

CANADIAN PACIFIC RAILWAY LTD/CN

Form 10-K

February 16, 2018

0000UnlimitedUnlimited000.3333false--12-31FY20172017-12-3110-K0000016875144212716YesLarge Accelerated  
Filer23490374139CANADIAN PACIFIC RAILWAY

LTD/CNNoYesCP0001.40001.85002.187500UnlimitedUnlimited1463000001449000000.05410.05950.05100.05750.05750.04

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## UNITED STATES

## SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

### FORM 10-K

(Mark one)

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES AND EXCHANGE ACT OF 1934

For fiscal year ended December 31, 2017

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number 001-01342

# Canadian Pacific Railway Limited

(Exact name of registrant as specified in its charter)

**Canada** **98-0355078**  
(State or Other Jurisdiction (IRS Employer  
of Incorporation or Organization) Identification  
No.)

**7550 Ogden Dale Road S.E.,** **T2C 4X9**  
**Calgary, Alberta, Canada**  
(Address of Principal Executive Offices) (Zip Code)

**Registrant's Telephone Number, Including Area Code: (403) 319-7000**

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

**Title of Each Class** **Name of Each Exchange on which Registered**

**Common Shares,** **New York Stock Exchange**  
**without par value**

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

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

Yes  No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act.

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 has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

All directors and executive officers as group (14 persons)

268,853

1.6  
%

\* Less than 1%

Based on Schedule 13D filed with the SEC on August 7, 2014 and other information available to us. The address (1) of FIMI Opportunity Five (Delaware), Limited Partnership and FIMI Israel Opportunity Five, Limited Partnership is c/o FIMI FIVE 2012 Ltd., Electra Tower, 98 Yigal Alon St., Tel-Aviv 67891, Israel.

Based solely upon, and qualified in its entirety with reference to, a Schedule 13G filed with the SEC on January 28, (2)2015. The Schedule 13G indicates that BMI Capital Corporation is a registered investment advisor. The address of BMI Capital Corporation is 570 Lexington Avenue New York, NY 10022.

Based solely upon, and qualified in its entirety with reference to, a Schedule 13G/A filed with the SEC on February (3)4, 2016. The Schedule 13G/A indicates that Grace & White, Inc. is a registered investment adviser. The address of Grace & White, Inc. is 515 Madison Avenue, Suite 1700, New York, NY 10022.

Includes 44,000, 38,500 and 27,500 ordinary shares issuable upon the exercise of currently exercisable options, (4)having an exercise price of \$4.35 per share that will expire in March 2017, March 2018 and March 2019, respectively.

(5)Includes 12,500 and 12,500 ordinary shares issuable upon the exercise of currently exercisable options, having an exercise price of \$3.53 per share that will expire in December 2016 and December 2017, respectively.

## THE RIGHTS OFFERING

### Terms of the Offer

We are distributing at no charge to the holders of our ordinary shares on September 9, 2016, which we refer to as the record date, subscription rights to purchase up to an aggregate of 6,170,386 of our ordinary shares, based on the issuance of one subscription right for every eight ordinary shares owned on the record date. We expect the total subscription price for the rights offered in the rights offering to be at maximum \$23.8 million, assuming full exercise of all the subscription rights, and if necessary, the issuance of our ordinary shares to the FIMI partnerships in the FIMI private placement. See below for additional information regarding subscription by DTC.

Each shareholder is being issued one subscription right for every eight ordinary shares owned on the record date. Each subscription right carries with it a basic subscription right and an over-subscription right.

Each subscription right entitles the holder to purchase three ordinary shares at the subscription price of \$11.58 (reflecting a price of \$3.86 per ordinary share).

Subscription right holders who fully exercise their basic subscription rights will be entitled to subscribe for additional ordinary shares that remain unsubscribed as a result of any unexercised basic subscription rights. We refer to this as the over-subscription right. You must exercise your rights with respect to the basic subscription right and the over-subscription right at the same time. We will allocate the available shares proportionately by calculating the number of rights you properly exercised using your basic subscription rights relative to the number of rights properly exercised using the basic subscription rights by all subscribers who have over-subscribed. If this allocation results in you being allocated a greater number of shares than you subscribed for, then you will be allocated only that number of shares for which you subscribed, and the remaining shares will be allocated among all other holders exercising the over-subscription privilege on the same basis described above. This allocation process will be repeated until all shares subscribed for have been allocated.

Your subscription rights may only be exercised for whole numbers of ordinary shares; no fractional ordinary shares will be issued in the rights offering. See below “Fractional Securities.”

The subscription rights are not transferable (except by operation of law), and will not be tradable on any trading market.

You may be subject to certain regulatory requirements if, as a result of the exercise of your subscription rights, you reach certain holding thresholds of beneficial ownership of our ordinary shares. For example, if your exercise of subscription rights results in you beneficially owning more than 5% of our ordinary shares, you may be required to file a Schedule 13D or Schedule 13G with the SEC.

Subscription rights may be exercised at any time during the subscription period, which commences on September 14, 2016 and ends at 5:00 p.m., New York City time, on September 30, 2016, the expiration date, unless we decide to terminate the rights offering earlier. 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), 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 of the subscription period 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. Any rights not exercised at or before the applicable time will expire without any payment to the holders for those unexercised rights. See “– Methods for Exercising Rights”.

The subscription rights will be evidenced by subscription rights certificates that will be mailed to shareholders. The subscription rights will not be tradable on any stock exchange or market.

For purposes of determining the number of rights a holder may acquire in the rights offering, holders whose ordinary shares are held of record by Cede & Co. will be deemed to be the holders of the subscription rights that are issued to Cede & Co.

There is no minimum subscription amount required for consummation of the rights offering.

## Allocation and Exercise of Over-Subscription Rights

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

We will allocate the available whole shares proportionately by calculating the number of subscription rights you properly exercised using your basic subscription rights relative to the number of basic subscription rights properly exercised by all subscribers who have over-subscribed. We will seek to honor your over-subscription in full, subject to the limitations set forth herein. The exercise of your over-subscription privilege may be limited, however, if there are insufficient shares available, including as a result of the FIMI private placement, so you may receive fewer shares than you subscribed for pursuant to your over-subscription privilege. If this allocation results in you being allocated a greater number of shares than you subscribed for, then you will be allocated only that number of shares for which you subscribed, and the remaining shares will be allocated among all other holders exercising the over-subscription privilege on the same basis. This allocation process will be repeated until all shares subscribed for have been allocated. Fractional shares resulting from the exercise of the over-subscription privilege will be eliminated by rounding down to the nearest whole share.

Subscription rights payments for basic subscriptions and over-subscriptions will be deposited upon receipt by the subscription agent or us and held in a segregated account with the subscription agent pending a final determination of the number of ordinary shares to be issued pursuant to the over-subscription right. If the prorated 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 subscription agent or us on your behalf will be returned to you promptly without interest or deduction.

Brokers, dealers, banks and other nominee holders of rights, including DTC members, will be required to certify to the subscription agent before any over-subscription right may be exercised with respect to any particular beneficial owner as to (i) the number of rights exercised pursuant to its basic subscription right and (ii) the number of rights subscribed for pursuant to the over-subscription right of such beneficial owner.

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

## Fractional Securities

We will issue only whole numbers of securities in the rights offering. Accordingly, if you are entitled to receive a fraction of a subscriptions right in the rights offering, we will round down to the nearest whole number. With respect to ordinary shares registered on our shareholder register maintained by our transfer agent, including those held in the name of DTC, such rounding will be made with respect to each record and beneficial shareholder.

Subscription rights may only be exercised for whole numbers of ordinary shares; no fractional ordinary shares will be issued in the rights offering.

## Subscription Intentions of our Controlling Shareholders; Private Placement

Section 328(a) of the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would hold 25% or more of the voting rights in the company, unless there is already another shareholder of the company with 25% or more of the voting

rights. Similarly, Section 328(a) of the Israeli Companies Law provides that an acquisition of shares in a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would hold more than 45% of the voting rights in the company, unless there is a shareholder with more than 45% of the voting rights in the company. An exception to the requirement to commence a special tender offer is if a purchaser passes the 25% or 45% threshold in a public company, as applicable, by acquiring shares directly from the public company in a private placement that was approved by the company's shareholders as a private placement intended to enable such the shareholder to pass the applicable 25% or 45% threshold. For additional information on special tender offers under the Israeli Companies Law, please see the description under "Description of Share Capital – Provisions Restricting a Change in Control of Our Company".

Our controlling shareholders, certain limited partnerships managed by FIMI FIVE 2012 Ltd., currently hold 39.3% of our voting rights. The FIMI partnerships informed us that they intend to exercise their basic subscription rights in full and may choose to exercise the over-subscription rights set forth herein, all to such extent that the FIMI partnerships' holdings do not exceed 50% of our voting rights following the exercise of their subscription rights.

Since the contemplated exercise of subscription rights by the FIMI partnership may cause their holdings to exceed 45% of our voting rights (depending on the level of participation by other shareholders in the rights offering), in accordance with the Israeli Companies Law our audit committee (consisting solely of independent directors) and board of directors approved, and recommended, that our shareholders approve a private placement of shares to the FIMI partnerships at a price per share and other terms identical to the terms of this rights offering, so as to enable the FIMI partnerships to cross the 45% threshold. In approving and recommending the FIMI private placement, our audit committee and board of directors determined that the consummation of the FIMI private placement is in the best interest of the company since it significantly increases the likelihood that the rights offerings will be fully subscribed. On August 8, 2016, our shareholders also approved the proposed private placement to the FIMI partnerships in accordance with the Israeli Companies Law.

Accordingly, if the exercise of subscription rights causes the FIMI partnerships' holdings to exceed 45% of our voting rights, then in order to comply with the Israeli Companies Law, such number of ordinary shares exceeding 45% of our voting rights will be issued to the FIMI partnerships in a private placement at a price per share and other terms identical to the terms of this rights offering. In such case, the issuance of the ordinary shares to FIMI will occur concurrently with the issuance of the shares subscribed for in the rights offering.



### Expiration of the Rights Offering

You may exercise your subscription rights at any time before 5:00 p.m., New York City time on September 30, 2016, the expiration date of the rights offering, unless we decide to terminate the rights offering earlier. We may not extend the expiration date of the rights offering.

If you are a beneficial owner of our ordinary shares and/or hold them through a broker, dealer, bank or other nominee (including a member of DTC), 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 of the subscription period in order to ensure timely delivery of a subscription rights certificate reflecting your exercise. Your nominee will instruct you as to exercising your basic and over-subscription rights and as to the proper time and form of payment of the subscription price. See “Methods for Exercising Rights” for the deadlines and other details regarding exercising subscription rights.

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

### Revocation, Termination and Amendment of the Rights Offering

**No Revocation.** Once you send in your subscription rights certificate and payment, you cannot revoke the exercise of either your basic or over-subscription rights, even if the market price of our ordinary shares is below the \$3.86 per share, which is the price attributable to each ordinary share issuable upon the exercise of a subscription right. You should not exercise your subscription rights unless you are certain that you wish to purchase additional ordinary shares at the proposed subscription price.

**Termination; Cancellation.** We may cancel or terminate the rights offering in our sole discretion at any time prior to 5:00 p.m. New York City time on September 29, 2016, 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 and we will promptly arrange for the refund, without interest or deduction, of any funds received from holders of subscription rights. Any cancellation or termination of the rights offering will be followed as promptly as practicable by an announcement.

**No Amendments.** We may not amend or modify the terms of the rights offering, nor can we extend the expiration date of the rights offering.

### Reasons for the Rights Offering; Determination of the Offering Price

We are making the rights offering to strengthen our balance sheet and for general corporate purposes focused on growing our business, including through acquisitions or investments in complementary companies or technologies, although we do not have any agreement or understanding with respect to any such acquisition or investment at this time. We do not currently have specific plans or commitments with respect to the net proceeds from this offering and, accordingly, are unable to quantify the allocation of such proceeds among potential uses. We will have broad discretion in the way that we use the net proceeds of this offering. Although we believe that the rights offering will strengthen our financial condition, our board of directors is not making any recommendation as to whether you should exercise your subscription rights.

Our board of directors appointed a special committee to oversee the rights offering and make a recommendation to the board of directors with respect to the terms of the rights offering. The special committee is composed of three independent member of our board of directors. The special committee recommended the subscription price to our board of directors, which in turn considered the terms of the rights offering. In determining the pricing of the rights offering, the special committee and our board of directors considered, among other things, 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, the need for capital and alternatives available to us for raising capital, potential market conditions 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, with the assistance of management and financial and legal advisors, 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 a range of subscription prices compared to market 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.

#### Subscription Agent

American Stock Transfer & Trust Company, LLC will act as the subscription agent in connection with the rights offering with respect to holders of our ordinary shares, including shares registered in the name of Cede & Co. for the benefit of brokers, dealers, banks and other nominees. The subscription agent will receive for its administrative, processing, invoicing and other services a fee estimated to be approximately \$13,000 plus reimbursement for all reasonable out-of-pocket expenses related to the rights offering.

Completed subscription rights certificates of such holders must be sent together with full payment of the subscription price for all shares subscribed for through the exercise of the subscription right (including over-subscription rights) to the subscription agent by one of the methods described below:

By Hand, Mail or Overnight Courier:

American Stock Transfer & Trust Company, LLC  
6201 15th Avenue, Brooklyn, NY 11219  
Attn: Reorganization Department

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

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 subscription agent receives the documents relating to your exercise after the rights offering expires, regardless of when you transmitted the documents. We will accept only properly completed and duly executed subscription rights certificates actually received at the address listed above, at or prior to 5:00 p.m., New York City time, on September 30, 2016. See "Payment of Subscription Price" below.

If you are a beneficial owner of our ordinary shares and/or hold them through a broker, dealer, bank or other nominee (including a participant of DTC), 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.

## Information Agent

If you have any questions or need further information about the rights offering, or for additional copies of this prospectus, please contact D.F. King & Co. Inc., our Information Agent for the rights offering, toll free at 888-626-0988.

## Methods for Exercising Rights

Rights are evidenced by subscription rights certificates that will be mailed to record date shareholders registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC or, if a record date shareholder's ordinary shares are held by a depository or nominee on his, her or its behalf, to such depository or nominee.

Record date shareholders registered on our shareholder register maintained by the subscription agent

Rights of record date shareholders registered on our shareholder register maintained at the subscription agent may be exercised by record holders or such depositories or nominees by completing and signing the subscription rights certificate that accompanies this prospectus and mailing it in the envelope provided, or otherwise delivering the completed and duly executed subscription rights certificate to the subscription agent, together with payment in full (including for over-subscription rights) for the ordinary shares at the subscription price by the expiration date of the rights offering. Completed subscription rights certificates and related payments must be received by the subscription agent prior to 5:00 p.m., New York City time, on or before September 30, 2016, at the offices of the subscription agent at the address set forth above.

Shareholders whose ordinary shares are held as of the record date by a nominee, such as a broker, dealer, bank or other nominee rather than in their own name, must contact that nominee to exercise their rights sufficiently in advance of the expiration date of the rights offering in order to ensure timely delivery of a subscription rights certificate reflecting their exercise. In that case, the nominee will complete the subscription rights certificate on behalf of the record date shareholder and arrange for proper payment by one of the methods set forth under "Payment of Subscription Price" below.

## Nominee Holders

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

## General

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

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

## Payment of Subscription Price

Record Holders registered on our shareholder register maintained by the subscription agent

If you are a holder of our ordinary shares that is registered on our shareholder register maintained at American Stock Transfer & Trust Company, LLC, you may send the subscription rights certificate together with payment for the rights exercised based on the subscription price of \$11.58. To be accepted, the payment, together with a properly completed and executed subscription rights certificate, must be received by the subscription agent at the subscription agent's office set forth above (see "– Subscription Agent"), at or prior to 5:00 p.m., New York City time, on September 30, 2016.

All payments to American Stock Transfer & Trust Company, LLC, as Subscription Agent, must be made in U.S. dollars by a bank check drawn on a United States or foreign bank or branch and payable to "American Stock Transfer & Trust Company, LLC, as Subscription Agent," or by wire transfer of funds to the account maintained by American Stock Transfer & Trust Company, LLC, our Subscription Agent for this rights offering, at JPMorgan Chase Bank, 55 Water Street, New York, New York 10005, ABA #021000021, Account # 530-354616 American Stock Transfer FBO Magal Security Systems Ltd., with reference to the rights holder's name.

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

The method of delivery of subscription rights certificates and payment of the subscription price to the subscription agent will be at the election and risk of the participating rights holders, but if sent by mail it is recommended that such certificates and payments be sent by registered mail, properly insured, with return receipt requested, and that a sufficient number of days be allowed to ensure delivery to the subscription agent and clearance of payment prior to 5:00 p.m., New York City time, on September 30, 2016. Because uncertified personal checks may take at least five business days to clear, you are strongly urged to pay, or arrange for payment, by means of certified or cashier's check or money order.

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

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

## Delivery of Share Certificates

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

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

## If You Have Questions

If you have any questions or need further information about the rights offering, or for additional copies of this prospectus or subscription rights certificates, please call D.F. King & Co. Inc., our Information Agent, toll free at 888-626-0988, or, if you are located in Israel, you may also contact our General Counsel or Chief Financial Officer, at +972-3-5391490, during their respective normal business hours.

## PLAN OF DISTRIBUTION

Immediately following the effective date of this prospectus, we will distribute, at no cost, the subscription rights certificates and copies of this prospectus to all holders of record of our ordinary shares on September 9, 2016. If you wish to exercise your subscription rights and purchase our ordinary shares, you should complete the subscription rights certificate and return it, with payment of the subscription price, or follow the procedure for subscription by shareholders whose ordinary shares are held by a nominee, as set forth in “The Rights Offering – Methods for Exercising Rights”.

## DESCRIPTION OF SHARE CAPITAL

Our authorized share capital consists of 39,748,000 ordinary shares, par value NIS 1.00 each. All our ordinary shares have the same rights, preferences and restrictions, some of which are detailed below. At the general meeting of shareholders, our shareholders may, subject to certain provisions detailed below, create different classes of shares, each class bearing different rights, preferences and restrictions.

The rights attached to the ordinary shares are as follows:

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

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

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

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

- amend the Memorandum of Association or Articles of Association;

change the share capital, for example by increasing or canceling the authorized share capital or modifying the rights attached to shares; and

·approve mergers, consolidations or winding up of our company.

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

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

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

**Redemption.** Under Article 38 of our Articles of Association, we may issue redeemable stock and redeem the same.

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

#### Modifications of Share Rights

The rights attached to a class of shares may be altered by an extraordinary resolution of the general meeting of shareholders, provided the holders of 75% of the issued shares of that class approve such change by the adoption of an extraordinary resolution at a separate meeting of such class, subject to the terms of such class. The provisions of the Articles of Association pertaining to general meetings of shareholders also apply to a separate meeting of a class of shareholders. Shares which confer preferential or subordinate rights relating to, among other things, dividends, voting, and payment of capital may be created only by an extraordinary resolution of the general meeting of shareholders.

#### General Meetings of Shareholders

Under the Israeli Companies Law, a company must convene an annual meeting of shareholders at least once every calendar year and within 15 months of the last annual meeting. Depending on the matter to be voted upon, notice of at least 21 days or 35 days prior to the date of the meeting is required. Our board of directors may, in its discretion, convene additional meetings as "special general meetings." In addition, the board must convene a special general meeting upon the demand of two of the directors, 25% of the nominated directors, one or more shareholders having at least 5% of the outstanding share capital and at least 1% of the voting power in the company, or one or more shareholders having at least 5% of the voting power in the company.

A shareholder present, in person or by proxy, at the commencement of a general meeting of shareholders may not seek the cancellation of any proceedings or resolutions adopted at such general meeting of shareholders on account of any defect in the notice of such meeting relating to the time or the place thereof. Shareholders who are registered in our register of shareholders at the record date may vote at the general meeting of shareholders. The record date is set in the resolution to convene the general meeting of shareholders, provided, however, that such record date must be between 14 to 21 days or, in the event of a vote by ballots, between 28 to 40 days prior the date the general meeting of shareholders is held.

The quorum required for a general meeting of shareholders consists of at least two record shareholders, present in person or by proxy, who hold, in the aggregate, at least one third of the voting power of our outstanding shares. A general meeting of shareholders will be adjourned for lack of a quorum after half an hour from the time appointed for such meeting to the same day in the following week at the same time and place or any other time and place as the board of directors designates in a notice to the shareholders. At such reconvened meeting, if a quorum is not present

within half an hour from the time appointed for such meeting, two or more shareholders, present in person or by proxy, will constitute a quorum. The only business that may be considered at an adjourned general meeting of shareholders is the business that might have been lawfully considered at the general meeting of shareholders originally convened and the only resolutions that may be adopted are the resolutions that could have been adopted at the general meeting of shareholders originally convened.

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### Limitations on the Right to Own Our Securities

Neither our Memorandum or Articles of Association nor the laws of the State of Israel restrict in any way the ownership or voting of our ordinary shares by non-residents, except that the laws of the State of Israel may restrict the ownership of ordinary shares by residents of countries that are in a state of war with Israel.

### Provisions Restricting a Change in Control of Our Company

The Israeli Companies Law requires that mergers between Israeli companies be approved by the board of directors and general meeting of shareholders of both parties to the transaction. The approval of the board of directors of both companies is subject to such boards' confirmation that there is no reasonable doubt that after the merger the surviving company will be able to fulfill its obligations towards its creditors. Each company must notify its creditors about the contemplated merger. Under our Articles of Association, such merger must be approved by a resolution of the shareholders, by a majority of 75% of the shares represented and voting at the general meeting. The approval of the merger by the general meetings of shareholders of the companies is also subject to additional approval requirements as specified in the Israeli Companies Law and regulations promulgated thereunder. For purposes of the shareholders' approval, the merger will not be deemed as granted unless the court determines otherwise, if it is not supported by the majority of the shares represented at the general meeting, other than those shares that are held by the other party to the merger or by any shareholder holding 25% or more of the outstanding share capital of Magal or the right to appoint 25% or more of the members of the board of directors.

The Israeli Companies Law also provides that an acquisition of shares of a public company must be made by means of a special tender offer if as a result of the acquisition the purchaser would become a 25% or greater shareholder of the company and there is no existing 25% or greater shareholder in the company. An acquisition of shares of a public company must also be made by means of a tender offer if as a result of the acquisition the purchaser would become a 45% or greater shareholder of the company and there is no existing 45% or greater shareholder in the company. These requirements do not apply if the acquisition (i) was made through a private placement that received shareholder approval, (ii) was from a 25% shareholder of the company and resulted in the acquirer becoming a 25% shareholder of the company or (iii) was from a 45% shareholder of the company and resulted in the acquirer becoming a 45% shareholder of the company. The special tender offer must be extended to all shareholders but, the offer may include explicit limitations allowing the offeror not to purchase shares representing more than 5% of the voting power attached to the company's outstanding shares, regardless of how many shares are tendered by shareholders. The special tender offer may be effected only if (i) at least 5% of the voting power attached to the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If, as a result of an acquisition of shares, the acquirer will hold more than 90% of the outstanding shares, the acquisition must be made by means of a tender offer for the entire outstanding shares. In such event, if less than 5% of the outstanding shares are not tendered in the tender offer, all the shares of the company will be deemed as tendered and sold. However, if more than 5% of the outstanding shares are not tendered in the tender offer, then the acquirer may not acquire any shares at all. The law provides for appraisal allowing any shareholder to file a motion to the court within six months following the consummation of a full tender offer. However, in the event of a full tender offer, the offeror may determine that any shareholder who accepts the offer will not be entitled to appraisal rights. Such determination will be effective only if the offeror or the company has timely published all the information that is required to be published in connection with such full tender offer pursuant to all applicable laws.

In addition, the purchase of 25% or more of the outstanding share capital of a company or the purchase of substantial assets of a company requires, under certain conditions, the approval of the Restrictive Practices Authority. Furthermore, if the target company has received tax incentives or grants from the Office of the Chief Scientist, changes in ownership may require also the approval of the tax authorities or the Office of the Chief Scientist, as applicable.

Finally, in general, Israeli tax law treats stock-for-stock acquisitions less favorably than does U.S. tax law. Israeli tax law has been amended to provide for tax deferral in specified acquisitions, including transactions where the consideration for the sale of shares is the receipt of shares of the acquiring company. Nevertheless, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation or to taxation before his investment in the foreign corporation becomes liquid, although in the case of shares of a foreign corporation that are traded on a stock exchange, the tax may be postponed subject to certain conditions.

## MATERIAL U.S. FEDERAL INCOME TAX CONSIDERATIONS

The following summary describes certain material U.S. federal income tax consequences to U.S. Holders of the receipt, exercise and disposition of rights, and of owning and disposing of ordinary shares issued upon the exercise of the rights (“new ordinary shares”), but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular investor. This discussion applies only to U.S. Holders that hold our existing ordinary shares and will hold the rights and the new ordinary shares as capital assets for U.S. federal income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the U.S. Holder’s particular circumstances, including alternative minimum tax consequences and tax consequences applicable to U.S. Holders subject to special rules, such as:

- certain financial institutions;
- dealers or traders in securities that use a mark-to-market method of accounting;
- persons holding rights or new ordinary shares as part of a hedge, straddle, conversion transaction or integrated transaction;
- persons whose “functional currency” for U.S. federal income tax purposes is not the U.S. dollar;
- tax-exempt entities, “individual retirement accounts” or “Roth IRAs”;
- entities classified as partnerships for U.S. federal income tax purposes;
- persons who own or are deemed to own 10% or more of our voting shares; or
- persons holding existing ordinary shares, rights or new ordinary shares in connection with a trade or business conducted outside the United States.

If a partnership holds the existing ordinary shares, rights or new ordinary shares, the U.S. federal income tax treatment of a partner will generally depend upon the status of the partner and the tax treatment of the partnership. Partnerships holding existing ordinary shares, rights or new ordinary shares and partners in such partnerships should consult their tax advisors as to the particular U.S. federal income tax consequences to them of the receipt, exercise and disposition of the rights and of owning and disposing of new ordinary shares.

This summary is based upon the tax laws of the United States including the Internal Revenue Code of 1986, as amended (the “Code”), administrative pronouncements, judicial decisions, final, temporary and proposed Treasury regulations, and the income tax treaty between Israel and the United States (the “Treaty”), all as of the date hereof, and any of which could be subject to change, possibly with retroactive effect.

A “U.S. Holder” is a person that is eligible for the benefits of the Treaty and is, for U.S. federal income tax purposes, a beneficial owner of existing ordinary shares that is one of the following:

- a citizen or individual resident of the United States;
- a corporation, or other entity taxable as a corporation, created or organized in or under the laws of the United States, any state therein or the District of Columbia;
- an estate the income of which is subject to U.S. federal income taxation regardless of its source; or
-

a trust if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial a trust if (i) a U.S. court is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (ii) the trust has validly elected to be treated as a U.S. person for U.S. federal income tax purposes.

U.S. Holders are urged to consult their tax advisors as to the U.S. federal, state, local and non-U.S. tax consequences of the receipt of rights, the exercise or disposition of rights and of owning and disposing of new ordinary shares in their particular circumstances.

Except as described below, this discussion assumes that we are not, and will not become, a PFIC for any taxable year.

## Taxation of the Rights

### Receipt of the Rights

The receipt of the rights by a U.S. Holder of existing ordinary shares pursuant to the rights offering will be treated as a non-taxable distribution with respect to the existing ordinary shares for U.S. federal income tax purposes.

If on the date of distribution, the fair market value of the rights is less than 15% of the fair market value of the existing ordinary shares with respect to which the rights were distributed, the rights will be allocated a zero basis for U.S. federal income tax purposes, unless the U.S. Holder affirmatively elects to allocate basis in proportion to the relative fair market values of its existing ordinary shares and the rights received (determined on the date of distribution). This irrevocable election must be made in a U.S. Holder's U.S. federal income tax return for the taxable year in which the rights are received, and will apply to all rights received by the U.S. Holder pursuant to the rights offering.

If on the date of distribution the fair market value of the rights is at least 15% of the fair market value of the existing ordinary shares with respect to which the rights are distributed, the basis of the U.S. Holder's ordinary shares must be allocated between its existing ordinary shares and the rights in proportion to their fair market values (determined on the date of distribution).

### Exercise of the Rights

The exercise of a right by a U.S. Holder should not be a taxable transaction for U.S. federal income tax purposes. The U.S. Holder's tax basis in new ordinary shares received upon exercise of the rights should equal the subscription price and the U.S. Holder's tax basis, if any, in the exercised rights. The holding period for the new ordinary shares received will begin on the day the underlying rights are exercised.

### Sale or Other Taxable Disposition of the Rights

For U.S. federal income tax purposes, gain or loss realized on a sale or other taxable disposition of rights by the U.S. Holder will be capital gain or loss, and will be long-term capital gain or loss if the holding period for the rights is more than one year. For these purposes, the holding period for the rights will include the holding period of the existing ordinary shares with respect to which the rights were distributed. The amount of the gain or loss will equal the difference between the U.S. Holder's tax basis in the rights disposed of and the U.S. Holder's amount realized on the disposition. Such gain or loss will generally be U.S. source gain or loss for foreign tax credit purposes.

### Expiration of the Rights

If a U.S. Holder allows rights to expire without exercising them, the rights will be deemed to have a zero basis and, therefore, the U.S. Holder will not recognize any loss upon the expiration of the rights. Any tax basis from existing ordinary shares that was allocated to the lapsed rights will be reallocated back to such existing ordinary shares.

## Taxation of the New Ordinary Shares

### Taxation of Distributions

Distributions paid on the new ordinary shares, other than certain pro rata distributions of ordinary shares, or rights to purchase ordinary shares will generally be treated as dividends to the extent paid out of current or accumulated earnings and profits (as determined under U.S. federal income tax principles). Since we do not maintain calculations of our earnings and profits under U.S. federal income tax principles, U.S. Holders will generally be required to treat all distribution made with respect to new ordinary shares as taxable dividends and include them in income on the date of receipt. Subject to applicable limitations, dividends paid to certain non-corporate U.S. Holders will be taxable at favorable rates applicable to long-term capital gains (currently 20%). The dividend income will include any amounts withheld by us or our paying agent in respect of Israeli taxes. The dividend will be treated as foreign-source income and will not be eligible for the dividends-received deduction generally allowed to U.S. corporations under the Code.

Dividends paid in NIS will be included in a U.S. Holder's income in a U.S. dollar amount calculated by reference to the exchange rate in effect on the date of receipt of the dividend, regardless of whether the payment is in fact converted into U.S. dollars. If the dividend is converted into U.S. dollars on the date of receipt, a U.S. Holder generally should not be required to recognize foreign currency gain or loss in respect of the dividend income.

Subject to applicable limitations that vary depending upon a U.S. Holder's particular circumstances, Israeli taxes withheld from dividends at a rate not exceeding the applicable rate provided by the Treaty may be creditable against the U.S. Holder's U.S. federal income tax liability. Israeli taxes withheld in excess of the applicable rate allowed by the Treaty will not be eligible for credit against a U.S. Holder's federal income tax liability. The limitation on foreign tax credit is calculated separately with respect to specific classes of income. Instead of claiming a credit, a U.S. Holder may, at the U.S. Holder's election, deduct the otherwise creditable foreign taxes in computing the taxable income for the year, subject to generally applicable limitations under U.S. law. An election to deduct foreign taxes instead of claiming foreign tax credits applies to all foreign taxes paid or accrued in the taxable year. The rules governing foreign tax credits are complex and U.S. Holders should consult their tax advisors regarding the availability of foreign tax credits and the deductibility of foreign taxes in their particular circumstances.

### Sale and Other Disposition of the New Ordinary Shares

Gain or loss realized on the sale or other disposition of the new ordinary shares will be capital gain or loss, and will be long-term capital gain or loss if the U.S. Holder held the new ordinary shares for more than one year. The amount of gain or loss will equal the difference between the U.S. Holder's tax basis in the new ordinary shares disposed of and the amount realized on the disposition, in each case as determined in U.S. dollars. Such gain or loss will generally be U.S.-source gain or loss for foreign tax credit purposes. The deductibility of capital losses is subject to limitations.

### Passive Foreign Investment Company Rules

We believe that we were not a PFIC for U.S. federal income tax purposes for the taxable year of 2015 and do not expect to be a PFIC in 2016. However, since PFIC status depends upon the composition of our income and assets and the market value of our assets from time to time, there can be no assurance that we have not been a PFIC in prior taxable years or that we will not be considered a PFIC for any future taxable year. If we were a PFIC for any taxable year during which a U.S. Holder owned an ordinary share (and under proposed Treasury regulations, a right), certain adverse consequences could apply to the U.S. Holder. Specifically, gain recognized by a U.S. Holder on a sale or other disposition of such ordinary share (or right) would be allocated ratably over the U.S. Holder's holding period for the ordinary share (or right). The amounts allocated to the taxable year of the sale or other disposition and to any year before we became a PFIC would be taxed as ordinary income. The amount allocated to each other taxable year would be subject to tax at the highest rate in effect for individuals or corporations, as appropriate, for that taxable year, and an interest charge would be imposed on the resulting tax liability. Further, any distribution in excess of 125% of the



average of the annual distributions received by the U.S. Holder on our ordinary shares during the preceding three years or the U.S. Holder's holding period, whichever is shorter, would be subject to taxation as described immediately above. In addition, if we were a PFIC for a taxable year in which we pay a dividend (or the prior taxable year), the favorable dividend rates discussed above with respect to dividends paid to certain non-corporate U.S. Holders would not apply. Certain elections (such as a mark-to-market election) may be available to U.S. Holders and may result in alternative tax treatment. If we were a PFIC for any taxable year in which a U.S. Holder owned our shares, the U.S. Holder would generally be required to file annual returns with the Internal Revenue Service, or the IRS, on IRS Form 8621.

### Transfer Reporting Requirements

A U.S. Holder that subscribes for new ordinary shares may be required to file IRS Form 926 with the IRS if the aggregate subscription price paid by the U.S. Holder, when aggregated with all transfers of cash made by the U.S. Holder (or any related person) to us within the preceding twelve-month period, exceeds 100,000 U.S. dollars (or its foreign currency equivalent) and certain other conditions are met. U.S. Holders that are required to file Form 926, but fail to do so, could be subject to substantial penalties. U.S. Holders should consult their tax advisors to determine whether they are subject to any Form 926 filing requirements.

### Net Investment Income Surtax

Individuals, trusts and estates that have income exceeding certain thresholds are subject to a 3.8% surtax on their net investment income, which would include dividends on and any gain from the disposition of ordinary shares.

### Information Reporting and Backup Withholding

Payment of dividends and sales proceeds that are made within the United States or through certain U.S.-related financial intermediaries may be subject to information reporting and backup withholding unless (i) the U.S. Holder is a corporation or other exempt recipient and certifies its status as such, or (ii) in the case of backup withholding, the U.S. Holder provides a correct taxpayer identification number and certifies that the U.S. Holder is not subject to backup withholding. The amount of any backup withholding from a payment to a U.S. Holder will be allowed as a credit against the U.S. Holder's U.S. federal income tax liability and may entitle the U.S. Holder to a refund, provided that the required information is timely furnished to the IRS.

Certain U.S. Holders who are individuals (and under proposed Treasury regulations, certain entities controlled by individuals) may be required to report on IRS Form 8983 information relating to their holdings of our securities, subject to certain exceptions (including an exception for securities held in accounts maintained by U.S. financial institutions). U.S. Holders should consult their tax advisers regarding the application of these rules in the U.S. Holders' particular circumstances.

### CERTAIN ISRAELI TAX CONSIDERATIONS

The following are the material Israeli income tax consequences to the holders described below of the receipt and exercise and disposition of rights, and of owning and disposing of ordinary shares issued upon the exercise of the rights ("new ordinary shares"), but it does not purport to be a comprehensive description of all tax considerations that may be relevant to a particular person's investment decision. This discussion applies only to holders that hold our existing ordinary shares and will hold the rights and the new ordinary shares as capital assets for Israeli income tax purposes. In addition, it does not describe all of the tax consequences that may be relevant in light of the holder's particular circumstances. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the tax authorities will accept the views expressed in the discussion in question.

### The Distribution and Exercise of the Subscription Rights

We do not believe that the receipt and exercise of your subscription rights will be taxable; however, no tax ruling from the Israeli Income Tax Authority will be sought for the rights offering.

### Capital Gains Tax

Israeli law generally imposes a capital gains tax on the sale of any capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of capital assets (or rights to capital assets) located in Israel, including shares of

Israeli companies by non-residents of Israel and disposition of subscription rights, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The law distinguishes between real gain and inflationary surplus. The inflationary surplus is a portion of the total capital gain that is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the Israeli consumer price index, or a foreign currency exchange rate, between the date of purchase and the date of sale. The real gain is the excess of the total capital gain over the inflationary surplus.

## Non-Israeli Residents

Non-Israeli residents are generally exempt from Israeli capital gains tax on any gains derived from the sale of securities of Israeli companies publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel, such as NASDAQ, provided however that such shareholders did not acquire their securities prior to an initial public offering and that the gains did not derive from a permanent establishment of such shareholders in Israel. However, non-Israeli corporations will not be entitled to such exemption if Israeli residents (i) have a controlling interest of more than 25% in such non-Israeli corporation, or (ii) are the beneficiaries or are entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In certain instances where our shareholders may be liable for Israeli tax on the sale of their securities, the payment of the consideration may be subject to the withholding of Israeli tax at the source.

In addition, pursuant to the Convention between the Government of the United States of America and the Government of Israel with respect to Taxes on Income, as amended, or the U.S.-Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the U.S.-Israel Tax Treaty generally will not be subject to Israeli capital gains tax unless such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding such sale, exchange or disposition, subject to particular conditions, or unless capital gains from such sale, exchange or disposition can be allocated to a permanent establishment in Israel. In such case, the Treaty U.S. Resident would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident may be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

## Taxation of Non-Residents on Dividend Distributions

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. Israeli source of income includes passive income such as dividends. On distributions of dividends other than bonus shares or stock rights distributions, income tax is generally withheld at source at the rate of 25% unless a different rate is provided in a treaty between Israel and the shareholder's country of residence.

Under the U.S.-Israel Tax Treaty, such tax rate may be reduced to 12.5% if the shareholder is a U.S. corporation and holds at least 10% of our issued voting power during the part of the tax year that precedes the date of payment of the dividend and during the whole of its prior tax year, and provided not more than 25% of our gross income consists of interest or dividends, other than dividends or interest received from subsidiary corporations or corporations 50% or more of the outstanding shares of the voting stock of which is owned by us.

## EXPENSES ASSOCIATED WITH THE RIGHTS OFFERING

We have agreed to pay all of the expenses incidental to the rights offering, including, without limitation, all registration and filing fees, fees and expenses of our counsel and accountants and transfer agent and subscription agent fees. We estimate that the expenses for the rights offering will be approximately \$200,000. The following table sets forth the various expenses expected to be incurred by us in connection with the rights offering. All amounts shown are estimates, except the SEC registration fee.

SEC registration fee	\$2,518
Printing, EDGAR and mailing fees	20,000
Legal fees and expenses	125,000
Accounting fees and expenses	25,000

Subscription agent fees and expenses	13,000
Information agent fees and expenses	7,000
Miscellaneous expenses	7,482
Total expenses	\$200,000

## FOREIGN EXCHANGE CONTROLS AND OTHER LIMITATIONS

Non-residents of Israel who purchase our ordinary shares may freely convert all amounts received in Israeli currency in respect of such ordinary shares, whether as a dividend, liquidation distribution or as proceeds from the sale of the ordinary shares, into freely-repatriable non-Israeli currencies at the rate of exchange prevailing at the time of conversion (provided in each case that the applicable Israeli income tax, if any, is paid or withheld).

Until May 1998, Israel imposed extensive restrictions on transactions in foreign currency. These restrictions were largely lifted in May 1998. Since January 1, 2003, all exchange control restrictions have been eliminated (although there are still reporting requirements for foreign currency transactions). Legislation remains in effect, however, pursuant to which currency controls can be imposed by administrative action at any time.

The State of Israel does not restrict in any way the ownership or voting of our ordinary shares by non-residents of Israel, except with respect to subjects of countries that are in a state of war with Israel.

## LEGAL MATTERS

The validity of the securities offered hereby and other legal matters concerning the rights offering relating to Israeli law will be passed upon for us by Naschitz, Brandes, Amir & Co., Tel Aviv, Israel. Certain legal matters relating to United States law will be passed upon for us by Carter Ledyard & Milburn LLP, New York, New York.

## EXPERTS

Our consolidated financial statements as of December 31, 2015 and 2014 and for each of the three years ended December 31, 2015 included in our Annual Report on Form 20-F for the year ended December 31, 2015 and incorporated herein by reference, have been audited by Kost Forer Gabbay and Kasierer, a member of Ernst & Young Global, independent registered public accounting firm, as set forth in their report thereon dated March 29, 2015 incorporated by reference herein, and are included in reliance upon such report given upon the authority of such firm as experts in accounting and auditing.

The consolidated financial statements of Aimetis Corp. as of and for the year ended December 31, 2015, included in our Report on Form 6-K submitted to the SEC on August 3, 2016 and incorporated in this Prospectus, have been audited by Deloitte LLP, independent auditors, as stated in their report incorporated by reference herein, and are included in reliance upon the report of such firm given upon their authority as experts in accounting and auditing.

## MATERIAL CHANGES

Except as otherwise described in our Annual Report on Form 20-F for the fiscal year ended December 31, 2015, in our Reports on Form 6-K filed or submitted under the Exchange Act and incorporated by reference herein and as disclosed in this prospectus, no reportable material changes have occurred since December 31, 2015.

## WHERE YOU CAN FIND MORE INFORMATION; INCORPORATION OF CERTAIN INFORMATION BY REFERENCE

We are subject to the information requirements of the Securities Exchange Act of 1934, as amended, or the Exchange Act, which means that we are required to file annual and periodic reports and other information with the SEC. You may read and copy any materials that we file with the SEC at the Public Reference Room of the SEC at 100 F Street, NE, Washington D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC maintains an Internet website at <http://www.sec.gov> where you can access reports, proxy, information and registration statements, and other information regarding us that we file electronically with the SEC. In addition, we make available, without charge, through our website, [www.magal-S3.com](http://www.magal-S3.com), electronic

copies of various filings with the SEC, including copies of our Annual Report on Form 20-F. The information on our website is not and should not be considered part of this prospectus and is not incorporated into this prospectus by reference.

The SEC allows us to “incorporate by reference” the information we file with the SEC, which means that we can disclose important information to you by referring to those documents filed separately with the SEC. The information we incorporate by reference is an important part of this prospectus. We are incorporating by reference in this prospectus the documents listed below, all of which we have previously filed with the SEC.

·Our Annual Report on Form 20-F for the fiscal year ended December 31, 2015;

·Our Reports on Form 6-K furnished to the SEC on April 1, 2016, May 10, 2016, May 24, 2016, May 31, 2016, July 1, 2016, July 8, 2016, August 3, 2016, August 8, 2016 (two reports), August 9, 2016, August 31, 2016, September 6, 2016 and September 7, 2016; and

·The description of our ordinary shares contained in our Annual Report on Form 20-F for the year ended December 31, 2015.

Any statement contained in a document that is incorporated by reference into this prospectus will be modified or superseded for all purposes to the extent that a statement contained in this prospectus modifies or is contrary to that previous statement. Any statement so modified or superseded will not be deemed a part of this prospectus except as so modified or superseded.

We will provide a copy of any or all of the reports or filings that we have incorporated in this prospectus at no cost, by writing or telephoning us at the following address or telephone number:

Magal Security Systems Ltd.  
P.O. Box 70, Industrial Zone  
Yehud 5621617, Israel  
Attention: Ilan Ovadia  
Tel: (972)(3)539-1444

#### ENFORCEABILITY OF CIVIL LIABILITIES

We are incorporated under the laws of the State of Israel. Service of process upon us and 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, because 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 any of our directors and officers may not be collectible within the United States.

We have been informed by our legal counsel in Israel, Naschitz, Brandes, Amir & Co., that it may be difficult to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws if they determine that Israel is not the most appropriate forum to bring such a claim. In addition, even if an Israeli court agrees to hear a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. There is little binding case law in Israel addressing these matters. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will be governed by Israeli law.

Subject to specified time limitations and legal procedures, under the rules of private international law currently prevailing in Israel, Israeli courts may enforce a final U.S. judgment in a civil matter, including judgments based upon the civil liability provisions of the U.S. securities laws and including a monetary or compensatory judgment in a non-civil matter, provided that:

·the judgment is enforceable in the state in which it was given;



the judgment was rendered by a court of competent jurisdiction under the rules of private international law prevailing in Israel;

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· the laws of the state in which the judgment was given provides for the enforcement of judgments of Israeli courts;

adequate service of process has been effected and the defendant has had a reasonable opportunity to present his arguments and evidence;

the judgment and the enforcement of the judgment are not contrary to the law, public policy, security or sovereignty of the State of Israel;

the judgment was not obtained by fraudulent means and does not conflict with any other valid judgment in the same matter between the same parties; and

an action between the same parties in the same matter is not pending in any Israeli court at the time the lawsuit is instituted in the foreign court.

We have irrevocably appointed our U.S. subsidiary, Senstar Inc., as our agent to receive service of process in any action against us in any federal court or court of the State of Delaware arising out of offerings pursuant to this prospectus.

If a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency, which can then be converted into non-Israeli currency and transferred out of Israel. The usual practice in an action before an Israeli court to recover an amount in a non-Israeli currency is for the Israeli court to issue a judgment for the equivalent amount in Israeli currency at the rate of exchange in force on the date of the judgment, but the judgment debtor may make payment in foreign currency. Pending collection, the amount of the judgment of an Israeli court stated in Israeli currency ordinarily will be linked to the Israeli consumer price index plus interest at the annual statutory rate set by Israeli regulations prevailing at the time. Judgment creditors must bear the risk of unfavorable exchange rate fluctuations.

SUBSCRIPTION RIGHTS TO PURCHASE UP TO 6,170,386 ORDINARY SHARES

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PROSPECTUS

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You should rely only on the information incorporated by reference or provided in this prospectus. We have not authorized anyone to provide you with different information. We are not making any offer to sell or buy any of the securities in any state where the offer is not permitted. You should not assume that the information in this prospectus is accurate as of any date other than the date that appears below.

September 7, 2016

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