MAGAL SECURITY SYSTEMS LTD
Form F-1/A
February 17, 2011

As filed with the Securities and Exchange Commission on February 17, 2011

Registration No. 333-171320

United States
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 1 TO
FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

MAGAL SECURITY SYSTEMS LTD.
(Exact Name of Registrant as Specified in its Charter)

State of Israel (State or Other Jurisdiction of Incorporation or Organization	8413 (Primary Standard Industrial Classification Code Number)	Not Applicable (I.R.S. Employer Identification No.)

P.O. Box 70, Industrial Zone
Yehud 56100, Israel
Tel: (972)(3)539-1444
(Address, Including Zip Code, and Telephone Number, Including Area Code, of Registrant's Principal Executive Offices)

Senstar Inc.
13800 Coppermine Road, Second Floor, Herndon, VA 20171
Attention: President
Tel: 703-463-3088

(Name, Address, Including Zip Code, and Telephone Number, Including Area Code, of Agent for Service)

Copies of communications to:

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Approximate date of commencement of proposed sale to the public: From time to time after this registration statements becomes effective.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended (the "Securities Act"), check the following box. o

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earliest effective registration statement for the same offering. o

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment which specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933 or until the Registration Statement shall become effective on such date as the Securities and Exchange Commission, acting pursuant to said Section 8(a), may determine.

The information in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

SUBJECT TO COMPLETION, DATED FEBRUARY 17, 2011

PRELIMINARY PROSPECTUS

MAGAL SECURITY SYSTEMS LTD.

SUBSCRIPTION RIGHTS TO PURCHASE UP TO [ ] ORDINARY SHARES

We are distributing at no charge to the holders of our ordinary shares on [ ], 2011, which we refer to as the record date, subscription rights to purchase up to an aggregate of of our ordinary shares. We will distribute to you one right for every [ ] ordinary shares that you own on the record date. No fractional rights will be issued in the rights offering.

Each right entitles the holder to purchase, at a price of $ per share, one ordinary share. Holders who fully exercise their basic subscription rights will be entitled to subscribe for additional rights that remain unsubscribed as a result of any unexercised basic subscription rights, which we refer to as the over-subscription right. If an insufficient number of shares are available to satisfy fully the over-subscription requests, then the available shares will be distributed proportionately among subscription rights holders who exercised their over-subscription right, based on the number of over-subscription rights to which they subscribed. Rights may only be exercised for whole numbers of ordinary shares; no fractional ordinary shares will be issued in the rights offering.

The rights are exercisable during an 18-trading day period, beginning after 5:00 p.m., New York City time (midnight, Israel time) on [ ], and ending on [ ], at 5:00 p.m., New York City time (midnight, Israel time), which we refer to as the expiration date, unless we decide to terminate the rights offering earlier. We may extend the period for exercising the rights for up to additional 30 trading days in our sole discretion. If we extend the expiration date, you will have at least ten trading days during which you may exercise your rights. Any rights not exercised at or before that time will expire worthless without any payment to the holders of those unexercised rights.

There is no minimum subscription requirement to consummate the rights offering. However, Mr. Nathan Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering.

We may terminate or cancel the offering at any time prior to its expiration. If the offering is terminated, then we will return your subscription price payment, but without any payment of interest.

You should carefully consider whether to exercise your subscription rights before the expiration date. All exercises of subscription rights are irrevocable. Our board of directors is making no recommendation regarding your exercise of the subscription rights.

The subscription rights may not be sold or transferred except for being transferable by operation of law, and will not be listed on any trading market.

Our ordinary shares are traded on the NASDAQ Global Market and the Tel-Aviv Stock Exchange, which we refer to as the TASE, under the symbol "MAGS." The last sale price of our ordinary shares on the NASDAQ Global Market on February 16, 2011 was $2.95 per share and the last sale price of our ordinary shares on the TASE on February 16, 2011 was NIS 10.83 per share. The ordinary shares issued in the rights offering will also be listed for trading on the NASDAQ Global Market and the TASE.

Investing in our securities involves a high degree of risk. See "Risk Factors" beginning on page 15 to read about factors you should consider before deciding whether to exercise your subscription rights.

Neither the Securities and Exchange Commission, the Israel Securities Authority nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense under the laws of the United States and the laws of the State of Israel.

Prospectus dated

TABLE OF CONTENTS

You should rely only on the information included or incorporated by reference in this prospectus or any supplement or free writing prospectus prepared by us. We have not authorized anyone to provide information or represent anything other than that contained in, or incorporated by reference in, this prospectus. We have not authorized anyone to provide you with different information. If you receive any other information, you should not rely on it. We are not making an offer in any state or jurisdiction or under any circumstances where the offer is not permitted. You should assume that the information in this prospectus or any supplement or free writing prospectus prepared by us is accurate only as of the date on their cover pages and that any information we have incorporated by reference is accurate only as of the date of the document incorporated by reference.

In this prospectus, “we,” “us,” “our,” the “Company” and “Magal” refer to Magal Security Systems Ltd., an Israeli company, a its subsidiaries.

All references to “dollars” or “$” in this prospectus are to U.S. dollars, and all references to “shekels” or “NIS” are to New Israeli Shekels.

QUESTIONS AND ANSWERS ABOUT THE RIGHTS OFFERING

The following are examples of what we anticipate may be common questions about the rights offering. The answers are based on selected information from this prospectus. The following questions and answers do not contain all of the information that may be important to you and may not address all of the questions that you may have about the rights offering. This prospectus contains more detailed descriptions of the terms and conditions of the rights offering and provides additional information about us and our business, including potential risks relating to the rights offering, our business, our ordinary shares and our location in Israel.

Exercising the rights and investing in our securities involves a high degree of risk. We urge you to carefully read the section entitled "Risk Factors" beginning on page 15 of this prospectus and all other information included or incorporated by reference in this prospectus in its entirety before you decide whether to exercise your rights.

Q: What is a rights offering?

A: A rights offering is a distribution of subscription rights on a pro rata basis to all existing shareholders of a company to buy a proportional number of additional securities at a given price. We are distributing to holders of our ordinary shares, at no charge, as of the close of business on the record date ([ ], 2011), subscription rights to purchase up to an aggregate of [ ] of our ordinary shares. You will receive one subscription right for every [ ] ordinary shares you own at the close of business on the record date. Each right carries with it a basic subscription right and an over-subscription right. The basic and over-subscription rights will be evidenced by subscription rights certificates, which may be physical certificates but will more likely be electronic instruments issued through the facilities of the Depository Trust Company, or DTC, in the United States and the TASE Clearing House in Israel.

Q: Why are we undertaking the rights offering, and how will we use the proceeds from the rights offering?

A: We are making the rights offering to raise funds primarily for general working capital purposes, including to facilitate the implementation of our new business strategy and the repayment of a $10 million bridge loan provided to us in September 2010 by Ki Corporation Limited, or Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, that we obtained to allow us to begin to implement our new business strategy. We had approximately $4.8 million of cash, cash equivalents and bank deposits as of June 30, 2010, which subsequently improved following the $10 million bridge loan that we obtained in September 2010.

The rights offering provides our existing shareholders the opportunity to participate in our capital-raising efforts in a manner that allows them to maintain, and possibly increase, their proportional ownership interest in us.

Q: How much money will Magal raise as a result of the rights offering?

A: We estimate that the net proceeds from the rights offering will be approximately $14,850,000 million, after deducting expenses related to the rights offering payable by us, estimated at approximately $150,000.

Q: What is a right?

A: We will issue one right for every [ ] of our ordinary shares that you own on the record date. Each right carries with it a basic subscription right and an over-subscription right and entitles the holder of the right the opportunity to purchase, at the subscription price of $[ ] per right, one ordinary share. No fractional rights will be issued in the rights offering.

Q. May I transfer my subscription rights?

A. No. The subscription rights may not be sold or transferred except for being transferable by operation of law. There will be no "trading day" on the TASE (or any other stock market) for the subscription rights.

3

Q: What is a basic subscription right?

A: Each basic subscription right gives you the opportunity to purchase one of our ordinary shares. You may exercise any number of your basic subscription rights or you may choose not to exercise any subscription rights at all.

For example, if you own [ ] of our ordinary shares on the record date and you are granted one basic subscription right for every [ ] ordinary shares you own at that time, then you would have the basic right to purchase, at an aggregate price of up to $, up to 1,000 ordinary shares.

If you hold your ordinary shares in the name of a broker, dealer, bank or other nominee who uses the services of the DTC or the TASE Clearing House, then DTC or the TASE Clearing House, as the case may be, will credit the account of the nominee with one right for every [ ] ordinary share[s] you own at the record date.

Q: What is an over-subscription right?

A: If you elect to purchase all of the securities available to you pursuant to your basic subscription right, you may also elect to subscribe for additional rights that remain unsubscribed as a result of any other shareholders not exercising their basic subscription rights. If an insufficient number of shares are available to satisfy fully the over-subscription requests, then the available shares will be distributed proportionately among subscription rights holders who exercised their over-subscription right, based on the number of over-subscription rights to which they subscribed. Payments in respect of over-subscription rights are due at the time payment is made for the basic subscription right. Any excess subscription price payments will be returned, without interest or deduction, promptly after the expiration of the rights offering.

Q: Who may participate in the rights offering?

A: Only holders of record of our ordinary shares as of [ ], 2011 (the record date) are entitled to participate in the rights offering.

Q: Will the officers, directors and significant shareholders of Magal be exercising their rights?

A: Our officers, directors and greater than 5% beneficial shareholders may participate in the rights offering, but other than Mr. Nathan Kirsh, none of our officers, directors or greater than 5% beneficial shareholders are obligated to so participate. Mr. Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering. As of the date of this prospectus, Mr. Kirsh beneficially owns 24.25% of our outstanding shares (which excludes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Kirsh, in a private placement to be completed two days prior to the record date of this rights offering).

Q: Will the subscription rights and the ordinary shares that I receive upon exercise of my rights be tradable on the NASDAQ Global Market or the TASE?

A: Our ordinary shares are listed on the NASDAQ Global Market and the TASE under the ticker symbol "MAGS." The ordinary shares issued in the rights offering will also be listed for trading on the NASDAQ Global Market and the TASE. However, the subscription rights may not be sold or transferred except for being transferable by operation of law, and will not be listed on any trading market.

Q: How do I exercise my basic subscription right and over-subscription right?

A: Shortly after the record date we will send a rights certificate to each holder of our ordinary shares that on the record date is registered in our shareholder register maintained at American Stock Transfer & Trust Company, LLC, the transfer agent of our ordinary shares, which is also acting as the U.S. subscription agent for the rights offering. The rights certificate will evidence the number of the rights issued to each holder and will be accompanied by a copy of this prospectus.

If you are a record holder of our ordinary shares and you wish to exercise your subscription rights, you should complete the exercise form on the back of the rights certificate and send the certificate, accompanied by the subscription price, to the U.S. subscription agent. The subscription rights certificate, together with full payment of the subscription price, must be received by the U.S. subscription agent on or prior to the expiration date of the rights offering.

If you are a record holder, in order to properly exercise your over-subscription right, you must: (i) indicate on your subscription rights certificate that you submit with respect to the exercise of the rights issued to you how many additional rights you are willing to exercise pursuant to your over-subscription right and (ii) concurrently deliver the subscription payment related to your over-subscription right at the time you make payment for your basic subscription right. All funds from over-subscription rights that are not honored will be promptly returned to investors, without interest or deduction.

If you use the mail, we recommend that you use insured, registered mail, return receipt requested. We will not be obligated to honor your exercise of subscription rights if the U.S. subscription agent receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents.

If you are a record holder that resides in Israel, rather than exercising via the U.S. subscription agent, you may, at your option, exercise your subscription rights by delivering your executed subscription rights certificate to our offices in Yehud, Israel, accompanied by evidence of a wire transfer or a bank check drawn on a bank located in Israel payable to Magal Security Systems Ltd. Payment to us may be denominated in U.S. dollars or in NIS, at the representative rate of exchange most recently published by the Bank of Israel at the time of payment. The subscription rights certificate, together with full payment of the subscription price, must be received by us on or prior to the expiration date of the rights offering.

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer, bank or other nominee (including a member of DTC or the TASE Clearing House), rather than in your own name, and you wish to exercise your subscription rights, you should contact your nominee to exercise your subscription rights sufficiently in advance of the applicable expiration date of the rights offering in order to ensure timely delivery of a subscription rights certificate reflecting your exercise. Your nominee will instruct you as to the proper time and form of payment of the subscription price. However, if you exercise your rights through the TASE Clearing House, the payment must be denominated in NIS, at the representative rate of exchange most recently published by the Bank of Israel at the time of payment.

Q: Am I required to subscribe in the rights offering?

A: No. You may exercise any number of your subscription rights, or you may choose not to exercise subscription rights at all.

Q: What happens if I choose not to exercise my subscription rights?

A: You will retain your current number of ordinary shares even if you do not exercise your basic subscription rights. However, if you do not exercise your basic subscription right in full, the percentage of our ordinary shares that you own will decrease, and your voting and other rights will be diluted to the extent that other shareholders exercise their subscription rights. In addition, if the over-subscription commitment is used due to not enough exercises of subscription rights, Mr. Kirsh’s percentage ownership of our ordinary shares will increase.

Q: When will the rights offering expire?

A: The subscription rights will expire, if not exercised, at 5:00 p.m., New York City time (midnight, Israel time) on [ ], 2011, unless we decide to terminate the rights offering earlier or extend the expiration date for up to additional 30 trading days in our sole discretion. If we extend the expiration date, you will have at least ten trading days during which you may exercise your rights. Any rights not exercised at or before that time will expire without any payment to the holders of those unexercised rights. See “The Rights Offering – Expiration of the Rights Offering and Extensions.” We or the U.S. subscription agent must actually receive all required documents and payments before that time and date.

If you hold your shares through a broker, dealer or other nominee (including through members of the TASE), you will be required to comply with the procedural requirements of such nominee, including the procedures relating to the last time by which you may be required to provide notice of your intention to exercise your rights (which may be earlier than the final expiration date of the rights). If you do not exercise your rights by the applicable expiration date and in accordance with the procedures applicable to you, your ability to exercise the rights and purchase the ordinary shares will expire.

Q: Will Magal be requiring a minimum dollar amount of subscriptions to consummate the rights offering?

A: No. There is no minimum subscription requirement to consummate the rights offering. However, Mr. Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering.

Q What is the over-subscription commitment?

A: In connection with the rights offering, Mr. Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering. Mr. Kirsh is not receiving any compensation for his over-subscription commitment.

Q: Is exercising my subscription rights risky?

A: The exercise of your subscription rights and over-subscription rights (and the resulting ownership of our ordinary shares) involves a high degree of risk. Exercising your subscription rights means buying ordinary shares and should be considered as carefully as you would consider any other equity investment. You should carefully consider the information under the heading "Risk Factors" and all other information included in this prospectus before deciding to exercise your subscription rights.

Q: After I exercise my subscription rights, can I change my mind and cancel my purchase?

A: No. Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of either your basic or over-subscription rights, even if the market price of our ordinary shares is below the $[ ] per share subscription price, unless we amend the terms of the rights offering (other than extending the expiration date), in which case you may revoke your exercise before the expiration date. You should not exercise your subscription rights unless you are certain that you wish to purchase additional ordinary shares at the proposed subscription price. Any rights not exercised at or before the applicable expiration date will expire worthless without any payment to the holders of those unexercised rights.

Q: Can the board of directors cancel, terminate or amend the rights offering?

A: Yes. Our board of directors may decide to cancel or terminate the rights offering at any time and for any reason prior to 5:00 p.m. New York City time (midnight, Israel time) on [ ], 2011. If our board of directors cancels or terminates the rights offering, we will issue a press release notifying shareholders of the cancellation or termination, and any money received from subscribing shareholders will be promptly returned, without interest or deduction.

We may amend or modify the terms of the rights offering (including the maximum number of ordinary shares we may issue in the rights offering and the subscription price per share to be paid to exercise your subscription rights) at any time in our sole discretion. We may also extend the expiration date of the rights offering for any reason in our sole discretion. If we amend or modify certain terms of the rights offering, then we will extend the expiration date of the rights offering.

Q: What should I do if I want to participate in the rights offering but my ordinary shares are held in the name of my broker, dealer, bank or other nominee and not in my name?

A: Beneficial owners of our ordinary shares whose shares are held by a nominee, such as a broker, dealer, bank or trustee, rather than in their own name, must contact that nominee to exercise their rights. In that case, the nominee will complete the subscription rights certificate on behalf of the beneficial owner and arrange for proper payment by one of the methods described above.

Q: Will I be charged a sales commission or a fee if I exercise my subscription rights?

A: We will not charge a brokerage commission or a fee to subscription rights holders for exercising their subscription rights. However, if you exercise your subscription rights and/or sell any underlying ordinary shares through a broker, dealer, bank or other nominee, you will be responsible for any fees charged by your broker, dealer, bank or other nominee.

Q: What is the recommendation of the board of directors regarding the rights offering?

A: None of Magal, our board of directors or the U.S. subscription agent is making any recommendation as to whether or not you should exercise your subscription rights. You are urged to make your decision in consultation with your own advisors as to whether or not you should participate in the rights offering or otherwise invest in our securities and only after considering all of the information included in this prospectus, including the "Risk Factors" section that follows.

Q: How were the terms of the rights offering established?

A: Our board of directors appointed a special committee to oversee the rights offering and make a recommendation to the board of directors with respect to the terms of the rights offering. The special committee is composed of the chairman of our board of directors and our two outside directors within the meaning of Israeli law. The subscription price, the number of shares that must be owned to receive one right and the number of shares to be issued for each right will be recommended by the special committee to our board of directors, which in turn will consider the terms of the rights offering. In determining the various terms of the rights offering, the special committee and our board of directors will consider, among other things, the fairness opinion of Tamir Fishman & Co., Ltd., or Tamir Fishman, the need to offer the shares at a price that would be attractive to investors relative to the then current trading price for our ordinary shares, historical and current trading prices for our ordinary shares, general conditions in the financial services industry; the need for capital and alternatives available to us for raising capital; potential market conditions; the fact that the rights are not transferable but that holders of rights will have an over-subscription right, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, the special committee and our board of directors will review our history and prospects, including our past and present earnings, our prospects for future earnings, and the outlook for our industry, our current financial condition and regulatory status and a range of discounts to market value represented by the subscription prices in various prior rights offerings.

The subscription price does not necessarily bear any relationship to any other established criteria for value. You should not consider the subscription price as an indication of value of our company or our ordinary shares. You should not assume or expect that, after the rights offering, our ordinary shares will trade at or above the subscription price in any given time period. The market price of our ordinary shares may decline during or after the rights offering, and you may not be able to sell the shares of our ordinary shares purchased during the rights offering at a price equal to or greater than the subscription price. You should obtain a current quote for our ordinary shares before exercising your subscription rights and make your own assessment of our business and financial condition, our prospects for the future, and the terms of this rights offering. On February 16, 2011, the last reported sale price of our ordinary shares on The NASDAQ Global Market was $2.95 per share and on February 16, 2011, the last reported sale price of our ordinary shares on the TASE was NIS 10.83 per share.

Q: What are the U.S. federal income tax consequences of receiving or exercising my subscription rights?

A: A U.S. holder of ordinary shares likely will not recognize any income, gain or loss for U.S. federal income tax purposes in connection with the receipt or exercise of subscription rights. You should consult your own tax advisor as to the particular consequences to you of the rights offering. See “Material U.S. Federal Income Tax Considerations.”

Q: What are the Israeli income tax consequences of receiving or exercising my subscription rights?

A: An Israeli holder of ordinary shares likely will not recognize any income, gain or loss for Israeli income tax purposes in connection with the receipt or exercise of subscription rights. However, no tax ruling from the Israeli Income Tax Authority will be sought for the rights offering. You should consult your own tax advisor as to the particular consequences to you of the rights offering. See “Certain Israeli Tax Considerations.”

Q: How many ordinary shares will be outstanding after the rights offering?

A: The number of ordinary shares that will be outstanding immediately after the completion of the rights offering will be 15,631,294 ordinary shares, based on the over-subscription commitment of Mr. Nathan Kirsh (which includes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Kirsh, in a private placement to be completed two days prior to the record date of this rights offering).

Q: If I exercise my subscription rights, how will I receive ordinary shares in the rights offering?

A: Beneficial owners of our ordinary shares whose shares are held by a nominee, such as a broker, dealer or bank, rather than in their own name, will have any ordinary shares acquired in the rights offering credited to the account of such nominee. With respect to holders of our ordinary shares that are registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC, share certificates for the ordinary shares purchased in the rights offering will be mailed promptly after the expiration of the rights offering and payment of the subscription price by the individual holder has cleared.

Q: Who is the U.S. subscription agent for the rights offering?

A: The U.S. subscription agent is American Stock Transfer & Trust Company, LLC. The address for delivery to the U.S. subscription agent is as follows:

By Mail or Overnight Courier:
American Stock Transfer & Trust Company, LLC
6201 15th Avenue
Brooklyn, NY 11219
Attention: Reorganization Department

By Hand Delivery:
American Stock Transfer & Trust Company, LLC
59 Maiden Lane
New York, NY 10038
Attention: Reorganization Department

Your delivery to the U.S. subscription agent to an address other than the address set forth above will not constitute valid delivery and, accordingly, may be rejected by us.

Q: What should I do if I have other questions?

A: If you have any questions or need further information about the rights offering, please contact our Information Agent for the rights offering Phoenix Advisory Partners, toll free at (800) 576-4314 or if you are a bank or broker at (212) 493-3910, or, if you are located in Israel, you may also contact Ilan Ovadia, our Chief Executive Officer, at +972-3- 5391490. during their respective normal business hours. For a more complete description of the rights offering, see "The Rights Offering."

PROSPECTUS SUMMARY

You should read the following summary together with the more detailed information regarding our company and the rights offering, including "Risk Factors" and our consolidated financial statements and related notes, included elsewhere or incorporated by reference in this prospectus. This summary highlights selected information from this prospectus and does not contain all of the information that may be important to you.

Magal Security Systems Ltd.

We are a leading international solutions provider of security, safety and site management solutions and products. Based on 35 years of experience and interaction with customers, we have developed a unique set of solutions and products, optimized for perimeter, outdoor and general security applications. Our turnkey solutions are typically integrated and managed by sophisticated modular command and control software, supported by expert systems for real-time decision support. Our broad portfolio of critical infrastructure and site protection technologies includes a variety of smart barriers and fences, fence mounted detectors, virtual gates, buried and concealed detection systems and a sophisticated protection package for sub-surface intrusion. A world class innovator in the development of closed-circuit television, intelligent video analytics and motion detection technology for outdoor operation, we have successfully installed customized solutions and products in more than 75 countries worldwide.

We were incorporated under the laws of the State of Israel on March 27, 1984. Our principal executive offices and Israeli-based manufacturing and research and development facilities are located near Tel Aviv, Israel, in the Yehud Industrial Zone. Our mailing address is P.O. Box 70, Industrial Zone, Yehud 56100, Israel and our telephone number is +972-3-539-1444. Our agent for service of process in the United States is Senstar Inc., 13800 Coppermine Road, Second Floor, Herndon, Virginia 20171. Our address on the Internet is www.magal-S3.com. The information on our website is not incorporated by reference and should not be considered as part of this prospectus.

Recent Developments

Proxy Contest. An attempt to replace the majority of our board of directors by certain dissident shareholders was rejected by our shareholders at an extraordinary general meeting held on August 12, 2010. Our shareholders also approved this rights offering at the extraordinary general meeting.

New Strategic Plan. In June 2010, we adopted a new strategic plan in an effort to establish a viable growth path for our business. Pursuant to the strategic plan, we decided to focus our growth plan on our historical primary markets: perimeter products and solutions and turnkey projects. We have appointed a new vice president - products for our perimeter products segment, who is focused solely on the sales of our products. We intend to increase revenues in this segment by locating new channels to promote and market our products, maintaining technology leadership, investing in our research and development activities, entering into original equipment manufacturer, or OEM, agreements and by acquiring technologies or by mergers and acquisitions. We intend to focus on and improve our presence in emerging markets such as Brazil, Russia, India and China, or the BRIC countries, in order to increase our exposure to small and medium size business opportunities for both our perimeter products and solutions and turnkey projects segments. We are also investing in our employees in order to enhance their professional skills and efficiency.

Bridge Loan. To allow us to begin to implement our new strategic plan, on September 8, 2010, Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, provided us with a bridge loan in the principal amount of $10.0 million. If not repaid within 180 days, the bridge loan will begin to accrue interest at the rate of LIBOR + 4% per year, calculated from the date of the loan and accumulated on a quarterly basis. However, if this rights offering occurs within 240 days from the date of the loan, the loan will not bear any interest. Our Audit Committee and Board of Directors believe that this is on terms that are favorable to our company, as the market interest rate for similar loans in Israel is approximately LIBOR + 6.7% per year. The loan is due and payable on January 10, 2012, and we have an option to extend the maturity date for an additional 60 days. Any interest will be paid together with, and in the same manner as, the principal, no later than the maturity date. We intend to use part of the proceeds from this rights offering for the repayment of the bridge loan, which amounts to $10.0 million as of the date of this prospectus. We have undertaken to repay such amount within five business days after the successful completion of the rights offering.

Private Placement. Two days prior to the record date of the rights offering we will complete a private placement of 150,000 of our ordinary shares to Ki Corporation, a company owned by Mr. Nathan Kirsh, at an initial price per share equal to the closing price of our ordinary shares on the NASDAQ Global Market on the date prior to the private placement. Upon the record date of the rights offering, the price per share paid by Ki Corporation will be adjusted to the higher of the price per share in the rights offering and the closing price of our ordinary shares on the NASDAQ Global Market on the date prior to the record date of the rights offering, but in any event not less than the initial purchase price paid in the private placement. The private placement consideration from Ki Corporation will be paid to us by means of a partial offset against the outstanding principal amount and accrued interest under the bridge loan that it provided to us on September 8, 2010. The private placement was approved by our shareholders at an extraordinary general meeting held on August 12, 2010 as a private placement that intends to allow Mr. Kirsh and his affiliates to hold more than 25% of our outstanding share capital.

Third Quarter 2010 Financial Results. On November 17, 2010, we issued our financial results for the three and nine month periods ended September 30, 2010. Revenues for the third quarter of 2010 totaled $13.4 million, a decrease of 24.4% over third quarter 2009 revenues of $17.7 million and an increase of 16.9% compared with $11.4 million in revenues reported in the second quarter of 2010. Gross profit for the third quarter of 2010 totaled $4.5 million, compared with gross profit of $6.4 million in the third quarter of 2009 and $3.6 million in the second quarter of 2010. Operating loss for the third quarter of 2010 was $0.8 million, compared with operating income of $0.5 million in the third quarter of 2009 and an operating loss of $1.7 million in the second quarter of 2010. Net loss for the third quarter of 2010 was $0.8 million, compared with a net loss of $0.7 million in the third quarter of 2009 and a net loss of $1.5 million in the second quarter of 2010. Cash and cash equivalents and restricted cash amounted to $17.8 million as of September 30, 2010 compared with $13.7 million as at December 31, 2009. The increase to our cash and cash equivalents reflects the $10 million bridge loan received from Ki Corporation in September 2010.

Recent Contract. In December 2010, we signed a contract with the Port Authority of Kenya, valued at $21.4 million, to secure the Port of Mombasa. This contract follows a tender process, in which we were one of 19 international companies that submitted proposals in a bid process directed by the World Bank, which will partially finance the project. This turnkey project involves the development of civil and communications infrastructure, installation of a comprehensive security solution, commissioning, training and support.

The Rights Offering

Securities Offered	We are distributing at no charge to the holders of our ordinary shares on [ ], 2011, which we refer to as the record date, subscription rights to purchase up to an aggregate of [ ] of our ordinary shares. We will distribute one right to the holder of record of every [ ] ordinary shares that is held by the holder of record on the record date. Based on [_____] shares outstanding on the date hereof (which includes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Nathan Kirsh, in a private placement to be completed two days prior to the record date of this rights offering), we will issue approximately [ ] rights in

	the rights offering. We expect the total subscription price for the subscription rights offered in the rights offering to be $15 million, assuming full participation in the rights offering.
Basic Subscription Right	Each right, which we refer to as the basic subscription right, entitles the holder to purchase, for the subscription price of $[ ], one ordinary share. Rights may only be exercised for whole numbers of ordinary shares; no fractional ordinary shares will be issued in the rights offering. Instead, any fractional shares will be rounded down to the nearest whole share.

Over-Subscription Right	Holders who fully exercise their basic subscription rights will be entitled to subscribe for additional rights that remain unsubscribed as a result of any unexercised basic subscription rights, which we refer to as the over-subscription right. If an insufficient number of shares are available to satisfy fully the over-subscription requests, then the available shares will be distributed proportionately among subscription rights holders who exercised their over-subscription right, based on the number of over-subscription rights to which they subscribed. Any excess subscription price payments will be returned, without interest or deduction, promptly after the expiration of the rights offering.
Record Date	Close of business on [ ], 2011.
Commencement Date of Subscription Period	After 5:00 p.m., New York City time (midnight, Israel time) on [ ], 2011.
Expiration Date of Subscription Period	5:00 p.m., New York City time (midnight, Israel time) on [ ], 2011, unless extended by us as described in this summary below under "--Extension, Termination and Amendment." Any rights not exercised at or before that time will have no value and expire without any payment to the holders of those unexercised rights.
Subscription Price	$[ ] per right, payable in immediately available funds.
Over-subscription Commitment	Mr. Nathan Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering. As of the date of this prospectus, Mr. Kirsh beneficially owns 24.2% of our outstanding shares (which excludes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Kirsh, in a private placement to be completed two days prior to the record date

	of this rights offering).
Use of Proceeds	The proceeds from the rights offering, less fees and expenses incurred in connection with the rights offering, will be used for general working capital purposes, including to facilitate the implementation of our new business strategy and the repayment of a $10 million bridge loan provided to us by Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, that we obtained in order to allow us to begin to implement our new strategic plan. As part of our new strategic plan, we may use a portion of the net proceeds for the acquisition of, or investment in, business, technologies or products that complement our business. We currently have no specific plans, commitments, proposals, arrangements or agreements for any future acquisitions or investments.

Transferability	The rights may not be sold or transferred except for being transferable to affiliates of the recipient and by operation of law.
No Recommendation	Our board of directors makes no recommendation to you about whether you should exercise any rights. You are urged to consult your own financial advisors in order to make an independent investment decision about whether to exercise your rights. Please see the section of this prospectus entitled "Risk Factors" for a discussion of some of the risks involved in investing in our securities.
No Revocation	If you exercise any of your basic or over-subscription rights, you will not be permitted to revoke or change the exercise or request a refund of monies paid, unless we amend the terms of the rights offering (other than extending the expiration date), in which case you may revoke your exercise before the expiration date.
U.S. Federal Income Tax Considerations	A U.S. holder of ordinary shares likely will not recognize any income, gain or loss for U.S. federal income tax purposes in connection with the receipt or exercise of subscription rights. You should consult your own tax advisor as to the particular consequences. For a detailed discussion, see "Material U.S. Federal Income Tax Considerations."
Israeli Income Tax Considerations	An Israeli holder of ordinary shares likely will not recognize any income, gain or loss for Israeli income tax purposes in connection with the receipt or exercise of subscription rights; however, no tax ruling from the Israeli Income Tax Authority has been or will be sought for the rights offering. You should consult your own tax advisor as to the particular consequences to you of the rights offering. For a detailed discussion, see "Certain Israeli Tax Considerations."
Extension, Termination and Amendment	Our board of directors may extend the expiration date for exercising your subscription rights for up to an additional 30 trading days in their sole discretion. If

we extend the expiration date, you will have at least ten trading days during which to exercise your rights. We may also terminate or cancel the offering in our sole discretion at any time on or before the expiration date of the offering for any reason (including, without limitation, a change in the market price of our ordinary shares). If the offering is terminated, all rights will expire without value and we will promptly arrange for the refund, without interest or deduction, of all funds received from holders of subscription rights. Any extension, termination or cancellation of the rights offering will be followed as promptly as practicable by an announcement, and in no event later than 9:00 a.m., New York City time, on the next business day. We also reserve the right to amend or modify the terms of the offering (including the maximum number of ordinary shares we may issue in the offering or the subscription price per share to be paid to exercise your subscription rights) at any time in our sole discretion. If we amend or modify certain terms of the offering, then we will extend the expiration date of the offering, to the extent required by law.

Procedure for Exercising Rights	If you are the record holder of our ordinary shares, to exercise your rights you must complete the subscription rights certificate and deliver it to the U.S. subscription agent, American Stock Transfer & Trust Company, LLC together with full payment for all the subscription rights (pursuant to both the basic subscription right and the over-subscription right) you elect to exercise. The U.S. subscription agent must receive the proper forms and payments on or before the expiration date. You may deliver the documents and payments by mail or commercial courier. If regular mail is used for this purpose, we recommend using registered mail, properly insured, with return receipt requested. If you are a record holder that resides in Israel, rather than exercising via the U.S. subscription agent, you may, at your option, exercise your subscription rights by delivering your executed subscription rights certificate to our offices in Yehud, Israel, accompanied by evidence of a wire transfer or a bank check drawn on a bank located in Israel payable to Magal Security Systems Ltd. Payment to us may be denominated in U.S. dollars or in NIS, at the representative rate of exchange most recently published by the Bank of Israel at the time of payment. If you are a beneficial owner of our ordinary shares, you should instruct your broker, dealer, bank or other nominee in accordance with the procedures described in the section of this prospectus entitled "The Rights Offering – Methods for Exercising Rights--Shareholders Whose Ordinary Shares are Held by a Nominee."
U.S. Subscription Agent	American Stock Transfer & Trust Company, LLC
Israeli Subscription Agent	Tel Aviv Stock Exchange Clearing House
Questions	If you have any questions or need further information about the rights offering, please contact our Information Agent for the rights offering Phoenix Advisory Partners, toll free at (800) 576-4314 or if

you are a bank or broker at (212) 493-3910, or, if you are located in Israel, you may also contact Mr. Ilan Ovadia, our Chief Financial Officer at +972-3-5391490, during their respective normal business hours.

Shares Outstanding on the Date of this Prospectus	10,546,548 shares outstanding as of the date of this prospectus (which excludes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Nathan Kirsh, in a private placement to be completed two days prior to the record date of this rights offering and 389,835 ordinary shares issuable upon the exercise of outstanding options).
Shares Outstanding after Completion of the Rights Offering	[ ] of our ordinary shares will be outstanding, assuming exercise of all subscription rights issued in the rights offering (which includes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Nathan Kirsh, in a private placement to be completed two days prior to the record date of this rights offering and excludes [ ] ordinary shares issuable upon the exercise of outstanding options).
Issuance of Our Ordinary Shares	If you purchase ordinary shares pursuant to the basic or over-subscription right, we will issue certificates representing the ordinary shares to you or DTC in the United States, or the TASE Clearing House in Israel, on your behalf, as the case may be, as soon as practicable following the expiration of the rights offering.
Risk Factors	Shareholders considering making an investment in our securities should consider the risk factors described in the section of this prospectus entitled “Risk Factors.”
Fees and Expenses	We will bear the fees and expenses relating to the rights offering.
Trading Markets	Our ordinary shares are listed on the NASDAQ Global Market and the TASE under the ticker symbol “MAGS.” The ordinary shares issued in the rights offering will also be listed for trading on the NASDAQ Global Market and the TASE.

RISK FACTORS

An investment in our securities is speculative and involves a high degree of risk. Therefore, you should not invest in our securities unless you are able to bear a loss of your entire investment. You should carefully consider the following factors as well as the other information contained in this prospectus and in the other reports that we file with the Securities and Exchange Commission and that we incorporate by reference into this prospectus before deciding to invest in our securities. This prospectus and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below. The information in this prospectus is complete and accurate as of the date of this prospectus, but the information may change thereafter.

Risks Relating to the Rights Offering

Your interest in our company may be diluted as a result of the rights offering.

Holders of ordinary shares who do not fully exercise their respective rights should expect that they will, at the completion of the rights offering, own a smaller proportional interest in our company than would otherwise be the case had they fully exercised their subscription rights.

Our directors and executive officers own a substantial percentage of our ordinary shares, which may increase if the offering is completed.

As a group, our officers and directors beneficially owned approximately 34.2% of our outstanding ordinary shares as of February 16, 2011 (which excludes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Nathan Kirsh, in a private placement to be completed two days prior to the record date of this rights offering). Mr. Kirsh, our principal shareholder and a director, beneficially owned 2,516,267 ordinary shares or 24.2% of our outstanding ordinary shares as of such date. Two days prior to the record date of this rights offering, we intend to complete a private placement of 150,000 of our ordinary shares to Ki Corporation, a company owned by Mr. Kirsh, following which Mr. Kirsh will beneficially own 2,666,267 ordinary shares or 25.3% of outstanding shares. Mr. Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering. If the offering is completed, the beneficial ownership of our officers and directors may increase. As a result, if these shareholders acted together, they could exert significant influence on the election of our directors (other than outside directors, within the meaning of the Israeli Companies Law) and on decisions by our shareholders on matters submitted to shareholder vote, including mergers, consolidations and the sale of all or substantially all of our assets. This concentration of ownership of our ordinary shares could delay or prevent mergers, tender offers, or other purchases of our ordinary shares that might otherwise give our shareholders the opportunity to realize a premium over the then-prevailing market price for our ordinary shares. This concentration of ownership may also adversely affect our share price.

The rights offering may cause the price of our ordinary shares to decrease.

The subscription price, together with the number of ordinary shares we propose to issue and ultimately will issue if the rights offering is completed, may result in an immediate decrease in the market value of our ordinary shares. This decrease may continue after the completion of the rights offering. If that occurs, you may have committed to buy ordinary shares in the rights offering at a price greater than the prevailing market price. Further, if a substantial number of rights are exercised and the holders of the ordinary shares received upon exercise of those rights choose to sell some or all of those ordinary shares, the resulting sales could depress the market price of our ordinary shares. Following the exercise of your rights you may not be able to sell your ordinary shares at a price equal to or greater than the subscription price.

You could be committed to buying ordinary shares above the prevailing market price.

Once you exercise your basic and any over-subscription rights, you may not revoke such exercise (unless we amend the terms of the rights offering, other than extending the expiration date) even if you later learn information that you consider to be unfavorable to the exercise of your rights. The market price of our ordinary shares may decline prior to the expiration of the rights offering or a subscribing rights holder may not be able to sell ordinary shares purchased in the rights offering at a price equal to or greater than the subscription price.

If we terminate the rights offering for any reason, we will have no obligation other than to return subscription monies promptly.

We may decide, in our discretion and for any reason, to cancel or terminate the rights offering at any time prior to the expiration date. If the rights offering is terminated, we will have no obligation with respect to rights that have been exercised except to return promptly, without interest or deduction, the subscription monies deposited with the U.S. subscription agent or us. If we terminate the rights offering and you have not exercised any rights, such rights will expire worthless.

Our ordinary share price may be volatile as a result of the rights offering.

The trading price of our ordinary shares may fluctuate substantially. The price of the ordinary shares that will prevail in the market after the rights offering may be higher or lower than the subscription price depending on many factors, some of which are beyond our control and may not be directly related to our operating performance. These factors include, but are not limited to, the factors described under " – Risks Relating to Our Ordinary Shares - Volatility of the market price of our ordinary shares could adversely affect our shareholders and us."

The subscription price determined for the rights offering is not an indication of the value of our ordinary shares.

The subscription price for the ordinary shares in the rights offering was set by our board of directors and does not necessarily bear any relationship to the book value of our assets, results of operations, cash flows, losses, financial condition or any other established criteria for value. You should not consider the subscription price as an indication of the value of our ordinary shares. After the date of this prospectus, our ordinary shares may trade at prices above or below the subscription price.

We will have broad discretion in the use of the net proceeds from the rights offering and may not use the proceeds effectively.

We plan to use the proceeds of the rights offering primarily for general working capital purposes, including to facilitate the implementation of our new business strategy and the repayment of any outstanding amounts under a $10 million bridge loan provided to us by Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, that we obtained to allow us to begin to implement our new strategic plan. As part of our new strategic plan, we may use a portion of the net proceeds for the acquisition of, or investment in, business, technologies or products that complement our business. We currently have no specific plans, commitments, proposals, arrangements or agreements for any future acquisitions or investments. We will not be restricted to such uses and will have broad discretion in determining how the proceeds of the rights offering will be used. Our discretion is not substantially limited by the uses set forth in this prospectus in the section entitled "Use of Proceeds." While our board of directors believes the flexibility in application of the net proceeds is prudent, the broad discretion it affords entails increased risks to the investors in the rights offering. Investors in the rights offering have no current basis to evaluate the possible merits or risks of any application of the net proceeds of the rights offering. Our shareholders may not agree with the manner in which we choose to allocate and spend the net proceeds.

If you do not act on a timely basis and follow subscription instructions, your exercise of rights may be rejected.

Holders of record of our ordinary shares who desire to purchase our ordinary shares in the rights offering must act on a timely basis to ensure that all required forms and payments are actually received by the U.S. subscription agent or us prior to 5:00 p.m., New York City time (midnight, Israel time), on the expiration date, unless extended. If you are a beneficial owner of ordinary shares and you wish to exercise your rights, you must act promptly to ensure that your broker, dealer, bank or other nominee acts for you and that all required forms and payments (to the extent payment is then required by your nominee) are actually received by your broker, dealer, bank or other nominee in sufficient time to exercise the rights granted in the rights offering that you beneficially own prior to 5:00 p.m., New York City time (midnight, Israel time) on the expiration date, as may be extended. We will not be responsible if your broker, dealer, bank, or other nominee fails to meet this deadline.

If you fail to follow the subscription procedures that apply to your exercise in the rights offering, we may, depending on the circumstances, reject your subscription or accept it only partially. Neither we, the U.S. subscription agent nor the TASE Clearing House undertakes to contact you concerning an incomplete or incorrect subscription form or payment, nor are we under any obligation to correct such forms or payment. We have the sole discretion to determine whether a subscription exercise properly follows the subscription procedures.

You may not receive any or all of the amount of rights for which you over-subscribed.

Holders who fully exercise their basic subscription rights will be entitled to subscribe for additional rights that remain unsubscribed as a result of any unexercised basic subscription rights. Over-subscription rights will be allocated pro rata among rights holders who over-subscribed, based on the number of over-subscription rights to which they subscribed. You may not receive any or all of the amount of rights for which you over-subscribed. If the pro rated amount of rights allocated to you in connection with your over-subscription right is less than your over-subscription request, then the excess funds held by the U.S. subscription agent or us on your behalf will be returned to you promptly without interest or deduction and we will have no further obligations to you.

The receipt of rights may be treated as a taxable distribution to you.

The distribution of subscription rights in the rights offering likely will be non-taxable under U.S. federal income tax laws. Please see the discussion under “Material U.S. Federal Income Tax Considerations” below. This position is not binding on the Internal Revenue Service or the courts, however, and if the rights offering were deemed to be part of a “disproportionate distribution” under U.S. income tax laws, a U.S. holder’s receipt of subscription rights in the rights offering could be taxable as a dividend in an amount equal to the fair market value of the subscription rights to the extent of our current and accumulated earnings and profits, if any. If the distribution is taxable and the fair market value of the subscription rights exceeds our current and accumulated earnings and profits, the excess would be treated as a return of capital to the extent thereof and then as capital gain. Each U.S. holder of ordinary shares is urged to consult his, her or its own tax advisor with respect to the particular tax consequences of the rights offering to him, her or it.

The distribution of subscription rights in the rights offering likely will be non-taxable under Israeli income tax laws. Please see the discussion under “Certain Israeli Tax Considerations” below. However, no tax ruling from the Israeli Income Tax Authority will be sought for the rights offering. Each Israeli resident holder of ordinary shares is urged to consult his, her or its own tax advisor with respect to the particular tax consequences of the rights offering to him, her or it.

Risks Related to Our Business

We have incurred operating losses and may not be able to achieve and sustain profitable operations. We may not have sufficient resources to fund our working capital requirements in the future.

We incurred operating losses in the last two fiscal years and we may not be able to achieve and sustain profitable operations in the future. In the years ended December 31, 2008 and 2009 and the nine months ended September 30, 2010, we recorded a net loss of $32.6 million, $1.1 million and $3.9 million, respectively. As of December 31, 2009 and June 30, 2010, our accumulated deficit was $27.5 million and $31.4 million, respectively. Even if we return to profitability, our future net income may not offset our cumulative losses. To the extent that we continue to incur operating losses, we may not have sufficient working capital to fund our operations in the future. If we do not generate sufficient cash from operations or from the rights offering, we will be required to obtain additional financing or reduce our level of expenditure. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, results of operations and financial condition will be materially and adversely affected.

We may not be able to implement our new strategic plan and may not be able to successfully expand our business activity and increase our sales.

In June 2010, we adopted a new strategic plan in an effort to reduce expenses and increase our business activity and sales. We determined to focus our business on our sensor activity, broaden our sales channels and close certain technology gaps in response to new demands in the market place. We intend to implement such strategic plan either though organic growth or the acquisition of, or investment in, businesses, products and technology that complement our business. We also intend to improve our presence in selected territories in order to increase our exposure to small and medium size business opportunities as a solution provider. We may not be able to implement our new strategic plan and may not be able to successfully expand our business activity and increase our sales. If we are successful in the implementation of our strategic plan, we may be required to hire additional employees in order to meet customer demands, and if we are unable to attract or retain qualified employees, our business could be adversely affected.

Unfavorable global economic conditions may adversely affect our customers, which directly impacts our business and results of operations.

Our operations and performance depend on our customers, including those from the governmental sector, having adequate resources to purchase our products. The turmoil in the credit markets and the global economic downturn during 2008 and 2009 generally adversely impacted our customers and potential customers. Although global economic conditions have begun to stabilize or improve, there is continuing economic uncertainty. Customers have reduced and may continue to reduce their purchasing activities in response to lack of credit, economic uncertainty, budget deficits and concern about the stability of markets in general, and have reduced or delayed purchases of our products. As a result of slow moving inventory due to the global economic slowdown in 2008 and 2009, we may be required in the future to record additional impairment charges relating to the carrying value of our intangible assets, increase our reserves for doubtful accounts and further write-down our tax assets. In addition, the fair value of some of our assets may decrease further as a result of the weak economy and as a result, we may be required to record further impairment charges in the future. If global economic and market conditions or economic conditions in key markets remain uncertain or weaken further, our financial condition and operating results may be materially adversely affected.

Our revenues depend on government procurement procedures and practices. A substantial decrease in our customers' budgets would adversely affect our results of operations.

Our products are primarily sold to governmental agencies, governmental authorities and government-owned companies, many of which have complex and time consuming procurement procedures. A substantial period of time often elapses from the time we begin marketing a product until we actually sell that product to a particular customer. In addition, our sales to governmental agencies, authorities and companies are directly affected by these customers' budgetary constraints and the priority given in their budgets to the procurement of our products. A decrease in governmental funding for our customers' budgets would adversely affect our results of operations. This risk is heightened during periods of global economic slowdown.

Accordingly, governmental purchases of our systems, products and services may decline in the future as the governmental purchasing agencies may terminate, reduce or modify contracts or subcontracts if:

- their requirements or budgetary constraints change;
- they cancel multi-year contracts and related orders if funds become unavailable;
- they shift spending priorities into other areas or for other products; or

- they adjust contract costs and fees on the basis of audits.

Any such event may have a material adverse affect on us.

The loss of one or more of our key customers would result in a loss of a significant amount of our revenues.

A relatively few customers account for a large percentage of our revenues. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010, revenues generated from sales to the Israeli Ministry of Defense, or MOD, and Israeli Defense Forces, or IDF, accounted for 15.0%, 10.8%, 19.6% and 15.4%, respectively, of our revenues. The MOD, IDF or any of our other major customers may not maintain their volume of business with us or, if such volume is reduced, other customers generating similar revenues may not replace the lost business. The loss of one our more of our key customers without replacement by a customer or customers of similar volume would have a material adverse effect on our financial results.

We depend on large orders from a relatively small number of customers for a substantial portion of our revenues. As a result, our revenues and operating results may vary from quarter to quarter.

We receive large orders from a relatively small number of customers and our revenues and operating results are subject to substantial periodic variations. Individual orders from customers can represent a substantial portion of our revenues in any one period and significant orders by a customer during one period may not be followed by further orders from the same customer in subsequent periods. As a result, our revenues and operating results for a specific quarter may not be indicative of our future performance and quarter-to-quarter comparisons of our operating results may not be meaningful, making it difficult for investors to evaluate our future prospects based on the results of any quarter. In addition, we have a limited order backlog, which makes revenues in any quarter substantially dependent upon orders we deliver in that quarter.

We may be adversely affected by our long sales cycles.

We have in the past and expect in the future to experience long time periods between initial sales contacts and the execution of formal contracts for our products and completion of product installations. The cycle from first contact to revenue generation in our business involves, among other things, selling the concept of our technology and products, developing and implementing a pilot program to demonstrate the capabilities and accuracy of our products, negotiating prices and other contract terms, and, finally, installing and implementing our products on a full-scale basis. This cycle entails a substantial period of time, sometimes as much as one or more years, and the lack of revenues during this cycle and the expenses involved in bringing new sales to the point of revenue generation may put a substantial strain on our resources.

Our failure to retain and attract personnel could harm our business, operations and product development efforts.

Our products require sophisticated research and development, marketing and sales and technical customer support. Our success depends on our ability to attract, train and retain qualified research and development, marketing and sales and technical customer support personnel. Competition for personnel in all of these areas is intense and we may not be able to hire sufficient personnel to achieve our goals or support the anticipated growth in our business. If we fail to attract and retain qualified personnel, our business, operations and product development efforts would suffer.

Our financial results may be adversely affected by currency fluctuations.

We sell most of our products in North America, Europe and Israel. Our revenues are primarily denominated in U.S. dollars, Euros and NIS, while a portion of our expenses, primarily labor expenses, is incurred in NIS and Canadian Dollars. Additionally, certain assets, especially trade receivables, as well as part of our liabilities are denominated in NIS. As a result, fluctuations in rates of exchange between the U.S. dollar and non- U.S. dollar currencies may affect our operating results and financial condition. The dollar cost of our operations in Israel may be adversely affected by the appreciation of the NIS against the U.S. dollar. In addition, the value of our non-U.S. dollar revenues could be adversely affected by the depreciation of the U.S. dollar against such currencies. In 2007, 2008 and 2009, the NIS appreciated by approximately 9.0%, 1.1% and 0.7%, respectively, against the U.S. dollar, which had an adverse affect on our results of operations. In 2008, the Euro depreciated against the U.S. dollar by 5.3%, while in 2007 and 2009 the Euro appreciated against the U.S. dollar by 11.7% and 3.5%, respectively.

In addition, the U.S. dollar cost of our operations in Canada is influenced by the exchange rate between the U.S. dollar and the Canadian dollar. In 2008, the Canadian dollar depreciated against the U.S. dollar by approximately 19.7%, while in 2007 and 2009 the Canadian dollar appreciated against the U.S. dollar by 18.4% and 16.6%, respectively.

During the years ended December 31, 2007, 2008 and 2009, foreign currency fluctuations had an adverse impact on our results of operations and we recorded foreign exchange losses, net of $792,000, $246,000 and $1,138,000, respectively. Our results of operations may continue to be materially adversely affected by currency fluctuations in the future.

If we do not receive Israeli MOD approvals necessary for us to export the products we produce in Israel, our revenues may decrease.

Israel's defense export policy regulates the sale of a number of our systems and products. Current Israeli policy encourages export to approved customers of defense systems and products, such as ours, as long as the export is consistent with Israeli government policy. A license is required to initiate marketing activities. We are also required to obtain a specific export license for any hardware exported from Israel. We may not be able to receive all the required permits and licenses for which we may apply in the future. If we do not receive the required permits for which we apply, our revenues may decrease.

We are subject to laws regulating export of "dual use" items (items that are typically sold in the commercial market, but that also may be used in the defense market) and defense export control legislation. Additionally, our participation in governmental procurement processes in Israel and other countries is subject to specific regulations governing the conduct of the process of procuring defense contracts. Furthermore, solicitations for procurements by governmental purchasing agencies in Israel and other countries are governed by laws, regulations and procedures relating to procurement integrity, including avoiding conflicts of interest and corruption in the procurement process. We may not be able to respond quickly and effectively to changing laws and regulations and any failure to comply with such laws and regulations may subject us to significant liability and penalties.

We face risks associated with doing business in international markets.

A large portion of our sales is to markets outside of Israel. For the years ended December 31, 2007, 2008 and 2009 and the six months ended June 30, 2010 approximately 75.0%, 78.8%, 76.2% and 75.2%, respectively, of our revenues were derived from sales to markets outside of Israel. A key component of our strategy is to continue to expand in such international markets. Our international sales efforts are affected by costs associated with the shipping of our products and risks inherent in doing business in international markets, including:

- different and changing regulatory requirements in the jurisdictions in which we currently operate or may operate in the future;
- fluctuations in foreign currency exchange rates;
- export restrictions, tariffs and other trade barriers;
- difficulties in staffing, managing and supporting foreign operations;
- longer payment cycles;
- difficulties in collecting accounts receivable;

- political and economic changes, hostilities and other disruptions in regions where we currently sell or products or may sell our products in the future; and
- seasonal reductions in business activities.

Negative developments in any of these areas in one or more countries could result in a reduction in demand for our products, the cancellation or delay of orders already placed, difficulty in collecting receivables, and a higher cost of doing business, any of which could adversely affect our business, results of operations or financial condition.

Reduction in Israeli government spending or changes in priorities for homeland security products may adversely affect our financial condition, operating results and prospects.

Historically a significant portion of our revenues were from sales to the Israeli government and our financial condition, operating results and prospects would be adversely affected by Israeli government budget cutbacks or spending reductions. We believe that the success and growth of our business will continue to depend to a certain extent upon our successful procurement of Israeli government contracts. The award of additional contracts from the Israeli government could be adversely affected by spending reductions or budget cutbacks at government agencies that currently use or are likely to use our products. The Israeli government may reduce its expenditures for homeland security or change its defense priorities in the coming years. Our programs may be affected in the future if there is a reduction in Israeli government defense spending for our programs or a change in priorities to products other than ours. Accordingly, changes in government contracting policies, budgetary constraints and delays or changes in the appropriations process could have an adverse affect on our business, financial condition and results of operations.

We may not be able to implement our growth strategy and may not be able to successfully integrate the operations of acquired businesses into our business.

As part of our growth strategy, we intend to acquire or invest in complementary (including competitive) businesses, products and technologies. We may not be able to consummate any acquisition or investment in the future. In addition, the process of integrating acquired assets into our operations may result in unforeseen operating difficulties and expenditures and may absorb significant management attention that would otherwise be available for the ongoing development of our business. We may not be able to realize the anticipated benefits of any acquisition. Moreover, future acquisitions by us could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and amortization expenses related to identifiable intangible assets, any of which could materially adversely affect our operating results and financial position. Acquisitions also involve other risks, including risks inherent in entering markets in which we have no or limited prior experience. Our failure to successfully integrate the operations of an acquired business or to retain key employees of acquired businesses and integrate and manage our growth may have a material adverse effect on our business, financial condition, results of operation or prospects.

We may not be able to protect our proprietary technology and unauthorized use of our proprietary technology by third parties may impair our ability to compete effectively.

Our success and ability to compete depend in large part upon protecting our proprietary technology. We have approximately 15 patents and have three patent applications pending. We also rely on a combination of trade secret and copyright law and confidentiality, non-disclosure and assignment-of-inventions agreements to protect our proprietary technology. It is our policy to protect our proprietary rights in our products and operations through contractual obligations, including confidentiality and non-disclosure agreements with certain employees, distributors and agents, suppliers and subcontractors. These measures may not be adequate to protect our technology from third-party infringement, and our competitors may independently develop technologies that are substantially equivalent or superior to ours. Additionally, our products may be sold in foreign countries that provide less protection to intellectual property than that provided under U.S. or Israeli laws.

Claims that our products infringe upon the intellectual property of third parties may require us to incur significant costs, enter into licensing agreements or license substitute technology.

Third parties may in the future assert infringement claims against us or claims asserting that we have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. Any infringement claim, even one without merit, could result in the expenditure of significant financial and managerial resources to defend against the claim. In addition, we purchase components for our turnkey products from independent suppliers. Certain of these components contain proprietary intellectual property of these independent suppliers. Third parties may in the future assert claims against our suppliers that such suppliers have violated a patent or infringed upon a copyright, trademark or other proprietary right belonging to them. If such infringement by our suppliers or us were found to exist, a party could seek an injunction preventing the use of their intellectual property. Moreover, a successful claim of product infringement against us or a settlement could require us to pay substantial amounts or obtain a license to continue to use such technology or intellectual property. Infringement claims asserted against us could have a material adverse effect on our business, operating results and financial condition.

Undetected defects in our products may increase our costs and impair the market acceptance of our products.

The development, enhancement and implementation of our complex systems entail substantial risks of product defects or failures. Despite testing by us and our customers, errors may be found in existing or new products, resulting in delay or loss of revenues, warranty expense, loss of market share or failure to achieve market acceptance. Moreover, the complexities involved in implementing our systems entail additional risks of performance failures. We may encounter substantial delays or other difficulties due to such complexities. Any such occurrence could have a material adverse effect upon our business, financial condition and results of operations. In addition, the potential harm to our reputation that may result from product defects or implementation errors could be damaging to us.

The market for our products is characterized by changing technology, requirements, standards and products, and we may be adversely affected if we do not respond promptly and effectively to these changes.

The market for our products is characterized by evolving technologies, changing industry standards, changing regulatory environments, frequent new product introductions and rapid changes in customer requirements. The introduction of products embodying new technologies and the emergence of new industry standards and practices can render existing products obsolete and unmarketable. Our future success will depend on our ability to enhance our existing products and to develop and introduce, on a timely and cost-effective basis, new products and product features that keep pace with technological developments and emerging industry standards and address the increasingly sophisticated needs of our customers.

In the future:

- we may not be successful in developing and marketing new products or product features that respond to technological change or evolving industry standards;

- we may experience difficulties that could delay or prevent the successful development, introduction and marketing of these new products and features; or

- our new products and product features may not adequately meet the requirements of the marketplace and achieve market acceptance.

If we are unable to respond promptly and effectively to changing technology, we will be unable to compete effectively in the future.

If subcontractors and suppliers terminate our arrangements with them, or amend them in a manner detrimental to us, we may experience delays in production and implementation of our products and our business may be adversely affected.

We acquire most of the components utilized in our products, including our turnkey solutions, from a limited number of suppliers. We may not be able to obtain such items from these suppliers in the future or we may not be able to obtain them on satisfactory terms. Temporary disruptions of our manufacturing operations would result if we were required to obtain materials from alternative sources, which may have an adverse effect on our financial results. In addition, the installation of our fence mounted vibration detection systems in Israel is outsourced primarily to two subcontractors. If either or both of such subcontractors were to be unable or unwilling to continue to perform such services, we would have to identify and qualify one or more substitute subcontractors to perform such services. This could cause delays in the implementation of our fence mounted vibration detection systems in Israel, the costs associated with installing such systems may increase and our business may be adversely affected.

We currently benefit from government programs and tax benefits that may be discontinued or reduced in the future, which would increase our future tax expenses.

We currently benefit from grants and tax benefits under Israeli government programs, which require us to meet specified conditions, including, but not limited to, making specified investments from our equity in fixed assets and paying royalties with respect to grants received. In addition, some of these programs restrict our ability to manufacture particular products or transfer particular technology outside of Israel. If we fail to comply with these conditions in the future, the benefits we receive could be cancelled and we could be required to refund any payments previously received under these programs, including any accrued interest, or pay increased taxes or royalties. Such a result would adversely affect our results of operations and financial condition. The Israeli government has reduced the benefits available under these programs in recent years and these programs and benefits may be discontinued or curtailed in the future. If the Israeli government ends these programs and benefits, our business, financial condition, results of operations and net income could be materially adversely affected.

We may fail to maintain effective internal control over financial reporting, which could result in material misstatements in our financial statements.

The Sarbanes-Oxley Act of 2002 imposes certain duties on us and our executives and directors. Our efforts to comply with the requirements of Section 404 of the Sarbanes-Oxley Act of 2002 governing internal controls and procedures for financial reporting, which started in connection with our Annual Report on Form 20-F for the year ended December 31, 2006, have resulted in increased general and administrative expense and a diversion of management time and attention, and we expect these efforts to require the continued commitment of significant resources. Section 404 of the Sarbanes-Oxley Act requires management’s annual review and evaluation of our internal control over financial reporting in connection with the filing of the annual report on Form 20-F for each fiscal year. We may identify material weaknesses or significant deficiencies in our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in material misstatements in our financial statements. Any such failure could also adversely affect the results of our management’s evaluations and annual auditor reports regarding the effectiveness of our internal control over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities and could have a material adverse effect on our operating results, investor confidence in our reported financial information and the market price of our ordinary shares.

Risks Relating to Our Ordinary Shares

Volatility of the market price of our ordinary shares could adversely affect our shareholders and us.

The market price of our ordinary shares has been, and is likely to be, highly volatile and could be subject to wide fluctuations in response to numerous factors, including the following:

- actual or anticipated variations in our quarterly operating results or those of our competitors;
- announcements by us or our competitors of technological innovations or new and enhanced products;
- developments or disputes concerning proprietary rights;
- introduction and adoption of new industry standards;
- changes in financial estimates by securities analysts;

- market conditions or trends in our industry;
- changes in the market valuations of our competitors;
- announcements by us or our competitors of significant acquisitions;
- entry into strategic partnerships or joint ventures by us or our competitors;
- additions or departures of key personnel;
- political and economic conditions, such as a recession or interest rate or currency rate fluctuations or political events; and
- other events or factors in any of the countries in which we do business, including those resulting from war, incidents of terrorism, natural disasters or responses to such events.

In addition, the stock market in general, and the market for Israeli companies and home defense companies in particular, has been highly volatile. Many of these factors are beyond our control and may materially adversely affect the market price of our ordinary shares, regardless of our performance. In the past, following periods of market volatility, shareholders have often instituted securities class action litigation relating to the stock trading and price volatility of the company in question. If we were involved in any securities litigation, it could result in substantial cost to us to defend and divert resources and the attention of management from our business.

We do not expect to distribute dividends in the foreseeable future.

We currently intend to retain our current and any future earnings to finance operations and expand our business and, therefore, do not expect to pay any dividends in the foreseeable future. According to the Israeli Companies Law, a company may distribute dividends out of its profits (as defined by the Israeli Companies Law), provided that there is no reasonable concern that such dividend distribution will prevent the company from paying all its current and foreseeable obligations, as they become due, or otherwise upon the permission of the court. The declaration of dividends is subject to the discretion of our board of directors and would depend on various factors, including our operating results, financial condition, future prospects and any other factors deemed relevant by our board of directors. You should not rely on an investment in our company if you require dividend income from your investment.

Risks Relating to Our Location in Israel

Political, economic and military instability in Israel may disrupt our operations and negatively affect our business condition, harm our results of operations and adversely affect our share price.

We are incorporated under the laws of the State of Israel, and our principal executive offices and some of our manufacturing and research and development facilities are located in Israel. As a result, political, economic and military conditions affecting Israel directly influence us. Any major hostilities involving Israel, a full or partial mobilization of the reserve forces of the Israeli army, the interruption or curtailment of trade between Israel and its present trading partners, or a significant downturn in the economic or financial condition of Israel could have a material adverse effect on our business, financial condition and results of operations.

Since the establishment of the State of Israel in 1948, Israel and its Arab neighbors have engaged in a number of armed conflicts. A state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Major hostilities between Israel and its neighbors may hinder Israel's international trade and lead to economic downturn. This, in turn, could have a material adverse effect on our operations and business. Since September 2000, there has been an increase in unrest and terrorist activity in Israel of varying levels of severity. In recent years, there has been an escalation in violence among Israel, Hamas, Hezbollah, the Palestinian Authority and other groups. Ongoing violence between Israel and the Palestinians as well as tension between Israel and neighboring Syria and Lebanon or Iran may have a material adverse effect on our business, financial conditions and results of operations.

Furthermore, we could be adversely affected by the interruption or reduction of trade between Israel and its trading partners. Some countries, companies and organizations continue to participate in a boycott of Israeli companies and others doing business with Israel or with Israeli companies. As a result, we are precluded from marketing our products to these countries, companies and organizations. Foreign government defense export policies towards Israel could also make it more difficult for us to obtain the export authorizations necessary for our activities. Also, over the past several years there have been calls in Europe and elsewhere to reduce trade with Israel. Restrictive laws, policies or practices directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

24

Our results of operations may be negatively affected by the obligation of our personnel to perform reserve military service.

Many of our employees and some of our directors and officers in Israel are obligated to perform annual reserve duty in the Israeli Defense Forces and may be called for active duty under emergency circumstances at any time. If a military conflict or war arises, these individuals could be required to serve in the military for extended periods of time. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of other employees due to military service. Any disruption in our operations could adversely affect our business.

Your rights and responsibilities as a shareholder will be governed by Israeli law and differ in some respects from the rights and responsibilities of shareholders under U.S. law.

We are incorporated under Israeli law. The rights and responsibilities of holders of our ordinary shares are governed by our memorandum of association and articles of association and by Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in typical U.S. corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith in exercising his or her rights and fulfilling his or her obligations toward the company and other shareholders and to refrain from abusing his power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters. Israeli law provides that these duties are applicable in shareholder votes on, among other things, amendments to a company's articles of association, increases in a company's authorized share capital, mergers and interested party transactions requiring shareholder approval. In addition, a controlling shareholder of an Israeli company or a shareholder who knows that it possesses the power to determine the outcome of a shareholder vote or who has the power to appoint or prevent the appointment of a director or executive officer in the company has a duty of fairness toward the company. However, Israeli law does not define the substance of this duty of fairness. Because Israeli corporate law has undergone extensive revision in recent years, there is little case law available to assist in understanding the implications of these provisions that govern shareholder behavior.

Service and enforcement of legal process on us and our directors and officers may be difficult to obtain.

Service of process upon our directors and officers and the Israeli experts named in this prospectus, all of whom reside outside the United States, may be difficult to obtain within the United States. Furthermore, since substantially all of our assets, all of our directors and officers and the Israeli experts named in this prospectus are located outside the United States, any judgment obtained in the United States against us or these individuals or entities may not be collectible within the United States.

There is doubt as to the enforceability of civil liabilities under the Securities Act and the Securities Exchange Act in original actions instituted in Israel. However, subject to certain time limitations and other conditions, Israeli courts may enforce final judgments of United States courts for liquidated amounts in civil matters, including judgments based upon the civil liability provisions of those and similar acts.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we may follow certain home country corporate governance practices instead of certain NASDAQ requirements. We follow Israeli law and practice instead of NASDAQ rules regarding the director nomination process, compensation of executive officers and the requirement that our independent directors have regularly scheduled meetings at which only independent directors are present.

As a foreign private issuer whose shares are listed on the NASDAQ Global Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of The NASDAQ Listing Rules. We follow Israeli law and practice instead of NASDAQ rules regarding the director nomination process, compensation of executive officers and the requirement that our independent directors have regularly scheduled meetings at which only independent directors are present. As a foreign private issuer listed on the NASDAQ Global Market, we may also follow home country practice with regard to, among other things, the composition of the board of directors and quorum at shareholders' meetings. In addition, we may follow home country practice instead of the NASDAQ requirement to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, an issuance that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). A foreign private issuer that elects to follow a home country practice instead of NASDAQ requirements must submit to NASDAQ in advance a written statement from an independent counsel in such issuer's home country certifying that the issuer's practices are not prohibited by the home country's laws. In addition, a foreign private issuer must disclose in its annual reports filed with the Securities and Exchange Commission each such requirement that it does not follow and describe the home country practice followed by the issuer instead of any such requirement. Accordingly, our shareholders may not be afforded the same protection as provided under NASDAQ's corporate governance rules.

NOTICE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus and the documents incorporated in it by reference contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures, competitive pressures, revenues, growth prospects, product development, financial resources and other financial matters. You can identify these and other forward-looking statements by the use of words such as "may," "plans," "anticipates," "believes," "estimates," "predicts," "intends," "potential" or the negative of such terms, or other compar terminology.

Our ability to predict the results of our operations or the effects of various events on our operating results is inherently uncertain. Therefore, we caution you to consider carefully the matters described under the caption "Risk Factors" and certain other matters discussed in this prospectus, the documents incorporated by reference in this prospectus, and other publicly available sources. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

USE OF PROCEEDS

Assuming full participation in the rights offering, we estimate that the net proceeds from the rights offering will be approximately $14,850,000 million, after deducting expenses related to the rights offering payable by us estimated at approximately $150,000.

We intend to use the net proceeds received from the exercise of the rights primarily for general working capital purposes, including to facilitate the implementation of our new business strategy and the repayment of a $10 million bridge loan provided to us by Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, that we obtained to allow us to begin to implement our new strategic plan. As part of our new strategic plan, we may use a portion of the net proceeds for the acquisition of, or investment in, business, technologies or products that complement our business. We currently have no specific plans, commitments, proposals, arrangements or agreements for any future acquisitions or investments.

CAPITALIZATION AND INDEBTEDNESS

The following table sets forth our capitalization as of June 30, 2010 (i) on an actual basis and (ii) on an as adjusted basis to give effect to (a) the issuance of 150,000 ordinary shares to Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, in a private placement to be completed two days before the record date of this offering at an assumed price of $2.95 per share, (b) the issuance of 5,084,746 ordinary shares in the rights offering, assuming the exercise of all of the subscription rights at an assumed subscription price of $2.95 per ordinary share with aggregate proceeds of $15 million, (c) the repayment of $10 million in debt owed under a bridge loan provided to us by Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, and (d) the receipt by us of aggregate net proceeds of approximately $15.3 million from the private placement and the rights offering after deducting our payment of estimated offering expenses.

You should read the table together with our audited financial statements for the year ended December 31, 2009 and notes thereto, included in our Annual Report on Form 20-F for the year ended December 31, 2009, and our unaudited financial statements for the six months period ended June 30, 2010, included elsewhere in this prospectus.

	As of June 30, 2010	
	Actual	As Adjusted
	(U.S. dollars in thousands) (unaudited)	
Current liabilities	$ 22,796	$ 7,504
Long-term liabilities	3,387	3,387
Shareholder's Equity		
Share Capital		
Ordinary shares of NIS 1 par value; 19,748,000 shares authorized; 10,396,548 shares issued and outstanding, actual: 15,631,294 shares issued and outstanding, as adjusted	3,225	4,675
Additional paid-in capital	49,292	63,134
Accumulated other comprehensive income	4,561	4,561
Foreign currency translation (Magal's stand alone financial statements)	2,605	2,605
Retained earnings (accumulated deficit)	(31,375)	(31,375)
Non controlling interest	47	47

Total shareholders' equity	$	28,355	$	43,647
Total liabilities and shareholders' equity	$	54,538	$	54,538

27

PRICE RANGE OF ORDINARY SHARES

Our ordinary shares are quoted on the NASDAQ Global Market and the TASE under the symbol "MAGS".

Annual Share Information

The following table sets forth, for each of the years indicated, the high and low market prices of our ordinary shares on the NASDAQ Global Market and the TASE:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
2006	$ 14.20	$ 8.51	NIS 64.78	NIS 36.10
2007	$ 12.00	$ 6.26	NIS 51.00	NIS 23.50
2008	$ 9.30	$ 4.61	NIS 32.44	NIS 18.60
2009	$ 6.40	$ 3.08	NIS 24.50	NIS 13.00
2010	$ 4.70	$ 2.50	NIS 16.86	NIS 9.61

Quarterly Share Information

The following table sets forth, for each of the financial quarters in the years indicated and any subsequent period, the high and market prices of our ordinary shares on the NASDAQ Global Market and the TASE:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
2009				
First Quarter	$ 6.40	$ 3.79	NIS 24.50	NIS 16.00
Second Quarter	$ 4.95	$ 3.80	NIS 19.97	NIS 16.00
Third Quarter	$ 5.42	$ 3.63	NIS 20.39	NIS 14.60
Fourth Quarter	$ 4.55	$ 3.08	NIS 16.37	NIS 13.00
2010				
First Quarter	$ 4.70	$ 3.50	NIS 16.86	NIS 13.70
Second Quarter	$ 4.00	$ 2.50	NIS 15.14	NIS 9.61
Third Quarter	$ 3.28	$ 2.70	NIS 12.00	NIS 10.00
Fourth Quarter	$ 3.68	$ 2.89	NIS 12.50	NIS 10.45

Monthly Stock Information

The following table sets forth, for each of the most recent six months, the high and low market prices of our ordinary shares on the NASDAQ Global Market and the TASE:

	NASDAQ Global Market		Tel Aviv Stock Exchange	
	High	Low	High	Low
August 2010	$ 3.01	$ 2.71	NIS 12.00	NIS 10.00
September 2010	$ 3.06	$ 2.72	NIS 11.70	NIS 10.50
October 2010	$ 3.56	$ 3.00	NIS 12.30	NIS 11.15
November 2010	$ 3.68	$ 2.89	NIS 12.50	NIS 10.45
December 2010	$ 3.45	$ 3.00	NIS 12.39	NIS 10.50

January 2010	$ 3.29	$ 2.63	NIS 11.66	NIS 10.18

28

DILUTION

Purchasers of our ordinary shares in the rights offering will experience an immediate dilution of the net tangible book value per ordinary share. Our net tangible book value as of June 30, 2010 was approximately $28,355,000 or $2.73 per ordinary share (based upon 10,396,548 of our ordinary shares outstanding as of such date). Net tangible book value per share is equal to our total net tangible book value, which is our total tangible assets less our total liabilities, divided by the number of our ordinary shares outstanding. Dilution per share equals the difference between the amount per share paid by purchasers of ordinary shares in the rights offering and the net tangible book value per ordinary share immediately after the rights offering.

Based on an assumed offering of 5,084,746 ordinary shares at an assumed offering price of $2.95 per share and after deducting estimated offering expenses payable by us of approximately $150,000, and the application of the estimated $14,850,000 of net proceeds from the rights offering and $442,500 from the sale of 150,000 ordinary shares in a private placement to Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, our pro forma net tangible book value as of June 30, 2010 would have been approximately $43,647,000 or $2.79 per share. This represents an immediate increase in pro forma net tangible book value to existing shareholders of $0.06 per ordinary share and an immediate dilution to purchasers in the rights offering of $0.16 per ordinary share. Such computation does not give any effect to our results of operations after June 30, 2010.

The following table illustrates this per share dilution assuming the completion of a private placement of 150,000 of our ordinary shares to Ki Corporation at an assumed offering price of $2.95 per share and a fully subscribed rights offering of 5,084,746 ordinary shares at the assumed subscription price of $2.95 per share:

Subscription price		$ 2.95
Net tangible book value per ordinary prior to the rights offering	$ 2.73	
Increase in net tangible book value per ordinary share attributable to the rights offering	$ 0.06	
Pro forma net tangible book value per share after the rights offering		2.79
Dilution in net tangible book value per share to purchasers		0.16

29

SELECTED CONSOLIDATED FINANCIAL DATA

You should read the following selected consolidated financial data in conjunction with ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' and our consolidated financial statements and the related notes incorporated or included elsewhere in this prospectus. The consolidated statements of operations data for the years ended December 31, 2007, 2008 and 2009 and the consolidated balance sheets data as at December 31, 2008 and 2009 are derived from our audited consolidated financial statements incorporated by reference in this prospectus. The consolidated statements of operations data for the years ended December 31, 2005 and 2006 and the consolidated balance sheets data as at December 31, 2005, 2006 and 2007 are derived from our audited consolidated financial statements that are not included or incorporated in this prospectus. The consolidated statement of operations data for the six months ended June 30, 2009 and 2010 and the consolidated balance sheet data as at June 30, 2010 are derived from our unaudited interim consolidated financial statements included elsewhere in this prospectus. Such financials statements have been prepared in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. Our historical results are not necessarily indicative of results to be expected for any future period.

	Year Ended December 31,					Six Months Ended June 30,	
	2005(1)	2006(1)	2007 (1)(2)	2008(2)	2009(2)	2009	2010
						(unaudited)	
	(in thousands except per share data)						
Revenues	$ 58,385	$ 63,600	$ 62,695	$ 57,105	$ 54,518	$ 21,870	$ 21,204
Cost of revenues	36,658	37,236	38,156	37,559	33,331	13,231	13,916
Gross profit	21,727	26,364	24,539	19,546	21,187	8,639	7,288
Operating expenses:							
Research and development, net	5,265	5,378	5,310	5,556	4,816	2,305	2,155
Selling and marketing, net	12,385	11,603	11,073	12,953	10,864	4,801	4,545
General and administrative	4,965	5,547	6,057	10,243	8,372	3,840	3,875
Impairment of goodwill and other intangible assets	-	-	-	2,772	-	-	-
Post employment and termination benefits	-	-	904	2,582	-	-	-
Total operating expenses	22,615	22,528	23,344	34,106	24,052	10,946	10,575
Operating income (loss)	(888)	3,836	1,195	(14,560)	(2,865)	(2,307)	(3,287)
Financial expenses, net	813	864	2,059	1,314	1,568	226	659
Income (loss) before income taxes	(1,701)	2,972	(864)	(15,874)	(4,433)	(2,533)	(3,946)
Income taxes (tax benefit)	(28)	943	276	3,066	864	(344)	(20)
Income (loss) from continuing operations	(1,673)	2,029	(1,140)	(18,940)	(5,297)	(2,189)	(3,926)
Income (loss) from discontinued	(1,538)	(1,219)	3,022	(13,662)	4,216	63	-

operations, net							
Net income (loss)	$ (3,211)	$ 810	$ 1,882	$ (32,602)	$ (1,081)	$ (2,126)	(3,926)
Less: net income attributable to non-controlling interest	-	-	-	-	54	-	(1)
Net income (loss) attributable to Magal's shareholders	$ (3,211)	$ 810	$ 1,882	$ (32,602)	$ (1,135)	$ (2,126)	$ (3,925)
Basic and diluted net earnings (loss) per share from continuing operations	$ (0.17)	$ 0.20	$ (0.11)	$ (1.82)	$ (0.52)	$ (0.21)	$ (0.38)
Basic and diluted net earnings (loss)per share from discontinued operations	(0.15)	(0.12)	0.29	(1.32)	0.41	0.01	-
Basic and diluted net earnings (loss) per share	$ (0.32)	$ 0.08	$ 0.18	$ (3.14)	$ (0.11)	$ (0.20)	$ (0.38)
Weighted average number of ordinary shares used in computing basic net earnings per share	9,883	10,384	10,395	10,397	10,397	10,397	10,397
Weighted average number of ordinary shares used in computing diluted net earnings per share	9,900	10,442	10,431	10,397	10,399	10,399	10,399

(1) In December 2007, we disposed of our U.S. based video monitoring business. Accordingly, the operating results, balance sheet and cash flows relating to the video monitoring operations were presented in our statements of income, balance sheets and cash flows as discontinued operations, and the comparative operating results for prior years were reclassified.

(2) In September 2009, our Board of Directors resolved to discontinue the operations of the European integration subsidiary that we acquired in September 2007. The subsidiary was sold in December 2009. Accordingly, operating results and cash flows for the years ended December 31, 2007, 2008 and 2009, as well as the capital gain resulting from the sale, were reclassified to disclose the results of that subsidiary as discontinued operations.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion of our results of operations and financial condition should be read in conjunction with our interim unaudited consolidated financial statements and the related notes thereto included elsewhere in this prospectus. This discussion contains forward-looking statements that involve risks and uncertainties. Our actual results may differ materially from those anticipated in these forward-looking statements as a result of certain factors, including, but not limited to, those set forth in "Risk Factors."

Overview

We develop, manufacture, market and sell complex computerized security systems. Our systems are used in more than 75 countries to protect aircraft, national borders and sensitive facilities, including military bases, power plant installations, airports, postal facilities, prisons and industrial locations from terrorism, theft and other security threats. Our revenues are principally derived from:

- installation of comprehensive turnkey solutions for which revenues are generated from long-term fixed price contracts; and

- sales of perimeter products, including services and maintenance that are performed either on a fixed-price basis or pursuant to time-and-materials based contracts.

We believe that our new strategic plan that was adopted in June 2010 provides a foundation for the future growth in our revenues. This projected growth, which is not expected to be immediate, is based on the growing worldwide demand for perimeter security, especially in the BRIC countries. As part of our strategic plan, we intend to stimulate revenue growth by introducing new sales channels for our products as well as creating long-term alliances with large international integrators in order to increase the sales of our products to such integrators. We are also investing in research and development in order to maintain our leadership position in the perimeter intrusion detection systems, or PIDS, market. In addition, we intend to enter into new OEM agreements, purchase third party technologies or enter into mergers and acquisitions transactions in order to maintain and enhance our technological prominence. We also intend to increase our sales efforts for our perimeter solutions and turn-key projects in those territories where we see growing demand, such as the BRIC countries, and plan to improve our presence in these territories either through the establishment of local offices or through joint-ventures and partnering with local entities.

Business Challenges/Areas of Focus

Our primary business challenges and areas of focus include:

- continuing the growth of revenues and profitability of our perimeter security system line of products;
- enhancing the introduction and recognition of our new products into the markets;
- penetrating new markets and strengthening our presence in existing markets; and
- succeeding in selling our comprehensive turnkey solutions.

Our business is subject to the effects of general global economic conditions. If general economic conditions or economic conditions in key markets remain weak or weaken further, demand for our products could be adversely affected.

Key Performance Indicators and Sources of Revenues

Our management believes that our revenues, sources of revenues and operating income (loss) are among the key performance indicators for our business.

Our revenues from our perimeter products and turnkey projects segments for the six months ended June 30, 2009 and 2010 were as follows:

	Six Months Ended June 30,			
	2009		2010	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(In thousands)			
Revenues:				
Perimeter products	$ 15,428	70.5 %	$ 15,394	72.6 %
Turnkey projects	6,442	29.5	5,810	27.4
Total	$ 21,870	100.0 %	$ 21,204	100.0 %

The decline in revenues from turnkey projects was primarily due to the global slowdown that began at the end of 2008. The resulting decline in the number of tenders and actual orders for such projects began to impact our revenues in 2009 as we delivered on a lower backlog of orders. This trend continued into 2010. We have begun to see an upturn in the market and hope that this will continue into 2011.

Our operating loss from our perimeter products and turnkey projects segments for the six months ended June 30, 2009 and 2010 were as follows:

	Six Months Ended June 30,			
	2009		2010	
	Operating loss	% of Total Operating Loss	Operating loss	% of Total Operating loss
	(In thousands)			
Operating loss:				
Perimeter products	$ 1,179	51.1 %	$ 1,727	52.5 %
Turnkey projects	1,128	48.9	1,560	47.5
Total	$ 2,307	100.0 %	$ 3,287	100.0 %

Our losses were primarily due to the global economic slowdown and the reduction in governments spending that began in the latter part of 2008. As orders and new projects were delayed, competition increased and margins were squeezed. We believe that this trend is beginning to reverse and that government spending in certain territories is returning to previous levels. To the extent this reversal continues, we believe that the combination of increased revenues and the impact of the cost saving measures we took in 2009 and 2010 will improve our profitability.

The following table reflects the geographic breakdown of our revenues for the six months ended June 30, 2009 and 2010:

	Six Months Ended June 30,			
	2009		2010	
	Revenues	% of Total Revenues	Revenues	% of Total Revenues
	(In thousands)			
Israel	5,434	24.8 %	5,386	25.4 %
Europe	4,722	21.6 %	3,349	15.8 %
North America	5,630	25.7 %	7,497	35.3 %

South and Latin America		1,521	7.0	%	1,945	9.2	%
Other		4,563	20.9	%	3,027	14.3	%
Total	$	21,870	100.0	%	21,204	100.0	%

Cost and Expenses

Cost of revenues. Our cost of revenues for perimeter products consists of component and material costs, direct labor costs, subcontractors costs, shipping expenses, overhead related to manufacturing and depreciation. Our cost of revenues for turnkey projects consists primarily of component and material costs, subcontractor costs, direct labor costs and overhead related to the turnkey projects. Our cost of revenues for "other" consists primarily of direct labor costs and material costs relating to our maintenance services.

Our gross margin is affected by the proportion of our revenues generated from perimeter products, turnkey projects and other. Our revenues from perimeter products generally have higher gross margins than our other segments.

Research and development expenses, net. Research and development expenses, net consists primarily of expenses for on-going research and development activities and other related costs.

Selling and marketing expenses. Selling and marketing expenses consist primarily of commission payments, compensation and related expenses of our sales teams, attendance at trade shows and advertising expenses and related costs for facilities and equipment.

General and administrative expenses. Our general and administrative expenses consist primarily of salary and related costs associated with our executive and administrative functions, legal and accounting expenses, allowances for doubtful accounts and bad debts and other miscellaneous expenses. Staff costs include direct salary costs and related costs, such as severance pay, social security and retirement fund contributions, vacation and other pay.

Depreciation and Amortization. The amount of depreciation and amortization attributable to our business segments for the six months ended June 30, 2009 and 2010 were as follows:

	Six Months Ended June 30,	
	2009	2010
	(In thousands)	
Perimeter products	$ 484	$ 457
Turnkey projects	46	48
Total	$ 530	$ 505

Financial Expenses, Net. Financial expenses, net include exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the functional currency of each entity, foreign currency forward contracts, interest charged on loans from banks as well as interest income on our cash and cash equivalents and short term investments.

Tax expense. Tax expense consists of federal, state and local taxes on the income of our business. We paid income taxes in 2009 in Germany and Mexico, but did not pay taxes elsewhere because of our operating losses.

Discussion of Critical Accounting Policies

The preparation of financial statements in conformity with U.S. GAAP requires us to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates and the use of different assumptions would likely result in materially different results of operations. Critical accounting policies are those that are both most important to the portrayal of our financial position and results of operations and require management's most difficult, subjective or complex judgments. Although not all of our significant accounting policies require management to make difficult, subjective or complex judgments or estimates, the following policies and estimates are those that we deem most critical:

Revenue Recognition

We generate our revenues mainly from; (i) installation of comprehensive turnkey systems for which revenues are generated from long-term fixed price contracts; and (ii) sales of perimeter products, including services and maintenance that are performed either on a fixed-price basis or as time-and-materials based contracts.

Revenues from installation of comprehensive turnkey systems are generated from fixed-price contracts according to which the time between the signing of the contract and the final customer acceptance is usually over one year. Such contracts require significant customization for each customer's specific needs and, as such, revenues from this type of contract are recognized in accordance with ASC 605-35 Revenue Recognition -Construction-Type and Production-Type Projects" (formerly Statement of Position, or SOP, No. 81-1, "Accounting for Performance of Construction-Type and Certain Production-Type Contracts"), using contract accounting on a percentage of completion method. Accounting for long-term contracts using the percentage-of-completion method stipulates that revenue and expense are recognized throughout the life of the contract, even though the project is not completed and the purchaser does not have possession of the project. Percentage of completion is calculated based on the "Input Method."

Turnkey costs include materials purchased to produce the solutions, related labor and overhead expenses and subcontractor's costs. The percentage to completion is measured by monitoring costs and efforts devoted using records of actual costs incurred to date in the project compared to the total estimated project requirement, which corresponds to the costs related to earned revenues. The amounts of revenues recognized are based on the total fees under the agreements and the percentage of completion achieved. Provisions for estimated losses on uncompleted contracts are made in the period in which such losses are first determined, in the amount of the estimated loss on the entire contract.

Estimated gross profit or loss from long-term contracts may change due to changes in estimates resulting from differences between actual performance and original forecasts. Such changes in estimated gross profit are recorded in results of operations when they are reasonably determinable by management, on a cumulative catch-up basis.

We believe that the use of the percentage of completion method is generally appropriate as we have the ability to make reasonably dependable estimates of the extent of progress towards completion, contract revenues and contract costs. In addition, executed contracts include provisions that clearly specify the enforceable rights regarding services to be provided and received by the parties to the contracts, the consideration to be exchanged and the manner and the terms of settlement, including in cases of termination for convenience. In most cases we expect to perform our contractual obligations and our customers are expected to satisfy their obligations under the contract.

Fees are payable upon completion of agreed upon milestones and subject to customer acceptance. Amounts of revenues recognized in advance of contractual billing are recorded as unbilled accounts receivable. The period between most instances of advanced recognition of revenues and the customers' billing generally ranges between one to six months. As of June 30, 2010, we had recorded $4.8 million of such unbilled receivables.

Services and maintenance are performed under either fixed-price based or time-and-materials based contracts. Under fixed-price contracts, we agree to perform certain work for a fixed price. Under time-and-materials contracts, we are reimbursed for labor hours at negotiated hourly billing rates and for materials. Such service contracts are not in the scope of ASC 605-35, and accordingly, related revenues are recognized in accordance with SAB No. 104, as those services are performed or over the term of the related agreements provided that, an evidence of an arrangement has been obtained, fees are fixed and determinable and collectability is reasonably assured.

Deferred revenue includes unearned amounts under installation service contracts, service contracts and maintenance agreements.

Inventories

Inventories are stated at the lower of cost or market value. We periodically evaluate the quantities on hand relative to historical and projected sales volumes, current and historical selling prices and contractual obligations to maintain certain levels of parts. Based on these evaluations, inventory write-offs are provided to cover risks arising from slow-moving items, discontinued products, excess inventories, market prices lower than cost and adjusted revenue forecasts. Cost is determined as follows:

- Raw materials, parts and supplies - using the “first-in, first-out” method.
- Work-in-progress and finished products - on the basis of direct manufacturing costs with the addition of allocable indirect manufacturing costs.

During the six months ended June 30, 2009 and 2010, we recorded inventory write-offs from continuing operations in the amounts of $0.3 million and $0.1 million, respectively. Such write-offs were included in cost of revenues.

Income taxes

We account for income taxes in accordance with ASC 740 "Income Taxes" (formerly SFAS No. 109, "Accounting for Income Taxes"). This statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

As part of the process of preparing our consolidated financial statements, we are required to estimate our income taxes in each of the jurisdictions in which we operate. This process involves estimating our actual current tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. These differences result in deferred tax assets and liabilities, which are included within our consolidated balance sheet. We must then assess the likelihood that our deferred tax assets will be recovered from future taxable income and we must establish a valuation allowance to reduce our deferred tax assets to the amount that is more likely than not to be realized. Increases in the valuation allowance result in additional expense to be reflected within the tax provision in the consolidated statement of income.

At June 30, 2010, we had a deferred tax asset of $0.3 million attributable to our subsidiaries. We had total estimated available carryforward tax losses of $22.4 million with respect to our operations in Israel as of such date. As of December 31, 2009, we recorded a full valuation allowance on these carryforward tax losses due to the uncertainty of their future realization. As of June 30, 2010, our subsidiaries had estimated total available carryforward tax losses of $9.6 million, which may be used as an offset against future taxable income for periods ranging between 12 and 20 years. As of December 31, 2009, we recorded a full valuation allowance for our subsidiaries’ carryforward tax losses due to the uncertainty of their future realization. Utilization of U.S. net operating losses may be subject to a substantial annual limitation due to the “change in ownership” provisions of the Internal Revenue Code of 1986 and similar state provisions. The annual limitation may result in the expiration of net operating losses before utilization.

On January 23, 2011, the Israeli Tax Authorities issued a NIS 2.3 million (approximately $686,000) tax assessment related to our 2005 - 2006 tax years. Based on the advice of our tax advisors, we believe that it is probable that we will not have to pay this amount and that it will be settled by means of an offset against some of our carry forward tax losses for which we have recorded a full valuation allowance. Accordingly, we expect that the tax assessment will not have a material affect on our financial position or results of operations.

Goodwill

Goodwill has been recorded as a result of past acquisitions and represents the excess of the cost over the net fair value of the assets of the businesses acquired. We operate in two operating segments, which also constitute our two reporting units (“Turnkey Projects” and “Perimeter Products”). Goodwill was allocated to the two reporting units. All remaining goodwill as of December 31, 2009 is allocated to the Perimeter Products reporting unit. We follow ASC 350, "Intangibles – Goodwill and Other" (originally issued as SFAS 142, "Goodwill and Other Intangible Assets").

ASC 350 requires goodwill to be tested for impairment, at the reporting unit level, at least annually or between annual tests in certain circumstances, and written down when impaired, rather than being amortized. We perform our annual goodwill impairment test at December 31 of each year, or more often if indicators of impairment are present.

ASC 350 prescribes a two phase process for impairment testing of goodwill. The first phase screens for impairment, while the second phase (if necessary) measures impairment. In the first phase of impairment testing, goodwill attributable to each of the reporting units is tested for impairment by comparing the fair value of each reporting unit with its carrying value. If the carrying value of the reporting unit exceeds its fair value, the second phase is then performed. The second phase of the goodwill impairment test compares the implied fair value of the reporting unit's goodwill with the carrying amount of that goodwill. If the carrying amount of the reporting unit's goodwill exceeds the implied fair value of that goodwill, an impairment loss is recognized in an amount equal to that excess. Fair value is determined using discounted cash flows, based on the income approach, as we believe that this approach best approximates the reporting unit's fair value at this time. Significant estimates used in the methodologies include estimates of future cash flows, future short-term and long-term growth rates and weighted average cost of capital for each of the reportable units.

The material assumptions used for the income approach for the six months ended June 30, 2010 were five years of projected net cash flows, a discount rate of 14.3% and a long-term growth rate of 1%. We considered historical rates and current market conditions when determining the discount and growth rates to use in our analysis. If these estimates or their related assumptions change in the future, we may be required to record impairment charges for our goodwill.

As required by ASC 820, "Fair Value Measurements and disclosures" (formerly SFAS 157, "Fair Value Measurements," we apply assumptions that market place participants would consider in determining the fair value of a reporting unit.

Impairment of long-lived assets

Our long-lived assets and certain identifiable intangibles are reviewed for impairment in accordance with ASC 360 "Property, Plant, and Equipment" (formerly SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets") whenever events or changes in circumstances indicate that the carrying amount of a group of assets may not be recoverable. Recoverability of a group of assets to be held and used is measured by a comparison of the carrying amount of the group to the future undiscounted cash flows expected to be generated by the group. If such group of assets is considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value.

During the year ended December 31, 2009 and the six months ended June 30, 2010, no impairment losses were identified.

Functional currency and financial statements in U.S. dollars

We have determined that our reporting currency is the U.S. dollar. As of October 1, 2006, our functional currency changed from the U.S. dollar to NIS. Translation adjustments resulting from translating our financial statements from NIS to the U.S. dollar are reported as a separate component in shareholders' equity. As of June 30, 2009 and 2010, our foreign currency translations totaled \$3.3 million and \$2.6 million, respectively.

Accordingly, as of June 30, 2010 and December 31, 2009, we recorded accumulated foreign currency translation income of approximately \$0.7 million and \$1.4 million, respectively, included in our balance sheets as part of "accumulated other comprehensive income." As of June 30, 2010 and December 31, 2009, foreign currency translation adjustments, net of $4.6 million and $3.8 million, respectively, were included under “accumulated other comprehensive income.”

The first step in the translation process is to identify the functional currency for each entity included in the financial statements. The accounts of each entity are then “re-measured” in its functional currency. All transaction gains and losses from the re-measurement of monetary balance sheet items are reflected in the statement of operations as financial income or expenses, as appropriate.

After the re-measurement process is complete the financial statements are translated into the reporting currency, which is the U.S. dollar, using the current rate method. Equity accounts are translated using historical exchange rates. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Statement of operations amounts have been translated using the average exchange rate for the year. The resulting translation adjustments are reported as a component of shareholders' equity in accumulated other comprehensive income (loss).

Concentrations of credit risk

Financial instruments that are potentially subject to concentrations of credit risk consist principally of cash and cash equivalents, short and long-term bank deposits, marketable securities, unbilled accounts receivable, trade receivables, long-term trade receivables and long-term loans.

Of our cash and cash equivalents, marketable securities and short-term and long-term bank deposits at June 30, 2010, $1.8 million was deposited with major Israeli and U.S. banks; $1.7 million was deposited with the Royal Bank of Canada and approximately $1.3 million was deposited with other banks, mainly Deutsche Bank and BBVA Bancomer. Cash and cash equivalents deposited in the United States may be in excess of insured limits and are not insured in other jurisdictions. Generally these deposits maybe redeemed upon demand and therefore bear low risk.

The short-term and long-term trade receivables and the unbilled accounts receivable of our company and our subsidiaries are derived from sales to large and solid organizations located mainly in Israel, the United States, Canada, Mexico and Europe. We perform ongoing credit evaluations of our customers and to date have not experienced any material losses. An allowance for doubtful accounts is determined with respect to those amounts that we have determined to be doubtful of collection and in accordance with an aging policy. In certain circumstances, we may require letters of credit, other collateral or additional guarantees. During the six months ended June 30, 2009, no expenses related to doubtful accounts were recorded. During the six months ended June 30, 2010, we recorded $348,000 of expenses related to doubtful accounts. As of June 30, 2010, our allowance for doubtful accounts amounted to $0.9 million.

We have no significant off-balance sheet concentration of credit risks, such as foreign exchange contracts or foreign hedging arrangements, except derivative instruments, which are detailed below.

Derivative instruments

ASC 815, "Derivatives and Hedging" (formerly SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities"), requires us to recognize all of our derivative instruments as either assets or liabilities in the statement of financial position at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship. For those derivative instruments that are designated and qualify as hedging instruments, a company must designate the hedging instrument, based upon the exposure being hedged.

To protect against the change in the forecasted foreign currency cash flows of certain sale arrangements resulting from changes in the exchange rate, we have from time to time entered into forward contracts to hedge portions of our forecasted revenue and unbilled accounts receivable denominated in foreign currencies. For the six months ended June 30, 2009 we did not record any financial expense related to forward contracts. We recorded $16,000 as financial gains related to forward contracts in the six months ended June 30, 2010.

Fair value of financial instruments

Effective January 1, 2008, we adopted ASC 820, "Fair Value Measurements and Disclosures" (formerly SFAS 157), except as it applies to the nonfinancial assets and nonfinancial liabilities subject to ASC 820-10-50-8A (formerly FSP 157-2). We chose to adopt the delay of the effective date of ASC 820 for one year for goodwill and customers related intangible assets. Effective January 1, 2009, we adopted ASC 820 for nonfinancial assets and liabilities measured at fair value on a nonrecurring basis.

ASC 820 clarifies that fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability. As a basis for considering such assumptions, ASC 820 establishes a three tier value hierarchy, which prioritizes the inputs used in the valuation methodologies in measuring fair value:

Level 1 Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2 Includes other inputs that are directly or indirectly observable in the marketplace.

Level 3 Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

Results of Operations

Our operating results have been negatively impacted during the last two years due to the global economic slowdown and the reduction in governments spending that began in the latter part of 2008. As orders and new projects were delayed, competition increased and margins were squeezed. We believe that this trend is beginning to reverse and that government spending in certain territories is returning to previous levels.

Due to the nature of our customers and products, our revenues are often generated from a relatively small number of large orders. Consequently, individual orders from individual customers can represent a substantial portion of our revenues in any one period and significant orders by any customer during one period may not be followed by further orders from the same customer in subsequent periods. Our revenues and operating results may, therefore, vary substantially from period to period. Consequently, we do not believe that our revenues and operating results should necessarily be judged on a quarter-to-quarter comparative basis.

The following table presents certain financial data expressed as a percentage of revenues for the periods indicated:

	Six Months Ended June 30,	
	2009	2010
Revenues	100.0 %	100.0 %
Cost of revenues	60.5 %	65.6 %
Gross profit	39.5 %	34.4 %
Operating expenses:		
Research and development, net	10.5 %	10.2 %
Selling and marketing, net	22.0 %	21.4 %
General and administrative	17.6 %	18.3 %
Operating loss	(10.6 %)	(15.5 %)
Financial expenses, net	(1.0 %)	(3.1 %)
(Loss) before income taxes	(11.6 %)	(18.6 %)

Income taxes	1.6 %	0.1 %
Income (loss) from continuing operations	(10.0 %)	(18.5 %)
Income (loss) from discontinued operations, net	0.3 %	-
Net income (loss)	(9.7 %)	(18.5 %)

38

Six months Ended June 30, 2010 Compared with Six Months Ended June 30, 2009

Revenues. Revenues decreased by 3% to $21.2 million for the six months ended June 30, 2010 from $21.9 million for the six months ended June 30, 2009. Revenues from sales of perimeter systems amounted to $15.4 million in 2009 and 2010. Revenues from sales of perimeter systems in Western Europe decreased in the 2010 period, while sales in the Canadian and U.S. markets increased in such period. Revenues from security turnkey projects decreased by 9.8% to $5.8 million in 2010 from $6.4 million in 2009, as fewer projects were performed in 2010 compared to 2009, primarily due to reduced spending for large scale tenders in the second half of 2009. We anticipate that our revenues will increase in the remainder of 2010 as a result of anticipated improvements in the global economy.

Cost of revenues. Cost of revenues increased by 5.2% to $13.9 million for the six months ended June 30, 2010 from $13.2 million for the six months ended June 30, 2009. The increase was primarily due to a less favorable mix of products and projects as well as the increase in the U.S. dollar value of our non-U.S. dollar denominated expenses as a result of changes in foreign currency exchange rates in 2010. Cost of revenues as a percentage of revenues increased from 60.5% in the six months ended June 30, 2009 to 65.6% in the six months ended June 30, 2010, primarily due to a less favorable mix of products and projects. Our cost of revenues as a percentage of revenues was adversely impacted by the devaluation in the average NIS/U.S. dollar exchange rate in 2010, as the percentage of our cost of revenues denominated in NIS is higher than the percentage of revenues denominated in NIS.

Research and development expenses, net. Research and development expenses, net decreased by 6.5% to $2.2 million for the six months ended June 30, 2010 from $2.3 million for the six months ended June 30, 2009. The decrease in research and development expenses is primarily attributable to the decrease in the number of our U.S. subsidiary's research and development staff due to the consolidation of the North American business into one unit in the second quarter of 2009. Research and development expenses, net amounted to 10.5% and 10.2% of revenues in the six months ended June 30, 2009 and 2010, respectively. We anticipate that our research and development expenses will not materially change during the remainder of 2010.

Selling and marketing expenses, net. Selling and marketing expenses, net decreased by 5.3% to $4.5 million for the six months ended June 30, 2010 from $4.8 million for the six months ended June 30, 2009. The decrease in selling and marketing expenses in 2010 was primarily due to the decrease in the number of our U.S. subsidiary's selling and marketing staff due to the consolidation of the North American business into one unit during the second quarter of 2009. Sales commissions also decreased in the 2010 period due to a different mix of revenues compared to the 2009 period. The decrease in selling and marketing expenses was offset in part by the appreciation of the average exchange rate of the NIS and the Canadian dollar against the U.S. dollar in 2010, which increased the U.S. dollar value of our NIS and Canadian dollar denominated expenses. Selling and marketing expenses, net amounted to 21.4% and 22.0% of revenues for the six months ended June 30, 2010 and 2009, respectively.

General and administrative expenses. General and administrative expenses increased from $3.8 million for the six months ended June 30, 2009 to $3.9 million for the six months ended June 30, 2010, an increase of 0.9%. The increase in general and administrative expenses in 2010 was primarily due to a $0.3 million increase in the allowance for doubtful accounts in such period. In addition, stock option amortization expenses increased by $0.3 million in the 2010 period due to a higher level of share-based compensation expenses under ASC 718 associated with the grant of options to management during the fourth quarter of 2009. The increase in general and administrative expenses is also attributable to the appreciation of the average exchange rate of the NIS and Canadian dollar against the U.S. dollar in 2010, which increased the U.S. dollar value of our NIS and Canadian dollar denominated expenses. The increase was partially offset by reduced legal and accounting costs as well as reduced salaries, mainly due to the consolidation of the North American business into one unit in the second quarter of 2009. General and administrative expenses amounted to 17.6% of revenues for the six months ended June 30, 2009 compared to 18.3% for the six months ended June 30, 2010.

Operating loss. We had an operating loss of $3.3 million for the six months ended June 30, 2010 compared to an operating loss of $2.3 million for the six months ended June 30, 2009. The operating loss of our perimeter products segment increased from $1.2 million for the six months ended June 30, 2009 to $1.7 million for the six months ended June 30, 2010, primarily as a result of an increase in the U.S. dollar value of our non- U.S. dollar denominated expenses due to changes in foreign currency exchange rates in 2010, as well as a less favorable mix of products. The operating loss of our turnkey projects segment increased from $1.1 million for the six months ended June 30, 2009 to $1.6 million for the six months ended June 30, 2010, primarily as a result of a less profitable mix of projects in 2010 as well as the lower volume of revenues while a significant amount of our expenses with respect to such segment's operations are fixed.

Financial expenses, net. Financial expenses, net, increased from $0.2 million for the six months ended June 30, 2009 to $0.7 million for the six months ended June 30, 2010, an increase of 191.6%. The increase was primarily due to an increase in foreign exchange losses, net that was offset in part by a gain from the sale of marketable securities.

Income taxes. We recorded an income tax benefit of $344,000 for the six months ended June 30, 2009 compared to an income tax benefit of $20,000 for the six months ended June 30, 2010, primarily as a result of valuation allowances recorded in 2010 with respect to our Canadian subsidiary's investment tax credit asset, due to the uncertainty of its future realization.

Seasonality

Our operating results are characterized by a seasonal pattern, with a higher volume of revenues towards the end of the year and lower revenues in the first part of the year. This pattern, which is expected to continue, is mainly due to two factors:

- our customers are mainly budget-oriented organizations with lengthy decision processes, which tend to mature late in the year; and

- due to harsh weather conditions in certain areas in which we operate during the first quarter of the calendar year, certain services are put on hold and consequently payments are delayed.

Our revenues are dependent on government procurement procedures and practices, and because we receive large product orders from a relatively small number of customers, our revenues and operating results are subject to substantial periodic variations.

Impact of Inflation and Currency Fluctuations on Results of Operations, Liabilities and Assets

We sell most of our products in North America, Europe and Israel. Our financial results, which are reported in U.S. dollars, are affected by changes in foreign currency. Our revenues are primarily denominated in U.S. dollars, Euros and NIS, while a portion of our expenses, primarily labor expenses, is incurred in NIS and Canadian Dollars. Additionally, certain assets, especially trade receivables, as well as part of our liabilities are denominated in NIS. As a result, fluctuations in rates of exchange between the U.S. dollar and non-U.S. dollar currencies may affect our operating results and financial condition. The dollar cost of our operations in Israel and Canada may be adversely affected by the appreciation of the NIS and the Canadian dollar against the U.S. dollar. In addition, the value of our non-U.S. dollar revenues could be adversely affected by the depreciation of the U.S. dollar against such currencies.

The appreciation of the NIS and the Canadian dollar in relation to the U.S. dollar has the effect of increasing the U.S. dollar value of any unlinked assets and the U.S. dollar amounts of any unlinked liabilities and increasing the U.S. dollar value of revenues and expenses denominated in other currencies. Conversely, the depreciation of the NIS and the Canadian dollar in relation to the U.S. dollar has the effect of reducing the U.S. dollar value of any of our liabilities which are payable in NIS or in Canadian dollars (unless such costs or payables are linked to the U.S. dollar). Such depreciation also has the effect of decreasing the U.S. dollar value of any asset that is denominated in NIS and Canadian dollars or receivables payable in NIS or Canadian dollars (unless such receivables are linked to the U.S. dollar). In addition, the U.S. dollar value of revenues and expenses denominated in NIS or Canadian dollars would increase. Because foreign currency exchange rates fluctuate continuously, exchange rate fluctuations may have an impact on our profitability and period-to-period comparisons of our results. The effects of foreign currency re-measurements are reported in our consolidated financial statements in current operations.

40

The following table presents information about the rate of depreciation or appreciation of the NIS against the U.S. dollar:

Year ended December 31,	NIS depreciation (appreciation) rate %
2005	6.8
2006	(8.2)
2007	(9.0)
2008	(1.1)
2009	(0.7)

During the six months ended June 30, 2010, the rate of depreciation of the NIS against the U.S. dollar was 2.6%.

In addition, the U.S. dollar cost of our operations in Canada is influenced by the exchange rate between the U.S. dollar and the Canadian dollar. In the six months ended June 30, 2010, the Canadian dollar depreciated against the U.S. dollar by approximately 0.2%, while the Canadian dollar appreciated against the U.S. dollar by approximately 6.0 % in the six months ended June 30, 2009.

We recorded foreign currency exchange gains (losses), net of $89,000 and $(480,000) for the six months ended June 30, 2009 and 2010, respectively. We cannot assure you that in the future our results of operations may not be materially adversely affected by currency fluctuations.

To manage this risk, from time to time, we have entered into forward exchange contracts to hedge some of our foreign currency exposure relating to revenue and unbilled accounts receivable denominated in foreign currencies.

For the six months ended June 30, 2009 we did not record any financial expenses related to forward contracts transactions. We recorded $16,000 in financial income related to forward contracts transactions in the six months ended June 30, 2010.

Liquidity and Capital Resources

From our inception until our initial public offering in March 1993, we financed our activities mainly through cash flow from operations and bank loans. In March 1993, we received proceeds of $9.8 million from an initial public offering of 1,380,000 ordinary shares. In February 1997, we raised $9.4 million from a follow-on offering of 2,085,000 ordinary shares and in April 2005, we raised an additional $14.9 million from a follow-on offering of 1,700,000 ordinary shares. The proceeds from these offerings together with cash flow from operations and our credit facilities are our main sources of working capital.

Our working capital at December 31, 2009 and June 30, 2010, was $20.5 million and $ 16.9 million, respectively. Cash and cash equivalents amounted to $11.9 million at December 31, 2009 compared to $4.8 million at June 30, 2010. Short-term and long-term bank deposits and restricted bank deposits amounted to $1.8 million at December 31, 2009 compared to $3.0 million at June 30, 2010. Our cash and cash equivalents and short and long-term bank deposits are held mainly in U.S. dollars.

In June 2010, we adopted a new strategic plan in an effort to establish a viable path for the growth of our business. We decided to focus on our historical primary markets: perimeter products and solutions and turnkey projects. We appointed a new vice president - products for our perimeter products segment, who is focused solely on the sales of our products. We intend to increase revenues in this segment by locating new channels to promote and market our products, maintaining technology leadership, investing in our research and development activities, entering into OEM, agreements and by acquiring technologies or by mergers and acquisitions. We also intend to focus and improve our presence in emerging markets such as the BRIC countries in order to increase our exposure to small and medium size business opportunities for both our perimeter products and solutions and turnkey projects segments. We are also investing in our employees in order to enhance their professional skills and efficiency.

We expect that our research and development expenses in 2010 will be approximately $4 million and that research and development expenses will be approximately the same in 2011. Our research and development plan for 2011 covers the following main areas:

- Sensor development - We intend to continue the development of new and innovative sensors based on existing, new and hybrid technologies. Most of the development will be based on in-house competencies, however we may acquire some know-how externally.

- Sensor improvements – We are conducting an ongoing program of improvement of our existing sensors in order to enhance performance, reliability and capability to source and produce and reduce cost.

- Security Management Systems – We intend to continue to develop our two levels of management systems:

  - High-end systems – Physical security information management systems, mainly used as part of a turnkey solution, as a comprehensive command and control, or C&C solution, designed for entities requiring management of security, safety, site management and dispatching. These systems are designed to manage both daily routines and crisis situations.

  - Low-end systems – Basic security management systems, or SMS, typically used for managing and controlling the PIDS of a site.

We are also developing an interface package to facilitate integration of our sensors into a third party SMS/C&C system.

- Video systems – We will continue to develop our video management software to improve the intelligent video analytics and cope with advanced video protocols such as regular IP streaming, megapixel and high definition video cameras.

To allow us to begin to implement our new strategic plan, on September 8, 2010, Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, provided us with a bridge loan in the principal amount of $10.0 million. If not repaid within 180 days, the bridge loan will begin to accrue interest at the rate of LIBOR + 4% per year, calculated from the date of the loan and accumulated on a quarterly basis. However, if this rights offering occurs within 240 days from the date of the loan, the loan will not bear any interest. We believe that this is a favorable interest rate for the company, as the market interest rate for similar loans in Israel is approximately LIBOR + 6.7% per year. The loan is due and payable on January 10, 2012, and we have an option to extend the maturity date for an additional 60 days. Any interest will be paid together with, and in the same manner as, the principal, no later than the maturity date. We intend to use part of the proceeds from this rights offering for the repayment of the bridge loan, which amounts to $10 million as of the date of this prospectus. We have undertaken to repay such amount within five business days after the successful completion of the rights offering.

We believe that our current cash and cash equivalents, including bank facilities, bank deposits, marketable securities and our expected cash flows from operations in 2010 will be sufficient to meet our cash requirements through 2011 and that the proceeds of this offering will permit us to fully implement our strategic plan in 2011. However, our liquidity could be negatively affected by a decrease in demand for our products, including the impact of potential reductions in customer purchases that may result from the current general economic climate.

Cash Flows

The following table summarizes our cash flows for the periods presented:

	Six Months Ended June 30, 2009	Six Months Ended June 30, 2010
	(In thousands)	
Net cash provided by (used in) continuing operations	$ 4,421	$ (3815)
Net cash used in discontinued operations	(410)	(17)
Net cash provided by (used in) operating activities	4,011	(3,832)
Net cash provided by (used in) investing activities	(7)	(1,383)
Net cash provided by (used in) financing activities	(162)	(2,002)
Effect of exchange rate changes on cash and cash equivalents	(528)	116
Increase (decrease) in cash and cash equivalents	3,314	(7,101)
Cash and cash equivalents at the beginning of the year	16,835	11,869
Cash and cash equivalents at the end of the year	$ 20,149	$ 4,768

Net cash provided by operating activities was approximately $4.0 million for the six months ended June 30, 2009 compared to net cash used in operating activities of $3.8 million for the six months ended June 30, 2010. Net cash provided by operating activities for the six months ended June 30, 2009 was primarily attributable to $0.5 million of depreciation and amortization expenses, $0.2 million of stock-based compensation expense, a decrease in trade receivables of $6.5 million, a decrease of $0.4 million in inventories, a decrease of $1.9 million in unbilled accounts receivable, a $0.2 million decrease in other accounts receivable and prepaid expenses, and a $43,000 increase in accrued severance pay, which was offset in part by an increase of $0.4 million in customer advances, a decrease of $1.1 million in trade payables and a decrease of $1.8 million in other accounts payable and other expenses. Net cash used in operating activities for the six months ended June 30, 2010 was primarily attributable to an increase in trade receivables of $0.8 million, an increase in other accounts receivable of $2.6 million, a decrease in trade payables of $1.5 million and a decrease in other accounts payable and other expenses of $1.2 million. This was offset in part by a decrease in inventories of $0.5 million, an increase of $3.5 million in customer advances, an increase in unbilled accounts receivables of $1.0 million, $0.5 million of depreciation and amortization expenses and $0.6 million of stock-based compensation expense.

Net cash used in investing activities was approximately $7,000 for the six months ended June 30, 2009 compared to approximately $1.4 million for the six months ended June 30, 2010. In the six months ended June 30, 2009, we purchased $0.9 million of property and equipment, which amount was offset in part by proceeds of $0.9 million and $31,000 from the sale of marketable securities and equipment, respectively. In the six months ended June 30, 2010, we purchased $0.2 million of property, plant and equipment, $31,000 of know-how and patents and invested $3.0 million in a pledged deposit, which amounts were offset in part by proceeds of $1.8 million from the sale of short-term bank deposits.

For the six months ended June 30, 2009, net cash used in financing activities was $162,000, primarily attributable to the repayment of a $314,000 long-term bank loan, which amount was offset in part by an increase of $152,000 in short-term bank credits. For the six months ended June 30, 2010, net cash used in financing activities was $2.0 million, primarily due to an increase of $0.5 million in short-term bank credits and the repayment of $1.5 million of long-term bank loans.

We had capital expenditures of approximately $0.9 million and $0.2 million in the six month periods ended June 30, 2009 and 2010, respectively. These capital expenditures were principally for computers, other machinery and equipment and for expanding and renovating our facilities. We estimate that our capital expenditures for the remainder of 2010 will total approximately $ 0.4 million, all of which will relate to our perimeter security and project segments. We expect to finance these expenditures primarily from our cash and cash equivalents, operating cash flows and our credit facilities. However, the actual amount of our capital expenditures will depend on a variety of factors, including general economic conditions and changes in the demand for our products.

Credit Lines and Other Debt

Short-term and long-term bank credit at June 30, 2009 and June 30, 2010 was $25.4 million and $8.4 million, respectively. Our highest level of short-term and long-term bank borrowings in the six month periods ended June 30, 2009 and 2010, was $26.3 million and $8.4 million, respectively. In December 2009, we determined to reduce our borrowings by utilizing funds that we previously used as deposits under our previous banking relationships and we also used the proceeds from the sale of our European subsidiary to reduce our indebtedness.

We currently have credit lines with Bank Leumi Le-Israel B.M., or BLL, Union Bank of Israel Ltd., or Union Bank, and Bank Hapoalim B.M totaling $13.8 million in the aggregate (of which $3.0 million is reserved exclusively for guarantees) and $3.0 million was available at June 30, 2010. There are no restrictions as to our use of any of these credit lines. In January 2010, we entered into a new credit arrangement with these banks and granted the banks a first degree fixed charge over our registered but unissued share capital and goodwill and a first degree floating charge over all of our assets and rights. Our loans under these credit lines are denominated in dollars and NIS. As part of the restructuring of our credit arrangements, we have concluded and repaid in full all of our credit facilities with Mizrahi Tefahot Bank B.M. As of June 30, 2010, we are not under any obligation to maintain financial ratios or other terms in respect of our credit lines.

In addition, our subsidiaries currently have credit lines with the Royal Bank of Canada and Deutsche Bank, totaling $2.6 million in the aggregate, of which $ 0.4 million was available at June 30, 2010.

Our Canadian subsidiary, which is primarily engaged in sale of perimeter products and turnkey projects, has undertaken to maintain general covenants and the following financial ratios and terms in respect of its outstanding credit lines: a quick ratio of not less than 1.25:1; a ratio of total liabilities to tangible net worth of not greater than 0.75:1; and tangible net worth of at least $9.0 million. As of June 30, 2010, our Canadian subsidiary was in compliance with these ratios and terms.

As of June 30, 2010, our outstanding balances under our credit lines in Israel consisted of:

- Short-term NIS-denominated loans of approximately $6.9 million, bearing interest at an average rate of 5%;
- Long-term U.S. dollar-denominated loan of approximately $0.8 million, bearing interest at an average rate of 1%;
- Long-term NIS-denominated loan of approximately $0.08 million, bearing interest at an average rate of 3%; and
- Several bank performance and advance payment guarantees totaling approximately $3.0 million, at an annual cost of 1%-1.5%.

As of June 30, 2010, the outstanding balances under the credit lines of our subsidiaries consisted of:

- Short-term Canadian dollar-denominated loan of approximately $0.6 million, bearing interest at an average rate of 3.5%.
- Several bank performance and advance payment guarantees totaling approximately $1.6 million, at an annual cost of 0.85%-1.8%.

Contractual Obligations

The following table summarizes our minimum contractual obligations and commercial commitments as of June 30, 2010:

	Payments due by period				
Contractual Obligations	Total	Less than 1 year	1-2 years	3-5 years	More than 5 years
	(In thousands)				
Long-term bank debt obligations	$ 877	$ 661	$ 181	$ 35	$ -
Operating lease obligations	3,203	728	554	504	1,417
Purchase obligations	-	-	-	-	-
Other long-term liabilities reflected on our balance sheet under U.S. GAAP	3,171	-	-	-	3,171
Total	$ 7,251	$ 1,389	$ 735	$ 539	$ 4,588

In addition, we have guaranteed advance payments, the performance of our work and provided warranties for the performance of our work to certain of our customers (usually governmental entities). Such guarantees are required by contract for our performance during the installation and operational period of projects throughout Israel and the rest of the world. The performance guarantees typically expire soon after certain milestones are met and warranty guarantees typically expire at the end of the warranty period. The maximum potential amount of future payments we could be required to make under our guarantees at both December 31, 2009 and June 30, 2010 was $4.6 million. We have not recorded any liability for such amounts as we expect that our performance will be acceptable and to date, no performance bank guarantees have been exercised against us except with respect to our dispute relating to an airport project in Eastern Europe.

SHARE OWNERSHIP

The following table sets forth certain information regarding the beneficial ownership of our outstanding ordinary shares as of the date of this prospectus, by (i) each person who we know beneficially owns 5% or more of our outstanding ordinary shares; (ii) each of our directors and executive officers individually; and (iii) all of our directors and executive officers as a group.

Name	Number of Ordinary Shares Beneficially Owned(1)	Percentage of Outstanding Ordinary Shares(2)	
Nathan Kirsh (3)	2,516,267	24.20	%
Clough Capital Partners L.P.(4)	704,042	6.77	%
Prescot Group Capital Management LLC. (6)	524,927	5.05	%
Grace & White, Inc. (7)	521,102	5.01	%
Jacob Perry (8)(9)	134,833	1.28	%
Eitan Livneh (10)	128,402	1.23	%
Hagai Katz	24,500	*	
Asaf Even-Ezra (11)	163,926	1.58	%
Yehonatan Ben-Hamozeg	33,500	*	
Ilan Ovadia	34,000	*	
Jacob Even-Ezra (12)	515,945	4.96	%
Shaul Kobrinsky	-	-	
Zeev Livne	-	-	
Jacob Nuss	-	-	
Barry Stiefel	5,000	*	
Liza Zinger	-	-	
All directors and executive officers as a group (13 persons)(2)	3,556,373	34.18	%

* Less than 1%

(1) Beneficial ownership is determined in accordance with the rules of the Securities and Exchange Commission and generally includes voting or investment power with respect to securities. Ordinary shares relating to options or convertible notes currently exercisable or exercisable within 60 days of the date of this table are deemed outstanding for computing the percentage of the person holding such securities but are not deemed outstanding for computing the percentage of any other person. Except as indicated by footnote, the persons named in the table above have sole voting and investment power with respect to all shares shown as beneficially owned by them.

(2) The percentages shown are based on 10,396,548 ordinary shares issued and outstanding as of February 16, 2011 (which excludes 150,000 ordinary shares to be acquired by Ki Corporation in a private placement to be completed two days prior to the record date of this rights offering).

(3) Based upon a Schedule 13D/A filed with the Securities and Exchange Commission on January 16, 2009 and other information available to the company. All of the ordinary shares are held of record by Ki Corporation, a company organized in Jersey. The Eurona Foundation holds 100% of Ki Corporation. The Eurona Foundation is a Liechtenstein trust controlled by Mr. Kirsh, who also serves as its trustee. Mr. Kirsh may be deemed to have beneficial ownership of the ordinary shares held of record by Mira Mag and Ki Corporation. The 2,516,267 ordinary shares beneficially owned by Mr. Kirsh do not include 150,000 ordinary shares to be acquired by Ki

Corporation in a private placement to be completed two days prior to the record date of this rights offering.

(4) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D filed with the Securities and Exchange Commission on June 17, 2010. The Schedule 13D indicates that the shares include shares beneficially owned by investment companies, pooled investment vehicles and other accounts for which Clough Capital Partners L.P. serves as investment adviser. Such shares may be deemed beneficially owner by (a) Clough Capital Partners L.P., (b) Clough Capital Partners LLC, the general partner of Clough Capital Partners L.P., and (c) Messrs. Charles Clough, James Canty and Eric Brock, the managing members of Clough Capital Partners LLC. Each such reporting person disclaims beneficial ownership of such shares except to the extent of its respective pecuniary interest therein.

(5) Based solely upon, and qualified in its entirety with reference to, a Schedule 13D/A filed with the Securities and Exchange Commission on January 28, 2011. The Schedule 13D/A indicates that Prescott Group Aggressive Small Cap, L.P. and Prescott Group Aggressive Small Cap II, L.P., referred to together as the Small Cap Funds, are the general partners of Prescot Group Aggressive Small Cap Master Fund, G.P., or Prescott Master Fund. Prescott Group Capital Management, L.L.C., or Prescott Capital, serves as the general partner of the Small Cap Funds and may direct the Small Cap Funds, the general partners of Prescott Master Fund, to direct the vote and disposition of the ordinary shares held by the Master Fund. Mr. Frohlich, as the principal of Prescott Capital, may direct the vote and disposition of the ordinary shares held by Prescott Master Fund.

(6) Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the Securities and Exchange Commission on January 31, 2011. The Schedule 13G/A indicates that Grace & White, Inc. is a registered investment adviser.

(7) Includes 100,000 ordinary shares issuable upon the exercise of currently exercisable options granted by our company, having an exercise price of $7.59 per share that expire in August 2013.

(8) Includes 33,333 ordinary shares issuable upon the exercise of currently exercisable options granted to Mr. Perry by Ki Corporation. Ki Corporation granted Mr. Perry the right to purchase 100,000 shares upon the same terms and conditions that apply to the exercise of the options granted to him under his employment agreement. Mr. Perry has the right to purchase the shares in three equal annual installments commencing on August 20, 2010 at a price of $7.59 per share. The right to purchase each installment expires after three years.

(9) Includes 83,336 ordinary shares issuable upon the exercise of currently exercisable options, having an exercise price of $4.35 per share that expire in August 2014, 20,833 ordinary shares issuable upon the exercise of currently options, having an exercise price of $4.35 per share that expire in November 2014 and 20,833 ordinary shares issuable upon the exercise of currently exercisable options, having an exercise price of $4.35 per share that expire in February 2015.

(10) Includes 24,000 ordinary shares issuable upon the exercise of currently exercisable options, having an exercise price of $3.53 per share that expire in April 2015 and 24,000 ordinary shares issuable upon the exercise of currently exercisable options, having an exercise price of $3.53 per share that expire in April 2016 . Asaf Even-Ezra is Jacob Even-Ezra’s son.

(11) Includes 77,975 ordinary shares held by a trustee. Jacob Even-Ezra is the father of Asaf Even-Ezra.

THE RIGHTS OFFERING

Terms of the Offer

We are distributing at no charge to the holders of our ordinary shares on [ ], subscription rights to purchase up to an aggregate of [ ] of our ordinary shares. We expect the total subscription price for the rights offered in the rights offering to be $15 million, assuming full exercise of all the subscription rights. See below for additional information regarding subscription by DTC and TASE Clearing House participants.

Each shareholder is being issued one right for every [ ] ordinary shares owned on the record date. Each right carries with it a basic subscription right and an over-subscription right. No fractional rights will be issued in the rights offering.

Each right entitles the holder to purchase, at the subscription price of [ ], one ordinary share. We refer to this as the basic subscription right.

Holders who fully exercise their basic subscription rights will be entitled to subscribe for additional rights that remain unsubscribed as a result of any unexercised basic subscription rights. We refer to this as the over-subscription right. Over-subscription rights will be allocated pro rata among rights holders who over-subscribed, based on the number of over-subscription rights to which they subscribed. Rights may only be exercised for whole numbers of ordinary shares; no fractional ordinary shares will be issued in the rights offering. Instead, any fractional shares will be rounded down to the nearest whole share. You must exercise your rights with respect to the basic subscription right and the over-subscription right at the same time.

You may be subject to certain regulatory requirements if, as a result of the exercise of your subscription rights, you reach certain holding thresholds of beneficial ownership of our ordinary shares. For example, if your exercise of subscription rights results in you beneficially owning more than 5% of our ordinary shares, you may be required to file a Schedule 13D or Schedule 13G with the U.S. Securities and Exchange Commission. In addition, if your exercise of subscription rights results in your holding 25% or more of our ordinary shares, such exercise must be made by means of a special tender offer in accordance with the Israeli Companies Law.

The rights are exercisable during an 18-trading day period, beginning after 5:00 p.m., New York City time (midnight, Israel time) on [ ] and ending on [ ] at 5:00 p.m., New York City time (midnight, Israel time), the expiration date of the rights offering. If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer, bank or other nominee (including a member of DTC or the TASE Clearing House), rather than in your own name, and you wish to exercise your subscription rights, you should contact your nominee to exercise your subscription rights sufficiently in advance of the applicable expiration date of the rights offering in order to ensure timely delivery of a subscription rights certificate reflecting your exercise. Your nominee will instruct you as to the proper time and form of payment of the subscription price.

The rights will be evidenced by subscription rights certificates which will be mailed to shareholders. The subscription rights will not be listed for trading on any stock exchange or market.

For purposes of determining the number of rights a holder may acquire in the rights offering, holders whose ordinary shares are held of record by Cede & Co. or the Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd. will be deemed to be the holders of the rights that are issued to Cede & Co. or Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd., respectively.

There is no minimum subscription amount.

Allocation and Exercise of Over-Subscription Rights

In order to properly exercise an over-subscription right, a rights holder must: (i) exercise its basic subscription right in full, (ii) indicate on its subscription rights certificate that it submits with respect to the exercise of the rights issued to it how many additional ordinary shares it is willing to acquire pursuant to its over-subscription right and (iii) concurrently deliver the subscription payment related to its over-subscription right at the time it makes payment for its basic subscription right.

If there are sufficient remaining rights, all over-subscription requests will be honored in full. If requests for rights pursuant to the over-subscription right exceed the remaining rights available, the available remaining rights will be allocated pro rata among rights holders who over-subscribe based on the number of over-subscription rights to which they subscribe. The percentage of remaining rights each over-subscribing rights holder may acquire will be rounded down to result in delivery of whole ordinary shares. The allocation process will assure that the total number of remaining rights available for over-subscriptions is distributed on a pro rata basis. The formula to be used in allocating the available over-subscription rights is as follows:

[Number of Over-Subscription Rights Subscribed for by an Exercising Rights Holder] [Total Number of Over-Subscription Rights Subscribed for by All Exercising Rights Holders]	X	Total Rights Available for Rights Holders Exercising Their Over-Subscription Right

Rights payments for basic subscriptions and over-subscriptions will be deposited upon receipt by the U.S. subscription agent or us and held in a segregated account with the U.S. subscription agent pending a final determination of the number of ordinary shares to be issued pursuant to the over-subscription right. If the pro rated amount of rights allocated to you in connection with your over-subscription right is less than your over-subscription request, then the excess funds held by the U.S. subscription agent or us on your behalf will be returned to you promptly without interest or deduction. We will deliver certificates representing your ordinary shares or credit your account at your nominee holder with ordinary shares that you purchased pursuant to your over-subscription right as soon as practicable after the rights offering has expired and all proration calculations and reductions contemplated by the terms of the rights offering have been effected.

Brokers, dealers, banks and other nominee holders of rights will be required to certify to the U.S. subscription agent or the TASE Clearing House, as applicable, before any over-subscription right may be exercised with respect to any particular beneficial owner, as to the aggregate number of rights exercised pursuant to the basic subscription right and the number of ordinary shares subscribed for pursuant to the over-subscription right by such beneficial owner.

We will not offer or sell in connection with the rights offering any ordinary shares that are not subscribed for pursuant to the basic subscription right or the over-subscription right.

Over-subscription Commitment

Mr. Nathan Kirsh, our principal shareholder and a director, has undertaken to exercise, directly or through entities affiliated with him, his basic subscription right in full and his over-subscription right in full, up to our receiving proceeds of no more than $15 million in this rights offering. As of the date of this prospectus, Mr. Kirsh beneficially owns 24.2% of our outstanding shares (which excludes 150,000 ordinary shares to be acquired by Ki Corporation, a company owned by Mr. Kirsh, in a private placement to be completed two days prior to the record date of this rights offering).

Expiration of the Rights Offering and Extensions

You may exercise your subscription rights at any time before 5:00 p.m., New York City time (midnight, Israel time) on [ ], 2011, the expiration date of the rights offering, unless extended. Our board of directors may extend the expiration date for exercising your subscription rights for up to an additional 30 trading days in their sole discretion. If we extend the expiration date, you will have at least ten trading days during which to exercise your rights. Any extension of the rights offering will be followed as promptly as practicable by an announcement, and in no event later than 9:00 a.m., New York City time, on the next business day following the previously scheduled expiration date.

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer, bank or other nominee (including a member of DTC or the TASE Clearing House), rather than in your own name, and you wish to exercise your subscription rights, you should contact your nominee to exercise your subscription rights sufficiently in advance of the expiration date of the rights offering in order to ensure timely delivery of a subscription rights certificate reflecting your exercise. Your nominee will instruct you as to the proper time and form of payment of the subscription price.

We may choose to extend the expiration date of the rights in order to give investors more time to exercise their subscription rights in the rights offering. We may extend the expiration date of the rights offering by giving oral or written notice to the U.S. subscription agent and the TASE Clearing House on or before the scheduled expiration date. If we elect to extend the expiration date, we will issue a press release announcing such extension no later than 9:00 a.m., New York City time, on the next business day after the most recently announced expiration date.

Any rights not exercised at or before that time will have no value and expire without any payment to the holders of those unexercised rights. We will not be obligated to honor your exercise of subscription rights if the U.S. subscription agent or Magal receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents.

Amendments, Revocation and Termination of the Rights Offering

Amendments. We reserve the right, in our sole discretion, to amend or modify the terms of the rights offering (including the maximum number of ordinary shares we may issue in the rights offering and the subscription price per share). If we amend or modify the terms of the rights offering, then we will issue a press release announcing such amendment or modification, and we will file with the U.S. Securities and Exchange Commission such documents and other information relating to the amendment or modification as is required under the Securities Act of 1933, as amended. If we amend or modify certain terms of the rights offering, then we will extend the expiration date of the rights offering as required by law.

No Revocation. Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of either your basic or over-subscription rights, even if the market price of our ordinary shares is below the $[ ] per share subscription price, unless we amend the terms of the rights offering (other than extending the expiration date), in which case you may revoke your exercise before the expiration date. You should not exercise your subscription rights unless you are certain that you wish to purchase additional ordinary shares at the proposed subscription price. Any rights not exercised at or before that time will expire worthless without any payment to the holders of those unexercised rights.

Termination; Cancellation. We may cancel or terminate the rights offering at any time prior to the expiration date. Any cancellation or termination of the rights offering will be followed as promptly as practicable by an announcement or termination.

Reasons for the Rights Offering; Determination of the Offering Price

We are making the rights offering to raise funds for general working capital purposes, including to facilitate the implementation of our new business strategy and the repayment of any outstanding amounts under a $10 million bridge loan provided to us in September 2010 by Ki Corporation, a company owned by Mr. Nathan Kirsh, our principal shareholder and a director, that we obtained to allow us to begin to implement our new strategic plan. Although we believe that the rights offering will strengthen our financial condition, our board of directors is not making any recommendation as to whether you should exercise your subscription rights.

Our board of directors appointed a special committee to oversee the rights offering and make a recommendation to the board of directors with respect to the terms of the rights offering. The special committee is composed of the chairman of our board of directors and our two outside directors within the meaning of Israeli law. The subscription price, the number of shares that must be owned to receive one right and the number of shares to be issued for each right will be recommended by the special committee to our board of directors, which in turn will consider the terms of the rights offering. In determining the various terms of the rights offering, the special committee and our board of directors will consider, among other things, the fairness opinion of Tamir Fishman, the need to offer the shares at a price that would be attractive to investors relative to the then current trading price for our ordinary shares, historical and current trading prices for our ordinary shares, general conditions in the financial services industry, the need for capital and alternatives available to us for raising capital, potential market conditions, the fact that the rights are not transferable but that holders of rights will have an over-subscription right, and the desire to provide an opportunity to our shareholders to participate in the rights offering on a pro rata basis. In conjunction with its review of these factors, the special committee and our board of directors will review our history and prospects, including our past and present earnings, our prospects for future earnings, and the outlook for our industry, our current financial condition and regulatory status and a range of discounts to market value represented by the subscription prices in various prior rights offerings.

We retained Tamir Fishman to render an opinion to our board of directors as to the fairness, from a financial point of view, of the rights offering to our existing shareholders taken as a whole. The opinion will not constitute a recommendation as to whether you should exercise your subscription rights in the rights offering. We have agreed to pay Tamir Fishman a fee of $50,000 and reimburse it for reasonable out-of-pocket expenses in connection with the fairness opinion. We have further agreed to indemnify Tamir Fishman and certain other parties affiliated or associated with Tamir Fishman against certain claims, liabilities and expenses related to or arising in connection with the rendering by Tamir Fishman of its services as described in this prospectus. The fairness opinion will not determine the fairness of the pricing of the private placement to Mr. Kirsh or the fairness of any premiums or consideration due to us or our shareholders as the result of the increase of Mr. Kirsh's beneficial ownership of our company to more than 25%.

The subscription price does not necessarily bear any relationship to any other established criteria for value. You should not consider the subscription price as an indication of value of our company or our ordinary shares. You should not assume or expect that, after the rights offering, our ordinary shares will trade at or above the subscription price in any given time period. The market price of our ordinary shares may decline during or after the rights offering, and you may not be able to sell the shares of our ordinary shares purchased during the rights offering at a price equal to or greater than the subscription price. You should obtain a current quote for our ordinary shares before exercising your subscription rights and make your own assessment of our business and financial condition, our prospects for the future, and the terms of this rights offering. On February 16, 2011, the last reported sale price of our ordinary shares on The NASDAQ Global Market was $2.95 per share and on February 16, 2011, the last reported sale price of our ordinary shares on the TASE was NIS 10.83 per share.

Methods of Exercise of Rights for Record Holders

American Stock Transfer & Trust Company, LLC will act as the U.S. subscription agent in connection with the rights offering with respect to holders of our ordinary shares that are registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC the transfer agent of our ordinary shares, including shares registered in the name of Cede & Co for the benefit of brokers, dealers, banks and other nominees (other than the TASE Clearing House). The U.S. subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately $8,000 plus reimbursement for all reasonable out-of-pocket expenses related to the rights offering.

Rights are evidenced by subscription rights certificates that will be mailed to record date shareholders registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC. The rights certificate will be accompanied by a copy of this prospectus, and on the back of the rights certificate will be a rights exercise form.

During the subscription period ending on [   ], 2011, if you are a record owner of our ordinary shares, you may exercise your rights by delivering a signed exercise form on the back of your rights certificate to American Stock Transfer & Trust Company, LLC, together with payment in full of the subscription price for all shares subscribed for through the exercise of the subscription right and the over-subscription right, by 5:00 p.m., New York City time (midnight Israel time), on [   ], 2011. Completed subscription rights certificates of record holders and payment for the exercise of your rights must be sent to the U.S. subscription agent by one of the methods described below.

By Hand:	By Mail or Overnight Courier:
American Stock Transfer & Trust Company, LLC Operations Center Attn: Reorganization Department 59 Maiden Lane	American Stock Transfer & Trust Company, LLC Operations Center Attn: Reorganization Department 6201 15th Avenue

New York, New York 10038	Brooklyn, New York 11219

51

Delivery to an address other than the address listed above will not constitute valid delivery and, accordingly, may be rejected by us.

All payments to the U.S. subscription agent must be in U.S. dollars by bank check drawn upon a United States or foreign bank or branch and payable to "American Stock Transfer & Trust Company, LLC, as Subscription Agent." Payment also may be made by wire transfer to the account maintained by American Stock Transfer & Trust Company, LLC for this rights offering at JPMorgan Chase Bank, 55 Water Street, New York, New York 10005, ABA #021000021, Account # 530-354624 American Stock Transfer FBO Magal Security Systems Ltd., with reference to the rights holder's name.

If you are a holder of our ordinary shares that is registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC and you reside in Israel, rather than exercising via the U.S. subscription agent, you may, at your option, exercise your subscription rights by delivering your executed subscription rights certificate to our offices at 17 Altalef Street, Industrial Zone, Yehud, Attention: Ilan Ovadia, accompanied by evidence of a wire transfer or a bank check drawn on a bank located in Israel payable to "Magal Security Systems Ltd." Payment to us may be denominated in U.S. dollars or in NIS, at the representative rate of exchange most recently published by the Bank of Israel at the time of payment. Any wire transfer to us should be sent to the following account of Magal Security Systems Ltd.: Bank [ ], Account No. [ ], with reference to the rights holder's name. Completed subscription rights certificates and related payments must be received by us prior to 5:00 p.m., New York City time (midnight, Israel time), on or before the applicable expiration date. We may agree to accept other forms of payment requested by you.

The U.S. subscription agent or we, as applicable, will deposit all funds received prior to the final payment date into a segregated account pending pro-ration and distribution of the ordinary shares.

The method of delivery of subscription rights certificates and payment of the subscription price to the U.S. subscription agent or us will be at the election and risk of the participating rights holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the U.S. subscription agent or us and clearance of payment prior to 5:00 p.m., New York City time (midnight, Israel time), on [ ], 2011.

Whichever of the methods described above is used, issuance of the ordinary shares is subject to collection of checks and actual payment.

If a participating rights holder who subscribes for shares as part of the subscription right or over-subscription right does not make payment of any amounts due by the expiration date, the U.S. subscription agent or Magal, as applicable, reserves the right to take any or all of the following actions: (i) reallocate the ordinary shares to other participating rights holders in accordance with the over-subscription right; (ii) apply any payment actually received by it from the participating rights holder toward the purchase of the greatest whole number of ordinary shares which could be acquired by such participating rights holder upon exercise of the basic subscription and any over-subscription right; and/or (iii) exercise any and all other rights or remedies to which it may be entitled, including the right to set off against payments actually received by it with respect to such subscribed for ordinary shares.

Exercise of Rights by Beneficial Owners Who Are Not Record Holders

If you are a beneficial owner of our ordinary shares and hold them through a broker, dealer, bank or other nominee (including a member of DTC or the TASE), rather than in your own name, you should expect your broker, dealer or other nominee to notify you of this rights offering and the procedures for exercising or transferring your rights. If you wish to exercise your subscription rights, you should contact your nominee to exercise your subscription rights sufficiently in advance of the expiration date of the rights offering in order to ensure timely delivery of a subscription rights certificate reflecting your exercise. Your nominee will instruct you as to the proper time and form of payment of the subscription price. In that case, the nominee will complete the subscription rights certificate on behalf of the record date shareholder and arrange for proper payment.

Summarized below are the procedures for exercising your rights if you are a beneficial owner whose ordinary shares are held through our Israeli nominee company (Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.).

Procedures Applicable to Holders of Shares Through our Israeli Nominee Company

The TASE Clearing House will act as the Israeli subscription agent in connection with the rights offering with respect to our ordinary shares that are held through an Israeli brokerage firm that holds the rights through our Israeli nominee company (Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.), as well as the ordinary shares held in the DTC account of the TASE Clearing House for the benefit of brokers, dealers, banks and other nominees that are TASE Clearing House members.

The TASE Clearing House will credit the accounts of the respective TASE Clearing House members that hold our ordinary shares of record as of [ ], 2011 with one subscription right per [ ] ordinary shares held in such accounts. The TASE Clearing House members will notify their respective beneficial owners as soon as possible to ascertain their intentions and to obtain instructions with respect to the subscription rights. Such beneficial owners who wish to exercise their subscription rights must send their completed subscription rights certificates to their respective brokers, banks or other nominees, and follow the applicable instructions as to payment of the subscription price, at least three TASE trading days prior to the applicable expiration date, or [ ], 2011, unless the expiration date is extended. The TASE Clearing House members must send completed subscription rights certificates for all shares subscribed for through the exercise of the subscription right and the over-subscription right to the TASE Clearing House at least two TASE trading days prior to the applicable expiration date, or [ ], 2011, unless the expiration date is extended. The TASE Clearing House, in turn, must notify us of all exercises of subscription rights by the various TASE Clearing House members prior to the applicable expiration date, or [ ], 2011, unless the expiration date is extended.

The TASE Clearing House will credit the accounts of the respective TASE Clearing House members with the shares issued to them in the rights offering, concurrently with the debit of the subscription price from such accounts, as soon as practicable following the expiration of the rights offering. The payment of the subscription price will be denominated in NIS, at the representative rate of exchange most recently published by the Bank of Israel at the time of payment.

Nominee Holders

If you are a broker, a trustee or a depositary for securities that holds our ordinary shares for the account of others as a nominee holder, you should notify the respective beneficial owners of such shares as soon as possible of the issuance of the rights to find out such beneficial owners' intentions. You should obtain instructions from the beneficial owner with respect to the rights, as set forth in the instructions we have provided to you for your distribution to beneficial owners. If the beneficial owner so instructs, you should complete the appropriate subscription certificates. A nominee holder that holds shares for the account(s) of more than one beneficial owner may exercise the number of rights to which all such beneficial owners in the aggregate otherwise would have been entitled if they had been direct record holders of our ordinary shares on the record date, so long as the nominee submits the appropriate subscription certificates and certifications and proper payment to us. If you are a member of the TASE, you must comply with the rules of the TASE with respect to providing notices to and receiving instructions from your clients.

General

All questions as to the timeliness, validity, form, eligibility (including times of receipt and matters pertaining to beneficial ownership) and the acceptance of subscription forms and the subscription price will be determined by us, which determinations will be final and binding. No alternative, conditional or contingent subscriptions will be accepted.

We reserve the right to reject any exercise if such exercise is not in accordance with the terms of the rights offering or not in proper form or if the acceptance thereof or the issuance of our ordinary shares thereto could be deemed unlawful. We reserve the right to waive any deficiency or irregularity with respect to any subscription rights certificate. Subscriptions will not be deemed to have been received or accepted until all irregularities have been waived or cured within such time as we determine in our sole discretion. We will not be under any duty to give notification of any defect or irregularity in connection with the submission of subscription rights certificates or incur any liability for failure to give such notification.

Rights Not Transferable

The subscription rights may not be sold or transferred except for being transferable by operation of law, and will not be listed on any trading market.

Delivery of Share Certificates

Shareholders whose ordinary shares are held of record by Cede & Co. on their behalf or on behalf of their broker, dealer, bank or other nominee that is a DTC member (other than the TASE Clearing House) will have any ordinary shares that they acquire in the rights offering issued in the name of Cede & Co.

Shareholders whose ordinary shares are held of record by our Israeli nominee company (Hevra Le-Rishumim of Bank Leumi Le-Israel Ltd.) on their behalf or on behalf of their broker, dealer, bank or other nominee that is a TASE Clearing House member will have any ordinary shares that they acquire in the rights offering issued in the name of Cede & Co. for the DTC account of the TASE Clearing House.

With respect to record shareholders, share certificates for ordinary shares will be mailed promptly after the expiration of the rights offering and payment of the subscription price by the individual holder has cleared.

ERISA and Tax Considerations for U.S. Retirement Plans

Under the Employee Retirement Income Security Act of 1974, as amended, or ERISA, fiduciary responsibility requirements may impact the exercise of rights by fiduciaries acting on behalf of U.S. retirement and other employee benefit plans. Moreover, ERISA and the Internal Revenue Code of 1986, as amended, or the Code, contain prohibited transaction rules that may preclude the exercise of rights by retirement and other plans that are subject to Section 4975 of the Code. In addition, retirement plans, including governmental retirement plans, should also be aware that if they borrow in order to finance their exercise of rights, they may become subject to the tax on unrelated business income under Section 511 of the Code. If any portion of an individual retirement account, or an IRA, is used as security for a loan, the portion so used is treated as distributed to the IRA owner for tax purposes. Due to the complexity of these rules and the penalties for noncompliance, retirement plans should consult with their counsel and other advisers regarding the consequences of their exercise of rights under ERISA and the Code.

If You Have Questions

If you have any questions or need further information about the rights offering, or for additional copies of this prospectus or subscription rights certificates, please contact our Information Agent for the rights offering, Phoenix Advisory Partners, toll free at (800) 576-4314 or if you are a bank or broker at (212) 493-3910, or, if you are located in Israel, you may also contact Ilan Ovadia, our Chief Financial Officer, at +972-3-5391490. during their respective normal business hours.

PLAN OF DISTRIBUTION

Immediately following the effective date of this prospectus, we will distribute, at no cost, the subscription rights certificates and copies of this prospectus to all holders of record of our ordinary shares on [ ], 2011. If you wish to exercise your basic subscription rights and the over-subscription rights and purchase our ordinary shares, you should complete the subscription rights certificate and return it, with payment of the subscription price, or follow the procedure for subscription by shareholders whose ordinary shares are held by a nominee, as set forth in “The Rights Offering - Methods for Exercising Rights.”

DESCRIPTION OF SHARE CAPITAL

Our authorized share capital consists of NIS 19,748,000 ordinary shares, par value NIS 1.00 each. All our ordinary shares have the same rights, preferences and restrictions, some of which are detailed below. At the general meeting of shareholders, our shareholders may, subject to certain provisions detailed below, create different classes of shares, each class bearing different rights, preferences and restrictions.

The rights attached to the ordinary shares are as follows:

Dividends Rights. Holders of ordinary shares are entitled to participate in the payment of dividends in accordance with the amounts paid-up or credited as paid up on the nominal value of such ordinary shares at the time of payment (without taking into account any premium paid thereon). However, under article 13 of our articles of association no shareholder shall be entitled to receive any dividends until the shareholder has paid all calls then currently due and payable on each ordinary share held by such shareholder.

The board of directors may declare interim dividends and propose the final dividend with respect to any fiscal year only out of the retained earnings, in accordance with the provisions of the Israeli Companies Law. Declaration of a final dividend requires the approval by ordinary resolution of our shareholders at a general meeting of shareholders. Such resolution may reduce but not increase the dividend amount recommended by the board of directors. Dividends may be paid, in whole or in part, by way of distribution of dividends in kind.

Voting Rights. Holders of ordinary shares are entitled to one vote for each share held of record on all matters submitted to a vote of shareholders. Such voting rights may be affected by the grant of any special voting rights to the holders of a class of shares with preferential rights that may be authorized in the future.

Generally, resolutions are adopted at the general meeting of shareholders by an ordinary resolution, unless the Israeli Companies Law or our articles of association require an extraordinary resolution. An ordinary resolution, such as a resolution approving the declaration of dividends or the appointment of auditors, requires approval by the holders of a simple majority of the shares represented at the meeting, in person or by proxy, and voting on the matter. An extraordinary resolution requires approval by the holders of at least 75% of the shares represented at the meeting, in person or by proxy, and voting on the matter. The primary resolutions required to be adopted by an extraordinary resolution of the general meeting of shareholders are resolutions to:

- amend the memorandum of association or articles of association;
- change the share capital, for example by increasing or canceling the authorized share capital or modifying the rights attached to shares; and
- approve mergers, consolidations or winding up of our company.

Our articles of association do not contain any provisions regarding a classified board of directors or cumulative voting for the election of directors. Pursuant to our articles of association, our directors (except the external directors) are elected at our annual general meeting of shareholders by a vote of the holders of a majority of the voting power represented and voting at such meeting and hold office until the next annual general meeting of shareholders and until their successors have been elected. All the members of our board of directors (except the external directors) may be reelected upon completion of their term of office.

Rights to Share in the Company's Profits. Our shareholders have the right to share in our profits distributed as a dividend or any other permitted distributions.

Liquidation Rights. Article 111 of our articles of association provides that upon any liquidation, dissolution or winding-up of our company, our remaining assets shall be distributed pro-rata to our ordinary shareholders.

Redemption. Under Article 38 of our articles of association, we may issue redeemable stock and redeem the same.

Capital Calls. Under our memorandum of association and the Israeli Companies Law, the liability of our shareholders is limited to the par value of the shares held by them.