



Annual Report 2002

## DIRECTORS

***Jacob Even-Ezra***

Chairman of the Board  
& CEO

***Izhar Dekel***

President & Director

***Nathan Kirsh***

Director

***Jacob Nuss***

Director

***Jacob Perry***

Director

***Shlomo Yanai***

Director

***Raya Asher***

Director

Vice President - Finance  
& Chief Financial Officer

***Menachem Meron***

External Director

***Itzhak Hoffi***

External Director

## OFFICERS

***Zvi Dank***

Vice President -  
Research & Development

***Brig. General (Ret.)***

***Emanuel Shaked***

Vice President-  
Africa & Latin America Marketing

***Chaim Porat***

Vice President -  
Far East & Australia Marketing

***Asaf Even-Ezra***

Vice President -  
Israel & West Europe Marketing

***Dany Pizen***

Vice President -  
East Europe and CIS Marketing

***Yehezkel Farber***

Vice President -  
Operations

***Ofer Katz***

Vice President -  
Aviation Security

## CORPORATE HEADQUARTERS:

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### ***Auditors:***

Kost, Forer & Gabbay  
A member of Ernst & Young International  
3 Aminadav St., Tel Aviv 61575, Israel

### ***Transfer Agent & Registrar:***

American Stock Transfer and Trust Company  
59 Maiden Lane, New York, NY 10038, USA

### ***Stock Listing***

The Company's common stock is traded in the National Over-the Counter Market System (NASDAQ NM) and on Tel Aviv Stock Exchange (TASE) - Symbol: MAGS

### ***Investor Relations Representative***

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***Design & Production: Studio Locker***

# S STABILITY WITH INNOVATION

Magal Security Systems, Ltd. has been leading the security industry for over 30 years in the development, manufacture and marketing of effective advanced Perimeter Intrusion Detection Systems.

Our systems are installed in more than 75 countries worldwide, protecting airports, borders, nuclear facilities, military bases, communications centers, maximum security prisons, governmental facilities and other sensitive installations.

Magal, headquartered in Israel, has subsidiaries in the USA, Canada, Mexico, England, Germany, and an office in China.

Magal excels in developing security systems that are able to withstand extreme weather conditions and provide the lowest possible number of false and nuisance alarms. Maintaining a very high probability of detection and protection, it is very difficult if not impossible, to defeat them.

**Stability** - Magal is a financially stable company showing favorable balance sheets for the year 2002 as it has done for the past decade.

**Innovation** - Magal sees as fundamental the continual investment into new and innovative security solutions ensuring that they answer to the current market needs and demands of the customer.

Magal invested a total of 7.3% of 2002 revenues in the development of new products, expanding the capabilities of existing products and making custom changes for specific projects.

Magal maintains a perfect balance between being a stable and established company and one that is constantly developing new and innovative security solutions to the highest standards.

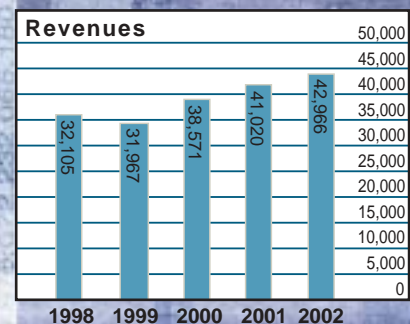
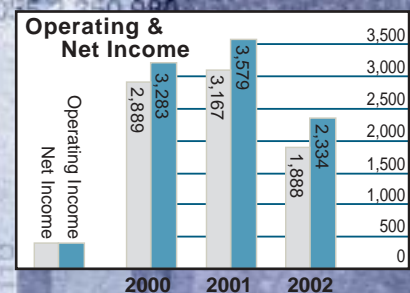
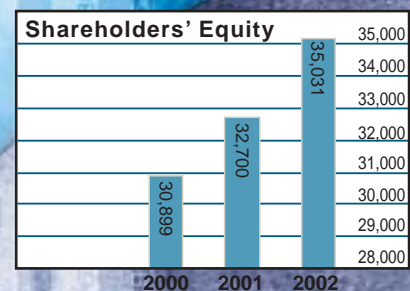
## FINANCIAL HIGHLIGHTS

(US Dollars in thousands except per share data)

### Year Ended December 31,

|  | 2002   | 2001   | 2000   | 1999   | 1998   |
|--|--------|--------|--------|--------|--------|
| Revenues   | 42,966 | 41,020 | 38,571 | 31,967 | 32,105 |
| Gross profit   | 19,042 | 19,515 | 18,048 | 15,274 | 15,467 |
| Operating income   | 2,334  | 3,579  | 3,283  | 2,674  | 2,817  |
| Net Income   | 1,888  | 3,167  | 2,889  | *2,288 | 2,263  |
| Diluted earnings per share   | 0.24   | 0.41   | 0.38   | *0.31  | 0.31   |
| Weighted average number of shares Outstanding during the year (in thousands) | 7,834  | 7,694  | 7,525  | 7,473  | 7,341  |
| Working Capital  | 15,827 | 18,391 | 20,288 | 15,520 | 18,832 |
| Total assets   | 59,741 | 53,347 | 48,867 | 43,178 | 43,579 |
| Shareholders' equity   | 35,031 | 32,700 | 30,899 | 28,874 | 27,186 |

\* Before equity in losses of affiliate



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## DEAR SHAREHOLDERS,

The year 2002 started with high market expectations as the tragic events of September 11 exposed far-reaching safety concerns and underlying demand for security systems. However, the expected increase in orders did not materialize and projects in the U.S. that were being negotiated were frozen. The primary reason for the delay related to action and budget decisions expected from the U.S. Office of Homeland Security, which did not occur until the end of the year when a US\$38 billion budget was approved. Despite this, as a result of the strength of our ongoing business, we produced record revenues of US\$43 million.

Net income for the year declined by 40 percent to US\$1.9 million, from US\$3.2 million in 2001. The decline in net income was primarily caused by costs associated with the establishment of our New York-based subsidiary, Smart Interactive Systems (SIS). Excluding losses generated by SIS, net income for 2002 would have reached US\$3.4 million compared with US\$3.8 million in 2001, a decrease of only 11 percent.

SIS was established in 2001 to meet the growing need for real-time video monitoring security services. By targeting the higher margin commercial, industrial and residential market for these services, Magal is building a profitable platform for continued growth. During 2002, SIS continued to increase the volume of its operation, and we expect that it will reach breakeven by the end of 2003 and will be profitable and accretive to earnings in 2004.

We also continued to focus on penetrating the security market in Southeast Asia. Since opening our marketing office in China in 2001, we have significantly increased our business in this region. In fact, during 2002 Magal initiated projects with several security installations in Southeast Asia, including correctional facilities, electrical substations, communications sites and power plants. We are encouraged by the potential for future orders and we look forward to expanding our business in this promising market.

In addition, we continued to offer comprehensive turnkey solutions through our security management system, MagNet. For example, in May, we were awarded a US\$4 million contract to protect thousands of communications nodes which are part of an extensive Wide Area Network in India. In April, our Canadian subsidiary, Senstar-Stellar Corporation received a US\$2.2 million contract to protect Canadian correctional institutions and towards the end of the year, we finalized negotiations for a US\$16 million project to protect Otopeni Airport in Romania.

We believe that the growth of the turnkey market represents an attractive opportunity for Magal. Through our flexibility in customizing medium and small-sized turnkey projects, we are well positioned to provide efficient security solutions tailored to our clients' needs.



**Mr. Jacob Even-Ezra**  
**Chairman of the Board & CEO**



In September 2002, we once again demonstrated our leadership in perimeter security systems, our core business, after winning 80 percent of the bids issued by the Israeli Ministry of Defense (MOD) to supply electronic detection systems for the seam line between Israel and the West Bank. The majority of this US\$15 million contract will be executed during 2003 and will be reflected in our revenues for the year. We are proud to have been chosen for this important task and proud that our systems continue to meet the strict Israeli MOD requirements.

Additionally, during 2002 Mr. Jacob Perry joined our Board of Directors. Immediately prior to joining Magal's Board, Mr. Perry was President and CEO of Cellcom Israel Ltd., Israel's largest cellular phone operator, having assumed this position in 1995. For the previous 29 years, he served in various positions at the Israeli General Security Service (GSS), where he was Chief of the GSS from 1988 to 1995. Mr. Perry served as a member of the Company's Board of Directors from September 1995 to the end of 1996, and we are very pleased to have him back in this position. Today Mr. Perry serves as the Chairman of the Board of Directors of Lipman Electronic Engineering and United Mizrahi Bank Ltd. His experience and knowledge are valuable assets, which will substantially contribute to Magal's continued growth.

### ***Looking Ahead***

Based on the success of these initiatives and our record current order backlog, we have every reason to believe that 2003 will be stronger than the year we have just completed. In fact, the contracts we have been awarded in the first quarter of 2003 demonstrate our increasingly strong position in the global security markets as a provider of turnkey solutions.

For example, the use of Magal's perimeter security system for the protection of airports has proven to be a growth business. Our US\$16 million turnkey project for the protection of the Otopeni International Airport in Bucharest, Romania, scheduled for completion by the end of 2004, joins others such as O'Hare International Airport in Chicago, Korea's Kimpo and Incheon International Airports, as well as Israel's International Ben-Gurion Airport.

We also anticipate contracts related to the Homeland Security budget in the U.S. toward the end of 2003, as many projects get underway.

We remain committed to developing leading-edge technology and providing top of the line integration services to ensure the most effective and reliable security systems for our current and future clients. During 2003, we intend to launch two new products to broaden the potential of the security markets in which we already operate. These products will not substitute for our existing ones, but are aimed at new and different niches of the security market.

I would like to thank the Company's directors, management and employees for making this possible through their loyalty and dedication.

My thanks to all of you,



**Jacob Even-Ezra,  
Chairman of the Board & CEO**



**Mr. Izhar Dekel**  
President of Magal  
Security Systems, Ltd.



**Mr. Brian G. Rich**  
President of  
Senstar-Stellar Corporation



**Mrs. Martha A. Lee**  
President of Perimeter  
Products, Inc.



**Mr. William J. Evenson**  
President of  
Senstar-Stellar, Inc.



**Mr. Peter Goering**  
President of Senstar GmbH

# BUILDING TODAY'S SECURITY SOLUTIONS WITH TOMORROW'S TECHNOLOGIES

Magal's main products can be divided into three groups: Perimeter Intrusion Detection Systems - Video Motion Detection Systems - Security Management Systems (SMS).

## *Perimeter Intrusion Detection Systems*

### **Barrier Sensors**

Barrier sensors are a two-in-one security solution. They provide both a physical barrier to intrusion and a sensor for detection. Taut-wire systems are an example of a barrier sensor that offers an almost zero False Alarm Rate (FAR) and unsurpassed Probability of Detection (PoD). These systems have virtually no environmental limitations and are able to provide reliable service for many years.

### **Volumetric Sensors**

Volumetric sensors generate an invisible detection field locating the movement of intruders in the field. As the detection field is invisible, these systems are nearly always impossible to evade. Immune to most environmental conditions, our systems are suitable for and often used in sterile zones while being totally covert.

### **Fence-Mounted Sensors**

Fence and wall-associated sensors are above-ground detection sensors attached to an existing fence or wall. An alarm is triggered when an intruder is detected or when vibration occurs due to cutting or climbing a metal fence.



### **Video Motion Detection Systems**

A video motion detection system transforms the viewing-only ability of CCTV cameras into a tracking and alarm system. It analyzes movement in the field view of a static camera detecting intruders, and setting off an alarm. The video motion detector indicates the cause of the alarm by marking its path and position on the video monitor.

### **Security Management Systems - The total solution**

Magal, using its many years of experience in the field, is now providing the total solution incorporating both outdoor and indoor security systems. Magal's Turnkey Security Projects provide a 'one-stop shop' including all stages starting from threat analysis and choice of hardware and software to operator training and testing. All systems selected by Magal (with the approval of the customer's security personnel) are integrated into Magal's Security Management System (SMS) — MagNet — an IP networks based, multi-operator graphic system.

Magal ensures that all systems integrate with one another, perform to specifications, and are best suited to the client's needs and wishes.