beginning on page 61. The Compensation Committee met five times

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during 2009. Messrs. Power, Ritorto and Rockwell are the current members of our Compensation Committee, each of whom is independent. We have not yet adopted a charter for the Compensation Committee.

Compensation Committee Interlocks and Insider Participation

The current members of the Compensation Committee are Messrs. Power, Ritorto and Rockwell. The Board made all decisions concerning executive compensation related to 2009. No executive officer of the Corporation served as a member of the Board of Directors of another entity during 2009. None of the members of the Compensation Committee has ever been an officer or employee of Henry Bros. or any of its subsidiaries, and no compensation committee interlocks existed during fiscal 2009.

Narrative Discussion of Compensation Policies and Practices as They Relate to Risk Management.

The Compensation Committee and our management have evaluated the risks associated with our compensation policies and practices. Based upon its review of the executive compensation programs and the assessment of other compensation programs provided by company management, the Compensation Committee has concluded that any risks arising from our compensation programs are not reasonably likely to have a material adverse effect on Henry Bros. as a whole.

Compensation Committee Report

Our Compensation Committee has reviewed and discussed the Compensation Discussion and Analysis with our management and based on the review and discussion recommended to the Board that the Compensation Discussion and Analysis be included in this Annual Report on Form 10-K. The Board accepted the Compensation Committee s recommendation. This report is made by the undersigned members of the Compensation Committee:

Joseph P. Ritorto (Chair)
Robert De Lia, Sr.
Richard D. Rockwell

Nominating Committee

Messrs. De Lia, Ritorto and Sands are the current members of our Nominating Committee, each of whom is independent. The Nominating Committee did not meet during 2009, but recommended to the Board each of the nominees who have been nominated for election to the Board at the 2010 Annual Meeting. The principal functions of the nominating committee are to: (i) develop policies on the size and composition of the Board; (ii) identify individuals qualified to become members of the Board and review candidates for Board membership; (iii) perform board performance evaluations on an annual basis and (iv) recommend a slate of nominees to the Board annually. The Board has adopted a written charter setting forth the functions of the Nominating Committee and providing direction as to nominating policies and procedures. This charter is available to the stockholders on our website, www.hbe-inc.com. The Nominating Committee s charter is also available in print to any stockholder upon written request to: Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attention: Corporate Secretary.

The Nominating Committee utilizes a variety of methods for identifying and evaluating nominees for director. The Nominating Committee does not have a formal policy with regard to the consideration of diversity in identifying director nominees, but the Nominating Committee strives to nominate directors with a variety of complementary skills so that, as a group, the Board will possess the appropriate talent, skills and expertise to oversee our business. Candidates may come to the attention of the Nominating Committee through current board members, stockholders or

other persons. The Nominating Committee will consider all recommendations of director nominees in a like manner. Henry Bros. has no formal procedures pursuant to which stockholders may recommend nominees to our Board and the Board believes that the lack of a formal procedure will not hinder the consideration of qualified nominees. Any stockholder desiring to suggest a Board

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nominee should send the name of such nominee for consideration to the attention of: Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attention: Corporate Secretary. Any such nomination must include:

As to each person whom the stockholder proposes to nominate for election or re-election as a director, all information relating to such person that is required to be disclosed in solicitations of proxies for election of directors, or as otherwise required, in each case pursuant to Regulation 14A under the Exchange Act, or any successor regulation thereto (including such person s written consent to being named in the proxy statement as a nominee and to serving as a director if elected); and

The nominating stockholder s name and address as they appear on our books, and the class and number of our shares beneficially owned by such stockholder.

Board Leadership Structure

Henry Bros. currently has separate individuals serving in the roles of Chairman of the board of directors and Chief Executive Officer in recognition of the differences between the two roles. The Chief Executive Officer is responsible for the day-to-day leadership of Henry Bros. while the Chairman of the board of directors presides over meetings of the full board of directors in which strategic direction for Henry Bros. is determined.

Risk Oversight

Our board s role in our risk oversight process includes receiving regular reports from members of management on areas of material risk to us, including operational, financial, legal and regulatory. Our board receives these reports from the appropriate risk owner within the organization to enable it to understand our risk identification, risk management and risk mitigation strategies. Our board encourages management to promote a corporate culture that incorporates risk management into our day-to-day business operations.

STOCKHOLDER COMMUNICATIONS WITH THE BOARD OF DIRECTORS

Stockholders who wish to communicate with the Board or with specified members of the Board should do so by sending any communication to Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attention: Corporate Secretary. Any such communication should state the number of shares beneficially owned by the stockholder making the communication. Our Corporate Secretary will forward such communication to the full Board or to any individual member or members of the Board to whom the communication is directed, unless the communication is unduly hostile, threatening, illegal or similarly inappropriate, in which case the Corporate Secretary has the authority to discard the communication or take appropriate legal action regarding the communication.

SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT

The table that follows sets forth, as of [ ], 2010 certain information regarding beneficial ownership of our Common Stock by each person who is known by us to beneficially own more than 5% of our Common Stock. The table also identifies the stock ownership of each of our directors, each of our officers, and all directors and officers as a group. Except as otherwise indicated, the stockholders listed in the table have sole voting and investment powers with respect to the shares indicated.

Shares of Common Stock which an individual or group has a right to acquire within 60 days pursuant to the exercise or conversion of options, warrants or other similar convertible or derivative securities are deemed to be outstanding for the purpose of computing the percentage ownership of such individual or group, but are not deemed to be

outstanding for the purpose of computing the percentage ownership of any other person shown in the table.

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The applicable percentage of ownership is based on [6,125,366][4] shares outstanding as of [ ], 2010.

Title of Class	Name and Address of Beneficial Owner(1)	Amount and Nature of Beneficial Ownership	Percentage of Class
Common Stock	Richard D. Rockwell, Chairman and Director(2)	2,217,416	36.2%
Common Stock	James E. Henry, Vice-Chairman, Chief Executive Officer, Treasurer and Director	1,205,519	19.7%
Common Stock	Brian Reach, President, Chief Operating Officer, Secretary, and Director(3)	172,000	2.8%
Common Stock	John P. Hopkins, Chief Financial Officer(4)	124,500	2.0%
Common Stock	Brian J. Smith, Corporate Controller(5)	30,000	*
Common Stock	Christopher Peckham, Chief Information Officer/Chief Security Officer(6)	30,000	*
Common Stock	Robert De Lia, Sr., Director(7)	68,694	1.1%
Common Stock	James W. Power, Director(8)	14,000	*
Common Stock	Joseph P. Ritorto, Director(9)	69,196	1.1%
Common Stock	David Sands, Director(10)	14,000	*
Common Stock	All executive officers and directors as a group (10 persons)(11)	3,945,325	61.6%

* Less than 1%

(1) Except as otherwise indicated, the address of each individual listed is c/o Henry Bros. Electronics, Inc. at 17-01 Pollitt Drive, Fair Lawn, NJ 07410.

(2) The amount shown for Mr. Rockwell includes three currently exercisable options to purchase 2,000 shares each of Henry Bros. Common Stock at a price of $5.60, $6.43 and $4.00 per share, respectively, and 75,000 shares of Henry Bros. Common Stock issued to Professional Security Technologies, LLC, of which Mr. Henry is the owner and Chairman and has dispositive and voting power over.

(3) The amount shown for Mr. Reach includes a currently exercisable option to purchase 40,000 shares of Henry Bros. Common Stock at a price of $3.71 per share.

(4) The amount shown for Mr. Hopkins includes a currently exercisable option to purchase 120,000 shares of Henry Bros. Common Stock at a price of $3.71 per share.

(5) The amount shown for Mr. Smith includes currently exercisable options to purchase 24,000 shares of Henry Bros. Common Stock at a price of $4.26 per share and 6,000 shares of Henry Bros. Common Stock at a price of $4.11 per share.

(6) The amount shown for Mr. Peckham includes a currently exercisable option to purchase 30,000 shares of Henry Bros. Common Stock at a price of $4.65 per share.

(7) The amount shown for Mr. De Lia, Sr. includes five currently exercisable options to purchase 2,000 shares each of Henry Bros. Common Stock at a price of $4.90, $3.33, $4.65, $6.43 and $4.00 per share, respectively, and one

currently exercisable option to purchase 4,000 shares of Henry Bros. Common Stock at a price of $5.60 per share.

(8) The amount shown for Mr. Power includes five currently exercisable options to purchase 2,000 shares each of Henry Bros. Common Stock at a price of $6.08, $3.33, $4.65, $6.43 and $4.00 per share, respectively, and one currently exercisable option to purchase 4,000 shares of Henry Bros. Common Stock at a price of $5.60 per share.

(9) The amount shown for Mr. Ritorto includes five currently exercisable options to purchase 2,000 shares each of Henry Bros. Common Stock at $4.90, $3.33, $4.65, $6.43 and $4.00 per share, respectively, and one currently exercisable option to purchase 4,000 shares of Henry Bros. Common Stock at a price of $5.60 per share.

[4] Includes 75,000 shares issued to Professional Security Technologies LLC.

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(10) The amount shown for Mr. Sands includes five currently exercisable options to purchase 2,000 shares each of Henry Bros. Common Stock at a price of $4.90, $3.33, $4.65, $6.43 and $4.00 per share, respectively, and one currently exercisable option to purchase 4,000 shares of Henry Bros. Common Stock at a price of $5.60 per share.

(11) The amount shown includes currently exercisable options to purchase 282,000 shares of Henry Bros. Common Stock.

Agreements Regarding Changes in Control

The adoption of the merger agreement requires the affirmative vote of a majority of our outstanding shares of common stock. The adoption of the merger agreement by our stockholders is a condition to the completion of the merger. Concurrently with the execution of the merger agreement, Richard D. Rockwell, James E. Henry, Brian Reach, Robert De Lia, Sr., James W. Power, Joseph P. Ritorto and David Sands signed voting agreements in which they agreed, among other things, to vote all of their outstanding shares of common stock FOR the adoption of the merger agreement. These individuals collectively own collectively own approximately 60.4% of the outstanding shares of our common stock.

EXECUTIVE COMPENSATION

Compensation Discussion and Analysis

Through the following questions and answers we explain all material elements of our executive compensation:

What are the objectives of our executive compensation programs?

Our corporate goal is to maximize our total return to our stockholders through share price appreciation. Towards this goal, we seek to compensate our executives at levels that are competitive with peer companies so that we may attract, retain and motivate highly capable executives. We also design our compensation programs to align our executives interests with those of our stockholders.

Our 2009 executive compensation reflects our effort to realize these objectives.

What are the principal components of our executive compensation programs?

Overview: Our executive compensation programs consist of three principal components: (i) a base salary; (ii) annual bonuses; and (iii) stock option grants. Henry Bros. policy for compensating our executive officers is intended to provide significant annual long-term performance incentives. We describe each of these principal components below.

Relationship of the principal components: We have allocated the three principal components of our executive compensation programs in a manner that we believe optimizes each executive s contribution to us. We have not established specific formulae for making the allocation.

Base Salary: We do not have employment agreements with any of our executives. Base salaries for executive officers are determined by evaluating a variety of factors, including the experience of the individual, the competitive marketplace for managerial talent, Henry Bros. performance, the executive s performance, and the responsibilities of the executive. Although our Compensation Committee annually reviews salaries of our executive officers, our Compensation Committee does not automatically adjust base salaries if it concludes that adjustments to other

components of the executive s compensation would be more appropriate.

Annual Bonus: Cash bonus awards are based on a variety of factors, including the individual performance of the executive and Henry Bros. performance.

Long-Term Incentive Compensation (Stock Options for Common Shares): The Compensation Committee believes that stock-based compensation arrangements are essential in aligning the interests of management and the stockholders. Henry Bros. 2002, 2006 and 2007 Stock Plans provides for the issuance of stock options to

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its executive officers and other employees. Stock options to purchase shares of Henry Bros. Common Stock are issued at an exercise price equal to the fair market value of such stock on the date immediately preceding the date on which the stock option is granted. These options typically vest over a three to five year period from the date of grant and are granted to Henry Bros. executive officers and other employees as part of their employment with Henry Bros. or as a reward for past individual and corporate performance. The size of awards is determined by the Committee based on factors such as the executive s position, individual performance and Henry Bros. performance.

What do we seek to reward and accomplish through our executive compensation programs?

We believe that our compensation programs, collectively, enable us to attract, retain and motivate high quality executives. We provide annual bonus awards primarily to provide performance incentives to employees to meet corporate performance objectives. Our corporate objectives are measured by sales increases, operating margins, net income and other items of performance as determined on an annual basis. We design long-term incentive awards primarily to motivate and reward employees over longer periods. Through vesting and forfeiture provisions that we include in awards of stock options we provide an additional incentive to executives to act in furtherance of our longer-term interests. An executive whose employment with us terminates before equity-based awards have vested, either because the executive has not performed in accordance with our expectations or because the executive chooses to leave, will generally forfeit the unvested portion of the award.

Why have we selected each principal component of our executive compensation programs?

We have selected programs that we believe are commonly used by public companies, both within and outside of our industry, because we believe commonly used programs are well understood by our stockholders, employees and analysts. Moreover, we selected each program only after we first confirmed, with the assistance of outside professional advisors, that the program comports with settled legal and tax rules.

How do we determine the amount of each principal component of compensation to our executives?

Our Compensation Committee exercises judgment and discretion in setting compensation for our senior executives. The Committee exercises its judgment and discretion only after it has first evaluated the recommendations of our Chief Executive Officer and Chief Operating Officer and evaluated our corporate performance.

What specific items of corporate performance do we take into account in setting compensation policies and making compensation decisions?

Our corporate performance primarily impacts the annual bonuses and long-term incentive compensation that we provide our executive officers. We use or weight items of corporate performance differently in our annual bonus and long-term compensation awards and some items are more determinative than others.

Goals for executives in 2009 varied because the areas of responsibility of executives differ. Goals are generally developed around metrics tied to our growth and profitability, including increases in revenue and operating profit, decreases in expenses, execution of acquisitions, enhanced operational efficiencies and development of additional opportunities for our long-term growth.

How do we determine when awards are granted, including awards of equity-based compensation?

Historically, our Compensation Committee has awarded annual bonuses in the quarter following the year end. The Compensation Committee makes awards of stock options on an ad hoc basis, but generally quarterly, following review of pertinent financial information and industry data. In addition, the Compensation Committee conducts a

thorough review of stock option awards and grant procedures annually. The date on which the Committee has met has varied from year to year, primarily based on the schedules of Committee members, the timing of compilation of data requested by the Committee and the timing related to the hiring of senior management.

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Over the past years our equity-based awards to executives have taken the form of stock options. The number of stock options subject to an award has been computed by taking into account Henry Bros. performance, the particular executive s performance, our retention objectives, and other factors.

What factors do we consider in decisions to increase or decrease compensation materially?

Historically, we have generally not decreased the base salaries of our executive officers or reduced their incentive compensation targets due to individual performance. When an executive s performance falls short of our expectations then we believe our interests are best served by replacing the executive with an executive who performs at the level we expect. The factors that we consider in decisions to increase compensation include the individual performance of the executive, responsibility of the executive and our corporate performance, as discussed above.

To what extent does our Compensation Committee consider compensation or amounts realizable from prior compensation in setting other elements of compensation?

The primary focus of our Compensation Committee in setting executive compensation is the executive s current level of compensation, including recent awards of long-term incentives, taking into account the executive s performance and our corporate performance. The Committee has not adopted a formulaic approach for considering amounts realized by an executive from prior equity-based awards.

How do accounting considerations impact our compensation practices?

Accounting consequences are not a material consideration in designing our compensation practices. However, we design our equity awards so that its overall cost fell within a budgeted dollar amount and so that the awards would qualify for classification as equity awards under FAS 123R. Under FAS 123R the compensation cost recognized for an award classified as an equity award is fixed for the particular award and, absent modification, is not revised with subsequent changes in market prices of our Common Stock or other assumptions used for purposes of the valuation.

How do tax considerations impact our compensation practices?

Prior to implementation of a compensation program and awards under the program, we evaluate the federal income tax consequences, both to us and to our executives, of the program and awards. Before approving a program, our Compensation Committee receives an explanation from our outside professionals as to the tax treatment of the program and awards under the program and assurances from our outside professionals that the tax treatment should be respected by taxing authorities.

Section 162(m) of the Internal Revenue Code limits our tax deduction each year for compensation to each of our Chief Executive Officer and our four other highest paid executive officers to $1 million unless, in general, the compensation is paid under a plan that is performance-related, non-discretionary and has been approved by our stockholders. Generally, Section 162(m) has not had a significant impact on our compensation programs.

What are our equity or other security ownership requirements for executives and our policies regarding hedging the economic risk of share ownership?

We do not maintain minimum share ownership requirements for our executives. We do not have a policy regarding hedging the economic risk of share ownership.

To what extent do we benchmark total compensation and material elements of compensation and what are the benchmarks that we use?

While the Compensation Committee does not perform formal benchmarks, they do compare the elements of total compensation to compensation provided by knowledge gained in the industry.

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Do we have a policy regarding the recovery of awards or payments if corporate performance measures upon which awards or payments are based are restated or adjusted in a manner that would reduce the size of an award or payment?

For non-executive officers, we have a policy that provides for a case-by-case review to determine if a recovery of an award is necessary if a performance measure used to calculate the award is subsequently adjusted in a manner that would have reduced the size of the award. For executive officers, we have a policy that requires a recovery of an award if a performance measure used to calculate the award is subsequently adjusted in a manner that would have reduced the size of the award.

What is the role of our executive officers in the compensation process?

Our Compensation Committee meets periodically with our Chief Executive Officer and Chief Operating Officer to address executive compensation, including the rationale for our compensation programs and the efficacy of the programs in achieving our compensation objectives. The Compensation Committee also relies on executive management to evaluate compensation programs to assure that they are designed and implemented in compliance with laws and regulations, including SEC reporting requirements. The Compensation Committee relies on the recommendations of our Chief Executive Officer and Chief Operating Officer regarding the performance of individual executives. At meetings in 2009 the Compensation Committee received recommendations from our Chief Executive Officer and Chief Operating Officer regarding salary adjustments and annual bonus and stock option awards for our executive officers. Our Chief Executive Officer and Chief Operating Officer play a significant role in determining the annual cash compensation of our executive officers. The Compensation Committee believes that it is important for it to receive the input of the Chief Executive Officer and Chief Operating Officer on compensation matters since they are knowledgeable about the activities of our executive officers and the performance of their duties and responsibilities, as well as their contributions to the growth of Henry Bros. and its business. The Compensation Committee accepted these recommendations after concluding that the recommendations comported with the Committee s objectives and philosophy and the Committee s evaluation of our performance and industry data.

SUMMARY COMPENSATION TABLE

The following table sets forth summary information concerning the annual compensation for the years ended December 31, 2009, 2008 and 2007 for our principal executive officer (PEO), principal financial officer (PFO) and our most highly compensated executive officers other than our PEO and our PFO for the years ended December 31, 2009, 2008 and 2007:

Name and Principal Position	Year	Salary ($)	Bonus ($)	Option Awards ($)(1)	All Other Compensation ($)(2)	Total ($)
James E. Henry, Vice-Chairman, Chief Executive Officer, Treasurer and	2009	213,927			750	214,677
Director	2008	180,131	36,050			216,181
	2007	174,148				171,148
Brian Reach, President, Chief						
Operating	2009	213,927			7,050	220,977
Officer, Secretary and Director(3)	2008	180,131	36,050		6,300	222,481
	2007	173,019		10,626	6,281	189,926
	2009	199,388			6,750	206,138

John P. Hopkins, Chief Financial Officer						
	2008	180,131	33,050		6,000	219,181
	2007	175,000		31,879	6,500	213,379
Brian J. Smith(4)	2009	164,478			6,000	170,478
	2008	147,971	17,803		6,000	171,774
	2007	100,223		12,035	4,250	116,508
Christopher Peckham(5)	2009	149,260			5,550	154,810
	2008	125,926	25,189		4,800	155,915
	2007	36,058		5,407	1,400	42,865

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(1) Amounts represent the aggregate grant date fair value of stock option awards granted computed in accordance with FASB Codification Topic 718 regarding share-based payments for the listed fiscal year. In accordance with current SEC disclosure requirements, stock awards for fiscal year 2008 and fiscal year 2007, previously reported as amounts recognized, or expensed, for the fiscal year, are now being reported above as grant date fair values. Amounts of stock options which have been granted prior to 2007 and are being expensed over the last three fiscal years, are not reflected in the table as the transition rules only look back three years.

The value of the option granted has been computed in accordance FASB Codification Topic No. 718 (formerly, Statement of Financial Accounting Standards No. 123(R), Share-Based Payment) which requires that we recognize as compensation expense the grant date fair value of all stock-based awards granted to employees in exchange for services over the requisite service period, which is typically the vesting period. For more information, including the assumptions made in calculating the value of the option awards, see Note 10 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

(2) For Messrs. Hopkins, Smith and Peckham represents auto allowances. For Mr. Reach represents medical premium reimbursement.

(3) Effective March 23, 2007, Mr. Reach assumed the position of President.

(4) Effective April 14, 2007 Mr. Smith became the Corporate Controller.

(5) Effective September 10, 2007 Mr. Peckham became the Chief Information Officer / Chief Security Officer.

Grants of Plan-Based Awards at Fiscal Year-End

There were no grants of stock options under our existing stock option plans issued by us during 2009 to executive officers named in the Summary Compensation Table.

Subsequent Grants of Plan-Based Awards

On June 24, 2010, Mr. Reach was granted 100,000 incentive stock options to purchase shares at an exercise price of $3.85 per share. Such options will vest in five equal installments of 20,000 on June 23, 2011, 2012, 2013, 2014 and 2015, respectively.

Narrative Disclosure to Summary Compensation Table and Grants of Plan-Based Awards

We have not entered into employment agreements with any of the named executive officers. Base salaries for executive officers were determined by evaluating a variety of factors, including the experience of the individual, the competitive marketplace for managerial talent, our performance, the executive s performance, and the responsibilities of the executive. Cash bonus awards, if any, were based on a variety of factors, including the individual performance of the executive and our performance. Stock option awards were computed by taking into account our performance, the particular executive s performance, our retention objectives, and other factors.

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Outstanding Equity Awards at Fiscal Year-End

The following table contains information concerning unexercised options held as of December 31, 2009 by the executive officers named in the Summary Compensation Table:

	Option Awards			
Name	**Number of Securities Underlying Options Exercisable (#)**	**Number of Securities Underlying Options Unexercisable (#)**	**Option Exercise Price ($)**	**Option Expiration Date**
Brian Reach(1)	30,000(2)	20,000(2)	3.71	8/8/2012
John P. Hopkins	90,000(3)	60,000(3)	3.71	8/8/2012
Brian Smith	16,000(4)	24,000(4)	4.26	5/14/2013
Brian Smith	4,000(5)	6,000(5)	4.11	11/8/2013
Christopher Peckham	20,000(6)	30,000(6)	4.65	9/11/2013

(1) On June 24, 2010, Mr. Reach was granted 100,000 incentive stock options to purchase shares at an exercise price of $3.85 per share. Such options will vest in five equal installments of 20,000 on June 23, 2011, 2012, 2013, 2014 and 2015, respectively.

(2) Represents grant of 50,000 incentive stock options which vests in five equal installments of 10,000 on August 8, 2007, 2008, 2009, 2010, and 2011, respectively.

(3) Represents grant of 150,000 incentive stock options which vests in five equal installments of 30,000 on August 8, 2007, 2008, 2009, 2010, and 2011, respectively.

(4) Represents grant of 40,000 incentive stock options which vests in five equal installments of 8,000 on April 13, 2008, 2009, 2010, 2011, and 2012, respectively.

(5) Represents grant of 10,000 incentive stock options which vests in five equal installments of 2,000 on November 8, 2008, 2009, 2010, 2011, and 2012, respectively.

(6) Represents grant of 50,000 incentive stock options which vests in five equal installments of 10,000 on September 11, 2008, 2009, 2010, 2011, and 2012, respectively.

Potential Payments Upon Termination or Change-in-Control

Severance Agreements

We have not entered into severance agreements or similar agreements providing for payments upon termination of employment or change-in-control with the named executive officers.

Stock Option Agreements

Pursuant to the terms of the Stock Option Agreement dated June 24, 2010, evidencing Mr. Reach s 100,000 options exercisable at $3.85 per share, all such unvested options are accelerated and become fully vested and immediately exercisable upon the occurrence of a change of control of Henry Bros.

The terms of the Stock Option Agreements evidencing Mr. Reach s 50,000 options exercisable at $3.71 per share, Mr. Hopkins s 150,000 options exercisable at $3.71 per share, Mr. Smith s 40,000 options exercisable at $4.26 per share and 10,000 options exercisable at $4.11 per share, and Mr. Peckham s 50,000 options exercisable at $4.65 per share provide that upon the occurrence of a change of control of Henry Bros. and the related, or resulting, termination without cause of such optionee s employment with Henry Bros. or successor company, all of such optionee s unvested options are accelerated and become fully vested and immediately exercisable.

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DIRECTOR COMPENSATION

For the year ended December 31, 2009, all of our outside Directors, that is, Directors who are not employees or full-time consultants of Henry Bros., each received compensation as follows:

Name	Fees Earned or Paid in Cash ($)(1)	Option Awards ($)(2)	Total ($)
Richard D. Rockwell	13,250	5,840(3)	19,090
Robert De Lia, Sr.	13,250	5,840(4)	19,090
James W. Power	13,250	5,840(5)	19,090
Joseph P. Ritorto	13,250	5,840(6)	19,090
David Sands	13,250	5,840(7)	19,090

(1) Henry Bros. non-employee directors receive a quarterly fee of $1,250 and an annual stock option grant to purchase 2,000 shares of Henry Bros. common stock at the closing share price on the day of the grant and $1,000 for attendance at each Board or Committee meeting.

(2) Amounts in this column reflect the dollar amounts that were recognized in fiscal 2009 for financial statement reporting purposes under FASB Codification Topic No. 718 with respect to option awards granted to our directors in and prior to fiscal 2009. For more information, including the assumptions made in calculating the value of the option awards, see Note 10 of the Notes to Consolidated Financial Statements contained in our Annual Report on Form 10-K for the fiscal year ended December 31, 2009.

(3) At December 31, 2009, Mr. Rockwell held options to purchase 4,000 shares of Common Stock.

(4) At December 31, 2009, Mr. De Lia, Sr. held options to purchase 14,000 shares of Common Stock.

(5) At December 31, 2009, Mr. Power held options to purchase 12,000 shares of Common Stock.

(6) At December 31, 2009, Mr. Ritorto held options to purchase 14,000 shares of Common Stock.

(7) At December 31, 2009, Mr. Sands held options to purchase 12,000 shares of Common Stock.

Directors who are also our employees receive no additional compensation for attendance at board meetings. Mr. Henry and Mr. Reach are the only members of the Board who are also employees. Henry Bros. non-employee directors receive a quarterly fee of $1,250 and an annual stock option grant to purchase 2,000 shares of Henry Bros. Common Stock at the closing share price on the day of the grant and $1,000 for attendance at each Board or Committee meeting.

TRANSACTIONS WITH RELATED PERSONS

Policy

It is our policy to not enter into any transaction with an officer, director or affiliate of ours or any member of their families unless the transaction is approved by the Audit Committee (or a majority of its disinterested members) after making the determination that the terms of the transaction are no less favorable to us than the terms available from non-affiliated third parties or are otherwise deemed to be fair to us at the time approved.

During the fiscal year ended December 31, 2009, Henry Bros. engaged in the following related party transactions:

Richard D. Rockwell, a member of our Board of Directors since November 2007, has been owner and Chairman of Professional Security Technologies LLC, a New Jersey limited liability company (PST), a full service security systems integrator since 1996. Henry Bros. had revenues of $120,130, $51,447 and $4,787 for the years 2009, 2008 and 2007, respectively, with respect to the sale of equipment to PST. There was a balance of $39,192 in accounts receivable as of December 31, 2009.

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During the fiscal year 2010, Henry Bros. engaged in the following related party transaction:

On September 2, 2010, Henry Bros. and PST executed an Asset Purchase Agreement, whereby, effective July 31, 2010, Henry Bros. agreed to purchase certain assets of PST consisting principally of a customer list of existing and targeted potential PST customers and PST s assignment of its rights under an existing dealer agreement with a national equipment supplier pursuant to which Henry Bros. will be authorized to sell the supplier s products. Richard Rockwell, our Chairman, is the majority owner of PST. In addition, Henry Bros. agreed to hire certain PST employees. The total consideration being paid to PST for the assets is as follows:

150,000 shares of Henry Bros. common stock, 75,000 of which will be delivered at closing. The remaining 75,000 shares will be held in escrow subject to delivery as described below;

Payment of five (5%) percent of the net cash proceeds received by Henry Bros., during the period commencing on July 1, 2010 and ending on December 31, 2012, in connection with (a) sales to PST customers (including sales of supplier products) and (b) sales of supplier products to Henry Bros. other customers; and

75,000 shares of Henry Bros. common stock when the aggregate revenue from the sales described above, during the period commencing on July 1, 2010 and ending on December 31, 2012, equal $8,000,000; *provided*, *however*, such shares will be released, prior to reaching the revenue target, in the event there is a change in control of Henry Bros. prior to December 31, 2012. The acquisition by Kratos will constitute a change in control of Henry Bros.

Our board of directors approved the acquisition of such assets in June 2010.

Section 16(a) Beneficial Ownership Reporting Compliance

Section 16(a) of the Exchange Act, requires our directors and officers, and persons who own more than 10% of our Common Stock, to file with the SEC initial reports of beneficial ownership and reports of changes in beneficial ownership of our Common Stock and other equity securities. Our officers, directors and greater than 10% beneficial owners are required by SEC regulation to furnish us with copies of all Section 16(a) forms they file.

To our knowledge, for the year ended December 31, 2009, based solely on a review of the copies of such reports furnished to us and representations by these individuals that no other reports were required during the year ended December 31, 2009, all Section 16(a) filing requirements applicable to our directors, officers and greater than 10% beneficial owners have been timely filed.

Code of Conduct and Code of Ethics

We have a Code of Conduct that applies to all of our directors, officers and employees, including our principal executive officer, principal financial officer and principal accounting officer and a Code of Ethics that applies to our senior financial officers. You can find our Code of Conduct and Code of Ethics on our website: www.hbe-inc.com. We will post there any amendments to these Codes, as well as any waivers that are required to be disclosed by the NASDAQ Rules or the rules of the SEC.

Required Vote

Directors are elected by a plurality of the votes cast at the Annual Meeting. Votes withheld in the election of directors and abstentions or broker non-votes, if any, will not be counted towards the election of any person as a director. Brokers who hold shares of Common Stock as nominees do not have discretionary authority to vote such shares on

this proposal. In the event that any of the nominees should become unavailable before the Annual Meeting, it is intended that shares represented by the enclosed Proxy will be voted for such substitute nominee as may be nominated by the Board.

OUR BOARD OF DIRECTORS IS UNANIMOUSLY RECOMMENDING THAT YOU VOTE FOR EACH OF THE SEVEN NOMINEES FOR DIRECTOR LISTED ABOVE.

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PROPOSAL NO. 4

RATIFICATION OF APPOINTMENT OF EISNERAMPER LLP AS HENRY BROS. INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

Appointment of Independent Registered Public Accounting Firm for 2010

The Audit Committee has appointed EisnerAmper LLP as Henry Bros. independent registered public accounting firm for 2010. We are not required to have the stockholders ratify the selection of EisnerAmper LLP as Henry Bros. independent registered public accounting firm. We are doing so because we believe it is a matter of good corporate practice. If the stockholders do not ratify the selection, the Audit Committee will reconsider whether or not to retain EisnerAmper LLP, but may retain such independent registered public accounting firm. Even if the selection is ratified, the Audit Committee, in its discretion, may change the appointment at any time during the year if it determines that such a change would be in the best interests of Henry Bros. and its stockholders.

Representatives of EisnerAmper LLP are expected to be present at the Annual Meeting with the opportunity to make a statement if they desire to do so and available to respond to appropriate questions.

Changes in Our Independent Registered Public Accounting Firm

As noted in Henry Bros. Current Report on Form 8-K filed on August 24, 2010 with the SEC, Henry Bros. engaged EisnerAmper LLP to serve as Henry Bros. independent registered public accounting firm. EisnerAmper LLP is the successor firm in a merger of Amper, Politziner and Mattia, LLP, which has served as Henry Bros. independent registered public accounting firm since November 5, 2007, with Eisner LLP on August 16, 2010.

The reports of Amper, Politziner and Mattia, LLP on Henry Bros. financial statements for the years ended December 31, 2009 and 2008 did not contain an adverse opinion or a disclaimer of opinion and were not qualified or modified as to uncertainty, audit scope, or accounting principles. During (1) the years ended December 31, 2009 and 2008, and (2) the period beginning January 1, 2010 through August 20, 2010, (the date of appointment of EisnerAmper LLP), there were no disagreements with Amper, Politziner and Mattia, LLP on any matters of accounting principles or practices, financial statement disclosure, or auditing scope and procedures which, if not resolved to the satisfaction of Amper, Politziner and Mattia, LLP, would have caused Amper, Politziner and Mattia, LLP to make reference to the matter in its report.

During the years ended December 31, 2009 and 2008 and the period beginning January 1, 2010 though August 20, 2010 (the date EisnerAmper LLP was appointed), neither Henry Bros. nor anyone acting on Henry Bros. behalf consulted with Eisner LLP regarding (1) the application of accounting principles to a specified transaction or the type of audit opinion that might be rendered on Henry Bros. financial statements or (2) any of the matters or events set forth in Item 304(a)(2)(i) and (ii) of Regulation S-K.

Fees Paid to Our Independent Registered Public Accounting Firm

Audit Fees

The aggregate fees paid to Amper, Politziner & Mattia, LLP for professional services rendered for the audits of Henry Bros. annual financial statements on Form 10-K in 2009 and the review of the financial statements on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2009 were $253,860.

The aggregate fees paid to Amper, Politziner & Mattia, LLP for professional services rendered for the audits of Henry Bros. annual financial statements on Form 10-K in 2008 and the review of the financial statements on Form 10-Q for the quarters ended March 31, June 30, and September 30, 2008 were $161,710.

Audit-Related Fees

There were no audit-related fees paid to Amper, Politziner & Mattia, LLP in 2009 and 2008.

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Audit related services include due diligence in connection with acquisitions, consultation on accounting and internal control matters, audits in connection with proposed or consummated acquisitions and review of registration statements.

Tax Fees

There were no tax fees paid to Amper, Politziner & Mattia, LLP in 2009 and 2008.

All Other Fees

There were no other fees paid to Amper, Politziner & Mattia, LLP in 2009 and 2008.

Pre-Approval Policy for Audit and Permissible Non-Audit Services

Our Audit Committee has implemented procedures for the pre-approval of all engagements of Henry Bros. independent registered public accounting firm for both audit and permissible non-audit services, including the fees and terms of each engagement subject to certain permitted statutory de minimus exceptions. Our Audit Committee annually meets with the independent registered public accounting firm and reviews and pre-approves all audit and audit-related services prior to commencement of the audit engagement. Our Audit Committee will discuss any non-audit services with management and, as necessary, with the independent registered public accounting firm prior to making any determination to approve or reject any such engagement.

Our Audit Committee approved 100% of the fees paid to the principal accountant for audit-related, tax and other fees. Our Audit Committee pre-approves all non-audit services to be performed by the auditor. The percentage of hours expended on the principal accountant s engagement to audit our financial statements for the most recent year that were attributed to work performed by persons other than the principal accountant s full-time permanent employees was 0%.

Required Vote

The affirmative vote of a majority of the votes cast on this proposal will be required to ratify the appointment of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for the fiscal year ending December 31, 2010. Abstentions and broker non-votes, if any, will not be counted as votes cast with respect to this matter. Unless otherwise directed, persons named in the Proxy intend to cast all properly executed Proxies received by the time of the Annual Meeting for the ratification of the appointment of EisnerAmper LLP as Henry Bros. independent registered public accounting firm for the fiscal year ending December 31, 2010. Brokers who hold shares of common stock as nominees generally have discretionary authority to vote such shares on this proposal if they have not received voting instructions from the beneficial owners by the tenth day before the Annual Meeting, provided that this Proxy Statement is transmitted to the beneficial owners at least 15 days before the Annual Meeting.

OUR BOARD OF DIRECTORS IS UNANIMOUSLY RECOMMENDING A VOTE FOR THE RATIFICATION OF THE APPOINTMENT OF EISNERAMPER LLP AS HENRY BROS. INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM FOR 2010.

MISCELLANEOUS

Stockholder Proposals

In order to be eligible for inclusion in our proxy statement for our 2011 Annual Meeting under our By-laws and Rule 14a-8 of the federal proxy rules (relating to proposals to be included in the proxy statement and form of proxy),

stockholder proposals must be received not later than [July 8, 2011]. In addition, under our By-laws, stockholder proposals submitted prior to [August 25, 2011], or after [September 14, 2011], will be excluded from consideration at our 2011 Annual Meeting. The advance notice requirement in our By-laws supersedes the notice period in Rule 14a-4(c)(1) of the federal proxy rules regarding discretionary proxy voting authority with respect to such stockholder business. Such proposals relating to possible director

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nominees should be addressed to the attention of the Nominating Committee, c/o the Corporate Secretary, and all other proposals should be addressed to the Corporate Secretary, in each case at the address set forth above. If the proposed merger is completed we will not have public stockholders, and there will be no public participation in any future meetings of stockholders. However, if the merger is not consummated, we expect to hold the 2011 Annual Meeting of stockholders.

Our By-laws contain additional requirements, including as to content, to properly submit a proposal or to nominate a director. If you plan to submit a proposal or nominate a director, please review our By-laws carefully. You may obtain a copy of our By-laws by mailing a request in writing to the address set forth above. Our By-laws are also available as Exhibit 99.3 of our Current Report on Form 8-K filed with the SEC on November 15, 2007.

Other Matters

The Board knows of no other matters that will be presented for consideration at the Annual Meeting. If any other matters are properly brought before the Annual Meeting, including adjournment of the Annual Meeting and any other matters incident to the conduct of the Annual Meeting, it is the intention of the persons named in the accompanying proxy card to vote on such matters in accordance with their best judgment. Discretionary authority for them to do so is contained in the enclosed proxy card.

Annual Report to Stockholders

Our Annual Report on Form 10-K for the fiscal year ended December 31, 2009 and our Quarterly Report on Form 10-Q for the fiscal quarter ended June 30, 2010 have been mailed to stockholders simultaneously with the mailing of the Proxy Statement. Such reports are not incorporated herein and are not deemed to be a part of this proxy solicitation material.

Reduce Duplicate Mailings

If you are a stockholder of record and have more than one account in your name or at the same address as other stockholders of record, you may authorize us to discontinue duplicate mailings of future proxy statements and Annual Reports (commonly referred to as householding). To do so, or to withdraw any previously given authorizations, please direct your written request to the Corporate Secretary, at the address set forth above. Street name stockholders who wish to discontinue receiving duplicate mailings of future Annual Reports should review the information provided in the proxy materials mailed to them by their bank or broker.

WHERE YOU CAN FIND MORE INFORMATION

We file annual, quarterly and current reports, proxy statements and other information with the SEC. You may read and copy any document we file at the SEC s public reference room located at 100 F Street, N.E., Room 1580, Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room. Our SEC filings are also available to the public at the SEC s website at http://www.sec.gov. You also may obtain free copies of the documents we file with the SEC by going to the Investor Relations page of our corporate website at www.hbe-inc.com. Our website address is provided as an inactive textual reference only. The information provided on our website is not part of this proxy statement, and therefore is not incorporated herein by reference.

Any person, including any beneficial owner, to whom this proxy statement is delivered may request copies of this proxy statement or other information concerning us, without charge, by written or telephonic request directed to Henry Bros. Electronics, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey, 07410, Attn: Corporate Secretary, telephone (201) 794-6500.

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APPRAISAL RIGHTS

Under Delaware law, if you comply with the terms and provisions of Section 262 of the DGCL, you have the right, if the merger is completed, to receive payment in cash for the fair value, exclusive of any element of value arising from the accomplishment or expectation of the merger, of your shares of Henry Bros. common stock as determined by the Delaware Court of Chancery, together with interest, if any, as determined by the court, in lieu of the consideration you would otherwise be entitled to pursuant to the merger agreement. The fair value of your shares as determined by the Delaware Court of Chancery may be more or less than, or the same as, the merger consideration that you would otherwise be entitled to under the merger agreement. These rights are known as appraisal rights. Stockholders electing to exercise appraisal rights must comply with the provisions of Section 262 of the DGCL in order to perfect their rights. We will require strict compliance with the statutory procedures and failure to follow precisely any of the statutory requirements may result in the loss of your appraisal rights.

The following is intended as a brief summary of the material provisions of the Delaware statutory procedures required to be followed by a stockholder in order to dissent from the merger and perfect appraisal rights. The following summary does not constitute any legal or other advice, nor does it constitute a recommendation that stockholders exercise their appraisal rights under Section 262 of the DGCL. In addition, this summary is not a complete statement of all applicable requirements and is qualified in its entirety by reference to Section 262 of the DGCL, the full text of which appears in Appendix D to this proxy statement. All references in this summary to a stockholder are to the record holder of shares of Henry Bros. common stock unless otherwise indicated.

Section 262 requires that stockholders for whom appraisal rights are available be notified not less than 20 days before the stockholders meeting to vote on the merger that appraisal rights will be available. A copy of Section 262 must be included with such notice. This proxy statement constitutes our notice to Henry Bros. stockholders of the availability of appraisal rights in connection with the merger in compliance with the requirements of Section 262. If you wish to consider exercising your appraisal rights, you should carefully review the text of Section 262 contained in Appendix D to this proxy statement since failure to timely and properly comply with the requirements of Section 262 will result in the loss of your appraisal rights under Delaware law.

If you elect to demand appraisal of your shares, you must satisfy each of the following conditions:

- You must deliver to us a written demand for appraisal of your shares before the vote is taken to adopt the merger agreement. This written demand for appraisal must be in addition to and separate from any proxy or vote abstaining from or voting against the adoption of the merger agreement. Voting against or failing to vote for the adoption of the merger agreement by itself does not constitute a demand for appraisal within the meaning of Section 262.

- You must not vote in favor of, or consent in writing to, the adoption of the merger agreement. A vote in favor of the adoption of the merger agreement, by proxy, in person or otherwise, will constitute a waiver of your appraisal rights in respect of the shares so voted and will nullify any previously filed written demands for appraisal. A proxy which is properly executed, but does not contain voting instructions, will, unless revoked, be voted in favor of the adoption of the merger agreement. Therefore, a stockholder who votes by proxy and who wishes to exercise appraisal rights must vote against the adoption of the merger agreement or abstain from voting on the adoption of the merger agreement.

- You must continue to hold your shares of Henry Bros. common stock through the effective date of the merger. Therefore, a stockholder who is the record holder of shares of Henry Bros. common stock on the date the

written demand for appraisal is made but who thereafter transfers the shares prior to the effective date of the merger will lose any right to appraisal with respect to such shares.

If you fail to comply with any of these conditions and the merger is completed, you will be entitled to receive the merger consideration if you hold shares of common stock upon completion of the proposed merger, but you will have no appraisal rights with respect to your shares of Henry Bros. common stock.

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All demands for appraisal should be addressed to Henry Bros. Electronic, Inc., 17-01 Pollitt Drive, Fair Lawn, New Jersey 07410, Attn: Corporate Secretary, and must be delivered before the vote on the merger agreement is taken at the special meeting and should be executed by, or on behalf of, the record holder of the shares of common stock. The demand must reasonably inform us of the identity of the stockholder and the intention of the stockholder to demand appraisal of his, her or its shares.

To be effective, a demand for appraisal by a holder of common stock must be made by, or in the name of, such registered stockholder, fully and correctly, as the stockholder s name appears on his or her stock certificate(s). Beneficial owners who do not also hold the shares of record may not directly make appraisal demands to us. The beneficial holder must, in such cases, have the registered owner, such as a broker, bank or other nominee, submit the required demand in respect of those shares. If shares are owned of record in a fiduciary capacity, such as by a trustee, guardian or custodian, execution of a demand for appraisal should be made by or for the fiduciary; and if the shares are owned of record by more than one person, as in a joint tenancy or tenancy in common, the demand should be executed by or for all joint owners. An authorized agent, including an authorized agent for two or more joint owners, may execute the demand for appraisal for a stockholder of record; however, the agent must identify the record owner or owners and expressly disclose the fact that, in executing the demand, he or she is acting as agent for the record owner. A record owner, such as a broker, who holds shares as a nominee for others, may exercise his or her right of appraisal with respect to the shares held for one or more beneficial owners, while not exercising this right for other beneficial owners. In that case, the written demand should state the number of shares as to which appraisal is sought. Where no number of shares is expressly mentioned, the demand will be presumed to cover all shares held in the name of the record owner.

If you hold your shares of common stock in a brokerage account or in other nominee form and you wish to exercise appraisal rights, you should consult with your broker or the other nominee to determine the appropriate procedures for the making of a demand for appraisal by the nominee.

Within ten days after the effective time of the merger, the surviving corporation must give written notice that the merger has become effective to each stockholder who has properly filed a written demand for appraisal and who did not vote in favor of the proposal to adopt the merger agreement. At any time within 60 days after the effective time, any stockholder who has demanded an appraisal, and who has not commenced an appraisal proceeding or joined that proceeding as a named party, has the right to withdraw the demand and to accept the cash payment specified by the merger agreement for his or her shares of common stock; after this period, the stockholder may withdraw such demand for appraisal only with the consent of the surviving corporation. Within 120 days after the effective date of the merger, any stockholder who has complied with Section 262 will, upon written request to the surviving corporation, be entitled to receive a written statement setting forth the aggregate number of shares not voted in favor of the proposal to adopt the merger agreement and with respect to which demands for appraisal rights have been received and the aggregate number of holders of such shares. A person who is the beneficial owner of shares of common stock held in a voting trust or by a nominee on behalf of such person may, in such person s own name, request from the corporation the statement described in the previous sentence. Such written statement will be mailed to the requesting stockholder within 10 days after such written request is received by the surviving corporation or within 10 days after expiration of the period for delivery of demands for appraisal, whichever is later. Within 120 days after the effective time, either the surviving corporation or any stockholder who has complied with the requirements of Section 262 and who is otherwise entitled to appraisal rights may file a petition in the Delaware Court of Chancery demanding a determination of the fair value of the shares held by all stockholders entitled to appraisal. A person who is the beneficial owner of shares of Henry Bros. common stock held in a voting trust or by a nominee on behalf of such person may, in such person s own name, file the petition described in the previous sentence. Upon the filing of the petition by a stockholder, service of a copy of such petition shall be made upon Henry Bros., as the surviving corporation. The surviving corporation has no obligation to file such a petition in the event there are dissenting stockholders. Accordingly, the failure of a stockholder to file such a petition within the period specified could nullify

the stockholder s previously written demand for appraisal. There is no present intent on the part of Henry Bros. to file an appraisal petition, and stockholders seeking to exercise appraisal rights should not assume that Henry Bros. will file such a petition or that Henry Bros. will

initiate any negotiations with respect to the fair value of such shares. Accordingly, stockholders who desire to have their shares appraised should initiate any petitions necessary for the perfection of their appraisal rights within the time periods and in the manner prescribed in Section 262.

If a petition for appraisal is duly filed by a stockholder and a copy of the petition is delivered to the surviving corporation, the surviving corporation will then be obligated, within 20 days after receiving service of a copy of the petition, to provide the Delaware Court of Chancery with a duly verified list containing the names and addresses of all stockholders who have demanded an appraisal of their shares and with whom agreements as to the value of their shares have not been reached by the surviving corporation. After notice to dissenting stockholders who demanded appraisal of their shares, the Delaware Court of Chancery is empowered to conduct a hearing upon the petition, and to determine those stockholders who have complied with Section 262 and who have become entitled to the appraisal rights provided thereby. The Delaware Court of Chancery may require the stockholders who have demanded appraisal for their shares to submit their stock certificates to the Register in Chancery for notation thereon of the pendency of the appraisal proceedings; and if any stockholder fails to comply with that direction, the Delaware Court of Chancery may dismiss the proceedings as to that stockholder.

After determination of the stockholders entitled to appraisal of their shares of common stock, the Delaware Court of Chancery will appraise the shares, determining their fair value exclusive of any element of value arising from the accomplishment or expectation of the merger, together with interest, if any. Unless the Delaware Court of Chancery in its discretion determines otherwise for good cause shown, interest from the effective date of the merger through the date of payment of the judgment shall be compounded quarterly and shall accrue at 5% over the Federal Reserve discount rate (including any surcharge) as established from time to time during the period between the effective date of the merger and the date of payment of the judgment. When the value is determined, the Delaware Court of Chancery will direct the payment of such value, with interest thereon accrued during the pendency of the proceeding, if the Delaware Court of Chancery so determines, to the stockholders entitled to receive the same, upon surrender by such holders of the certificates representing those shares.

In determining fair value, and, if applicable, interest, the Delaware Court of Chancery is required to take into account all relevant factors. In *Weinberger v. UOP, Inc.*, the Delaware Supreme Court discussed the factors that could be considered in determining fair value in an appraisal proceeding, stating that proof of value by any techniques or methods which are generally considered acceptable in the financial community and otherwise admissible in court should be considered, and that fair price obviously requires consideration of all relevant factors involving the value of a company.

Section 262 provides that fair value is to be exclusive of any element of value arising from the accomplishment or expectation of the merger. In *Cede & Co. v. Technicolor, Inc.*, the Delaware Supreme Court stated that such exclusion is a narrow exclusion [that] does not encompass known elements of value, but which rather applies only to the speculative elements of value arising from such accomplishment or expectation. In Weinberger, the Delaware Supreme Court construed Section 262 to mean that elements of future value, including the nature of the enterprise, which are known or susceptible of proof as of the date of the merger and not the product of speculation, may be considered.

Costs of the appraisal proceeding (which do not include attorneys fees or the fees and expenses of experts) may be imposed upon the surviving corporation and the stockholders participating in the appraisal proceeding by the Delaware Court of Chancery as the Court deems equitable in the circumstances. Upon the application of a stockholder, the Delaware Court of Chancery may order all or a portion of the expenses incurred by any stockholder in connection with the appraisal proceeding, including, without limitation, reasonable attorneys fees and the fees and expenses of experts, to be charged pro rata against the value of all shares entitled to appraisal. Any stockholder who had demanded appraisal rights will not, after the effective time of the merger, be entitled to vote shares subject to that

demand for any purpose or to receive payments of dividends or any other distribution with respect to those shares, other than with respect to payment as of a record date prior to the effective time; however, if no petition for appraisal is filed within 120 days after the effective time of the merger, or if the stockholder fails to perfect or successfully delivers a written withdrawal

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of his or her demand for appraisal and an acceptance of the terms of the merger within 60 days after the effective time of the merger, then the right of that stockholder to appraisal will cease and that stockholder will be entitled to receive the cash payment for shares of his, her or its shares of common stock pursuant to the merger agreement. No appraisal proceeding in the Delaware Court of Chancery will be dismissed as to any stockholder without the prior approval of the Court, and such approval may be conditioned upon such terms as the Delaware Court of Chancery deems just; provided, however, that any stockholder who has not commenced an appraisal proceeding or joined that proceeding as a named party will maintain the right to withdraw its demand for appraisal and to accept the cash that such holder would have received pursuant to the merger agreement within 60 days after the effective date of the merger.

In view of the complexity of Section 262, stockholders who may wish to dissent from the merger and pursue appraisal rights should consult their legal advisors.

Market Information for Common Stock

Our common stock is listed on NASDAQ under the symbol HBE. Our common stock began trading on November 19, 2001. The closing price of our common stock on NASDAQ on October 5, 2010, the last trading day prior to the public announcement of the execution of the merger agreement, was $4.60 per share of common stock. On November [ ], 2010, the most recent practicable date before this proxy statement was mailed to our stockholders, the closing price for our common stock on NASDAQ was $[ ] per share of common stock. You are encouraged to obtain current market quotations for our common stock in connection with voting your shares of common stock.

As of November [ ], 2010, there were approximately [ ] beneficial holders of our common stock, including [ ] holders of record.

We did not pay or declare dividends in fiscal 2008, fiscal 2009 or fiscal 2010 to date, and we have no present intention to pay cash dividends. We are currently restricted by the merger agreement from declaring and paying dividends.

The following table sets forth, for the periods indicated, the high and low closing sales prices for our common stock for each quarter of our two most recent fiscal years, as regularly reported on NASDAQ.

	High	Low
2008:		
First Quarter	$ 5.00	4.14
Second Quarter	$ 6.55	4.95
Third Quarter	$ 7.10	5.52
Fourth Quarter	$ 6.80	4.73
2009:		
First Quarter	$ 7.52	5.50
Second Quarter		