

MAGAL SECURITY SYSTEMS LTD
Form 20-F
July 13, 2009

SECURITIES AND EXCHANGE COMMISSION

Washington D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2008

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from _____ to _____

SHELL COMPANY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
Date of event requiring this shell company report

Commission file number: 0-21388

MAGAL SECURITY SYSTEMS LTD.

(Exact Name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel

(Jurisdiction of incorporation or organization)

P.O. Box 70, Industrial Zone, Yehud 56100, Israel

(Address of principal executive offices)

+972-3-5391444 (phone), +972-3-5366245 (fax)

P.O. Box 70, Industrial Zone, Yehud 56100, Israel

(Name, Telephone, E-mail and/or Facsimile number of Company Contact Person)

Securities registered or to be registered pursuant to Section 12(b) of the Act:

Title of each class
Ordinary Shares, NIS 0.1 Par Value

Name of each exchange on which registered
NASDAQ Global Market

Securities registered or to be registered pursuant to Section 12(g) of the Act: **None**

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Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act: **None**

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of the close of the period covered by the annual report:

Ordinary Shares, par value NIS 1.0 per share.....10,396,548
(as of December 31, 2008)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act.

Yes No

If this report is an annual or transition report, indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934.

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial
Reporting Standards as issued
by the International Accounting
Standards Board

Other

If Other has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 Item 18

If this is an annual report, indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes No

This Annual Report on Form 20-F is incorporated by reference into the Registrant's Registration Statements on Form S-8, File Nos. 333-96929 and 333-127340.

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INTRODUCTION

Magal Security Systems Ltd. is a leading international solutions provider of safety, security, site management and intelligence gathering and compilation. 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 portfolio of critical infrastructure protection 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 innovator in the development of closed circuit television, or CCTV, intelligence video analysis and motion detection technology for outdoor operation, we have successfully installed customized solutions and products in more than 75 countries worldwide. Our ordinary shares are traded on the NASDAQ Global Market and on the Tel Aviv Stock Exchange under the symbol MAGS. Our address on the Internet is www.magal-ssl.com. The information on our website is not incorporated by reference into this annual report. As used in this annual report, the terms we, us and our mean Magal Security Systems Ltd. and its subsidiaries, unless otherwise indicated.

We have trademark rights in the United States and other national jurisdictions arising out of our trademark registrations, applications, and/or use of the following trademarks and service marks: SENSTAR-STELLAR logo, the S logos, SENSTAR-STELLAR, SENSTAR-STELLAR (and design) SENSTAR, STELLAR, STELLAR SYSTEMS, STELLAR SYSTEMS (and design), PANTHER, GUIDAR, REPELS, SENNET, PERIMITRAX, INTELLI-FLEX, INTELLI-FIELD, X-FIELD, OMNITRAX, STARLED, STARNET, FRONTLINE, E-FIELD, H-FIELD, E-FLEX, ARMOURFLEX, SIMPL, CROSSFIRE, ECHOCHECK, FLASH, FLARE, SENTRAX, OMNITRAX, XFIELD, DTR, DreamBox, Magal logo and all other marks used to identify particular products and services associated with our businesses. Any other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references in this annual report to dollars or \$ are to U.S. dollars and all references in this annual report to NIS are to New Israeli Shekels. The representative exchange rate between the NIS and the dollar as published by the Bank of Israel on June 30, 2009 was NIS 3.919 per \$1.00.

Statements made in this annual report concerning the contents of any contract, agreement or other document are summaries of such contracts, agreements or documents and are not complete descriptions of all of their terms. If we filed any of these documents as an exhibit to this annual report or to any registration statement or annual report that we previously filed, you may read the document itself for a complete description of its terms.

This Annual Report on Form 20-F contains various forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended, and within the Private Securities Litigation Reform Act of 1995, as amended. Such forward-looking statements reflect our current view with respect to future events and financial results. Forward-looking statements usually include the verbs, anticipates, believes, estimates, expects, intends, plans, projects, understands verbs suggesting uncertainty. We remind readers that forward-looking statements are merely predictions and therefore inherently subject to uncertainties and other factors and involve known and unknown risks that could cause the actual results, performance, levels of activity, or our achievements, or industry results, to be materially different from any future results, performance, levels of activity, or our achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of the date hereof. We undertake no obligation to publicly release any revisions to these forward-looking statements to reflect events or circumstances after the date hereof or to reflect the occurrence of unanticipated events. We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3.D Key Information -Risk Factors.

PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION**A. Selected Consolidated Financial Data.**

The following selected consolidated financial data for and as of the five years ended December 31, 2008 are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. We have derived the following selected consolidated financial data as of December 31, 2006 and 2007 and for each of the years ended December 31, 2006, 2007 and 2008 from our consolidated financial statements set forth elsewhere in this annual report that have been prepared in accordance with U.S. GAAP. We have derived the following selected consolidated financial data as of December 31, 2004, 2005 and 2006 and for each of the years ended December 31, 2004 and 2005 from our audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified by reference to Item 5 Operating and Financial Review and Prospects and our audited consolidated financial statements and notes thereto included elsewhere in this annual report.

	Year Ended December 31,				
	2004 ⁽¹⁾	2005	2006	2007 ^(*)	2008
	(in thousands except per share data)				
Consolidated Statement of Operations Data:					
Revenues	\$ 58,408	\$ 58,385	\$ 63,600	\$ 72,375	\$ 70,355
Cost of revenues	30,532	36,658	37,236	43,510	49,205
Gross profit	27,876	21,727	26,364	28,865	21,150
Operating expenses:					
Research and development, net	4,683	5,265	5,378	5,764	6,195
Selling and marketing, net	11,923	12,385	11,603	12,930	17,179
General and administrative	4,767	4,965	5,547	6,561	10,888
Impairment of goodwill and other intangible assets	-	-	-	-	12,887
Post employment and termination benefits	-	-	-	904	2,582
Award granted by principal shareholders	1,172	-	-	-	-
Total operating expenses	22,545	22,615	22,528	26,159	49,731
Operating income (loss)	5,331	(888)	3,836	2,706	(28,581)
Financial expenses, net	774	813	864	2,137	2,006
Income (loss) before income taxes	4,557	(1,701)	2,972	569	(30,587)
Income taxes (tax benefit)	1,574	(28)	943	373	1,618
Income (loss) from continuing operations	2,983	(1,673)	2,029	196	(32,205)
Income (loss) from discontinued operations, net	(1,930)	(1,538)	(1,219)	1,686	(397)
Net income (loss)	\$ 1,053	\$ (3,211)	\$ 810	\$ 1,882	\$ (32,602)

Basic net earnings (loss) per share from

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	Year Ended December 31,				
continuing operations	\$ 0.35	\$ (0.17)	\$ 0.20	\$ 0.02	\$ (3.11)
Basic net earnings (loss) per share from discontinued operations	(0.23)	(0.15)	(0.12)	0.16	(0.03)
Basic net earnings (loss) per share	\$ 0.12	\$ (0.32)	\$ 0.08	\$ 0.18	\$ (3.14)
Diluted net earnings (loss) per share from continuing operations	\$ 0.35	\$ (0.17)	\$ 0.20	\$ 0.02	\$ (3.11)
Diluted net earnings (loss) per share from discontinued operations	\$ (0.23)	\$ (0.15)	\$ (0.12)	\$ 0.16	\$ (0.03)
Diluted net earnings (loss) per share	\$ 0.12	\$ (0.32)	\$ 0.08	\$ 0.18	\$ (3.14)
Weighted average number of ordinary shares used in computing basic net earnings per share	8,581	9,883	10,384	10,395	10,397
Weighted average number of ordinary shares used in computing diluted net earnings per share	8,636	9,900	10,442	10,431	10,397

- (1) In July 2004, our board of directors declared a share dividend distribution of 5.0%, which was paid to our shareholders in August 2004 as a final dividend for 2003. Per share data for 2004 in the above table has been adjusted to reflect the share dividend.

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	As of December 31,				
	2004	2005	2006	2007 ^(*)	2008
	(in thousands)				
Consolidated Balance Sheets Data:					
Cash and cash equivalents	\$ 11,964	\$ 10,099	\$ 4,908	\$ 9,205	\$ 16,835
Short and long-term bank deposits, restricted deposits, marketable securities and escrow deposit	5,994	18,853	22,053	26,972	8,137
Working capital	21,504	35,071	39,884	41,526	16,379
Total assets	77,976	101,842	103,681	126,157	90,537
Short-term bank credit (including current maturities of long-term loans)	17,467	21,715	17,821	20,737	23,995
Long-term bank loans	3,500	1,653	7,399	3,095	2,282
Total shareholders' equity	43,548	56,950	58,150	65,578	30,718

- (*) Effective as of September 1, 2007, our consolidated financial statements include those of the European integration company that we acquired in September 2007. In December 2007, we disposed of our U.S. based video monitoring business. Accordingly, the operating results, balance sheet and cash flows relating to the video monitoring operations were presented in our statements of income, balance sheets and cash flows as discontinued operations, and the comparative figures were reclassified for all periods presented.

B. Capitalization and Indebtedness.

Not applicable

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

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D. Risk Factors.

Investing in our ordinary shares involves a high degree of risk and uncertainty. You should carefully consider the risks and uncertainties described below before investing in our ordinary shares. If any of the following risks actually occurs, our business, prospects, financial condition and results of operations could be harmed. In that case, the value of our ordinary shares could decline, and you could lose all or part of your investment.

Risks Related to Our Business

Recent worldwide economic downturn 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 unprecedented turmoil in the credit markets and the global economic downturn generally adversely impact our customers and potential customers. These economic conditions have continued to deteriorate despite government intervention globally, and may remain volatile and uncertain for the foreseeable future. Customers have altered and may continue to alter their purchasing activities in response to lack of credit, economic uncertainty 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, 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 we are unable to adequately respond to changes in demand resulting from deteriorating economic conditions, our financial condition and operating results may be materially adversely affected.

Failure of our European subsidiary to complete projects or to collect revenues derived from such projects may cause us material losses.

Our recently acquired European subsidiary is engaged in turn-key projects in Africa. These projects are executed with the assistance of a local subcontractor. Due to lack of management and financial skills of the subsidiary's employees and to limited physical access to these projects sites, the European subsidiary encountered difficulties in the evaluation of the operating results of these projects during their respective execution periods, as well as in the measurement of the expected costs and resources that will be necessary to complete them. Insufficient managerial oversight by the local subcontractor created additional burdens on the subsidiary's management, affecting its ability to complete these projects. Due to the foregoing reasons and the inherent difficulty in managing projects in Africa, our European subsidiary may encounter difficulties in the collection of the revenues associated with such projects. The difficulties described may also cause delays in the completion of these projects and may result in the imposition of penalties and the extension of warranties. Any such occurrence could have a material adverse effect on our business, financial condition and results of operations.

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.

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

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

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

A relatively few customers account for a large percentage of our revenues. For the years ended December 31, 2007 and 2008, one customer accounted for 13.4% and 18.8%, respectively, of our revenues. In addition for the years ended December 31, 2006, 2007 and 2008, revenues generated from sales to the Israeli Ministry of Defense, or MOD, accounted for 33.7%, 13.0% and 8.8%, respectively, of our revenues. The loss of one or 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 have identified a material weakness in our internal control over financial reporting in one of our subsidiaries and cannot assure you that additional material weaknesses will not be identified in the future. Our failure to implement and maintain effective internal control over financial reporting 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 (i) management's annual review and evaluation of our internal control over financial reporting and (ii) an attestation report by our independent registered public accounting firm on the effectiveness of our internal control over financial reporting, in connection with the filing of the Annual Report on Form 20-F for each fiscal year.

Management has identified a material weakness in our internal control over financial reporting in one of our subsidiaries as of December 31, 2008. We may identify additional material weaknesses or significant deficiencies in our internal control over financial reporting in the future. Any failure to maintain or implement required new or improved controls, or any difficulties that may be encountered in their implementation, could result in additional significant deficiencies or material weaknesses or 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 or implement 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.

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 generatio