MAGAL SECURITY SYSTEMS LTD
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PROSPECTUS

MAGAL SECURITY SYSTEMS LTD.

SUBSCRIPTION RIGHTS TO PURCHASE UP TO 4,934,211 ORDINARY SHARES

We are distributing at no charge to the holders of our ordinary shares on March 4, 2011, which we refer to as the record date, subscription rights to purchase up to an aggregate of 4,934,211 of our ordinary shares. We will distribute to you one right for every two 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 $3.04 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 March 4, 2011 and ending on March 29, 2011, 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, each 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 24, 2011 was $3.04 per share and the last sale price of our ordinary shares on the TASE on February 24, 2011 was NIS 10.67 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.

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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 (March 4, 2011), subscription rights to purchase up to an aggregate of 4,934,211 of our ordinary shares. You will receive one subscription right for every two 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 $14,825,000 million, after deducting expenses related to the rights offering payable by us, estimated at approximately $175,000.

Q: What is a right?

A: We will issue one right for every two 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 $3.04 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.

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 2,000 of our ordinary shares on the record date and you are granted one basic subscription right for every two ordinary shares you own at that time, then you would have the basic right to purchase, at an aggregate price of up to $3,040, up to 1,000 ordinary shares.

For example, if you own 2,000 of our ordinary shares on the record date and you are granted one basic subscription right for every two ordinary shares you own at that time, then you would have the basic right to purchase, at an aggregate price of up to $3,040, 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 two ordinary shares 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 March 4, 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, each 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 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 March 29, 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 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, each 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, each 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 $3.04 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 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 March 29, 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 was recommended by the special committee to our board of directors, which in turn considered the terms of the rights offering. In determining the various terms of the rights offering, the special committee and our board of directors considered, 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 reviewed 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 24, 2011, the last reported sale price of our ordinary shares on The NASDAQ Global Market was $3.04 per share and on February 24, 2011, the last reported sale price of our ordinary shares on the TASE was NIS 10.67 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 15,819,822 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 Financial 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 March 4, 2011, which we refer to as the record date, subscription rights to purchase up to an aggregate of 4,934,211 of our ordinary shares. We will distribute one right to the holder of record of every two ordinary shares that is held by the holder of record on the record date. Based on 10,546,548 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

	4,934,211 rights in the rights offering. We expect the total subscription price for the subscription rights offered in the rights offering to be $15 million, based on the over-subscription commitment of Mr. Nathan Kirsh.
Basic Subscription Right	Each right, which we refer to as the basic subscription right, entitles the holder to purchase, for the subscription price of $3.04, 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 March 4, 2011.
Commencement Date of Subscription Period	After 5:00 p.m., New York City time (midnight, Israel time) on March 4, 2011.
Expiration Date of Subscription Period	5:00 p.m., New York City time (midnight, Israel time) on March 29, 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	$3.04 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, each 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	15,819,822 of our ordinary shares will be outstanding, immediately after the completion of the rights offering, 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. Nathan Kirsh, in a private placement to be completed two days prior to the record date of this rights offering and excludes 389,835 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 24, 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, each 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 six months ended June 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.

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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.

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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.

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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 o