

MAGAL SECURITY SYSTEMS LTD
Form 20-F
March 29, 2017

SECURITIES AND EXCHANGE COMMISSION
Washington D.C. 20549

FORM 20-F

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

OR

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

For the fiscal year ended December 31, 2016

OR

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

For the transition period from _____ to _____

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

Date of event requiring this shell company report

Commission file number: 0 21388

MAGAL SECURITY SYSTEMS LTD.
(Exact Name of Registrant as specified in its charter
and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

P.O. Box 70, Industrial Zone, Yehud 5621617, Israel
(Address of principal executive offices)

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

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

Title of each class	Name of each exchange on which registered
Ordinary Shares, NIS 1.0 Par Value	NASDAQ Global Market

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

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

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

Ordinary Shares, par value NIS 1.0 per share22,894,348
(as of December 31, 2016)

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

Yes No

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

Yes No S

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 S 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 (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes S No

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

Large accelerated filer Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as issued by the International Accounting Standards Board Other

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

Item 17 Item 18

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

Yes No S

This Annual Report on Form 20-F is incorporated by reference into the Registrant's Registration Statements on Form S-8, File Nos. 333-127340, 333-164696, 333-174127 and 333-190469.

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INTRODUCTION

Magal Security Systems Ltd. is a leading international provider of solutions and products for physical and video security solutions, as well as site management. Over the past 45 years, we have delivered our products as well as tailor-made security solutions and turnkey projects to customers in over 80 countries under some of the most challenging conditions. We offer comprehensive integrated solutions for critical sites, which leverage our broad portfolio of homegrown PIDS (Perimeter Intrusion Detection Systems), advanced VMS (Video Management Software) with native IVA (Intelligent Video Analytics) security solutions.

Our broad portfolio of critical infrastructure protection and site protection technologies includes a variety of smart barriers and fences, fence mounted sensors, virtual gates, buried and concealed detection systems and sophisticated sensors for sub-surface intrusion such as to secure pipelines, as well as advanced video analytics software and video management systems. Our turnkey solutions are typically integrated and managed by sophisticated modular command and control software, supported by expert systems for real-time decision support. Our ordinary shares are traded on the NASDAQ Global Market under the symbol "MAGS". Our website is www.magal-s3.com. The information on our website is not incorporated by reference into this annual report. As used in this annual report, the terms "we," "us," "our," and "Magal S3" mean Magal Security Systems Ltd. and its subsidiaries, unless otherwise indicated.

FIBERPATROL, FLARE, FLEXPI, FLEXPS, FLEXZONE, GUIDAR, INTELLI-FIELD, LOGO DESIGN (old Senstar), MISCELLANEOUS DESIGN (Stellar logo), OMNITRAX, PANTHER, PERIMITRAX, PINPOINTER, REPELS, SENNET, SENSTAR, SENSTAR & DESIGN, SENTIENT, ULTRAWAVE DESIGN, XFIELD, MAGAL, DTR, FORTIS, MAESTRO DB, FENSOR, ROBOGUARD, AIMETIS and AIMETIS SYMPHONY are registered trademarks. INTELLI-FLEX, INTELLIFIBER, STARLED, STARNET, ARMOURFLEX, FLASH, CYBERSEAL, the Magal logo, Tungsten, Rubidium, Gallium-PDS, Vanadium and all other marks used to identify particular products and services associated with our businesses are unregistered trademarks. Any other trademarks and trade names appearing in this annual report are owned by their respective holders.

Our consolidated financial statements appearing in this annual report are prepared in U.S. dollars and in accordance with generally accepted accounting principles in the United States, or U.S. GAAP. All references in this annual report to "dollars" or "\$" are to U.S. dollars, all references to "NIS" are to New Israeli Shekels and all references to "CAD" are to Canadian dollars. The representative exchange rate between the NIS and the dollar as published by the Bank of Israel and effective on December 31, 2016 was NIS 3.845 per \$1.00.

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

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

We have attempted to identify additional significant uncertainties and other factors affecting forward-looking statements in the Risk Factors section which appears in Item 3.D "Key Information -Risk Factors."

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PART I

ITEM 1. IDENTITY OF DIRECTORS, SENIOR MANAGEMENT AND ADVISERS

Not applicable.

ITEM 2. OFFER STATISTICS AND EXPECTED TIMETABLE

Not applicable.

ITEM 3. KEY INFORMATION

A. Selected Consolidated Financial Data.

The following selected consolidated financial data for and as of the five years ended December 31, 2016 are derived from our audited consolidated financial statements which have been prepared in accordance with U.S. GAAP. We have derived the following selected consolidated financial data as of December 31, 2015 and 2016 and for each of the years ended December 31, 2014, 2015 and 2016 from our consolidated financial statements set forth elsewhere in this annual report that have been prepared in accordance with U.S. GAAP. We have derived the following selected consolidated financial data as of December 31, 2012, 2013 and 2014 and for each of the years ended December 31, 2012 and 2013 from our audited consolidated financial statements not included in this annual report. The selected consolidated financial data set forth below should be read in conjunction with and are qualified entirely by reference to Item 5. "Operating and Financial Review and Prospects" and our audited consolidated financial statements and notes thereto included elsewhere in this annual report.

	2012	2013	2014	2015	2016
Revenues	\$77,697	\$51,517	\$77,543	\$63,736	\$67,825
Cost of revenues	44,163	31,059	43,049	32,722	34,570
Gross profit	33,534	20,458	34,494	31,014	33,255
Operating expenses:					
Research and development, net	4,041	4,409	4,604	4,814	6,779
Selling and marketing	16,528	12,781	17,130	14,785	17,536
General and administrative	7,408	7,787	8,898	7,026	7,445
Impairment of goodwill and other intangible assets	-	-	2,439	-	-
Total operating expenses	27,977	24,977	33,071	26,625	31,760
Operating income (loss)	5,557	(4,519)	1,423	4,389	1,495
Financial expenses (income), net	472	(59)	(1,979)	(642)	591
Income (loss) before income taxes	5,085	(4,460)	3,402	5,031	904
Taxes on income (tax benefit)	991	69	82	1,923	(122)
Net income (loss)	\$4,094	\$(4,529)	\$3,320	\$3,108	\$1,026
Less: net loss attributable to non-controlling interest	-	(66)	(90)	(33)	(3)
Net income (loss) attributable to Magal's shareholders	\$4,094	\$(4,463)	\$3,410	\$3,141	\$1,029
Basic and diluted net earnings (loss) per share	\$0.26	\$(0.28)	\$0.21	\$0.19	\$0.06
Weighted average number of ordinary shares used in computing basic net earnings per share	16,003,482	16,138,944	16,186,148	16,347,948	17,999,779
Weighted average number of ordinary shares used in computing diluted net earnings per share	16,030,816	16,138,944	16,338,056	16,410,711	18,031,433

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	2012	2013	2014	2015	2016
Consolidated Balance Sheets Data:					
Cash and cash equivalents	\$36,784	\$32,235	\$21,602	\$27,319	\$19,692
Short and long-term deposits and restricted deposits	9,607	12,283	10,979	3,977	32,971
Working capital	49,202	46,922	45,805	43,996	58,752
Total assets	91,036	87,787	83,759	74,996	105,993
Short term bank credit (including current maturities of long-term loans)	5,391	6,270	3,071	-	-
Long term bank loans	6	1,912	1,406	-	-
Total shareholders' equity	58,326	57,540	55,957	55,695	81,918

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B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

D. Risk Factors.

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

Risks Related to Our Business

We may not be able to sustain profitable operations. We may not have sufficient resources to fund our operations in the future.

We may not be able to sustain profitable operations in the future. If we do not generate sufficient cash from operations, we will be required to obtain financing or reduce our level of expenditure or cash balance. Such financing may not be available in the future, or, if available, may not be on terms favorable to us. If adequate funds are not available to us, our business, and results of operations and financial condition will be materially and adversely affected.

We depend on large orders from a relatively small number of customers for a substantial portion of our revenues. The loss of one or more of our key customers could result in a loss of a significant amount of our revenues.

Historically, a relatively small number of customers account for a significant percentage of our revenues. The Israeli Ministry of Defense, or the MOD, and the Israeli Defense Forces, or the IDF accounted for 14.8%, 13.3% and 8.6% of our revenues in the years ended December 31, 2014, 2015 and 2016, respectively. In addition, revenues from a national electricity company in Latin America accounted for 6.4%, 18.1% and 11.9% of our revenues in the years ended December 31, 2014, 2015 and 2016, respectively. The MOD, the IDF or any of our other major continuing customers may not maintain their volume of business with us or, if such volume is reduced, other customers generating similar revenues may not replace the lost business. Our inability to replace business from large contracts will adversely affect our financial results. Any unanticipated delays in a large project, changes in customer requirements or priorities during the project implementation period, or a customer's decision to cancel a project, may adversely impact our operating results and financial performance. Our programs may also be affected in the future if there is a reduction in Israeli government defense spending for our programs or a change in priorities to purchase products other than ours. Accordingly, changes in government contracting policies, budgetary constraints and delays or changes in the appropriations process could have an adverse effect on our business, financial condition and results of operations.

Our operating results may fluctuate from quarter to quarter and year to year.

Our sales and operating results may vary significantly from quarter to quarter and from year to year in the future. Our operating results are characterized by a seasonal pattern, with a higher volume of revenues towards the end of the year and lower revenues in the first part of the year. In addition, our operating results are affected by a number of factors, many of which are beyond our control. Factors contributing to these fluctuations include the following:

· changes in customers' or potential customers' budgets as a result of, among other things, government funding and procurement policies;

· changes in demand for our existing products and services;

· our long and variable sales cycle;

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- our ability to maintain sales volumes at a level sufficient to cover fixed manufacturing and operating costs;
- the timing of the introduction and market acceptance of new products, product enhancements and new applications.

Our expense levels are based, in part, on expected future sales. If sales levels in a particular quarter do not meet expectations, we may be unable to adjust operating expenses quickly enough to compensate for the shortfall of sales, and our results of operations may be adversely affected. Due to these and other factors, we believe that quarter to quarter and year to year comparisons of our past operating results may not be meaningful. You should not rely on our results for any quarter or year as an indication of our future performance. Our operating results in future quarters and years may be below expectations, which would likely cause the price of our ordinary shares to fall.

Because our project related sales tend to be concentrated among a small number of customers during any period, our operating results may be subject to substantial fluctuations. Accordingly, our revenues and operating results for any particular quarter may not be indicative of our performance in future quarters, making it difficult for investors to evaluate our future prospects based solely on the results of any one quarter.

Given the nature of our customers and projects, we receive relatively large orders for projects from a relatively small number of customers. Consequently, a single order from one customer may represent a substantial portion of our sales in any one period and significant orders by any customer during one period may not be followed by further orders from the same customer in subsequent periods. Our sales and operating results are subject to very substantial periodic variations. Since quarterly performance is likely to vary significantly, our results of operations for any quarter or calendar year are not necessarily indicative of the results that we might achieve for any subsequent period. Accordingly, quarter-to-quarter and year-to-year comparisons of our operating results may not be meaningful. In addition, we have a limited order backlog that is generally composed of orders that are mostly fulfilled within a period of three to twelve months after receipt, which makes revenues in any quarter substantially dependent upon orders received in prior quarters.

We may be unable to successfully integrate our recent acquisitions to fully realize targeted synergies, revenues and other expected benefits of the acquisitions.

In January 2013, we purchased CyberSeal Ltd. (previously known as WebSilicon Ltd.), an Israeli cyber security company whose products and services complement our physical security products and services. In April 2014, we acquired a U.S. based fiber-optic technology company which provides advanced solutions for sensing, security, and communication. In April 2016, Senstar, our fully owned Canadian subsidiary, acquired Aimetis, a Canadian-based company, which specializes in advanced video analytics software and intelligent IP video management software (VMS).

Achieving the targeted synergies, such as operating and long-term strategic cost-savings, of the acquisitions will depend in part upon whether we can continue to integrate their businesses and technologies in an efficient and effective manner. We may not be able to accomplish this integration process smoothly or successfully. The integration of our respective operations will require the dedication of significant management resources, which may distract management's attention from day-to-day operations. Employee uncertainty and lack of focus during the integration process may also disrupt our business and result in undesired employee attrition. An inability of management to successfully integrate the operations into our business could have a material adverse effect on our business, results of operations and financial condition.

An inability to realize the full extent of, or any of, the anticipated benefits and synergies of the acquisitions, as well as any delays encountered in the integration process, could have an adverse effect on our business, results of operations and financial condition. We may also be required in the future to record impairment charges relating to the carrying value of our intangible assets and goodwill arising from such acquisitions. Moreover, future acquisitions by us could result in potentially dilutive issuances of our equity securities, the incurrence of debt and contingent liabilities and

amortization expenses related to identifiable intangible assets, any of which could materially adversely affect our operating results and financial position. Acquisitions also involve other risks, including risks inherent in entering markets in which we have no or limited prior experience.

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Our revenues depend on government procurement procedures and practices. A substantial decrease in our customers' budgets would adversely affect our results of operations.

Our products are primarily sold to governmental agencies, governmental authorities and government-owned companies, many of which have complex and time consuming procurement procedures. A substantial period of time often elapses from the time we begin marketing a product until we actually sell that product to a particular customer. In addition, our sales to governmental agencies, authorities and companies are directly affected by these customers' budgetary constraints and the priority given in their budgets to the procurement of our products. A decrease in governmental funding for our customers' budgets would adversely affect our results of operations. This risk is heightened during periods of global economic slowdown.

Accordingly, governmental purchases of our systems, products and services may decline in the future as the governmental purchasing agencies may terminate, reduce or modify contracts or subcontracts if:

- their requirements or budgetary constraints change;
- they cancel multi-year contracts and related orders if funds become unavailable;
 - they shift spending priorities into other areas or for other products; or
- they adjust contract costs and fees on the basis of audits.

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

Because competition in our industry is intense, our business, operating results and financial condition may be adversely affected.