

Code of Ethics and Business Conduct

Dated April 11th, 2010

I. INTRODUCTION

THIS CODE OF ETHICS AND BUSINESS CONDUCT, which we refer to as this “**Code**” contains the basic standards adopted by the Company's Board of Directors (the “**Board**”) that relate to the honest, ethical and legal standards of conduct of directors, officers and employees of Magal Security Systems Ltd. and its subsidiaries (the “**Company**” or “**Magal**”).

It is the Company's policy that its directors, officers and employees, are held to the highest standards of honest and ethical conduct when conducting the affairs of the Company. In further, it is the personal responsibility of each director, officer, and employee of the Company to adhere to the standards and restrictions, whether imposed by law or by this Code, applicable to his or her assigned duties and responsibilities and to conduct himself or herself accordingly. Such standards and restrictions require each director, officer, and employee to avoid any activities which would involve the Company in any practice which is not in compliance with applicable laws or this Code. Any director, officer or employee who does not adhere to such standards and restrictions is acting outside the scope of his or her employment or agency.

This Code contains the basic standards adopted by the Board that relate to honest, ethical and legal standards of conduct of Company's directors, officers and employees. In particular, this Code summarizes Company's policies and guidelines that ensure and/or promote:

- ❖ Honest and ethical conduct, including the ethical handling of conflicts of actual or apparent conflicts of interest between personal and professional relationships;
- ❖ Full, fair, accurate, timely and understandable disclosure in reports and documents required to be filed by the Company with, or submitted to, the applicable securities exchange authorities and in other public communications required to be filed by us;
- ❖ Compliance with applicable laws, rules and regulations;
- ❖ Prompt internal reporting of violations of this Code; and
- ❖ Accountability for adherence to this Code.

We believe that conducting Company's business honestly, ethically and with integrity are crucial to Company's continued success and growth and are essential attributes of the Company's reputation. We strongly believe that a reputation for honesty is a priceless asset.

II. ETHICS

- A. **General.** The Code's basic standards, together with other Company's procedures, are designated to facilitate honest and ethical conduct. However, these provisions shall not cover all the applicable situations. In event of conflict between the law and Company's ethics policy, you must comply with the law. still, in event of a conflict with a particular local custom or practice, this Code takes precedence. While local customs and traditions vary from place to place, honesty and integrity are not subject to criticism in any culture.
- B. **Compliance with Law.** It is the Company's policy to observe and comply with all laws, rules and regulations of governmental agencies and authorities applicable to the Company or the conduct of Company's business wherever located. Company's directors, officers, and employees are not expected to know the details of all applicable laws, rules and regulations. However, they are expected to be familiar with company's published policies and procedures and to seek advice from the Company's legal consultants if they have any questions about whether a legal requirement applies to a particular situation or what conduct may be required to comply with any law, rule or regulation.
- C. **Honest and Ethic Conduct.** Beyond legal compliance, all company's directors, officers, and employees are expected to observe high standards of business and personal ethics in the execution of their assigned duties and responsibilities. This requires the practice of honesty, integrity and fair dealing in every aspect of dealing with other Company's employees, the public, the business community, shareholders, customers, suppliers and governmental and regulatory authorities. The Company's directors, officers and employees should not take unfair advantage of anyone through manipulation, concealment, abuse of privileged information, misrepresentation, or any other unfair dealing or practice. Any director, officer, or employee who does not adhere to such standards is acting outside the scope of his or her employment or agency.
- D. **Accounting Controls, Procedures & Records.** Applicable laws and Company's policy require the Company to maintain books and records that accurately and fairly reflect its transactions and the dispositions of its assets.
- E. **Nondiscrimination.** Company's policy prohibits unlawful discrimination against shareholders, directors, officers, employees, customers or suppliers on account of race, color, age, sex, religion or national origin. All persons will be treated with dignity and respect and they will not be unreasonably interfered with in the conduct of their duties and responsibilities.

III. CONFIDENTIALITY

- A. **General.** Company's directors, officers and employees are obliged to protect Company's proprietary information. Such information includes intellectual property such as trade secrets, patents, trademarks and copyrights, as well as business, marketing, financial, human resources, technical and administrative information that has not been properly released to the public domain (the

"**Propriety Information**"). Unauthorized use or distribution of this information violates Company's policy.

- B. **No Disclosure of the Company's Propriety Information.** No director, officer, or employee entrusted with, or otherwise knowledgeable about the Propriety Information, shall disclose such information outside the Company, either during or after employment or other service to the Company, without the Company's prior written authorization to do so.
- C. **Limitation on Use of Information Regarding Others.** The Company also works with joint venture partners', suppliers' and customers' proprietary data. The protection of such data is of the highest importance and must be discharged with the greatest care in order to maintain the continued confidence of such persons. The disclose of confidential or proprietary information owned by third parties to non-directors or non-employees without Company's prior written authorization is prohibited, and in any event such disclosure is permitted only when a need-to-know basis is established.
- D. **Non Disclosure Agreements.** This policy applies to all employees without regard to whether or not such employees have signed confidentiality agreements, and is not a limitation or modification of such agreements.

IV. CONFLICTS OF INTEREST AND BUSINESS OPPORTUNITIES

Company's policy prohibits conflicts between the Company's interests and the personal interests of our directors, officers and employees.

- A. **Conflict of Interest.** A "conflict of interest" occurs when (i) ones personal interests interfere or may interfere in any manner, or appear to interfere, with the best interests of the Company (ii) a person takes actions or has interests that interfere with the ability to perform his or her work for the Company objectively and effectively (iii) director, officer or employee of the Company, or a family member of each one of them or other person affiliated with them (as further explained below) derives a personal benefit as a result of the director, officer or employee position in the Company.

"Other person affiliated with them" means family members and any association or entity that is directly or indirectly controlled by any director, officer or employee.

- B. **Corporate Opportunities.** As a director, officer or an employee of the Company you are prohibited from exploiting for your personal advantage, any opportunities that are discovered during the period of your engagement, through the use of Company's property, information or position, unless all required approvals are obtained. Similarly, you may not compete with the Company. As a Director, officer or an employee of the Company you owe a duty of loyalty to the Company that mandates you to advance Company's business and legitimate interests whenever the opportunity to do so arises.

- C. It is against Company's policy to extend or maintain credit, to arrange for the extension of credit, or to renew an extension of credit, directly or indirectly to any Director or Executive Officer of the Company.
- D. **Examples.** A conflict of interest may arise for example when: (i) a person is having a financial interest in another entity and such other entity has a significant business relationship with, or is a direct competitor of, the Company, (ii) a director, officer or employee is exploiting for such person's personal advantage, any opportunities that are discovered during the period of his/her engagement, through the use of Company's property, information or position or (iii) personal gifts, entertainment or other benefits are offered or accepted by persons doing business with, or on behalf of, the Company in an unreasonable way or not in the ordinary course of the business relationship. (iv) Hiring decisions that based on personal rather than business considerations, or hiring decisions that may cause inappropriate or improper situations such as hiring persons that previously employed by entities which engaged with the Company in its ordinary course of business, including independent auditors, customers and competitors, without prior reviewing regarding such hiring decisions made by the Company's legal counsel (the "**Legal Counsel**") and the Company's Human Resource Manager.
- E. **Reporting.** Any officer, or employee who knows of any transaction or relationship that may reasonably arise a conflict of interest, should report it as soon as possible to the Company's President and Chief Executive Officer (the "**CEO**") and the Legal Counsel. To the extent that the identity of the reporter is a director or the CEO, such report shall be submitted to the Chairman of the Board (the "**Chairman**") instead of to the CEO.

V. **INTERNAL ACCOUNTING CONTROLS AND PROCEDURES FOR FINANCIAL REPORTING**

Company's policy is to maintain a system of internal accounting controls to ensure reliability and adequacy of the Company's books and records and proper recording of all transactions including dispositions of assets. The Company has adopted and implemented internal accounting controls, procedures and records to ensure, inter alia, the flow of information from all levels of the Company to the Company's Chief Financial Officer ("**CFO**") and the CEO. Full, fair, accurate, timely and understandable disclosure is required in all reports the Company files with the SEC, the TASE, and the Nasdaq Stock Market. These internal accounting controls, procedures and records are based on the following principles:

- A. **Authorization & Approval.** The transactions that are entered into, and recorded, by the Company in its books and records are those that specifically, properly and formally approved by a designated appointed director, officer or employee. Such approval shall be in accordance with the procedures and policies of the Company. In addition, it is necessary that documentary evidence shall verify the validity of each particular transaction. Any transaction that fulfills these conditions must be recorded in the Company's books and records.
- B. **Accounting.** The Company will record in its books and other records all the transactions that entered into by the Company. In order to ensure reliability and

adequacy of Company's books and records, each entry to the books or records will be coded into an account which accurately and fairly reflects the true nature of the transaction.

- C. **Reporting & the Outside Counsel.** Company's policy is to provide appropriate disclosure in all reports and documents that the Company files with, or submits to, the SEC, the TASE, and the Nasdaq Stock Market. Such statements and reports shall reflect accurately and fairly the results of transactions entered into by the Company and permit proper accountability for the Company's assets. In Addition, the directors, officers and employees shall cooperate with outside counsel with respect to such statements and reports.
- D. **Internal Audits.** The Internal Auditors may examine and evaluate the implementation of the provisions and requirements of this Code with respect to the applicable internal control. Any director officer or employee who is familiar with any control failure regarding to this policy shall report it to the CFO and the Audit Committee.
- E. **Independent Auditors.** Company's books, records, premises and assets shall be available for review and audit by the company's Independent Auditors, provided that it is for the purpose of the preparation of the Company's financial reports or other disclosure which we are required to submit under any applicable law. In addition, The Company and its directors, officers and employees shall not conceal such information books and records from the independent auditors.
- F. **Compliance.** All directors, officers and employees shall comply at all times with generally accepted accounting principles and the Company's system of internal accounting controls.
- G. **Responsibility.** The CFO is primary responsible for the implementation and the maintenance of the internal accounting controls, procedures and records under the requirements of this Code.

VI. USE AND PUBLIC DISCLOSURE OF INSIDE INFORMATION

- A. **The prohibition.** Since the Company's shares are publicly traded, all persons having "inside information" regarding Company's activities are subject to applicable laws and regulations against "insider trading". Violations of this prohibition against "insider trading" may subject you to criminal or civil liability, in addition to disciplinary action by the Company.
- B. **The Company's Inside Trading Policy.** In addition, the Company has adopted an "Insider Trading Policy" which determines rules and assumptions with respect to the trading of Company's securities during certain "blackout periods".
- C. **Other securities.** The prohibition on insider trading applies not only to the company's securities, but also to securities of other companies, if you learn of material non-public information about these companies in the course of your engagement with the Company.

IX. DISCIPLINARY

A. **Violations.** Violating this Code is expressly outside the scope of the engagement of any director, officer or employee with the Company and will result in disciplinary measures against any director, officer, or employee who has violated this Code.

Reporting. Any director, officer or employee of the Company should promptly report violations of laws, rules, regulations or this Code in accordance with the Whistleblower Process which approved by the Company's Audit Committee and attached as **Exhibit A** hereto (the "**Whistleblower Process**"). In addition, the Company's employees are encouraged to talk to supervisors, managers or other appropriate personnel when in doubt about the best course of action in a particular situation.

B. **Investigation & Protection for Reporters.** All reports of violations of this Code will be promptly investigated in accordance with the Whistleblower Process. Any reporter will be protected from any adverse impact on his or her position and from any other form of retaliation resulting from his or her report provided that such report was done in good faith.

IX. ADOPTION, APPLICATION AND INTERPRETATION OF THE CODE

A. **Adoption and Amendment by the Board of Directors.** This Code has been adopted by the Board and may also be found on the company's website: <http://magal-s3.com>. This Code may be changed at any time by the Board without prior notice. Amendments that affect directors, CEO, CFO or other officers will be publicly disclosed as required by law or stock exchange regulation.

B. **Waiver.** Waivers of the provisions of this Code may be granted or withheld from time to time by the Company's Audit Committee in its sole discretion. Waivers are only effective if set forth in writing after full disclosure of the facts and circumstances surrounding the waiver. Waivers for the benefit of all employees shall be approved by the Legal Counsel and the CEO, or by the Chairman instead of the CEO in the event that such waiver is for the benefit of a director or the CEO, prior to the Audit Committee discussion with respect to such waiver. All waivers granted pursuant to this provision shall be kept with the Company's Secretary.

C. **Interpretation of the Code.** This Code was developed and is intended to be applied in good faith with reasonable business judgment. Unless the context otherwise requires: (i) a term has the meaning assigned to it by this Code; (ii) including means "including but not limited to"; (iii) "or" is disjunctive but not exclusive; (iv) words in the singular include the plural, and in the plural include the singular; and (v) each of the masculine, feminine and neuter genders includes the other genders. Final authority with respect to the interpretation of this Code rests with the Board and shall be final and binding.

- D. **No Limitation on Other Obligations.** Nothing contained in this Code is intended, or should be construed as, in any way limiting or reducing other obligations that any director, officer and employee may have to the Company or other persons or entities, including, but not limited to pursuant to the applicable law, employment agreement or otherwise.
- E. **No Third Party Rights.** This Code is intended to govern the relationship between the Company and its directors, officers and employees and shall not confer any rights or remedies upon any person or entity other than the Company and its directors, officers and employees.
- F. **Reports Relating to Financial Matters or Internal Controls.** If any report of wrongdoing relates to accounting, internal accounting control or auditing matters, and such report is not provided directly to a member of the Audit Committee, a copy of the report will be promptly provided to the Chairman of the Audit Committee, and the Audit Committee may participate in the investigation and resolution of the matter.

THIS CODE IS ONLY A GENERAL GUIDELINE. THIS CODE IS INTENDED AS A STATEMENT OF BASIC PRINCIPLES AND STANDARDS AND DOES NOT INCLUDE SPECIFIC RULES THAT APPLY TO EVERY SITUATION.

THIS CODE ALSO SHOULD BE VIEWED WITHIN THE FRAMEWORK OF COMPANY'S OTHER POLICIES, PRACTICES, INSTRUCTIONS AND THE REQUIREMENTS OF THE LAW. IN ADDITION, THE ABSENCE OF A SPECIFIC CORPORATE POLICY, PRACTICE OR INSTRUCTION COVERING A PARTICULAR SITUATION DOES NOT RELIEVE YOU OF THE RESPONSIBILITY FOR ACTING ETHICALLY UNDER THE CIRCUMSTANCES.

APPENDIX A

"Whistle –Blower"

In order to facilitate a non threatening and non retaliatory reporting of complaints regarding illegal or unethical conduct, the audit committee of the Company has established these complaint procedures, which we refer to as these "**Procedures**", for: (1) the receipt, retention and handling of complaints regarding illegal or unethical conduct; and (2) the confidential, anonymous reporting by employees of their concerns regarding any questionable illegal or unethical conduct as well as with respect to any questionable accounting or auditing matters.

Receipt, Retention and Handling of Complaints

Any officer or employee may bring information regarding illegal or unethical conduct to the attention of the company's President and Chief Executive Officer, Mr. Eitan Livneh (the "**CEO**") and the Company's Legal Counsel, Mrs. Sarit Molcho, Adv. (the "**Legal Counsel**"). Mr. Livneh and Mrs. Molcho will supervise the handling of complaints concerning such illegal or unethical conduct including violations of the Company's standards for accounting, internal accounting controls or auditing matters. In event that the reporter is one of the Company's Director or the CEO, such information shall be submitted to the Chairman of the Board of Directors of the Company, Mr. Jacob Perry (the "**Chairman**").

The complaints may be on a confidential or on an anonymous basis, and may be reported by phone, submitted in writing by E-mail, or by regular mail: all in accordance with the contact details detailed below. However, and without derogation from the aforesaid, in order to be better able to respond to any complain, we would prefer that you identify yourself and give us your telephone number and other contact information when you submit your complain.

Jacob Perry, Chairman Magal Security Systems Ltd. 17 Altalef Street Yehud, Israel Tel: + 972-3-5391421 Perry@magal-S3.com	Eitan Livneh, CEO Magal Security Systems Ltd. 17 Altalef Street Yehud Israel Tel: + 972-3-5391489 EitanL@magal-S3.com	Sarit Molcho, Adv. S. Friedman & Co., Adv. 2 Weitzman Street, Tel Aviv, Israel Tel: +972-3-6931926 saritm@friedman.co.il
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If you prefer not to submit such complain to the above mentioned mailing address, you may also report to the member of the Company's audit committee that appointed for such office for a limited period, and will be replace by the audit committee from time to time. The identity and contact information with respect to such person are published at our website: <http://magal-s3.com>.

Upon receipt of such a complaint the CEO, or the Chairman as applicable, after consultation with the Legal Counsel: (i) will decide whether the complaint is indeed regarding an illegal or unethical conduct and (ii) when possible, acknowledge receipt of the complaint to the reporting person.

Such Complaints will be reviewed by the Company's audit committee and transferred for professional evaluation to the persons that the audit committee determine to be appropriate with respect to any applicable complaint, and will be subject to the direction and oversight of the Company's outside directors.

Confidentiality will be observed as fully as possible consistent with the need to conduct an adequate review. We will make all reasonable efforts to handle the Procedures with discretion and protect the identity of those who complained as well as those who are being investigated. However, when ever it is necessary, and in order to conduct an appropriate review or to comply with any applicable law requirements, the Company's audit committee, Board of Directors, independent auditors or others may become involved in the investigation results of these Producers. In addition, we will notify to the appropriate authorities about any apparent of a violation of the law.

Retaliation

We will not discharge, demote, suspend, threaten, harass, or in any way discriminate against, any director, officer or employee in the terms and conditions of employment or any other form of engagement because he or she provided information, caused information to be provided, or otherwise assisted in an investigation regarding any conduct by the Company, its directors, officers or employees that he or she reasonably believes in good faith may constitute a violation of laws or this Code. In addition, we will not tolerate any form of retaliation against any director, officer or employee who takes such actions. Any act of retaliation should be reported immediately and will be investigated.

Reporting and Retention of Complaints and Investigations

The CEO, or the Chairman, as applicable, will (i) maintain a record of all complaints received the monitoring of their receipt, their investigation and resolution and (ii) shall prepare a summary report of the same for the Company's audit committee on a quarterly basis.

The CEO or Chairman (as applicable) will ensure that such complaint reporting shall be included as an item on the agenda for the audit committee's quarterly meeting.

Copies of any such complaints, records and reports will be filed and maintained with the audit committee files.

Questions

If you have any questions about the Procedures or other issues with respect to the Code you may contact with the CEO or the Chairman as applicable