

CAMTEK LTD
Form 20-F
April 07, 2011

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, DC 20549

FORM 20-F

(Mark One)

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, 2010

or

Transition report pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934

or

Shell Company report pursuant to Section 13 or 15 (d) of the Securities Exchange Act of 1934 \

Date of event requiring this shall Company report _____

For the transition period from _____ to _____

Commission file number 000-30664

Camtek Ltd.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

Ramat Gavriel Industrial Zone, P.O. BOX 544, Migdal Ha'Emek, Israel

(Address of principal executive offices)

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Ramat Gavriel Industrial Zone, P.O. BOX 544, Migdal Ha'Emek, Israel

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

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

Ordinary Shares, nominal value NIS 0.01 per share

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(Title of each Class)

Nasdaq Global Market

(Name of each Exchange on which registered)

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

None

(Title of Class)

Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None

(Title of Class)

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:

29,277,983 Ordinary Shares, par value NIS 0.01 per share.

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant 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 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:

US 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

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Cautionary Language Regarding Forward-Looking Statements

Statements in this Annual Report about our future results, levels of activity, performance, goals or achievements or other future events constitute forward-looking statements. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in our forward-looking statements. These factors include, among others, those listed under “Risk Factors” or described elsewhere in this Annual Report.

In some cases, you can identify forward-looking statements by our use of words such as “may,” “will,” “should,” “could,” “expects,” “plans,” “intends,” “anticipates,” “believes,” “estimates,” “predicts,” “seeks,” “strategy,” “potential” or “continue” or other variations of these words, or other comparable words or phrases.

Although we believe that the expectations reflected in our forward-looking statements are reasonable, we cannot guarantee future results, levels of activity, performance or achievements or other future events. We are under no duty to update any of our forward-looking statements after the date of this Annual Report, other than as required by law. You should not place undue reliance on forward-looking statements.

As used in this Annual Report, the terms “we”, “us”, “our”, the “Company” and “Camtek” mean Camtek Ltd. and subsidiaries, unless otherwise indicated.

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.

We derived the selected data under the captions "Selected Statement of Operations Data" for the years ended December 31, 2010, 2009 and 2008, and "Selected Balance Sheet Data" as of December 31, 2010 and 2009 from the audited consolidated financial statements included elsewhere in this Annual Report. We derived the selected data under the captions "Selected Statement of Operations Data" for the years ended December 31, 2007 and 2006 and "Selected Balance Sheet Data" as of December 31, 2008, 2007 and 2006 from audited financial statements that are not included in this Annual Report.

For all fiscal periods for which consolidated financial data are set forth below, our consolidated financial statements are prepared in accordance with accounting principles generally accepted in the United States of America.

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	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands, except per share data)				
Selected Statement of Operations Data:					
Revenues:					
Sales of products	\$70,235	\$39,196	\$62,135	\$59,654	\$92,470
Service fees	17,545	14,325	13,328	11,315	7,585
Total revenues	87,780	53,521	75,463	70,969	100,055
Cost of revenues:					
Cost of products sold	38,464	25,069	37,073	32,769	42,600
Cost of services	10,897	10,970	10,542	9,171	5,842
Total cost of revenues	49,361	36,039	47,615	41,940	48,442
Gross profit	38,419	17,482	27,848	29,029	51,613
Research and development costs	12,906	10,319	12,801	12,111	11,831
Selling, general and administrative expenses	20,662	17,667	24,834	24,119	27,850
Total operating expenses	33,568	27,986	37,635	36,230	39,681
Operating income (loss)	4,851	(10,504)	(9,787)	(7,201)	11,932
Financial income (expenses), net	(1,478)	(952)	1,000	(128)	(288)
Income (loss) before income taxes	3,373	(11,456)	(8,787)	(7,329)	11,644
Income taxes	(557)	(386)	(770)	(362)	(41)
Net income (loss)	\$2,816	\$(11,842)	\$(9,557)	\$(7,691)	\$11,603
Earnings (loss) per ordinary share:					
Basic	\$0.10	\$(0.40)	\$(0.32)	\$(0.25)	\$0.40
Diluted	\$0.09	\$(0.40)	\$(0.32)	\$(0.25)	\$0.39
Weighted average number of ordinary shares outstanding:					
Basic	29,259	29,218	29,916	30,145	29,176
Diluted	30,360	29,218	29,916	30,145	29,553

	Year Ended December 31,				
	2010	2009	2008	2007	2006
	(in thousands)				
Selected Balance Sheet Data:					
Cash and cash equivalents	\$9,577	\$15,802	\$15,949	\$18,601	\$23,358
Restricted deposit	5,182	-	-	-	-
Total assets	96,271	79,415	84,735	98,465	110,806
Bank credit	2,600	-	-	-	-
Convertible loan	-	1,666	3,333	5,000	5,000
Total liabilities	42,279	28,394	22,020	25,559	30,668
Additional paid in capital	60,452	60,279	60,281	60,010	59,552
Shareholders' equity	53,992	51,021	62,715	72,906	80,138
Ordinary issued and outstanding shares	29,277,983	29,235,743	29,135,108	30,133,715	30,040,855

B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

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D. Risk Factors

There is a high degree of risk associated with our company and business. If any of the following risks occur, our business, revenues, operating results and financial condition could be materially adversely affected and the trading price of our ordinary shares could decline.

Risk Factors Related to Our Business and Our Markets

The markets we target are highly cyclical and we do not have information that enables us to predict with accuracy the cycles in these markets. Also, these markets are negatively affected by periods of economic downturns.

The semiconductor industry is characterized by cyclicality. As a result of our market penetration to the semiconductor industry, we experienced growth from this market from 2004 until the second quarter of 2006. From third quarter 2006 to first half of 2008 we experienced both upturns and downturns. During the second half of 2008 and the first half of 2009 the semiconductor industry experienced a significant downturn, as a result of severe global economic recession and industry overcapacity. During the second half of 2009 and 2010 we experienced growth due to the increased capacity and demand in this industry.

The printed circuit board (“PCB”) and the integrated circuit substrate (“IC substrate”) industries are also cyclical and experienced a prolonged and severe downturn in 2002 and 2003, an expansion and growth during 2004, and significant fluctuations on a quarterly and annual basis thereafter. During the second half of 2008 and during 2009 our sales of automated optical inspection (“AOI”) systems to manufacturers of printed circuit boards and the IC substrate industry were severely affected by the global economic recession. During 2010 we experienced growth due to the increased capacity and demand.

The cyclical variations in our industries are very difficult to predict. In the event of a reduction in demand during cyclical downturns, as those we have experienced in the past and are likely to experience in the future, we may have only a limited ability to reduce expenses without harming our ability to rapidly grow when our markets recover and demand increases again. For example, in order to maintain such ability, we are required to incur significant ongoing expenditures related to engineering, research and development and worldwide customer service and support operations. Accordingly, we may incur losses during downturns or capacity adjustments, affecting the markets we serve.

We have a history of losses, and we cannot assure you that we will not incur additional losses in the future. Moreover, if our business deteriorates, we could face liquidity problems.

In 2010 we recorded net income of \$2.8 million. Despite having had net income in 2010, we incurred net losses of \$11.8 million, \$9.6 million and \$7.7 million in 2009, 2008 and 2007, respectively. We may not be able to achieve or increase profitability on a quarterly or annual basis. The failure to generate consistent profitability could have a material adverse effect on the market price of our shares.

In 2010 we used \$0.04 million in cash in our operations, while in 2009 our operations provided \$3.9 million in cash. On December 31, 2010, we had cash and cash equivalents of \$9.6 million, in addition to which we have \$5.2 million in restricted cash. We may use cash in our operations during 2011 for working capital and may continue to incur significant additional legal expenses and other costs associated with certain patent infringement actions. In 2009, the District Court of Minnesota rendered a judgment in favor of a competitor in a patent infringement case against the Company awarding damages of approximately \$6.8 million and pre-judgment interest of approximately \$1.2 million. On August 10, 2010 the Company filed its appeal of this judgment. The Company posted an \$8.5 million bond to stay execution of any money judgment pending resolution of the appeal. Payment or exercise of the bond, if

required, may adversely affect our liquidity and require us to further reduce our expenses and/or to arrange for additional financing. In 2011, the Company was ordered to pay an additional \$645,946 in supplemental damages, and the plaintiffs filed motions seeking \$1.5 million for alleged contempt and related attorney fees. Camtek believes it has strong defenses to these charges and intends to vigorously oppose these motions. See below “Our products may infringe on the intellectual property rights of others, which could result in claims against us”.

If available liquidity is not sufficient to meet our operating and other obligations as they come due, our plans include pursuing additional financing arrangements from banks or others, the availability and terms of which are not assured, or further reducing expenditures as necessary to meet our cash requirements.

We may experience fluctuations in our future operating results, making it difficult to predict future results.

Our revenues and net income (loss), in any particular period may be lower (or greater) than revenues and net income (loss), in a preceding or comparable period. This complicates our planning processes and reduces the predictability of our earnings. Period-to-period comparisons of our results of operations may be meaningless, and you should not rely on them as indications of our future performance.

Our quarterly results of operations may be subject to significant fluctuations due to the following factors:

- the size, timing and shipment of substantial orders;
- product mixtures;
- customer budget cycles and installation schedules;
- product introductions and the penetration period of new products;
 - timing of evaluation and qualification of our products by new customers;
- temporary shifts in industry capacity;
- pricing of our products;
- timing of new product upgrades or enhancements;
- timing of installation or, in some cases, of acceptance of our products by our customers;
 - interest and exchange rates; and
- possible impairment of goodwill and other assets.

Our future success depends on our ability to increase revenues from sales of AOI systems to both the final manufacturing (“back end”) and wafer processing (“front end”) markets and from the automated sample preparation systems to the front end market of the semiconductor industry. If our share in these markets fails to grow or we will fail to acquire customers for our new systems and applications, our results of operations will be adversely affected.

We are planning to increase our revenues from sales of AOI systems to both the back end and front end markets. Our future success in the semiconductor industry depends on our ability to continue to sustain and increase the acceptance rate of our AOI systems and new applications we included in our AOI systems offered to the back end market. From 2009 and during 2010 we started to record initial revenues from both the Gannet, our AOI system to the front end market, and the Xact, our automated sample preparation system, acquired through the acquisition of SELA - Semiconductor Engineering Laboratories Ltd (“Sela”). Our success also depends on the acceptance rate of both new systems. If the markets for our systems in the semiconductor industry do not develop at the rate we expect, whether as a result of our inability to obtain repeat orders from our customers or to acquire customers who would adopt our new systems, as well as our new applications to other AOI systems, an economic downturn, intensified competition,

presentation to the market of alternative technologies, costly penetration of our new systems, changes in technology, changes in product standards, or otherwise - our results will be adversely affected.

In 2008 our revenues from the semiconductor industry increased by 48% above 2007 to \$30 million, as a result of several multiple orders of technology-driven purchases and penetration to new customers with new applications. In 2009 our revenues from the semiconductor industry amounted to \$20 million, a decrease which resulted from the global economic recession experienced at that time. In 2010 our revenues from the semiconductor industry, amounted to approximately \$46.7 million as a result of the increase in capacity in this industry and our initial sales of the Gannet and Xact.

Since an injunction was issued in the lawsuit brought against us by Rudolph Technologies Inc. (see “Our products may infringe on the intellectual property rights of others, which could result in claims against us” below), we are prohibited from selling our Falcon systems in the United States. In the United States we sell our advanced AOI systems to the back end market of the semiconductor industry, the Condor. Therefore, although we faced some decline in our revenues in the United States as a result of the injunction, we continue to sell there and to generate revenues from the Condor.

Longer sales process for new products may increase our costs and delay time to market of our products, both of which may negatively impact our revenues, results of operations, cash flow and inventory. Excess inventory can lead to material inventory write-offs.

Our sales process to new and existing customers involves: demonstrations and testing against industry benchmarks in our sales centers; sales and technical presentations and presentations regarding our products’ competitive advantages; and installation of the systems at the customer’s site for side-by-side competitive evaluations for a period of approximately six months. More evaluation time is devoted during the initial penetration period for new products, currently the Gannet and the sample preparation system, the Xact (see Item 4.B – Business Overview – Product Lines), and for new customers in new markets, since these circumstances usually require qualification of the systems by the customers, and engineering efforts to fix errors, customize tasks and add new features. Considering the above factors, the length of time until we recognize revenue can vary and influence our revenues, cash flow and results of operations.

The long sales process may cause an increase in inventory levels and a risk for inventory to decline in value. In the second half of 2009 we increased our products offering to our customers in the semiconductor industry by introducing the Gannet and sample preparation systems, which increases this risk.

Moreover, our customers often require that we deliver our products with short lead times. In order to meet our customers’ needs in the timeframe they require, we usually need to pre-order components and subsystems based on our forecasts of future orders, rather than on actual orders. In order to compensate for unexpected delays, we have had to predict our needs further into the future. Our predictions may not correspond to our actual future needs.

We operate an international sales and manufacturing organization. A substantial majority of our sales has been to manufacturers in the Asia Pacific region. The concentration of our sales and other resources within a particular geographical region subjects us to additional risks that could impede our plans for expansion and growth.

The majority of our sales were in the Asia Pacific region. In 2010, our sales in the Asia Pacific region accounted for approximately 83% of our total revenues, of which approximately 38% of our total revenues are from sales in China and Hong Kong, 19% from sales in Korea and 9% from sales in Taiwan. In addition, parts of the assembly of our AOI systems for the printed circuit board industry are made in our manufacturing facility in Suzhou, China. A number of Asian countries have experienced or could experience political and economic instability. For example, Taiwan and China have had a number of disputes, North and South Korea, and Japan has for a number of years experienced significant economic instability. Changes in local legislation, changes in governmental controls and regulations, changes in tariffs and taxes, trade restrictions, a downturn in economic or financial conditions, political instability, an outbreak of hostilities or other political upheaval as well as any extraordinary events having an adverse effect on the

economy or business environment in this region would likely harm the operations of our customers in these countries and may cause a significant decline in our future revenues and may have an adverse effect on our results of operations and cash flow. These general risks are heightened in China, where the nature of the economy and the legal parameters are rapidly evolving and where foreign companies may face cultural obstacles.

The markets we serve are highly competitive. There are dominant market participants in each of the markets we operate in and some of our competitors have greater resources, all of which may make it difficult for us to maintain profitability or plan our cash flow.

Competition in the markets we serve is intense. During market downturns competition has intensified due to the reduced demand for the type of products that we manufacture. When competitors respond to declining demand by offering discounts, free evaluation machines or more favorable credit terms, we may need to implement some or all of the same methods in order to maintain our market position. These could mean lower prices for our products and a corresponding reduction in our gross margin, as well as favorable payment terms to our customers and a corresponding decline in cash flow. If we have to lower prices to remain competitive and are unable to reduce our costs to offset price reductions or are unable to introduce new, higher performance products with higher prices, our operating results may be adversely affected. If we have to implement more favorable payment terms to our customers, our cash flow may be adversely affected.

In the back end and front end markets of the semiconductor industry, our principal competitor and the dominant market participant for AOI systems is Rudolph Technologies Inc., with additional competitors including KLA-Tencor Corporation, Topcon Corporation, Toray Industries, Inc., Nidec Tosok Corporation and Hitachi Ltd. Sample preparation competitors are FEI Company, SII Nanotechnology Japan., Hitachi Ltd. and Carl Zeiss, Inc.

In addition, there have been several mergers and acquisitions that changed the competitive map in our market. For example, Rudolph Technologies Inc.'s acquisition of August Technologies Corporation in 2005 and the acquisition of the bumped wafer inspection line of RVSI Inspection, LLC, in January 2008, continuing with Solvision Inc.'s acquisition by Zygo Corporation in February 2008 and the purchase of 96% of ICOS Vision Systems Corp. NV's shares by KLA-Tencor in May 2008. These acquisitions can reinforce the previously smaller competitors with resources, financial backing and the better market position of the acquiring companies, while bringing new forces to the marketplace. As a result, Camtek may need to overcome unfavorable market share perception and invest more R&D efforts in maintaining its technological position.

In the printed circuit board and IC substrate industry, our principal competitor and the dominant market participant is Orbotech Ltd., with additional competitors including Dainippon Screen Manufacturing Company, Lloyd-Doyle Limited, Gigavis Co. Ltd., Shirai Electronics Industrial Co. Ltd., ATI Electronics Pty Ltd., local AOI vendors in China and Taiwan and Utechzone Co. Ltd., with whom we have entered into cooperation for the sale of Utechzone's automated final inspection ("AFI") products by us. In addition, there is a market for used AOI systems for printed circuit board manufacturers, which may reduce the demand for our products and force us to lower our prices in certain cases.

Some of our competitors have greater financial, personnel and other resources and offer a broader range of products and services. These competitors may be able to respond more quickly to new or emerging technologies or changes in customer requirements, develop additional or superior products, benefit from greater purchasing economies, offer more aggressive pricing or devote greater resources to the promotion of their products.

Technology in the markets in which we operate is rapidly evolving, and we may not be able to keep pace with these changes or with emerging industry standards. This could result in a loss of revenues.

The markets for our products are characterized by changing technology, evolving industry standards, changes in end-user requirements and new product introductions. Potential new technologies and improvements to existing production equipment and methods could improve production yields, thereby reducing the need to use our AOI systems or our sample preparation systems in these industries. In addition, new technologies could emerge as alternatives to using our products.

Our future success will depend on our ability to enhance our existing products and to develop and introduce new technologies for the printed circuit boards, IC substrates and silicon wafers markets. These products must keep pace with technological developments and address the increasingly sophisticated needs of our customers. If we fail to keep pace with technological changes, with products offered by our competitors or with emerging industry standards, our ability to attract new business and generate revenues may be damaged.

We seek to expand our activity into unsaturated markets adjacent to our existing served markets, such as the inspection of silicon wafers at various steps during their manufacturing process inside the wafer fabrication facility. Technological developments in production processes and in process control may reduce the growth we anticipate in demand for inspection systems. If this happens, we may not be able to cover our investments in penetrating these markets, or will have to increase our R&D and marketing expense to adapt our products to such changes.

Our products may infringe on the intellectual property rights of others, which could result in claims against us.

Third parties have asserted claims, and may assert additional claims in the future, that we have violated their patents or that we have infringed upon their intellectual property rights. Any intellectual property claims against us, even if without merit, could lead to protracted litigation, could cost us a significant amount of money to defend and could divert management's attention from our business. Successful claims against us could limit our ability to sell products in certain jurisdictions.

On July 14, 2005, a lawsuit was filed against us in the United States District Court for the District of Minnesota ("Court") by one of the Company's competitors in the field of semiconductor wafer inspection equipment, August Technology Corporation (today Rudolph Technologies Inc., hereinafter "Rudolph," having acquired August Technology Corporation), alleging infringement of U.S. Patent No. 6,826,298 ("298 patent") and seeking injunctive relief and damages. On March 5, 2009 a jury verdict was rendered in favor of Rudolph, awarding damages of approximately \$6.8 million with regard to sales of Camtek's Falcon products in the United States. The jury also found that the infringement was not willful. On August 28, 2009, the Court entered judgment ordering the Company to pay the jury award, as well as an additional \$1.2 million in prejudgment interest. The Court also issued an injunction ("Injunction") ordering the Company to discontinue all sales and marketing of Falcon in the United States. Pursuant to the terms of the Injunction, service and repair of Falcons sold prior to the jury verdict is permitted to keep the systems in original operating condition. The Injunction relates only to the Company's Falcon operations in the United States, and should not have an effect on any of the Company's other operations. The Company filed an appeal with the Court of Appeals for the Federal Circuit on August 10, 2010, after the Court's denial of the Company's post-judgment motions. On November 17, 2010, the Magistrate Judge found that Rudolph was entitled to \$645,946 in supplemental damages reflecting Falcon sales occurring after the time period considered by the jury, and on January 7, 2011, the Court upheld the supplemental damages award. The Company has posted a bond in the Court, staying collection of any award pending resolution of the appeal. On March 9, 2011, Rudolph filed a motion seeking \$322,973 in enhanced damages for an allegedly willful post-verdict Falcon sale, as well a motion seeking \$1.2 million and unspecified attorneys fees for alleged contempt of the Injunction. The Company believes it has strong defenses to these charges and intends to vigorously oppose these motions. An appeal hearing is scheduled for April 7, 2011, but we expect final

decision on our appeal to be received no earlier than the second half of 2011. We believe that we have good grounds to be ultimately successful with the appeal, but see also "We have a history of losses, and we cannot assure you that we will not incur additional losses in the future. Moreover, if our business deteriorates, we could face liquidity problems" above.

On May 10, 2004, a lawsuit was filed against the Company in the District Court in Nazareth, Israel, by our competitor, Orbotech Ltd., alleging that the Dragon and Falcon systems infringe upon a patent held by Orbotech Ltd. and requesting injunctive relief and damages. The patent upon which the claim is asserted expired in February 2008. The court advised the parties to turn to mediation. The parties participated in one mediation meeting, after which they have decided to end the mediation and to hold direct negotiations. Despite the unsuccessful direct negotiations, the court ordered another mediation meeting which is scheduled for July 2011. Currently, court sessions have been postponed for as long as the mediation process continues. We believe that we have substantial defenses against the validity of Orbotech's patent and substantial defenses against Orbotech's claims.

On February 23, 2005, a lawsuit was filed against us in the District Court in Jerusalem by Orbotech Ltd., alleging infringement of patent held by Orbotech Ltd. regarding a specific illumination block (an apparatus for illuminating and controlling the illumination of scanned objects), seeking injunctive relief and damages. The court ruled, based on a court's scientific advisor's opinion and prima facie evidence, that Camtek infringed the patent, and granted Orbotech a provisional remedy, i.e. interim relief, which prevents Camtek from manufacturing the allegedly infringing illumination block in suit. The claim currently awaits the court's decisions in several preliminary motions filed by both parties. The patent upon which the claim is asserted expired in February 2007. At the court's recommendation, the parties held one mediation meeting, after which they have decided to conduct direct negotiations between them, without the mediator. These negotiations were unsuccessful. We believe that we have good defenses in the infringement aspect of the claim. We further believe that we have claims with respect to the validity of the asserted patent, as well as other defenses such as estoppel and lack of good faith on the part of Orbotech.

On June 1, 2010, Rudolph filed a complaint against us in the United States District Court for the District of Minnesota in which Rudolph alleged infringement of their U.S. Patent 7,779,528 relating to semiconductor wafer inspection technology similar to that described in the '298 patent. The complaint has not yet been served. However, we believe that we have good defenses and intend to aggressively defend ourselves from the allegations in this claim and our right to sell our tools in the United States.

We cannot assure you that we will be successful in our defense against these claims. If these claims will be ultimately successful, they could have a negative impact on our business by impairing our ability to sell our systems, and they could result in pecuniary damages against us and significant legal and other defense costs, which would impact our cash resources and profitability. In the event we do not prevail against these claims, we may also be liable for any court costs and attorney's fees incurred by the claimants in connection with these litigations. Even if we will be successful in our defense against these claims, we will still incur significant legal expenses while resolving these matters.

We depend on a limited number of suppliers, and in some cases a sole supplier and/or subcontractor. If one or more of our third-party suppliers or subcontractors does not provide us with key components or subsystems, we may not be able to deliver our products to our customers in a timely manner, and we may incur substantial costs to obtain these components from alternate sources.

We rely on single source and limited source suppliers and subcontractors for a number of essential components and subsystems of our products. We do not have agreements with all of these suppliers and subcontractors for the continued supply of the components or subsystems they provide. If some of our key suppliers encounter difficulties and financial problems or rapid increases in demands, they might be unable to supply us with the necessary components or subsystems and meet our requirements in a timely manner. An interruption in supply from these sources or an unexpected termination of the manufacture of key components or subsystems would disrupt production and adversely affect our ability to deliver products to our customers, hence could have an adverse effect on our business, revenues and results of operation. Although we have taken and currently take precautions against this kind of events, an unexpected termination or disruption of supply would require an investment in capital and manpower resources in order to shift to other suppliers and might cause a significant delay in introducing replacement products or a significant increase in inventory which could have an adverse effect on our revenues, cash flow and results of operation.

Certain of the components for our machines are supplied, directly or indirectly, from Japan. At this stage we are unable to evaluate what effect, if any, the recent earthquake in Japan may have on our supply chain and therefore on our revenues.

Since the beginning of 2010 our AOI systems to the back end semiconductor industry, the Falcon and Condor, are manufactured by a single subcontractor who performs part of the material planning, material procurement including key components from our approved suppliers, manufacturing, testing, assembly and packaging work with respect to these systems. If this subcontractor should encounter financial difficulties or the inability to meet our requirements in a timely manner, we could suffer from an unexpected termination or disruption of supply from this subcontractor, which would cause late deliveries of our products to our customers, require an investment in resources in order to shift to another supplier and might adversely affect our business, revenues and results of operation.

The cleaving process in Sela division's MC600 systems use diamond knives. Such knives are manufactured by a single source in Europe, with whom Sela has an exclusive agreement. The knives are consumable items with a limited life cycle. The manufacturing process for these knives demands expertise and experience. Breakdown of the manufacturing process has happen in the past, and was treated by the manufacturer in a prompt and effective manner. Sela has over ten years of experience with this supplier and has never encountered a situation that compromised its ability to supply consumables to its customers. Nevertheless, at present, we are experiencing such breakdown that has depleted our stock surplus. As in the past the manufacturer is in the process of locating the root cause of this breakdown and applying corrective measures, but we cannot be sure what would be the time required to solve this current issue or its affect on our sales and service to our current installed base.

We may encounter difficulties in purchasing key components and subsystems, or overestimate our needs, to meet customer demand.

In the current highly-competitive business environment, our customers require us to fill orders within a very short period of time. Our products are complex and require essential components and subsystems that are produced by a number of suppliers and subcontractors. These suppliers and subcontractors cannot always supply such components and subsystems within the time frame demanded by our customers. Therefore, we are required to predict future demands. We believe that we have sufficient inventory to fill our customers' orders on time. However, if market conditions rapidly change and customer demand increases, we will be required to order additional components and subsystems. If our suppliers and subcontractors are unable to timely meet our increased demand, we might not be able to adequately meet our customers' demands. Our inability to satisfy any increase in customer orders could result in the loss of sales and could cause customers to seek products from our competitors.

We may also overestimate or incorrectly estimate the product mix of our future needs, which could result in an excess inventory of certain components and subsystems.

If we are unable to protect our proprietary technologies, we may not be able to compete effectively.

We differentiate our products and technologies from those of our competitors by using our proprietary software, our image processing algorithms, ink formulations, ion gun design and advanced image acquisition systems and the integration of our advanced hardware components. We rely on a combination of copyrights, trade secrets, patents, trademarks, confidentiality and non-disclosure agreements to protect our proprietary know-how and intellectual property, including with respect to hardware and software components of our products, our digital ink formula and our adaptive ion milling ("AIM") technology. These measures may not be adequate to protect our proprietary technologies and it may be possible for a third party, including a competitor, to copy or otherwise obtain and use our products or technologies without authorization or to develop similar technologies independently. Additionally, our products may be sold in countries, particularly in the Asia Pacific region, that provide less protection to intellectual property than that provided under U.S. or Israeli laws. In addition we have a manufacturing facility in China, in which we assemble most of our AOI systems for the printed circuit board industry, where the intellectual property laws may not be strictly enforced. Therefore, potential risk may be associated with the protection of our intellectual property which in turn may affect our competitive advantage.

Fluctuations in currency exchange rates may result in the prices of our products becoming less competitive or in additional expenses being recorded.

Currency exchange rate fluctuations may affect the prices of our products. Our products' prices in most countries are denominated in dollars except for Europe, Japan and as of 2011 also part of our revenues from products in China. In those countries, if there is a significant devaluation in the local currency compared to the dollar, the prices of our products will increase relative to that local currency and may be less competitive. In addition, much of our service income is denominated in local currencies. If a larger number of our sales were to be denominated in currencies other than dollars, our reported revenue and earnings would be subject to a greater degree of foreign exchange fluctuations.

We generate most of our revenues from products in U.S. dollars but incur a significant portion of our salary and operating expenses in NIS. As most of our revenues are denominated in dollars and as our financial results are reported in dollars, we believe that inflation and fluctuations in the NIS/dollar exchange rate have no material effect on our revenues. However, a major portion of the costs of our Israeli operations, such as personnel, subcontractors, materials and facility-related costs, are incurred in NIS. An increase in the NIS value relative to the dollar will increase our costs expressed in dollars, and a decrease in the NIS value relative to the dollar will decrease our costs expressed in dollars. In addition, starting 2011, part of our revenues from products in China will be denominated in

local currency. Most of the expenses and purchases in China are also denominated in local currency. As our financial results are reported in dollars, fluctuations in the CNY/dollar exchange rate may affect our revenues and level of expenses. We may, from time to time, take various measures designed to reduce our exposure to these effects, but any such steps may be inadequate to protect us from currency rate fluctuations. Failure to protect adequately against currency rate fluctuations could have a material adverse effect on our financial condition and results of operations.

We may face risks of interruptions in our production capabilities.

Our major manufacturing facility is located in Migdal Ha'Emek, in the Northern part of Israel. Any event affecting this site, including natural disaster, labor stoppages or armed conflict, may disrupt or indefinitely discontinue our manufacturing capabilities and could significantly impair our ability to fulfill orders and generate revenues, thus negatively impacting our business (see also in "We depend on a limited number of suppliers, and in some cases a sole supplier and/or subcontractor" above).

We also have a manufacturing facility in China, in which we assemble most of our AOI systems for the printed circuit board industry. Therefore, we may be influenced by changing events in China; for example, our manufacturing activity in China may suffer as a result of changes in China's geopolitical status or fluctuations in its economic stability. In addition, we may be exposed to sourcing risks, such as supply-chain and business interruption issues. Any event affecting this site may disrupt our manufacturing capabilities and could significantly impair our ability to fulfill orders and generate revenues, thus negatively impacting our business.

We have expanded and may attempt to expand further our activity in the markets we operate in through M&A activity. Such activity may result in operating difficulties, losses and other adverse consequences.

In 2009, we invested in the development of new growth engines by acquiring the assets and certain liabilities of Printar Ltd. ("Printar") and the entire share capital of SELA – Semiconductor Engineering Laboratories Ltd. ("SELA"), both Israeli companies; see below in Item 4.B "Business Overview – Our Business. We plan to grow our business, in part through acquisitions. Our existing operations, as well as any future acquired businesses or assets, could involve numerous risks, including: post-merger integration difficulties; diversion of management's attention from our core business and the operations acquired in 2009 ; failure to estimate the acquired business future performance and failure to execute on such expectations; failure to launch new products to our existing or new markets; inaccurate evaluation of expected competition and/or of the fair value of certain assets acquired, liabilities assumed and contingent liabilities; and the loss of key employees of the acquired operations.

In addition, we cannot be certain that any future acquisition will be successful. If the operation of the business of any acquisition disrupts our operations, our business may suffer. Even if we successfully integrate the acquired businesses with our own, we may not receive the intended benefits of these acquisitions as a result of, for example, performances below expectations, changes in the economic or market conditions and the entering of stronger competitors or new technologies.

In addition, principally as a result of acquisition activity, our future results of operations would be influenced by the possibility of impairment charges being incurred as a result of decline in value of goodwill and other intangible assets, an ongoing amortization of intangible assets acquired and financing expenses due to re-evaluation of contingent liabilities and other liabilities assumed presented at fair value (see also in Item 5 below - "Critical Accounting Policies").

Future acquisitions could also result in potentially dilutive issuances of equity securities, decrease in our cash resources, incurrence of debt, contingent liabilities or impairment charges related to goodwill and other intangible assets, any of which could harm our business. Furthermore, we compete for acquisition and investment opportunities with other well-established and well-capitalized entities. There can be no assurance that we will be able to locate acquisition or investment opportunities upon favorable terms.

The unavailability of credit insurance may adversely affect our willingness to sell to certain customers.

Since the second quarter of 2006, we have purchased credit insurance from an Israeli insurance company to cover certain sales. During crisis periods, credit insurance which previously covered some of our customers may be unavailable. In addition the insurance company can refuse to insure certain customers mainly small and private companies, in general, specifically in China. This could adversely affect our willingness to sell products to these customers.

We depend on a limited number of key personnel who would be difficult to replace.

Our continued growth and success significantly depend on the managerial and technical skills of the members of our senior management and key employees. If our operations rapidly expand, we believe that we will need to promote and hire qualified engineering, administrative, operational, financial and marketing personnel. In particular, we may find it difficult to hire key personnel with the requisite knowledge of our business, products and technologies. The process of locating, training and successfully integrating qualified personnel into our operations can be lengthy and expensive. During periods of economic growth, competition for qualified engineering and technical personnel is intense.

As a result of the acquisition of Sela and Printar's assets we employ certain key employees of these two operations. There is no assurance that these key employees will continue to be employed by us, and a discontinuation of their employment could result in negative effect on our business.

Our relationship with Priortech may give rise to conflicts of interest.

We purchase products of, or sell products to, Priortech Ltd., our principal shareholder, and other companies owned or controlled by it, directly or indirectly, and act jointly with respect to governmental and administrative matters and the purchase from third parties of various products and services, which may create conflicts of interest. Despite Israeli law procedural requirements, including obtaining special shareholder approvals for interested party transactions, we cannot be certain that those procedures will eliminate the possible detrimental effects of any of these transactions and activities. In addition, Mr. Rafi Amit acts as the Active Chairman of the Board of Directors of the Company, on a 75% basis, as well as acting as Priortech's Chairman of the Board of Directors and providing consulting and management services to Priortech on a 25% basis. Mr. Yotam Stern, our Executive Vice President, Business & Strategy, spends 40% of his time serving as the Chief Executive Officer of Priortech and other positions in the Priortech group (for more details regarding recent changes in senior management see Item 6 B below - "Compensation – Employment Agreements").

We may decide to obtain additional capital which would cause dilution to our shareholders' holdings.

If we decide to raise additional funds through the issuance of equity or convertible debt securities and are successful at raising such capital, the percentage ownership of our shareholders could be diluted.

If we are classified as a passive foreign investment company, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year, after applying certain look-through rules, 75% or more of our gross income is passive income, or at least 50% of our assets (averaged quarterly) are held for the production of, or produce, passive income, we may be characterized as a passive foreign investment company, or PFIC, for U.S. federal income tax purposes. This characterization could result in adverse tax consequences to our U.S. shareholders, including gain realized on the sale of our ordinary shares being taxed at as ordinary income rates rather than capital gain rates, and could result in punitive interest charges being applied to such sales proceeds. Rules similar to those applicable to

dispositions generally will apply to certain “excess distributions” with respect to our ordinary shares. U.S. shareholders should consult with their own U.S. tax advisors with respect to the U.S. tax consequences of investing in our ordinary shares.

Based on an analysis of our assets and income, we believe that in 2010 we were not a PFIC. We currently expect that we will not be a PFIC in 2011. However, PFIC status is determined as of the end of the taxable year and is dependent on a number of factors, including the relative value of our passive assets and our non-passive assets, our market capitalization and the amount and type of our gross income. Therefore, there can be no assurance that we will not become a PFIC for the year ending December 31, 2011 or in any future taxable year. For a discussion of how we might be characterized as a PFIC and the related tax consequences, please see "U.S. Federal Income Tax Considerations-Tax Consequences if We Are a Passive Foreign Investment Company".

Our share price has been volatile in the past and may continue to fluctuate in the future.

Our ordinary shares have experienced significant market price and volume fluctuations in the past. During the period from January 1, 2010 through March 31, 2011, the closing price of our ordinary shares ranged from \$2.21 to \$4.65. During the period from January 1, 2009 through March 31, 2010, the closing price of our ordinary shares ranged from \$0.25 to \$3.23. Our ordinary shares may experience significant market price and volume fluctuations in response to factors, some of which are beyond our control, such as the following:

- global economic conditions, which generally influence stock market prices and volume fluctuations;
 - quarterly variations in our operating results;
 - market conditions relating to our customers' industries;
 - operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors;
 - large block transactions in our ordinary shares;
- an absence of an active trading market may limit our shareholders' ability to sell our ordinary shares in short time periods.
 - announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, M&A transactions, joint ventures or capital commitments;
 - changes in the status of our intellectual property rights;
- announcements of significant claims or proceedings against us and developments in such proceedings;
 - adverse decisions in litigation matter;
 - additions or departures of our key personnel; and
 - future sales of our ordinary shares.

Stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general economic conditions, such as a recession, interest rate or currency rate fluctuations, political events or hostilities in

Israel, the surrounding region or worldwide could adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. Currently, we are facing a class action complaint, as detailed in Item 8A – Legal Proceedings. This class action complaint could be protracted and divert management’s attention and resources.

Our principal shareholder, Priortech, holds a controlling interest in us and will be able to exercise its control in ways that may be adverse to your interests.

Priortech beneficially holds 60.5% of our issued and outstanding ordinary shares. As a result, Priortech has the power to control the outcome of matters submitted to a vote of our shareholders, including the election of members of our board and the approval of significant corporate transactions. This concentration of ownership may also have the effect of making it more difficult to obtain approval for a change in control of us. Messrs. Rafi Amit, Yotam Stern, Itzhak Krell, David Kishon, heirs of Haim Langmas, Zehava Wineberg and Hanoch Feldstien control Priortech and may be deemed to control us.

Changes in accounting standards or practices can have a significant effect on our reported results.

We prepare our financial statements to conform to U.S. GAAP. From time to time, recognized authoritative bodies, including the Financial Accounting Standards Board of the United States (the “FASB”) and the SEC, issue new and/or revised accounting standards or guidance. Changes to existing standards or the questioning of current practices may adversely or significantly affect the way in which the Company records and reports its operating results, cash flows and financial position.

We may fail to maintain effective internal control over financial reporting in accordance with Section 404 of the Sarbanes-Oxley Act of 2002.

We have documented and tested our internal control systems and procedures in order for us to comply with the requirements of Section 404. While our assessment of our internal control over financial reporting resulted in our conclusion that as of December 31, 2010, our internal control over financial reporting was effective, we cannot predict the outcome of our testing in future periods. If we fail to maintain the adequacy of our internal controls, we may not be able to ensure that we can conclude on an ongoing basis that we have effective internal controls over financial reporting. Failure to maintain effective internal control over financial reporting could result in investigation or sanctions by regulatory authorities, and could have a material adverse effect on our operating results, investor confidence in our reported financial information, and the market price of our ordinary shares.

Risks Relating to Our Operations in Israel

Conducting business in Israel entails special risks.

Our principal offices, sole research and development facility and one of our manufacturing facilities are located in the State of Israel. We depend on components imported from outside of Israel and almost all of our sales occur outside of Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by:

- any major hostilities involving Israel;
- a full or partial mobilization of the reserve forces of the Israeli army;
- the interruption or curtailment of trade between Israel and its present trading partners; and

- a significant downturn in the economic or financial condition of Israel.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza. In July 2006 there were extensive hostilities along Israel's northern border, with Lebanon, in proximity to where we are located, and in the winter of 2008-2009 Israel was engaged in an armed conflict in the Gaza Strip. None of the above had any material impact on our operations. Further, in the last couple of months throughout the Middle East there has been political turmoil and outbreaks of violence, the effects of which are yet to unfold but contribute to the general atmosphere of instability in the region. Increased hostilities, current and future armed conflicts, further adverse developments in other states in the region, or continued or increased terrorism could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results. Furthermore, there are a number of countries, primarily in the Middle East, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies of those countries directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our operations could be disrupted as a result of the obligation of our key personnel in Israel to perform military service. Some of our employees in Israel, including certain key employees, are obligated to perform annual reserve duty in the Israeli army and are subject to being called up for reserve duty at any time. The absence of one or more of our officers and key employees for significant periods of time due to military service could be disruptive to our operations.

The Israeli government programs and tax benefits in which we have participated in the past and in which we currently participate or from which we receive benefits require us to meet several conditions. These programs or benefits may be terminated or reduced in the future, which could increase our tax expenses.

We, Camtek Ltd., and our subsidiary Sela, benefit from certain Israeli government programs and tax benefits, particularly from tax exemptions, from the Approved Enterprise status of our manufacturing facilities in Israel. To be eligible for these programs and tax benefits or similar program in the future, we must continue to meet certain conditions, including making specified investments in fixed assets and equipment. If we fail to meet such conditions in the future, these tax benefits could be cancelled, and we could be required to refund those tax benefits already received. These programs and tax benefits may not be continued in the future at their current levels, and our requests for tax exemption on income from our manufacturing facilities may not be approved.

The government grants we receive for research and development expenditures restrict our ability to manufacture products or to transfer technologies outside of Israel.

From our inception through 2000, we received government grants from the Office of the Chief Scientist of the Ministry of Industry and Trade (the "OCS"), for the financing of a significant portion of our product development expenditures. In March 2001, we commenced repayment of many of these grants pursuant to an understanding reached with the OCS. As of June 1, 2005, we have fully repaid our previously received grants from the OCS. Except for special circumstances and if we obtain governmental consents and pay to the OCS amounts which may be substantial, the terms of these grants prohibit us from selling or transferring rights in the technology developed with the grants outside of Israel and allow sale or transfer of rights within Israel only with special governmental approvals, even after full repayment of the grants. Elements of our technologies, including in the areas of electronic hardware, image processing, electro-optics, physics and mechanics, were developed with OCS grants. In addition, we may only manufacture products developed with these grants outside of Israel pursuant to the approval of a special governmental committee, and any approval of this nature may also require us to pay a further significant amount of royalties than the

terms of the grants required, unless the amount of production outside Israel is less than 10% of the original rate of production and the OCS has not objected to the transfer of products. The restrictions regarding the sale or transfer of technology or manufacturing rights out of Israel could have a material adverse effect on our ability to enter into strategic alliances or enter into merger or acquisition transactions in the future that provide for the sale or transfer of our technology or manufacturing rights.

As of December 31, 2010, a dispute has arisen between us and the OCS in Israel in the amount of approximately \$600 thousand regarding the royalty rate to be paid in respect of certain of our supported products, the assembly of which has been moved to a foreign subsidiary.

Based on an opinion of our legal advisors, we believe that the probability that we will be required to pay this amount is less than 50%. Accordingly, no provision has been recorded in our financial statements in respect of this matter.

Sela received government grants from the OCS for the financing of a significant portion of its product development expenditures in previous years. As of December 31, 2010 the amount of unpaid grants received, including interest accrued by Sela, amounted to \$3.0 million. As part of the acquisition of Printar's assets and certain liabilities, we assumed Printar's liability to the OCS. In addition, in 2009 and 2010 we received additional grants with respect to the development programs of the digital material deposition systems in the amount of \$0.6 million. As of December 31, 2010 the amount of unpaid grants received including interest accrued by Camtek, including the liabilities assumed from Printar, amounted to \$5.2 million.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and some of the experts named in this Annual Report or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Substantially all of our executive officers and directors and our Israeli attorneys are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of these persons, including one based on the civil liability provisions of the U.S. federal securities laws. Additionally, it may be difficult for you to assert U.S. federal securities laws claims or to enforce civil liabilities under U.S. federal securities laws in actions originally instituted in Israel.

Some provisions of Israeli law could inhibit the acquisition of us by others.

Some provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. The Israeli Companies Law generally provides that a merger be approved by the board of directors and by a majority of the shares present and voting on the proposed merger at a shareholders' meeting called upon at least 21 days' notice of each of the merging companies. A merger may not be completed until at least 50 days have passed since the filing of the merger proposal by each of the merging companies with the Israeli Registrar of Companies, and 30 days have passed since the resolution was adopted by the general meeting of each of the merging companies. The Israeli Companies Law also 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, someone would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company. Similarly, an acquisition of shares must be made by way of a special tender offer if, as a result of the acquisition, the purchaser would become a 45% or greater shareholder of the company, unless there is already another 45% or greater shareholder of the company. In any event, if, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap. For more information on the provisions of Israeli law in these contexts, please see sections "Share Capital" and "Israeli Taxation."

Item 4. Information on the Company.

A. History and Development of the Company

Our legal and commercial name is Camtek Ltd. We were incorporated under the laws of the State of Israel in 1987. We operate under the Israeli Companies Law. In our first years of operation, we provided manual optical inspection equipment to address the needs of the printed circuit board, or PCB, manufacturing industry. In 1994, we introduced our first automated optical inspection, or AOI, system for the inspection of PCBs. In late 1998, we introduced our Orion system, which gained wide acceptance in the high-end PCB market and represented a breakthrough for us. Applying our core technologies, we developed our Pegasus system, which was introduced in the third quarter of 2002, for the inspection of integrated circuits (IC) substrates. See below in Item 4(c) “Organizational Structure”.

In September 2001, we acquired a developer and producer of AOI systems for the semiconductor manufacturing and packaging industry, or MEP. This acquisition allowed us to enter the back end semiconductor inspection market. After a period of intense internal research and development, we shipped our first new Falcon system for the back end market in the semiconductor industry in the fourth quarter of 2003. The first revenue recognition of the Falcon system was in the second quarter of 2004 and since then, Falcon sales increased. Applying our core technologies, we developed the Gannet, our AOI system for the front end market, which was introduced in 2009 and first sold in the fourth quarter of 2009.

In 2009 we entered into two new fields of activity: in June 2009 we acquired assets and certain liabilities of Printar, which was engaged in manufacturing, sale and marketing of direct digital material deposition systems and inks for the PCB industry, with two major fields of activity: Solder Mask, an epoxy layer selectively covering the PCB, while leaving the connection pads uncovered, currently under beta testing, and Legend, applying the identification nomenclature on the PCB, commonly used in the PCB industry. Printar introduced its first Legend system six years ago and maintains an installed base of more than 45 Legend systems. We are not manufacturing new Legend systems, but support the installed base and sell ink products used by Legend machines. Printar's technology could also be used in the future for various other applications in the field of electronic manufacturing. In 2009 we also completed the acquisition of Sela, which is engaged in the development, manufacturing and marketing of automated SEM (Scanning Electron Microscope) and TEM (Transmission Electron Microscope) sample preparation equipment, primarily for the front end semiconductor industry. Sela has more than 285 systems installed worldwide. Many of these systems are located at leading semiconductor fabrication facilities. Sela developed the Xact, a TEM sample preparation tool using Adaptive Ion Milling (AIM) technology. The first Xact system was sold in the first quarter of 2009, and sales continued with two additional Xact systems during 2010.

In July 2000, we sold 5,835,000 ordinary shares in an initial public offering, in which we received net proceeds of approximately \$35 million. In August 2002, we sold 5,926,730 ordinary shares in a rights offering of ordinary shares to our then existing shareholders (of which 5,922,228 were sold to Priortech Ltd.), in which we received net proceeds of \$6.1 million. On August 23, 2005 we raised \$5 million as a convertible loan from FIMI Opportunity Fund L.P and FIMI Israel Opportunity Fund, Limited Partnership (FIMI) – the whole amount was repaid (\$1.66 million was paid in August 2008, another \$1.66 million was paid in August 2009, and the remaining \$1.66 million was paid in August 2010). On April 30, 2006, we completed a private placement in which we issued 2,525,252 ordinary shares to Israeli institutional investors at a price of \$5.94 per share, raising \$14.5 million. This private placement also included warrants that, during a period of four years, were exercisable into additional 1,262,626 ordinary shares at a price of \$6.83 per share, but all these warrants expired in April 2010.

We have been a public company since July 2000. In December 2005, we re-listed on the Tel-Aviv Stock Exchange and became a dual listed company (see below in Item 9.A. "Offer and Listing Details"). Our headquarters are located in Israel, and we have operations in the Asia Pacific region, North America and Europe.

For discussion of capital expenditures, see Item 5- "Operating and Financial Review and Prospects- Liquidity and Capital Resources."

Our principal executive offices are located in Ramat Gavriel Industrial Zone, P.O. Box 544, Migdal Ha'Emek 23150, Israel, and our telephone number is 011-972-4-604-8100. Our agent for service of process in the United States is Camtek USA, Inc., located at 2000 Wyatt Dr., Santa Clara CA 95054, Tel: (408) 986 9640. Our website is located at www.camtek.co.il. The information on our website is not incorporated by reference into this Annual Report.

B. Business Overview.

Our Business

Camtek provides automated solutions dedicated for enhancing production processes and yield for the semiconductor manufacturing and packaging and the printed circuit board and IC substrate industries.

Camtek addresses the specific needs of these interconnected industries with dedicated solutions based on an advanced platform of technologies including intelligent imaging, image processing, sample preparation and digital material deposition. Camtek's solutions range from micro-to-nano by applying its technologies to the industry-specific requirements.

We design, develop, manufacture and market products based on three core technologies: automated optical inspection or AOI; Digital Material Deposition or DMD; and adaptive ion milling, or AIM. AOI systems are computerized systems that optically inspect various types of electronic product components for defects caused during the manufacturing process. Our AOI systems are used to enhance both production processes and yields for manufacturers in the printed circuit board and IC substrate industry and in the semiconductor industry. Our systems provide our customers with a high level of defect detection ability, are easy to operate and offer high productivity. We have sold more than 2,400 AOI systems in 34 countries around the world. Our PCB customer base includes the majority of the largest 100 PCB manufacturers worldwide. Since the introduction of our Falcon line for the semiconductor industry, we have sold over 200 Falcon systems to more than 30 semiconductor manufacturers, among them outsourced semiconductor assembly and test (OSAT), Integrated Device Manufacturers (IDM) and wafer level packaging subcontractors, including 12 out of the top 15 semiconductors companies.

Our AOI products incorporate proprietary advanced image processing software and algorithms, as well as advanced electro-optics and precision mechanics. They are designed for easy operation and maintenance. In addition, our AOI systems use technology that enables our customers to handle a wide range of inspection and verification needs.

Our global direct customer support organization provides responsive, localized pre and post sales support for our customers through our wholly-owned subsidiaries.

Printar Ltd. was engaged in manufacturing, sale and marketing of direct digital material deposition systems and inks for the PCB industry, with two major fields of activity: Solder Mask, an epoxy layer selectively covering the PCB, while leaving the connecting pads uncovered ("SM") and Legend, applying the identification nomenclature on the PCB, commonly used in the PCB industry ("Legend"). Printar introduced its first Legend system six years ago and maintains an installed base of more than 45 Legend systems.

Printar's technology provides a high performance one-step, environment-friendly and relatively low-cost process, in comparison with traditional printing methods. The technology can also be applicable in the future to various other applications in the field of electronic manufacturing.

The SM technology is currently in beta testing. The acquisition of Printar's assets will enable us to offer to our customers in the PCB industry a broader range of products, while relying on existing operational, R&D and sales and marketing infrastructure.

Sela is engaged in the development, manufacturing and marketing of automated SEM (Scanning Electron Microscope) and TEM (Transmission Electron Microscope) sample preparation equipment, primarily for the semiconductor industry. Sample preparation is a process enabling the material characterization and failure analysis serving the semiconductor and nanotechnology markets.

Sela developed the Xact, a TEM sample preparation tool using AIM technology. The AIM technology brings numerous advantages to traditional FIB (Focused Ion Beam) technology and overcomes the limitations of FIB technology in delivering wide-area, ultra-thin (reducing the sample thickness to below 20nm over a large area), artifact-free specimens with high throughput and precise end-point detection. This complement of attributes is essential to meet the requirements for nano-scale material analysis, both in the semiconductor segment and in the wider field of advanced material development, including delivery of significantly reduced turnaround times and enhanced productivity. The continuous device shrinking trend and material complexity increases the TEM utilization and consequently increases the served available market for SELA's Xact sample preparation solutions. A SEM-oriented microcleaving solution provides high-quality, automated cleaving without artifacts.

Sela has over 285 systems in operation worldwide. Customers include major semiconductor fabrications, including top 20 companies, as well as leading research institutes. This, combined with Camtek's well-established infrastructure in manufacturing, sales, service, R&D and facilities, allows Camtek to increase its revenues, shorten time-to-market of Sela's products and further strengthen Camtek's presence in the semiconductor market.

Our Markets

We target the semiconductor industry and the PCB and IC substrate industry, all part of the electronic packaging industries and the electronics supply chain.

The Semiconductor Industry

The semiconductor manufacturing industry produces circuits (ICs) on silicon or other semiconductor materials; each wafer consists of numerous IC dies ("chips"). AOI is implemented at various stages along the manufacturing process: both at the front end manufacturing processes such as lithography and CMP and the back end processes such as bump, probe mark and post dice. The inspection process is looking for defects such as cracks, foreign materials or mechanical damage, it also ensures dimensional conformity, thus eliminating subsequent testing of defective products, increasing yield and reducing overall production costs. In the failure analysis laboratories at the front end of the manufacturing process, samples are being taken from failed products and reviewed with electronic microscopes. Sela's products are used to prepare these samples for review.

At the back end, our AOI systems inspect the wafer for various defects. At this stage, AOI systems verify that the dies are free of defects, and that the electronic probe tips used for functional testing of the finished dies on the wafer have caused no critical damage to the terminal pads on the die. AOI is essential at this stage to help ensure the reliability and service life of the electronic device after its assembly and packaging.

In the semiconductor packaging process, the finished wafers are diced, or separated, into individual ICs, which are then mounted onto substrates, interconnected and encapsulated to produce semiconductor packages. AOI equipment, together with electrical probe testing, determines which ICs and substrates are non-defective. AOI equipment is also used to inspect for any defects that may have been caused to the ICs during electrical probe testing and the dicing of

the wafer.

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In “flip-chip” packaging technology, the face of the IC is attached to the top of a substrate via an array of bumps, rather than being wire bonded. Wafers designed for flip-chip assembly interconnect go through a process in which solder bumps ranging from 15 to 150 microns in height, or gold bumps about 15 microns tall, are plated or stenciled on pads on the face of the IC. In a similar technology termed “chip-scale wafer level packaging (CS-WLP), larger bumps/balls up to 300 to 500 micron tall are placed on the die and the entire wafer is coated with a thick layer of polymer - usually epoxy. After dicing, the individual die is actually a finished device, ready to be mounted directly on the PCB. AOI with 3-D measurement capabilities is used to detect any missing, misplaced or deformed bump and to determine bumps conformity to shape and height specifications. Size, shape and placement deviations may cause damage to the IC or the substrate during the packaging process, leading to device failure.

A relatively fast growing segment is “micro-electro mechanical systems” (MEMS), which utilize materials, manufacturing technologies and facilities from the semiconductor industry to produce miniature mechanisms, such as inkjet print heads, accelerometers, image sensors, video projection devices (DLP), sensors and microphones. Many MEMS products are packaged between layers of glass while still at the wafer format, and diced in several steps afterwards. The MEMS manufacturing segment relies heavily on testing to ensure the product performance and reliability. This testing may amount to a significant amount of the overall product cost. AOI is implemented at various stages along the manufacturing process to detect cracks, foreign materials or mechanical damage, as well as confirm dimensional conformity, thus eliminating subsequent testing of defective products, increasing yield and reducing overall production costs.

An additional small, but fast growing segment is “light emitting diodes” (LED), which utilizes materials, manufacturing technologies and facilities from the semiconductor industry to produce LEDs. The LED manufacturing segment relies heavily on testing to ensure the product performance and reliability. This testing may amount to a significant amount of the overall product cost.

The Gannet was designed to inspect front end applications of the semiconductor industry. In semiconductor device manufacturing, dozens of fine pattern layers are exposed onto a wafer (lithography). Those patterns are then inspected after each set of exposure and development to ensure the patterns are formed with the required design position and accuracy. In addition, inspection data can be used by customers to monitor and characterize the production processes.

The AIM technology brings numerous advantages to traditional FIB technology by reducing the sample thickness to below 20nm over a large area, with high precision and throughput and with superior image quality. This complement of attributes is essential to meet the growing requirements for nano-scale material analysis, both in the semiconductor segment and in the wider field of advanced material development, including delivery of significantly reduced turnaround times and enhanced productivity. The continuous device shrinking trend and material complexity increases the TEM utilization and consequently increases the served available market for Sela’s Xact sample preparation solutions.

The Printed Circuit Board and IC Substrate Industry

A PCB is the basic platform that supports and interconnects a broad range of electronic components, such as IC devices, resistors, capacitors, coils and the like, and enables them to operate as an electronic system. PCBs consist of traces, or lines, of conductive material, such as copper, laminated on either a rigid or a flexible insulating base. These conductive lines provide electrical interconnections between the components. The trace integrity and conformance to exact dimensions are essential to the functioning of the electronic product. Imperfections in the various stages of the PCB manufacturing process may result in defects or flaws, like open conductive lines, electrical short circuits, nicks and inappropriate line widths.

The trend towards compact, high-performance and highly reliable electronic products, such as mobile phones, notebook computers, digital cameras and personal digital assistants, drives the demand for increased complexity and miniaturization of PCBs. In response to this demand, PCB manufacturers are producing multi-layer PCBs with increasingly narrower and denser lines, as well as boards with higher layer counts. Multi-layer boards consist of several layers of circuitry laminated together to form a single board with both horizontal and vertical electrical interconnections. In addition, multi-layer boards are continuing to evolve with new technologies. Currently, high-end PCBs (excluding substrates) use conductive lines and spaces 50 to 120 microns (0.002 to 0.005 inch). The scan time required to inspect a given PCB surface increases substantially in relation to the reduction in line width.

The manufacturing process for multi-layer boards is comprised of three stages: the manufacture of production tools, including artwork and masks; the production of inner layers and their lamination into a single board; and the production of external layers. The majority of AOI systems in the PCB industry are used for inspection of inner layers. Today, the number of inner layers in typical multi-layer PCBs usually ranges from 4 to 14, though certain high layer-count boards may consist of as many as 52 layers. Inspection by AOI systems during the manufacturing process for the detection of defects in the inner layers prior to the lamination process is crucial, so that any defective individual layers may be repaired or replaced while still accessible. Once the multi-layer board is laminated, any undetected defect in any specific layer will result in discarding the entire board.

Traditional printing on PCBs includes screen-printing and photo imaging. These printing technologies involve high production costs, time-consuming procedures and several production steps. Camtek's DMD - Legend printing and SM printing (the latter currently under beta testing) allows significant simplification of the Legend and SM process, which leads to faster cycle time and reduces operational costs.

The pursuit of electronic products that deliver more functionality, and at the same time are smaller, lighter and less power-consuming, drive the semiconductor industry to produce ICs (dies) requiring more input/output connections. These dies must fit into smaller packages. The IC substrate industry, in turn, supports these trends with high-density interconnect substrates that serve as carriers for the IC die, providing it mechanical and electrical connection to the printed circuit board. These substrates feature conductive lines that are 10 to 50 μm (microns) in width. Although IC substrates are produced using technologies derived from those used for the production of traditional PCBs, the complexity and high density of these substrates require separate, specialized manufacturing facilities.

The die is connected to the upper side of the substrate, either by wire bonding by means of thin metal wires, or by “flipping” the IC and directly connecting conductive bumps on its face to a matching array of pads or bumps on the substrate. The latter technology is known as flip chip die attach (“Flip-Chip”). The die substrate is connected to the PCB via an array of conductive solder balls, known as a ball grid array, or BGA.

The complexity of IC substrates requires advanced inspection systems with high magnification power for detecting minuscule defects that hinder production yields. Optical inspection of IC substrates is implemented along the manufacturing process, where the substrates are still in panel form, similar to PCB, and at the end of the production process, where the substrates are cut to strips or packed in trays. Due to the high integration level of today’s electronic products, defective substrates, that pass undetected, may render the entire product unusable. Or, if assembled in a mission-critical system, they may cause a catastrophic failure.

Product Lines

Our AOI systems consist of:

- An electro-optical assembly unit, either movable or fixed, which consists of a video camera, precision optics and illumination sources. The electro-optical unit captures the image of the inspected product;
- A precise, either movable or fixed table, that holds the inspected product; and
- An electronic hardware unit, which operates the entire system and includes embedded components that process and analyze the captured image by using our proprietary algorithms.

The inspected product is placed on the movable table and is scanned under the optical assembly unit. The optical assembly unit then captures images of the product, while the electronic hardware unit processes the image using the analysis algorithms. Detected discrepancies are logged and reported as defects per the user preferences. The image of

the defect is immediately available for verification by the system operator. Our systems can also compile and communicate statistical reports of inspection findings via the customer's factory information system.

We offer a broad range of systems for automated optical inspection of semiconductor wafers, IC substrates and PCBs. These systems are used to enhance production yields and assist in controlling manufacturing processes at wafer fabrication, test and assembly houses, and PCB plants worldwide. We invest significant resources in research and development to provide our customers with advantageous performance, low cost of ownership, high reliability and ease of operation. We believe that a significant part of our competitive advantage and of our ability to adapt our technologies to evolving market needs comes from our design philosophy and applicable know-how in basing our products on software-intensive architectures.

Semiconductor Industry

AOI Systems

Falcon

Our Falcon systems were designed for the back end market of the semiconductor industry. The Falcon's advanced algorithms and inspection capabilities enable its dedicated models to detect defects in the die, which, if left undetected, may cause failure. In addition, inspection data can be used by customers to monitor and characterize several wafer finishing processes, troubleshoot functional issues or control the integrity of the interconnect and performs various metrology tasks.

Condor

The Condor is designed to meet the current and future inspection needs of the semiconductor industry. The Condor through its state of the art algorithms and advanced hardware configuration is designed to enhance the 2D and 3D detection abilities and increased throughput. The Condor includes 2D inspection and metrology abilities combined with 3D metrology capabilities such as bump, micro bump and TSV (through silicon via) measurements.

The Condor family currently includes models for:

- 3D and 2D metrology and inspection of bumped-wafer prepared for packaging in the flip-chip technology;
- 2D metrology and inspection of finished wafers at the end of their manufacturing process and in test houses, where inspection adds the value of monitoring the marks left by the testing probe or protects expensive probe cards from damage by dust particles;
- Post-dicing inspection of frame-mounted wafers at assembly and packaging facilities, where it adds the value of detecting dicing-related damage; and
- Inspection and metrology of MEMS and other special applications, where customized handling solutions and inspection capabilities are required for complex structures and non-standard materials.

Condor 5LED

Condor 5LED is a new AOI system designed to provide solutions to a variety of requirements that are unique to LED semiconductor manufacturers. The LED market's special inspection requirements are characterized by 3-6 inch wafers, each of which may contain between 100 to over 200 thousand LED devices per wafer. Typically, the wafer is made of a translucent compound semiconductor such as gallium arsenide, gallium phosphide and/or indium phosphide. The customers' defect specifications and unique inspection processes raise a significant challenge for AOI suppliers to solve. The new Condor 5LED incorporates all our experience in this space, into a singular and focused designated solution, targeted at the LED market.

Gannet

The Gannet system is our new system designed for the front end market of the semiconductor industry. In semiconductor device manufacturing dozens of fine pattern layers are exposed onto a wafer. Those patterns are then inspected after each set of exposure and development to ensure the patterns are formed with the required design accuracy. The Gannet's advanced algorithms and inspection capabilities enable it to detect defects in the die, which, if left undetected, may cause failure. In addition, inspection data can be used by customers to monitor and characterize several production processes. The first Gannet system was introduced and sold in the fourth quarter of 2009. In 2010 we made sales to strategic customers and expect growth in the future.

Sample preparation systems

MC600i

The MC600i enables cleaving of smaller wafer segments and dies and allows cleaving as close as 0.5mm to a sample edge. The MC600i system achieves fully automatic, reliable and rapid cross sectioning of wafer segments and dies. Dedicated software enables automatic mapping and navigating to targets, and features automatic off-loading for immediate inspection. These features, together with high throughput (9 minutes/sample), high accuracy (better than 300nm) and the excellent quality of the cross-sections produced, significantly reduce the diagnostic cycle for both failure analysis and process monitoring.

EM3

A dedicated, automated, timesaving and user-friendly system that enables TEM and SEM sample preparation for both cross section and plan view in a wide range of applications. Featuring a cryo-cooled, dry sawing process, the EM3 system prepares specimens of either crystalline or amorphous materials. The output sample is mounted onto a compatible stub or standard TEM mount that allows rework.

Xact

The Xact performs cutting-edge TEM/STEM sample preparation in line with the semiconductor and nanotechnology roadmap requirements for next generation physical failure analysis and characterization. The Xact utilizes the new AIM technology, delivering excellent sample quality, significantly reduced turnaround times and enhanced productivity. AIM is superior to the traditional FIB technology; it can reduce lamella thickness below 20 nm over a large area with high precision, artifact-free quality and higher throughput. Xact introduces a twin-beam solution configured for more artifact-free sample clarity and precise end-point detection.

PCB and IC Substrate Industry

AOI Systems

Our AOI products for this industry consist of four product lines: the Dragon and Orion for the inspection of inner and outer layers of PCB panels; the Pegasus and Mustang for final inspection (AFI) of IC substrates and high density interconnect (HDI) panels; the Planet for inspection of ultra-fine-line IC substrate; and large area masks (LAM) dedicated for inspection of artwork and photo masks.

Dragon

Dragon systems are high-throughput, automation-ready systems for inspection of all PCB types in a mass production environment. Dragon models are optimized for specific PCB technology ranges – from mainstream circuits of typically 100 μm (microns) conductor line width, up to high density substrates having 12 μm (microns) wide conductive lines. All Dragon models are designed to interface with automated material handling mechanisms provided by us or other automation suppliers. We believe that the combination of detection ability, scanning speed, real-time data collection for process control and automated material handling deliver outstanding value to customers. The Dragon was first introduced in March 2003.

Orion

Orion systems are stand-alone AOI systems for high volume inspection of all PCB types designed to operate in “Inspectify™” mode of operation. Inspectify™ is a unique mode of operation enabling the operator to perform verification immediately after inspection on the same system, thus saving time and eliminating handling-related defects. The Orion family has evolved gradually since its introduction in 1999. All Orion models retain an ergonomic user interface that supports high productivity and flexibility, allowing successive on-line inspection and verification, or solely inspection followed by off-line verification on a separate station. Like the Dragon family, Orion models are dedicated for various PCB technology ranges.

Pegasus

The Pegasus line includes systems for automated inspection of finished IC substrates that are subsequently used in packaging of BGA and Chip Scale Package (CSP) devices. The Pegasus inspects both sides of the substrate, detecting process and mechanical defects in particular in the gold-plated areas where the substrate will interconnect with the silicon die or the PCB and in the solder-mask areas. Pegasus models handle substrates in strip format in magazines. In December 2006 we introduced the Pegasus 200S, an enhanced product for inspecting IC substrates in strip format.

Mustang

The Mustang line includes systems for automated inspection of finished HDI panels that are subsequently used in mobile consumer electronics, such as mobile phones, digital cameras, PDAs and other consumer electronic devices. The Mustang inspects both sides of the panel, detecting process and mechanical defects, in particular in the gold-plated areas where the substrate will interconnect with the silicon die or the PCB and in the solder-mask areas. Mustang models handle panels in panel format (up to 150 x 300mm) in magazines. The Mustang 600 was first introduced in the first quarter of 2008.

In 2009 Camtek signed a memorandum of understanding (MOU) with a competitor, Utechzone, according to which Camtek markets and sells Utechzone's systems for the IC Substrate industry, for consideration as was defined in the MOU. The Company will continue to sell the Mustang and the Pegasus as long as they exist in its inventory, and also continue to service and support Pegasus and Mustang systems sold prior to the MOU. Camtek recorded its first sale under this MOU in the first quarter of 2010.

Planet

Planet is designed for the inspection of ultra-fine-line IC substrate, down to 8µm line-technologies. Introduced in June 2007, the Planet addresses the inspection needs of the very high end of the IC substrate industry - ultra-fine line. The Planet integrates our experience from both the semiconductor and PCB markets into a-totally new hardware architecture to deliver the robustness and high resolution required for high speed detection of micron-scale defects.

LAM

LAM is specially designed for main-stream LAM inspection. It offers unparalleled detection ability on LAM with down to 25 µm line/space width technology. The LAM incorporates advanced technology innovations to ensure the level of detection that these fine masks require at this critical production stage. Since large area masks are made of glass and transparent for light, the LAM inspection system contains specially designed image acquisition system, where the mask under inspection is located in between illumination sources and digital camera.

Verification Systems

Camtek offers various stand-alone verification systems that enable verification of panels after inspection. Camtek designed the verification stations to meet operator's comfort during work while delivering high image quality and productivity.

- * CVR-100 is designed for verification of panels after inspection on the Dragon, Planet or Orion AOI;
- * PVS-200 is designed for the verification of IC Substrates (strips or units) and HD panels after they were inspected by the Pegasus or by the Mustang.

DMD systems

GREENJET

A SM digital printing system aimed to replace the conventional SM application lines for prototypes and high mix low volume production. The GreenJet system offers manufacturers flexible and high-performance digital SM printing technology solution, accompanied by a wide range of cost-effective, and technological benefits.

The GreenJet incorporates state of the art printing technology, using a specially developed hybrid ink which was tailored to the tough requirements of the PCB industry. The system is currently under beta testing in two customers' sites in Israel and has not yet launched for sales.

LGP

Designed to meet a variety of PCB industry challenges, from mass production and prototypes to limited PCB runs - the LGP system offers manufacturers flexible and high-performance digital legend printing technology solution, accompanied by a wide range of cost-effective benefits.

The LGP system incorporates PCB digital legend printing technologies with specially developed heat curable ink, resulting in very high quality output and system performance. Significant cost-saving can be realized by eliminating the need for silk screens. Production cycle times are shortened and the demands upon professional resources reduced.

INK

Camtek has developed the inks for both LGP and GreenJet, which involves different chemicals mixed together in order to reach the required ink characterization.

Customers

Our customer base includes the majority of the largest 100 PCB manufacturers worldwide and over 25 out of the 30 largest semiconductor manufacturing, testing and packaging companies, among others. Our customers, many of whom have multiple facilities, are located in 34 countries throughout Asia, Europe and North America. In 2008, 2009 and 2010, no individual customer accounted for more than 10% of our total revenues. In the IC substrate industry, our customers are typically dedicated substrate manufacturers, but also include large PCB manufacturers who have separate substrate manufacturing facilities. Our IC substrate customers are located predominantly in Taiwan and the Asia Pacific region. In the semiconductor manufacturing and packaging industry, we target wafer manufacturers and companies involved in the testing, assembly and packaging of semiconductor devices. In the front end market of the semiconductor manufacturing industry, we target wafer manufacturers and companies involved in the device

manufacturing processes.

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The following table shows our revenues classified by geographical region for each of the last three years:

	2010	Year Ended December 31,	
		2009	2008
U.S. Dollars (In thousands)			
China and Hong Kong	33,614	19,512	25,973
Korea	16,621	8,391	11,974
Other Asia	11,089	9,403	8,102
United States	10,075	5,531	10,759
Taiwan	7,862	4,763	7,629
Western Europe	4,033	3,335	7,654
Japan	3,270	1,984	2,640
Rest of the world	1,216	602	732
Total	87,780	53,521	75,463

The following table shows our revenues classified by our sales to both industries and our sales from services for each of the last three years:

	2010	Year Ended December 31,	
		2009	2008
U.S. Dollars (In thousands)			
PCB and IC substrates (1)	26,378	19,988	33,312
MEP (2)	43,857	19,208	28,823
Service Fees	17,545	14,325	13,328
Total Revenues	87,780	53,521	75,463

(1) 2010 and 2009 numbers include sales of Printar's legend and ink products

(2) 2010 and 2009 numbers include sales of Sela's sample preparation products

Sales, Marketing and Customer Support

We have established a global distribution and support network throughout the territories in which we sell our products, including the Asia Pacific region, North America and Europe. We believe that this is an essential factor in our customers' decision to purchase our products. We primarily utilize our own employees to provide these customer support services. We may expand our network into additional territories as market conditions warrant.

In March 2010, we signed an exclusive distribution rights agreement with Canon Marketing Japan Inc., for sales of our AOI systems that address the semiconductor industry in Japan. During 2010 we extended this agreement to include the sample preparation systems.

Also, in March 2010 we entered into a Memorandum of Understanding with a European company, according to which, as of June 2010, this company began to distribute our products for the PCB and IC substrate industry in Europe.

As of December 31, 2010, 40 of our employees were engaged in our worldwide sales, marketing and support efforts, including support and sales administration staff. Due to the concentration of sales in the Asia Pacific region in the last couple of years, we adjusted our sales organization accordingly, and significantly expanded our sales, marketing and

support teams in this region.

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Our marketing efforts include participation in various trade shows and conventions, publications and trade press, product demonstrations performed at our facilities and regular contact with customers by sales personnel. We generally provide a 12-month warranty to our customers. In addition, for a fee, we offer service and maintenance contracts commencing after the expiration of the warranty period, which is typically one year. Under our service and maintenance contracts, we provide prompt on-site customer support.

In 2006, we purchased a credit insurance policy from the ICIC – the Israeli Credit Insurance Policy Company, in order to minimize the risk contemplated in transactions with customers which are located overseas and which are granted with certain amount of credit. The policy covers, among other risks, political and financial risks of such customers. During 2010 most of the requests for coverage were accepted.

Manufacturing

Our manufacturing activities consist primarily of the assembly and integration of parts, components and subassemblies, which are acquired from third-party vendors and subcontractors. The manufacturing process for our products generally lasts four to six weeks. We utilize subcontractors for the production of subsystems. Since the beginning of 2010 our Falcon and condor systems are manufactured by a single subcontractor who performs most of the material planning, procurement, manufacturing, testing, assembly and packaging work with respect to these systems.

We rely on single source and limited source suppliers and subcontractors for a number of essential components and subsystems of our products. We generally maintain several months of inventory of critical components used in the manufacture and assembly of our products. Due to the recent rapid increase in demands in the PCB and semiconductor industries, the delivery time of suppliers in these industries have extended. We believe that to date, we have been able to obtain sufficient units of these components to meet our needs.

Certain of the components for our machines are supplied, directly or indirectly, from Japan. At this stage we are unable to evaluate what effect, if any, the recent earthquake in Japan may have on our supply chain and therefore on our revenues.

We have two manufacturing facilities: one in Migdal Ha'Emek, Israel, and another one in Suzhou, China, in which we manufacture certain components and assemble most of our AOI systems for the printed circuit board industry.

Competition

The markets in which we operate are highly competitive. In the semiconductor industry, our primary competitor is Rudolph Technologies Inc., with additional competitors including KLA-Tencor Corporation and several Japanese competitors whom we face mostly in Japan – Topcon Corporation, Toray Industries, Inc., Hitachi Ltd. and Nidec Tosok Corporation. Sample preparation competitors are FEI Company, Hitachi Ltd., SII Nanotechnology Japan, and Carl Zeiss, Inc. In the PCB and IC Substrate industry, our principal competitor is Orbotech Ltd., with additional competitors including Dainippon Screen Manufacturing Company, Lloyd-Doyle Limited, Gigavis Co. Ltd., ATI Electronics Pty Ltd., Shirai Electronics Industrial Co. Ltd., local AOI vendors in China and Taiwan and up to 2009 also Utechzone Co. Ltd., the systems of which are sold by us (see also in “Product Lines – Pegasus and Mustang” above). DMD competitors are Orbotech Ltd, First EIE SA and MicroCraft K.K.

We believe that the principal elements of a sustainable competitive advantage are:

On-going research, development and commercial implementation of new image acquisition, processing and analysis technologies;

Product architecture based on proprietary core technologies and commercially-available hardware. Such architecture supports shorter time-to-market, flexible cost structure, longer service life and higher margins;

Fast response to evolving customer needs;

Product compatibility with customer automation environment; and

Strong pre and post-sale support (applications, service and training) deployed in immediate proximity to customer sites.

We believe that we compete effectively on all of these factors.

Capital Expenditures

The following table shows our capital expenditures in fixed assets for the last three years:

	2010	December 31, 2009 (in thousands)	2008
Building and leasehold improvements**	869	82	270
Machinery and equipment*	41	1,317	1,449
Office furniture and equipment	311	215	328
Automobiles	-	26	-
Total	\$ 1,221	\$ 1,640	\$ 2,047

*including transfer of inventory to fixed assets in the sum of \$(141,000) and \$1,238,000 in 2010 and 2009, respectively.

**Building and leasehold improvements includes mainly leasehold improvement in the amount of \$561 thousand in our new manufacturing facility in China.

Material Effects of Governmental Regulations

The following EU directives, which represent the European standard required in order to sell in Europe, apply: Low Voltage Directive (LVD) 2009/95/EC and Machinery Directive 2006/42/EC. The following SEMI Standards, which define uniform standards for manufacturers in the semiconductor manufacturing and packaging industry and production equipment producers, apply: SEMI S-2 (safety requirements for sale of equipment in the semiconductor manufacturing and packaging industry) and SEMI S-8 (ergonomic requirements for sale of equipment in the semiconductor manufacturing and packaging industry). We comply with the above-mentioned governmental regulations during the systems' design process, which is conducted in accordance with the Company's quality assurance manual. In addition, all systems types are tested by independent laboratories who certify their compliance with these governmental regulations.

C. Organizational Structure

PriorTech Ltd., our principal shareholder, through its affiliated companies, engages in various aspects of electronic packaging, including the production and assembly of PCBs and the development and sale of IC substrates. Based on sales, PCB Technologies, a subsidiary of PriorTech, is one of the largest PCB manufacturers in Israel. PriorTech currently holds 60.5% of our outstanding ordinary shares. Our revenues from sales to affiliated and subsidiaries of PriorTech, totaled \$83,000, \$843,000 and \$467,000 in 2010, 2009 and 2008, respectively. In addition to these sales of products, we act jointly with PriorTech with regard to various governmental, administrative and commercial matters, which we believe is to the mutual advantage of both parties.

The following table shows the Company's significant subsidiaries, all of which are wholly owned (except for Camtek HK Ltd. , in which Priortech Ltd., our controlling shareholder, holds one share, or less than one percent), together with each subsidiary's jurisdiction of incorporation, as of the date of this report. For a complete list of subsidiaries, see Exhibit 8.1.

Name of Subsidiary	Jurisdiction of Incorporation
Camtek H.K. Ltd.	Hong Kong
Camtek USA Inc.	New Jersey, USA
Camtek Electronic Technologies (Suzhou) Co. Ltd. (CET)	China
Camtek Imaging Technology (CIT)	China
SELA - Semiconductor Engineering Laboratories Ltd	Israel

D. Property, Plants and Equipment

Our main office, manufacturing and research and development facilities are located in the Ramat Gavriel Industrial Zone of Migdal Ha'Emek in northern Israel. These facilities occupy 74,000 square feet, of which 16,000 square feet are devoted to the manufacturing of our products.

We also lease a manufacturing facility in China, in which we manufacture certain components and assemble most of our AOI systems for the PCB industry. The Chinese facility occupies 53,500 square feet.

Our sales offices and demonstration centers, which we lease in various locations around the world, occupy an aggregate of approximately 36,000 square feet.

Aggregate leasing costs in 2010 amounted to approximately \$1 million.

Item 4A. Unresolved Staff Comments

None.

Item 5. Operating and Financial Review and Prospects.

A. Operating Results

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes to those statements included herein, which have been prepared in accordance with accounting principles generally accepted in the United States, or United States GAAP.

Overview

We design, develop, manufacture and market automated solutions dedicated for enhancing production processes and yield for the semiconductor manufacturing and packaging and the PCB and IC substrate industries.

We design, develop, manufacture and market automated optical inspection, or AOI, systems and related products. Our AOI systems are used to enhance both production processes and yields for manufacturers in the printed circuit board, or PCB, industry, the integrated circuit substrate, or IC substrate, industry and the semiconductor manufacturing and packaging industry.

Through the acquisition of Printar's assets and certain of its liabilities we are also engaged in developing, manufacturing, sale and marketing of direct digital material deposition systems and inks for the PCB industry, with two major fields of activity: Solder Mask, an epoxy layer selectively covering the PCB, while leaving the connection pads uncovered (currently in beta testing) and Legend, applying the identification nomenclature on the PCB, commonly used in the PCB industry.

In addition, through the acquisition of Sela we are also engaged in the development, manufacturing and marketing of automated SEM (Scanning Electron Microscope) and TEM (Transmission Electron Microscope) sample preparation equipment, primarily for the semiconductor industry (See also in Item 4.B above – "Business Overview - Our Business").

We sell our systems internationally. The majority of sales of our systems in 2010 was to manufacturers in the Asia Pacific region, China, South East Asia, Korea and Taiwan. This fact is due, among other factors, to the migration of the electronic manufacturers into this region following the development and growth of electronics industry centers in the region.

In 2010, our sales to customers in the Asia Pacific region accounted for approximately 83% of our total revenues, including approximately 38% of our total revenues from sales in China and Hong Kong, 19% in Korea and 9% in Taiwan. We expect this trend of the major portion of our revenues coming from customers in the Asia Pacific region to continue in the foreseeable future.

In addition to revenues derived from the sale of systems and related products, we generate revenues from providing maintenance and support services for our products. We expect our service revenues to increase as our installed base increases. We generally provide a one-year warranty with our systems. Accordingly, service revenues are not earned during the warranty period.

In regular market conditions, the demand for our systems is characterized by short notice. To meet customers' needs for quick delivery and to realize the competitive advantage of the ability to do so, we have to pre-order components and subsystems based on our forecast of future orders, rather than on actual orders. This need is compounded by the fact that, in times of increasing demand in our markets, our suppliers and subcontractors tend to extend their delivery schedules or fail to meet their delivery deadlines. To compensate for these unscheduled delays, we build inventories further into the future, which increases the risk that our forecast may not correspond to our actual future needs. The uncertainties involved in these longer-term estimates during regular times of business expansion tend to increase the level of component and subsystem inventories (See also in "Longer sales process for new products may increase our costs and delay time to market of our products both of which may negatively impact our inventory and results of operations" under "Risk Factors" above and "Valuation of Inventory" under "Critical Accounting Policies" below). Compared to our sales cycles for repeat orders from existing customers, we have longer sales cycles for new customers as well as for new customers in new markets. In addition, the selling cycle in our markets may typically take several quarters from first contact to revenue recognition, including on-site evaluation. Naturally, repeat orders take less time. Still, a

significant portion of our finished goods inventory consists of systems under evaluation and demonstration systems.

On November 11, 2008 and February 17, 2009 we announced cost reduction measures, the purpose of which was to align Camtek with then market conditions due to the global economic recession. These measures resulted in a reduction in our human resources related expenses of about 12% in November 2008 and 14% in February 2009. At the end of 2009 and beginning of 2010 we canceled the salary reductions implemented in 2008 and 2009 as part of the cost reduction measures, resulting in an increase in our salary expenses in 2010 as compared to 2009.

Critical Accounting Policies

Critical accounting policies are those that are, in management's view, most important to the portrayal of a company's financial condition and results of operations and most demanding on their calls on judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. We believe our most critical accounting policies relate to:

Revenue Recognition.

The Company recognizes revenue from sales of its products when the products are installed at the customer's premises and are operating in accordance with its specifications, signed documentation of the arrangement, such as a signed contract or purchase order, has been received, the price is fixed or determinable and collectability is reasonably assured.

Our revenue recognition policy requires that we use judgment to determine whether collectability is reasonably assured. Judgment is used for each customer on a case-by-case basis, and, among other factors, we take into consideration the individual customer's payment history and its financial strength, as demonstrated by its financial reports or through a third-party credit check. In some cases, we secure payments by a letter of credit or other instrument.

Our products are only installed by our qualified technicians. Thus, before we recognize the revenue from the sale of a product and consider the sales cycle completed, our technicians must install our product at the customer's premises, activate the product according to its specifications and then certify completion of such installation and activation.

Service revenues consist mainly of revenues from maintenance contracts and are recognized ratably over the contract period.

In 2010, we elected to adopt early recently issued ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements, and therefore for multiple-element arrangements the overall arrangement fee is allocated to each element (both delivered and undelivered items) based on management's best estimate of their selling price where other sources of evidence are unavailable. Our multiple deliverables usually consist of product sales and non-standard warranties. A non-standard warranty is one that is for a period longer than 12 months.

Accordingly, a non-standard warranty is deferred as unearned revenue and is recognized ratably as revenue commencing with and over the applicable warranty term. The adoption of ASU 2009-13 did not have a material effect on our financial position, results of operations or cash flows.

We routinely evaluate our products for inclusion of any embedded software that is more than incidental thereby requiring consideration of ASC Subtopic 985-605, "Software Revenue Recognition". Based on such evaluation, we concluded that none of our products have such embedded software. In 2010, we have elected to adopt early recently issued ASU 2009-14, "Software (Topic 985)", which amends ASC Subtopic 985-605 to exclude from its scope tangible products which contain both software and nonsoftware components that function together to deliver a tangible

product's essential functionality. The adoption of ASU 2009-14 did not have a material effect on our financial position, results of operations or cash flows.

Valuation of Accounts Receivable. We review accounts receivable to determine which are doubtful of collection. In making this determination of the appropriate allowance for doubtful accounts, we consider information at hand regarding specific customers, including aging of the receivable balance, evaluation of the security received from customers, our history of write-offs, relationships with our customers and the overall credit worthiness of our customers. Changes in the credit worthiness of our customers, the general economic environment and other factors may impact the level of our future write-offs.

Valuation of Inventory. Inventories consist of completed systems, partially completed systems and components, and are recorded at the lower of cost, determined by the moving – average basis, or market. We review inventory for obsolescence and excess quantities to determine that items deemed obsolete or excess inventory are appropriately reserved. In making the determination, we consider forecasted future sales of related products and the quantity of inventory at the balance sheet date, assessed against each inventory items past usage rates and future expected usage rates. Changes in factors such as technology, customer demand, competing products and other matters could affect the level of our obsolete and excess inventory in the future.

In the years 2010, 2009 and 2008 we wrote-off inventory in the amount of \$0.2 million, \$4.2 million and \$4.5 million respectively. The write off amount is included in the line item “Cost of products sold”, in the consolidated statements of operations. The write off creates a new cost basis and is a permanent reduction of inventory cost. The write-off in the amount of \$4.2 million in 2009 relates to (i) \$2.6 million due to a strategic decision by the Company to discontinue certain old products; (ii) \$0.6 million resulting from a write down of software purchased from a former single source supplier which was partially expected to be replaced upon completion of an internally developed software; and (iii) \$1.0 million slow moving inventory and items deemed obsolete. In 2010 the company recorded an additional \$0.2 million inventory write off. Inventory that is not expected to be converted or consumed in 2011 is classified as non-current. As of December 31, 2010, a \$2.3 million portion of our inventory was in excess of our estimated requirements for 2011, based on our best estimates and the recent level of sales. Management periodically evaluates its inventory composition, giving consideration to factors such as the probability and timing of anticipated usage and the physical condition of the items, and then estimates a charge (reducing the inventory) to be provided for slow moving, technological obsolete or damaged inventory. These estimates could vary significantly from actual requirements based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen or did not exist when the inventory write-downs were established.

Business Acquisitions. On January 1, 2009, we adopted revised principles of ASC Topic 805, Business Combinations, related to business combinations and non-controlling interests. The revised principle on business combinations applies to all transactions or other events in which an entity obtains control over one or more businesses. It requires an acquirer to recognize the assets acquired, the liabilities assumed, and any non-controlling interest in the acquiree at the acquisition date, measured at their fair values as of that date. This revision also changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies, and requires direct acquisition costs to be expensed. In addition, it provides certain changes to income tax accounting for business combinations which apply to both new and previously existing business combinations. The long-term liabilities arising from the business acquisitions are revalued at each balance sheet date with the revaluation difference being recorded to finance income, net line item in the consolidated statements of operations. In April 2009, additional guidance was issued which revised certain business combination guidance related to accounting for contingent liabilities assumed in a business combination. We have adopted this guidance in conjunction with the adoption of the revised principles related to business combinations. We applied the revised principles to the acquisitions of Printar and Sela (See also in “We expanded and may attempt to expand our activity in the markets we operate in through M&A activity. Such activity may result in operating difficulties, losses and other adverse consequences” under “Risk Factors” above).

On June 15, 2009, the Company completed the final aspects of acquisition of all of Printar’s assets, knowledge, technology and IP rights and liabilities to the OCS, pursuant to an agreement entered into in October 2008. The transaction is considered a business combination under ASC Topic 805.

The following table summarizes the consideration paid for Printar's assets and the amount of the assets acquired and liabilities assumed at the acquisition date:

	June 2009 Million US\$
Consideration	
Cash	0.5
Fair value of contingent consideration	1.8
Total consideration	2.3
Recognized amounts of identifiable assets acquired and liabilities assumed	
Other assets	0.5
Fixed assets	0.1
In process research and development (IPR&D)	1.0
Technology	0.4
Liability to Office of the Chief Scientist	(1.7)
Total identifiable net assets	0.2
Goodwill	2.1
Acquisition-related costs (included in selling, general, and administrative expenses in the income statement for the year ending December 31, 2009)	30 thousand US\$

In consideration for the purchase, Camtek may pay Printar a total amount of up to \$2.5 million; an initial payment of \$0.5 million was already paid in July 2009, and an additional consideration of \$2.0 million will be paid subject to certain agreed conditions and provided that such amount, if due, be paid by the later of May 2011 or upon the fulfillment of certain conditions specified in the agreement.

The additional amount bears interest of 3-month Libor plus 1.5%.

The fair value of the contingent payment is based on the \$2.5 million transaction price, discounted from the estimated payment dates to the valuation date using a rate of 13%, which represents the average of the weighted average cost of capital and the Company's effective interest on financial debt. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 (Statement 157) refers to as Level 3 inputs.

The amortization period for the technology acquired in the transaction is 5 years. The IPR&D will be amortized over a period of 10 years starting at the initial date of recording revenues from this technology. As of December 31, 2010, the IPR&D had not commenced amortization.

The goodwill of \$2.1 million arising from the acquisition represents, inter alia, the synergies between the technology acquired and the Company's existing operational, R&D and sales and marketing infrastructure.

The goodwill recognized is deductible for income tax purposes.

The liability to the OCS is based on the estimated timing of future payments, discounted using the weighted average cost of capital of 22%.

The carrying values of the IPR&D, technology, liability to the OCS and contingent consideration at December 31, 2010 were \$1.0 million, \$0.3 million, \$(2.3) million and \$(1.7) million, respectively (December 31, 2009 - \$1.0 million, \$0.3 million, \$(1.9) million and \$(1.9) million, respectively).

In September 2009, the Company signed an agreement to acquire the entire share capital of Sela. The transaction was completed in November 2009. The operations of SELA have been included in the consolidated financial statements of the Company from October 1, 2009. According to the agreement from September 2009, we agreed to manage and finance the operations of Sela until the completion of the transaction. The service income and operating expenses included in the results of Sela's operations for this period were immaterial. As such, there was no effective difference between recording the financed transactions in our books and full consolidation of Sela's results of operations. Similarly, Sela's results of operations in the period from the signing of the agreement to October 1, 2009 were immaterial.

The following table summarizes the consideration paid for Sela and the amounts of the assets acquired and liabilities assumed at the acquisition date:

	September 2009 Million US\$
Consideration	
Fair value of contingent consideration	3.7
Total consideration	3.7
Recognized amounts of identifiable assets acquired and liabilities assumed	
Inventories and other assets	1.3
Fixed assets	0.1
Technology	2.4
Customer relationships	0.05
Liability to Office of the Chief Scientist	(1.7)
Total identifiable net assets	2.2
Goodwill	1.5
Acquisition-related costs (included in selling, general, and administrative expenses in the income statement for the year ending December 31, 2009)	66 thousand US\$

According to the agreement, in consideration for the shares Camtek will pay to Sela's shareholders future payments in the aggregate amount of up to \$9.5 million by way of earn-out payments, contingent upon Sela's future revenues. The fair value of the contingent consideration arrangement of \$3.7 million was estimated based on future earn-out payments discounted to the valuation date, using the weighted average cost of capital of 19%. This measure is based on significant inputs that are not observable in the market, which Statement 157 (ASC Section 820-10-35) refers to as Level 3 inputs. Key assumptions include management's estimation about future sales.

The liability to the OCS is based on estimated timing of future payment, discounted using the Company's weighted average cost of capital of 19%.

The weighted average amortization period for the identified intangible assets acquired in the transaction is 12 years.

The carrying values of the technology, customer relationships, liability to the OCS and contingent consideration at December 31, 2010 were \$2,220 thousand, \$34 thousand, \$(1,856) thousand and \$(4,505) thousand respectively (December 31, 2009 - \$2,469 thousand, \$45 thousand, \$(1,704) thousand and \$(3,932) thousand respectively).

The goodwill arising from the acquisitions of Printar's assets and Sela of \$2.1 million and \$1.5 million, respectively, represent, inter alia, the synergies between the technologies acquired and our existing operational, R&D and sales and marketing infrastructure.

Intangible assets. Patent registration costs are capitalized at cost and amortized, beginning with the first year of utilization, over its expected life of ten years.

Intangible assets as part of a business combination are recorded at their fair value and amortized based on their estimated revenue producing life span. Acquired in-process research and development is amortized starting at the initial date of recording revenues from the associated technology. We review our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the long lived asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as computed by subtracting the fair market value of the asset from its carrying value. See Note 10 (B) – Goodwill and Intangible Assets, Net, of the financial statements.

Goodwill. Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB ASC Topic 350, Intangibles - Goodwill and Other (Statement No. 142, Goodwill and Other Intangible Assets). We have set our annual impairment testing date at December 31. The goodwill impairment test is a two-step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the enterprise must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to a purchase price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed. This requires significant judgments including estimation of future cash flows, which is dependent on internal forecasts, estimation of the long-term rate of growth for our reporting units, the period over which cash flows will occur and determination of our weighted average cost of capital. Changes in these estimates and assumptions could materially affect the determination of fair value and/or goodwill impairment for each reporting unit.

We allocate goodwill to reporting units based on the reporting unit's expected benefit from the acquisition. We evaluate our reporting units on an annual basis and, if required, reassign goodwill using a relative fair value allocation approach. No impairment charge was recognized in 2010 or 2009.

Provisions for contingent liabilities. A contingency (provision) in accordance with ASC Topic 450-10-05, Contingencies, is an existing condition or situation involving uncertainty as to the range of possible loss to the entity. A provision for claims is recognized if it is probable (likely to occur) that a liability has been incurred and the amount can be estimated reasonably. Provisions in general are highly judgmental, especially in cases of legal disputes. We assess the probability of an adverse event if the probability is evaluated to be probable, we are required to fully provide for the total amount of the estimated contingent liability. We continually evaluate our pending provisions to determine if accruals are required. It is often difficult to accurately estimate the ultimate outcome of a contingent liability. Different variables can affect the timing and amount we provide for certain contingent liabilities. Our assessments are therefore subject to estimates made by us and our legal counsel, adverse revision in our estimates of the potential liability could materially impact our financial condition, results of operations or liquidity. As of December 31, 2010 we did not record contingent liability with respect to our legal disputes (see also "Our products may infringe on the intellectual property rights of others, which could result in claims against us" under "Risk Factors" and "Business Acquisitions" under "Critical Accounting Policies" above), since we believe it is more than 50% likely that our legal disputes will end in our favor.

Valuation of Long-Lived Assets. We apply FASB ASC Subtopic 360-10, "Property, Plant and Equipment (Formerly SFAS No. 144, "Accounting for the Impairment or Disposal of Long-Lived Assets"). This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the long lived asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as computed by subtracting the fair market value of the asset from its carrying value. We prepared future cash flows based on our best estimates including projections and financial statements, future plans and growth estimates.

Income Taxes. We account for income taxes under FASB ASC Subtopic 740-10 Income Taxes – Overall (including SFAS No. 109, "Accounting for Income Taxes"). Under SFAS 109 deferred tax assets or liabilities are recognized in

respect of temporary differences between the tax bases of assets and liabilities and their financial reporting amounts as well as in respect of tax losses and other deductions which may be deductible for tax purposes in future years, based on tax rates applicable to the periods in which such deferred taxes will be realized. The rates applied are those enacted in law as of December 31, 2010. In assessing the realizability of deferred tax assets, we consider whether it is more likely than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible and during which the carry-forwards are available. Valuation allowances are established when necessary to reduce deferred tax assets to the amount considered more likely than not to be realized.

Our financial statements include deferred tax assets, net, which are calculated according to the above methodology. If there is an unexpected critical deterioration in our operating results and forecasts, we would have to increase the valuation allowance with respect to those assets. We believe that it is more likely than not that those net deferred tax assets included in our financial statements will be realized in subsequent years.

Stock Option and Restricted Share Plans. We account for our employee stock-based compensation awards in accordance with ASC Topic 718, Compensation - Stock Compensation. ASC Topic 718 requires that all employee stock-based compensation is recognized as a cost in the financial statements and that for equity-classified awards such cost is measured at the grant date fair value of the award. We estimate grant date fair value using the Black-Scholes-Merton option-pricing model. When calculating this equity-based compensation expense we took into consideration awards that are ultimately expected to vest. Therefore, this expense has been reduced for estimated forfeitures.

Recently Issued and Adopted Accounting Standards

In October 2009, the FASB issued ASU 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements (EITF Issue No. 08-1, Revenue Arrangements with Multiple Deliverables). (For discussion regarding effects of adoption see Revenue recognition above).

In October 2009, ASU 2009-14, Software (Topic 985): Certain Revenue Arrangements that Include Software Elements was issued that amends the accounting rules addressing software revenue recognition for tangible products that contain both software and non-software components that function together to deliver the tangible product's essential functionality. The guidance also amends the determination of how arrangement consideration should be allocated to deliverables in a multiple-deliverable revenue arrangement. (For discussion regarding effects of adoption see Revenue recognition above).

In July 2010, the FASB issued ASU 2010-20, Receivables (Topic 310): Disclosures about the Credit Quality of Financing Receivables and the Allowance for Credit Losses, which significantly increases disclosures about credit quality of financing receivables and the allowance for credit losses, and requires disclosures to be made at a greater level of disaggregation. ASU 2010-20 is effective for public companies in fiscal years ending on or after December 15, 2010. The adoption of this guidance in 2010 did not have a material effect on the Company's financial statement disclosures.

ASU 2010-6 - Fair Value Measurements and Disclosures (Topic 820): Improving Disclosures about Fair Value Measurements; This ASU amends FASB ASC Topic 820, Fair Value Measurements and Disclosures, to require reporting entities to make new disclosures about recurring or nonrecurring fair-value measurements including significant transfers into and out of Level 1 and Level 2 fair-value measurements and information about purchases, sales, issuances, and settlements on a gross basis in the reconciliation of Level 3 fair-value measurements. The ASU also clarifies existing fair-value measurement disclosure guidance about the level of disaggregation, inputs, and valuation techniques.

Except for the detailed Level 3 roll forward disclosures, the guidance in the ASU is effective for interim and annual reporting periods beginning after December 15, 2009. The new disclosures about purchases, sales, issuances, and settlements in the roll forward activity for Level 3 fair-value measurements are effective for fiscal years beginning after December 15, 2010. Early adoption is permitted. The adoption of this standard did not have any effect on the Company's consolidated financial position and results of operations.

New Standards and Interpretations - Not Yet Adopted

In December 2010, the FASB issued ASU 2010-29 “Disclosure of Supplementary Pro Forma Information for Business Combinations”. This ASU specifies that if a public entity presents comparative pro forma financial statements, the entity should disclose revenue and earnings of the combined entity as though the business combination that occurred during the current year had occurred as of the beginning of the comparable prior annual reporting period only. The ASU also expands disclosure requirements as to material pro forma adjustments. This ASU is effective as of the beginning of each reporting entity’s first annual reporting period that begins after December 15, 2010. The Company expects that the adoption of ASU 2010-28 will not have a material effect on its consolidated financial statements.

Results of Operations

Year Ended December 31, 2010 compared to Year Ended December 31, 2009.

Revenues. Revenues in 2010 increased by 64.1% to \$87.8 million from \$53.5 million in the year ended December 31, 2009. In 2010, sales to the PCB and IC substrate and MEP industries increased by 29% and 116%, respectively, compared to previous year. Sales of all products increased by 79.2% to \$70.2 million in the year ended December 31, 2010, from \$39.2 million in the year ended December 31, 2009. The increase in sales to the PCB and MEP industries is attributed mainly to increased demand for our products as a result of the high capacity and increased demands driven by new electronic devices and technology evolving in these two industries and the recovery from the recent global economic recession. In addition the increase in the revenues from the MEP industry was also a result of initial sales by us of the sample preparation products and new AOI system to the front end market of the MEP industry. The mixture of products sold and their configuration and throughput varieties make it very difficult to estimate average selling prices and pricing trends.

Service fees increased by 22.45% to \$17.6 million in the year ended December 31, 2010, from \$14.3 million for the year ended December 31, 2009, primarily due to increased revenue from continuing service as our installed base increased.

Gross Profit. Gross profit consists of revenues less cost of revenues, which includes the cost of components, production materials, labor, depreciation, factory and service center overhead and provisions for warranties. These expenditures are only partially affected by sales volume. Our total gross profit increased by \$20.9 million to \$38.4 million in 2010 from \$17.5 million in 2009, representing an increase of 119.5%. Our gross margin increased to 43.8% in 2010, compared to a gross margin of 32.6% in 2009, primarily due to increased revenues as described above. In addition, in 2009 we reported an inventory write-off in the amount of \$4.2 million which significantly influenced our gross margin in 2009 compared with only a \$0.2 million write-off in 2010. Our gross profit on product sales increased by \$17.7 million to \$31.8 million in 2010, compared to \$14.1 million in 2009. Our gross profit on service revenue increased by \$3.3 million in 2010 to \$6.6 million, compared to \$3.3 million in 2009, mainly due to increase in service revenues accompanied with smaller increase in direct expenses like service engineers, which is the main service expense component.

Research and Development Costs. Research and development expenses consist primarily of salaries, materials consumption and costs associated with subcontracting certain development efforts. Total research and development expenses for 2010 were \$12.9 million, compared to \$10.3 million in 2009. Research and development expenses increased in 2010 by \$2.6 million, primarily due to increase in salary expenses, as well as the recording of the research and development costs and expansion of certain research and development plans mainly with respect to the Company's future products to the MEP and PCB industries.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of expenses associated with salaries, commissions, promotion and travel, doubtful debt, professional services and rent costs. Our selling, general and administrative expenses increased by 16.7% to \$20.7 million in 2010 from \$17.7 million in 2009. Selling expenses have increased mainly due to the variable expenses associated with the increased revenues which resulted from the increase in demands for our products in the markets we operate, as described above and due to increase in our salary expenses. This increase was offset by a decrease in professional fees related to the lawsuit that Rudolph Technologies has filed against us. Selling, general and administrative expenses as a percentage of revenues was 24% in 2010, compared to 33% in 2009.

Financial Expenses, Net. We had net financial expense of \$1.5 million in 2010, as compared to net financial expense of \$1.0 million in 2009. These changes relate mainly to an expense recorded in 2010 of \$1.4 million revaluation of

contingent consideration and certain future liabilities recorded with respect to the acquisitions of Printar and Sela, compared to \$0.6 million in 2009. Foreign currency income (expense), net, resulting from transactions not denominated in U.S. Dollars amounting to \$(3) thousand and \$(124) thousand in 2010 and 2009, respectively.

Provision for Income Taxes. Income tax expenses increased to \$0.6 million in 2010, compared to \$0.4 million in 2009, mainly due to increased revenues.

Net Income. We realized net income of \$2.8 million in 2010 compared to net loss of \$11.8 million in 2009, in view of the factors discussed above.

Year Ended December 31, 2009 compared to Year Ended December 31, 2008.

Revenues. Revenues in 2009 decreased by 29.1% to \$53.5 million from \$75.5 million in the year ended December 31, 2008. In 2009, sales to the PCB and IC substrate and MEP industries decreased by 30% and 28%, respectively, compared to previous year. Sales of all products decreased by 36.9% to \$39.2 million in the year ended December 31, 2009, from \$62.1 million in the year ended December 31, 2008. The decrease in sales to the PCB and MEP industries is attributed to low demand for our products as a result of the severe global economic recession that started in the second half of 2008. The mixture of products sold and their configuration and throughput varieties make it very difficult to estimate average selling prices and pricing trends.

Service fees increased by 7.5% to \$14.3 million in the year ended December 31, 2009, from \$13.3 million for the year ended December 31, 2008, primarily due to increased revenue from continuing service as our installed base increased.

Gross Profit. In 2009 we experienced a decrease in gross profit and gross margins primarily due to decreased revenues resulted from the global economic recession which started in the second half of 2008. Our gross profit on product sales decreased by \$10.9 million to \$14.1 million in 2009, compared to \$25 million in 2008. Our gross profit on service revenue increased by \$0.5 million in 2009 to \$3.3 million, compared to \$2.8 million in 2008. In 2009 our cost of revenues includes \$4.2 million inventory write down compared to \$4.5 million in 2008. Our total gross profit decreased by \$10.3 million to \$17.5 million in 2009 from \$27.8 million in 2008, representing a decrease of 37%. Our gross margin decreased to 32.6% in 2009, compared to a gross margin of 36.9% in 2008.

Research and Development Costs. Total research and development expenses for 2009 were \$10.3 million, compared to \$12.8 million in 2008. Research and development expenses decreased in 2009 by \$2.5 million, primarily due to cost reduction measures implemented at the end of 2008 and the beginning of 2009, which resulted in a decline in our salary expenses. The research and development expenses recorded in the first half of 2009 prior to the completion of the Printar assets include expenses related to the assessment of the SM technology.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased by 28.6% to \$17.7 million in 2009 from \$24.8 million in 2008. Selling expenses have decreased mainly due to the decreased revenues resulting from the severe economic crisis that started in the second half of 2008 and due to cost reduction measures implemented at the end of 2008 and the beginning of 2009, which resulted in a decline in our salary expenses. This decrease was offset by an increase in professional fees related to the lawsuit that Rudolph Technologies has filed against us. Selling, general and administrative expenses as a percentage of revenues was 33% in 2009, compared to 32.9% in 2008.

Financial Income (Expenses), Net. We had net financial expense of \$0.9 million in 2009, as compared to net financial income of \$1.0 million in 2008. These changes relate mainly to \$0.6 million revaluation of contingent consideration and certain future liabilities recorded at fair value with respect to the acquisitions of Printar and Sela and \$0.1 million expenses resulted from changes in currency rates (compared to income of \$1.2 million in 2008). Foreign currency income (expense) resulting from transactions not denominated in U.S. Dollars amounted to \$(124) thousand and \$1.2 million in 2009 and 2008, respectively.

Provision for Income Taxes. Income tax expenses decreased to \$0.4 million in 2009, compared to \$0.77 million in 2008.

Net Loss. We incurred a net loss of \$11.8 million in 2009 compared to a net loss of \$9.6 million in 2008, in view of the factors discussed above.

B. Liquidity and Capital Resources

Our cash and cash equivalent balances totaled approximately \$9.6 million at December 31, 2010 and \$15.8 million at December 31, 2009. In addition, at December 31, 2010 we had \$5.2 million classified as restricted deposits.

From our inception through December 31, 2010 we raised approximately \$36.0 million from our initial public offering in 2000, approximately \$6.1 million in a rights offering of ordinary shares to our then existing shareholders in 2002, \$5.0 million as a convertible loan from FIMI Opportunity Fund, L.P. and FIMI Israel Opportunity Fund, L.P. (all of which was paid in three equal portions in 2008, 2009 and 2010), and \$14.5 million from a private placement to Israeli institutional investors.

Our working capital was approximately \$32.3 million at December 31, 2010 and \$31.7 million at December 31, 2009. The increase is mainly attributed to the increase in accounts receivable and inventory, offset by the increase in accounts payable and other current liabilities.

On August 12, 2008, our Board of Directors authorized a share repurchase program, involving the repurchase from time to time of our ordinary shares, in a sum not to exceed a total aggregate price of \$2 million. The timing and exact number of shares purchased will be at the Company's discretion. The buyback of shares may occur in open market, negotiated or block transactions. We do not intend to purchase any shares from our management team or other insiders. This share repurchase program does not obligate us to acquire any specific number of shares and may be suspended or discontinued at any time. There were no purchases in 2010 and as of the date of this Annual Report, there is no current intention to buy shares. As of December 31, 2010, \$1.1 million remains of the \$2 million authorized for the share repurchase program.

On August 28, 2009, the court entered a judgment against us in the lawsuit brought by Rudolph, our competitor in the semiconductor manufacturing and packaging industry, awarding damages of approximately \$6.8 million in favor of Rudolph, with regard to sales of Camtek's Falcon products in the United States, plus an interest of approximately \$1.2 million. In 2011, the Company was ordered to pay an additional \$645,946 in supplemental damages, and the plaintiffs filed motions seeking \$1.5 million for alleged contempt and related attorney fees. Camtek filed an appeal with the Federal Circuit on August 10, 2010, seeking to overturn the District Court's rulings regarding validity, infringement and damages. In connection with that appeal we were required to post a bond in the amount of \$8.5 million. On September 2, 2010, the District Court entered an order accepting our appeal bond and staying execution of the money judgment pending appeal.

Should we fail in our appeal of this lawsuit, or fail in reducing the awarded damages, we will be forced to pay damages which will adversely affect our cash resources. (See also in Item 8.A - Legal Proceedings).

In connection with the issuance of the appeal bond, we signed an agreement with Bank Leumi L'Israel, according to which the bank provided us with a bank guarantee in the amount of \$8.925 million in order to support the appeal bond, which was issued by a surety company in the United States, together with a long-term loan of approximately \$1.3 million. The loan has a term of three years and bears interest at the rate of Libor + 2.875% per annum. In addition, we received short-term loans in the amount of \$1.4 million, and factoring facilities of additional \$1.3 million (As of December 31, 2010 the factoring facility has not been utilized). Our obligations to the bank are secured by a lien on our facility in Israel, restricted deposits in the amount of approximately \$5.2 million and a floating charge on our assets. In addition, we signed a covenant agreement with the bank which requires us to comply with various ongoing financial covenants, relating to our minimum cash balance, EBITDA minimums, equity minimums, revenue

minimums, and bank debt to open receivables ratio.

As of December 31, 2010, we did not comply with the financial covenants relating to the ratio of adjusted shareholders' equity to the total balance sheet, in which adjusted shareholders' equity is defined in the agreement as shareholders' equity as presented in the financial statements, minus deferred expenses, intangible assets, and balances due from affiliates ("shareholder's equity ratio"); and to the maintenance of cash balances of not more than \$1 million in the bank accounts of one of our foreign subsidiaries ("maximum cash balance").

On March 31, 2011, we signed an amended agreement with the bank which amended the definition of the shareholders' equity ratio to increase the equity in the sum of the liabilities for contingent consideration and the Office of the Chief Scientist in respect of acquisitions. This amendment is retroactively effective as of December 31, 2010.

In addition, a waiver was retroactively received from the bank in respect of the maximum cash balance in the foreign subsidiary as of December 31, 2010 and as of March 31, 2011.

Accordingly, we are in full compliance with the amended financial covenants as of the December 31, 2010 and expect to comply with the amended covenants in the following year.

As of the date of this filing, we are undergoing negotiations with an Israeli banking institution for an additional credit line.

We anticipate that our existing capital resources and cash flows from operations will be adequate to satisfy our liquidity requirements through 2011. If available liquidity is not sufficient to meet our operating and loan obligations as they come due, our plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet our cash requirements (see also in "We had a history of losses, and we cannot assure you that we will not incur additional losses in the future. Moreover, if our business deteriorates, we could face liquidity problems" under "Risk Factors" above).

Cash flow from operating activities

For the year ended December 31, 2010, we had negative cash flow from operations of \$39 thousand, primarily due to the increase in accounts payable and other current liabilities, partially offset by the increase in accounts receivable and inventory. For the year ended December 31, 2009, we had positive cash flow from operations of \$3.9 million, primarily due to a decrease in inventories, partially offset by our losses. We expect to continue to incur in 2011 additional legal expenses and other costs associated with certain patent infringement actions which will impact our cash flow from operations. See "Our products may infringe on the intellectual property rights of others, which could result in claims against us" under "Risk Factors" above.

Cash flow from investing activities

Cash flow used in investing activities in 2010 was \$7.1 million, due to the restricted deposit of \$5.2 million and capital expenditures of \$1.9 million. Cash flow used in investing activities in 2009 was \$0.4 million, primarily due to capital expenditures of \$0.4 million and \$0.5 million investment in Printar, offset by \$0.5 million net cash acquired in the investment in Sela.

Our capital expenditures in 2010 were used primarily for the purpose of relocating our manufacturing facilities in China and maintaining our facilities in Israel, and in 2009 primarily for the purpose of maintaining our facilities in Israel.

Cash flow from financing activities

Cash flow provided by financing activities in 2010 was \$0.7 million, mainly due to the receipt of \$2.7 million in loans from banks and grants from the OCS of \$0.2 million offset by the repayment of the last portion of the long-term loan from FIMI, in a sum of \$1.67 million as well as earn-out payments for SELA of \$0.2 million, repayments to the OCS of \$0.2 million and repayment of loans from banks of \$0.1 million.

Cash flow used in financing activities in 2009 was \$3.6 million, due to the repayment of \$2.0 million short-term loans from banks and \$1.67 million payment of the long-term loan from FIMI.

Effective Corporate Tax Rate

Camtek's production facility in Israel has been granted "Approved Enterprise" status under the Investment Law. We participate in the Alternative Benefits Program and, accordingly, income from our Approved Enterprises will be tax exempt for a period of 10 years, commencing in the first year in which the Approved Enterprise first generates taxable income due to the fact that we operate in Zone "A" in Israel.

On April 1, 2005, an amendment to the Investment Law came into effect ("the Amendment") and has significantly changed the provisions of the Investment Law. The Amendment limits the scope of an enterprise which may be approved by the Investment Center by setting criteria for the approval of a facility as a "Beneficiary Enterprise", such provisions generally require that at least 25% of the Beneficiary Enterprise's income will be derived from export. Additionally, the Amendment enacted major changes in the manner in which tax benefits are awarded under the Investment Law so that companies no longer require Investment Center approval in order to qualify for tax benefits.

In addition, the Amendment provides that terms and benefits included in any certificate of approval issued prior to December 31, 2004 will remain subject to the provisions of the Investment Law as they were on the date of such prior approval. Therefore, our existing Approved Enterprise will generally not be subject to the provisions of the Amendment. As a result of the Amendment, tax-exempt income generated under the provisions of the new law, as part of a new Beneficiary Enterprise, will subject us to taxes upon distribution or liquidation.

Camtek has been granted the status of Approved Enterprises, under the Investment Law, for investment programs for the periods which ended in 2007 and 2010, and the status of Beneficiary Enterprise according to the Amendment, for the period ending in 2014 ("Programs"). Sela has also been granted the status of Beneficiary Enterprise according to the Amendment, for the period ending in 2014.

On December 29, 2010, the Investment Law was amended to significantly revise the tax incentive regime in Israel commencing on January 1, 2011. For more information, see Item 10 – "Taxation – Taxation of Companies in Israel - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959."

Out of Camtek's retained earnings as of December 31, 2010 approximately \$20.8 million are tax-exempt earnings attributable to its Approved Enterprise and approximately \$3.0 million are tax-exempt earnings attributable to its Beneficiating Enterprise. The tax-exempt income attributable to the Approved and Beneficiating Enterprises cannot be distributed to shareholders without subjecting the Company to taxes. If these retained tax-exempt profits are distributed, the Company would be taxed at the reduced corporate tax rate applicable to such profits (currently - 25% pursuant to the implementation of the Investment Law). According to the Amendment, tax-exempt income generated under the Beneficiating Enterprise will be taxed upon dividend distribution or complete liquidation, whereas tax exempt income generated under the Approved Enterprise will be taxed only upon dividend distribution (but not upon complete liquidation, as the tax liability will be incurred by the shareholders).

As of December 31, 2010, if the income attributed to the Approved Enterprise were distributed as dividend, we would incur a tax liability of approximately \$5.2 million. If income attributed to the Beneficiating Enterprise were distributed as dividend, or upon liquidation, we would incur a tax liability in the amount of approximately \$ 0.8 million. These amounts will be recorded as an income tax expense in the period in which we declare the dividend.

We intend to indefinitely reinvest the amount of our tax-exempt income and not distribute any amounts of our undistributed tax-exempt income as dividend. Accordingly, no deferred tax liabilities have been provided on income attributable to our Approved and Beneficiary Enterprise Programs as the undistributed tax exempt income is essentially permanent in duration.

The entitlement to the above benefits is conditional upon our fulfilling the conditions stipulated by the law and the regulations published thereunder as well as the criteria set forth in the approval for the specific investments in Approved Enterprises. In the event of failure to meet such requirements in the future, income attributable to our Programs could be subject to the statutory Israeli corporate tax rates and we could be required to refund a portion of the tax benefits already received, with respect to such Program. Our management believes that we have met the aforementioned conditions.

Inflation and Foreign Currency Fluctuation

The currency of the primary economic environment in which our operations are conducted is the dollar. Most of our revenues are derived in dollars. The prices of part of our materials and components are purchased in dollars or are linked to changes in the dollar/NIS exchange rate effective on the date of delivery of the goods to our factory. Most of our marketing expenses are also denominated in dollars or are dollar linked. Our product prices in most countries except in Europe, Japan and as of 2011 part of our revenues from products in China, are denominated in dollars. However, most of our service income is denominated in local currency. Due to the fact that our financial results are reported in dollars, in Europe, Japan or China, if there is a significant devaluation in the local currency as compared to the dollar, the prices of our products will decrease and negatively affect our revenues and income. The opposite effect occurs when the dollar increases in value in comparison to these currencies. As most of our revenues are denominated in dollars, we believe that inflation and fluctuations in the NIS/dollar exchange rate have no material effect on our revenues. However, a major portion of the costs of our Israeli operations, such as personnel, subcontractors, materials and facility-related, are incurred in NIS. As a result, we bear the risk that our NIS costs, as expressed in dollars, increase to the extent by which the continued significant appreciation of the NIS in relation to the dollar, will increase our costs expressed in dollars and have an effect on our net income. In 2010 we experienced devaluation of the NIS in relation to the dollar which decreased our costs expressed in dollars. In addition, starting 2011, part of our revenues from products in China will be denominated in local currency. Most of the expenses and purchases in China are also denominated in local currency. As our financial results are reported in dollars, fluctuations in the CNY/dollar exchange rate may affect our revenues and level of expenses. In order to secure part of the risk, we are engaged from time to time in hedging transactions.

In our consolidated financial statements, transactions and balances originally denominated in dollars are presented at their original amounts. Gains and losses arising from non-dollar transactions and balances are included in the determination of net income as part of financial expenses, net.

Effects of Government Regulations and Location on the Company's Business

For a discussion of the effects of Israeli governmental regulations and our location in Israel on our business, see "Risks relating to our Operations in Israel" in item 3, above.

C. Research and Development, Patents and Licenses.

We believe that intensive research and development is essential to our business. We devote substantial research and development resources to developing new products and to improving our existing products to meet our customers' evolving needs. We have dedicated teams with expertise in image processing software and algorithms, electronic hardware, electro-optics, physics, mechanics and systems design.

Our product development efforts over the past couple of years have resulted in the introduction of several new AOI systems, including new models and improvements in the Dragon, Orion, Pegasus, Planet, Lam, certain Falcon product lines and the Gannet.

Our research and development efforts are primarily focused on:

- increasing the throughput of our AOI systems;
- improving our defect detection capabilities;
-

reducing the number of false alarms while simplifying operation and reducing the level of user expertise required to realize the benefits of our systems;

- providing unique technological solutions to our customers;

- adding capabilities to expand our market segments
- completing the development and beta testing of our digital material deposition systems in the solder mask activity; and
 - increasing resolution and enhancing imaging capabilities of our Xact, the SEM/STEM systems

In addition, we are focusing our efforts on leveraging our core technologies, expertise and experience into continually enhancing the value to the user and the return on investment from our products. We believe that our internal multi-disciplinary expertise will enable us to maintain and enhance our technological edge.

As of December 31, 2010, we had 92 employees engaged in research and development, almost all of whom are based in our headquarters in Israel. We also use subcontractors for the development of some of the hardware components of our systems. Our research and development expenses were \$12.9 million, \$10.3 million and \$12.8 million for the years ended December 31, 2010, 2009 and 2008, respectively, representing 14.7%, 19.3% and 17.0% of the total revenues for the years then ended.

We will continue to devote our research and development resources to maintaining and extending our technology leadership position.

Our research and development costs are expensed as incurred.

In general, we rely on a combination of our copyrights, trade secrets, patents, trademarks and non-disclosure agreements to protect our proprietary know-how and intellectual property. We also enter into confidentiality agreements with key employees and with all of the subcontractors who develop and manufacture components for use in our products. We also employ specialists whose main role is to maintain and protect our intellectual property from both professional and legal perspectives. We cannot be certain that actions we take to protect our proprietary rights will be adequate nor can we be certain that we will be able to deter reverse engineering or that there will not be independent third-party development of our technology.

We have 125 patents pending in Israel and worldwide and 14 US provisional applications. In addition, we have 52 registered patents in the following countries: USA (14), Israel (11), Europe (7), Korea (6), Japan (4), Singapore (4), China (3) and Taiwan (3). These patents relate to our proprietary technology and know-how developed for products in the PCB and semiconductor industries. We also have 9 registered trademarks in Israel and 1 registered trademark in Japan.

D. Trend Information

Following the global economic recession of 2008-2009, as of the second half of 2009 and through 2010 we experienced constant improvement in our revenues from the semiconductor manufacturing and packaging industry, as customers' demand for capacity and technology in this industry increased. We anticipate this trend to continue in the first half of 2011.

During 2010 we experienced continued improvement in our revenues from the printed circuit board and IC substrate industry, after these were severely affected by the global economic recession of 2008-2009. We currently expect this industry to remain in high utilization and capacity demands in the first half of 2011.

E. Off-Balance Sheet Arrangements

We do not have any arrangements or relationships with entities that are not consolidated into our financial statements and are reasonably likely to materially affect our liquidity or the availability of our capital resources.

However, we have entered into various non-cancelable operating lease agreements, principally for office space and vehicles, as disclosed in our consolidated financial statements.

As of December 31, 2010, minimum future rental payments under such non-cancelable operating leases were approximately \$3.0 million.

F. Contractual Obligations and Other Commercial Commitments.

As of December 31, 2010, we had contractual obligations and commercial commitments of:

Contractual Obligations	Payment Due in				More than 5 years
	Total (in thousands)	Less than 1 Year	1-3 years	3-5 years	
Contingent consideration in respect of business combinations	6,246	2,554	1,294	1,595	803
Purchase obligations (1)	8,050	8,050	-	-	-
OCS	4,728	536	1,038	1,118	2,036
Severance obligation	626	-	-	-	626
Other long-term obligations (2)	3,006	1,600	1,313	93	-
Total	22,656	12,740	3,645	2,806	3,465

(1) Purchase obligations mainly represent outstanding purchase commitments for inventory components ordered in the normal course of business.

(2) In 2010, we entered into a new framework agreement for non-cancelable operating leases for vehicles for a period of 36 months. As of December 31, 2010, the minimum future rental payments (including future vehicle rental of our subsidiaries) were approximately \$939.

Our subsidiaries have entered into various operating lease agreements, principally for office space. As of December 31, 2010, minimum future rental payments under these leases amounted to \$2,067.

Item 6. Directors, Senior Management and Key Employees.

A. Directors and Senior Management.

The following table sets forth information with respect to our directors and executive officers as of the date of this Annual Report. The address of our directors and executive officers is c/o Camtek Ltd., Ramat Gavriel Industrial Zone, P.O. Box 544, Migdal Ha'Emek 23150, Israel.

Name	Age	Title
Rafi Amit	62	Active Chairman of the Board of Directors
Yotam Stern	58	Executive Vice President, Business & Strategy and director
Gabriela Heller*	46	Director
Rafi Koriat*	64	Director
Eran Bendoly	46	Director
Roy Porat	44	Chief Executive Officer and President of Camtek USA Inc.
Mira Rosenzweig	39	Vice President - Chief Financial Officer
Ayelet Peled	46	Vice President – Human Resources
Gilad Golan	46	Vice President – Research and Development
Colin Smith	61	Vice President – Sela Division Manager
Moshe Grencel	57	Vice President - Operations

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Michael Lev	57	Vice President - Intellectual Property
Aharon Sela	58	VP Sales and President of Camtek Hong Kong
Amir Tzchori	43	Vice President - PCB Manager and GM of Camtek China

*Outside directors (as such term is defined under Israeli Companies Law)

Rafi Amit is serving as our Active Chairman of the Board of Directors since August 2010. Mr. Amit has served as our Chief Executive Officer from January 1998 until August 2010 and has served as Chairman of the Board of Directors since 1987 and until April 2009. Since 1981, Mr. Amit has also served as the President and director of Priortech and has been the Chairman of the Board of Directors of Priortech since 1988. From 1981 until 2004, Mr. Amit served as Priortech's Chief Executive Officer. Mr. Amit holds a B.Sc. in Industrial Engineering and Management from Technion - Israel Institute of Technology.

Yotam Stern has served as an executive of ours since January 1998 and since February 2001 has served as our Executive Vice President, Business & Strategy. He has also served as a member of our Board of Directors since 1987 and as Chairman of the Board of Directors since May 2009 and until August 2010. From January 1998 until February 2001, Mr. Stern served as our Chief Financial Officer. Mr. Stern has also served as the Chief Financial Officer of Priortech since 1981 and as Priortech's Chief Executive Officer since 2004 as well as serving as a director of Priortech since 1985. Mr. Stern holds a B.A. in Economics from Hebrew University of Jerusalem.

Gabriela Heller has served on our Board of Directors since September 2006. Ms. Heller has an extensive financial experience as an accountant, Chief Financial Officer and internal controller. Currently Ms. Heller serves as Chief Financial Officer of The Trendlines Group Ltd an investment company holding two technology incubators. From 1994 until 2010 Ms. Heller served as the CFO of Walden Israel Ltd., which is the management company of Walden Israel Ventures, managing various venture capital funds operating in Israel. From 1989 to 1994 Ms. Heller served as Manager with Kost Forer Gabbay & Kasierer - Ernst & Young Israel, one of the leading accounting firms in Israel. In addition, from 1998 to 2000 Ms. Heller served as Internal Controller to Vilar International Ltd., traded on TASE. Ms. Heller is currently serving on the Boards of Directors of Kerur Holdings Ltd and Elco Holdings Ltd, both traded on TASE, and on the Board of Directors of Kolhey Misgav, the water company for the Misgav Regional Council. From 2004 until 2007 she served on the Board of Directors of Electra Consumer Products Ltd., from 1999 to 2003 Ms. Heller served on the Board of Directors of Priortech, and from 2000 to 2003 served on the Board of Directors of One1 Products Ltd. Ms. Heller is a CPA (Israel), holds a B.A. in Accounting and Economics from the Hebrew University of Jerusalem, School of Business Administration, and an LL.M from Bar Ilan University, Faculty of Law.

Rafi Koriat has served on our Board of Directors since September 2006. Mr. Koriat has extensive experience as Chief Executive Officer ("CEO") and Board member in the fields of semiconductor assembly and processing equipment, optical network components and related emerging fields. Prior to his present position as founder and CEO of Korel Business Ltd., which specializes in strategic positioning and guiding high tech companies and management, Mr. Koriat was CEO of Lambda Crossing engaged in the manufacturing of optical components for networks (2001-2006) and Founder and CEO of Steag CVD Systems Ltd. and its subsidiary, Steag CVD Inc. in San Jose, California; both companies are manufacturers of advanced front-end semiconductor capital equipment (1992-2001). Previously, he worked for 20 years (1972 -1992) at Kulicke and Soffa Industries Inc. in the United States and Israel as Corporate Vice President for Engineering and Technology, Corporate Director for Business and Marketing and Division Manager. Mr. Koriat is also the founder and chairman of the Sub Micron Semiconductor Consortium, OptiPac Consortium (optical communication networks) and nanotechnology consortium (NES), under the Israel Chief Scientist Magnet program. Mr. Koriat holds a B.Sc. from the Technion-Israel Institute of Technology, a M.Sc. from Drexel University in Philadelphia, Pennsylvania and completed an Executive Management Program at Stanford University.

Eran Bendoly has served on our Board of Directors since November 2000. Currently, Mr. Bendoly serves as the Chief Financial Officer of Expand Networks Ltd. Expand is a leading provider of WAN optimization technology. From 2006 to 2008 Mr. Bendoly served as Chief Financial Officer of Personeta Inc., a leading vendor of intelligent network service creation platforms. From 2003 to 2006, Mr. Bendoly served as Chief Executive Officer of Xenia Management Ltd., which is the managing partner of Xenia Ventures LP, a limited partnership that operates a technology incubator in Kiryat Gat, Israel. From 2000 to 2002, Mr. Bendoly served as Director of Finance for Europe, Middle East & Africa of Mindspeed Technologies, Inc., a U.S.-based fabless semiconductor manufacturer. From 1998 to 2000, Mr. Bendoly served as Chief Financial Officer of Novanet Semiconductor Ltd., and from 1996 to 1998, he served as Vice President, Finance and Operations of Novacom Technologies Ltd. Mr. Bendoly holds a B.A. in International Relations from the Hebrew University of Jerusalem and an M.B.A. from the KU Leuven University of Belgium.

Roy Porat has served as our Chief Executive Officer since August 2010, and as President of our U.S. subsidiary, Camtek USA Inc. since March 2008. Previously, he served as General Manager for Camtek Ltd. from March 2008 and until August 2010. Prior to that, he served as President of Camtek Hong Kong from September 2003 until March 2008. From 2001 until September 2003, Mr. Porat served as President of Camtek USA, Inc. From 1999 to 2000, Mr. Porat served as the Chief Executive Officer of Aeronautics Ltd. From 1994 to 1999, Mr. Porat served in various executive positions at our affiliate, PCB Technologies. Mr. Porat holds a B.Sc. in Industrial Engineering from Technion - Israel Institute of Technology.

Mira Rosenzweig has been employed by us since September 2008 as our Vice President - Chief Financial Officer. Previously, from 2001 to 2008, Ms. Rosenzweig served as Director of Finance and in various other positions for Elron Electronic Industries Ltd., traded on the TASE and previously on Nasdaq. Ms. Rosenzweig is a CPA (Israel) and holds a B.A. in Accounting and Economics from University of Haifa, Israel.

Ayelet Peled has served as our Vice President - Human Resources since October 2010. Between 2005-2010, Mrs. Peled served as HR Director of the Israeli Region and HR Business Partner for a global business unit within the Security field at NICE Systems Ltd. Prior to that, from 2000-2005, Mrs. Peled served as Product Division HR Manager within the Enterprise business at NICE Systems. Prior to that, Mrs. Peled held various professional and managerial positions at Pilat Ltd., an Israeli diagnosis and consulting company. Mrs. Peled holds a BA in Human Sciences and has MA studies in Organizational Behavior from the Tel-Aviv University.

Amir Tzhori serves as our corporate Vice President - PCB (AOI) and President of Camtek China since December 2010. From July 2008 to July 2010, Mr. Tzhori served as President of Camtek Imaging Technology China. From July 2005 till July 2008 Mr. Tzhori served as VP Operation and COO of Camtek Hong Kong. Previously Mr. Tzhori served as Marketing Manager for Applied Materials and held several managerial positions for Camtek USA. Mr. Tzhori holds a B.Sc. in Mechanical Engineering from Tel-Aviv University and an MBA from Kellogg Northwestern University and Tel Aviv University.

Gilad Golan serves as our Vice President - Research and Development since November 2009. Mr. Golan has been employed by the Company since November 2006 as R&D manager for Micro Electronics Division, and since February 2009 as Camtek's R&D Division Manager. Between 2005 and November 2006, Mr. Golan served as Chief Executive Officer of Ellumina Vision Ltd., a start-up in the semiconductor equipment industry. From 2000 until 2005, Mr. Golan was the General Manager of Accretech Israel, the R&D site of Accretech (TSK) for wafer inspection. Prior to that, Mr. Golan held various managerial positions with Accretech Israel and Opal Technologies, both semiconductor inspection and metrology equipment manufacturers. Mr. Golan holds a B.Sc. and a M.Sc. in electrical engineering from Ben-Gurion University and MEI (Master of Entrepreneurial Innovation) from ISEMI/Swinburne University of Technology.

Colin Smith serves as our Vice President – Sela Division Manager since November 2009. Formerly, Mr. Smith served as Chief Executive Officer, director and founder of Sela; Mr. Smith founded Sela in 1992 after a career in multi-disciplinary engineering and design at Rafael, Israel’s Armament Development Corporation. Mr. Smith participated in the design, manufacturing, and quality control of a variety of advanced electro-optical equipment. He has extensive knowledge in the fields of electronics, CAD/CAM assimilation, thermal imaging, and electro-optical systems. Mr. Smith retired from the active reserves of the Israel Defense Force with the rank of Lieutenant Colonel, and holds a B.S. in Mechanical Engineering from the Technion - Israel Institute of Technology.

Moshe Grencel has been employed by us since January 2007, as Vice President - Operations. Between 2004 and 2006 Mr. Grencel served as the Executive Vice President of Supply Chain of Delta Galil, a leading company in the textile industry. From 2001 until 2004, Mr. Grencel served as Senior Vice President Operations of Lumenis, a medical lasers manufacturer. From 1983 until 2000, Mr. Grencel held various executive positions with Elscint Ltd., a medical diagnostic equipment manufacturer. Mr. Grencel holds a B.Sc. in Industrial Management from the Technion – Israel Institute of Technology.

Michael Lev has been employed by us since 1994 and has served as our Vice President - Intellectual Property, since April 2007. From 1994 until April 2007 Mr. Lev held various positions with the Company, in the printed circuit board and semiconductor manufacturing and packaging areas. Mr. Lev holds a M.Sc. in Electrical Communication from Azerbaijan Polytechnic Institute.

Aharon Sela serves as President of Camtek Hong Kong since March 2008 and as our Vice President Sales. Previously, from 2004 until March 2008, he served as V.P. Sales of the Micro Electronics Division at Camtek Europe and Camtek Hong Kong. From 2002 until 2004 Mr. Sela served as Manager of Camtek Japan and previously he served as Executive V.P. Sales and Marketing at Inspectech Ltd. (which was merged with Camtek in 2001). Mr. Sela holds a B.Sc. in Electrical Engineering from Technion - Israel Institute of Technology.

B. Compensation.

Compensation of Executive Officers and Directors

The aggregate remuneration paid by us in the year ended December 31, 2010 to all the persons listed in Section A above (Directors and Senior Management), was approximately \$3.3 million, which includes \$0.3 million paid to provide pension, retirement or similar benefits, as well as amounts expended by us for automobiles made available to all our executive officers, and other fringe benefits commonly reimbursed or paid by companies in Israel. Regulations promulgated under the Israeli Companies Law regulate the annual remuneration and remuneration for participation in meetings of outside directors and the reimbursement of their expenses. Messrs. Rafi Amit and Yotam Stern did not receive any additional compensation for their service as our directors.

Employment Agreements

We maintain written employment agreements with our employees, including all of our executive officers, that contain customary provisions, including non-compete and confidentiality agreements. In recent years, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer. If we cannot demonstrate that we will be harmed by the competitive activities of a former employee, we may be unable to prevent our competitors from benefiting from the expertise of our former employees.

Effective January 1, 1998, we entered into an employment agreement with Mr. Rafi Amit, today our Active Chairman. The agreement has a two-year term, which is automatically renewed at the end of every two years thereafter. The agreement contains confidentiality and non-compete provisions for the term of Mr. Amit's employment and for a two-year period after the termination of his employment. Furthermore, the agreement provides that all intellectual property developed by Mr. Amit, or in which he took part, in connection with his employment, is our sole property. As a result of changes in senior management, approved in August 2010, Roy Porat has been appointed as the Company's Chief Executive Officer and Mr. Amit, in his new position as Active Chairman, has decreased his scope of work for the Company from 100% to 75% of his time. The scope and level of Mr. Amit's responsibilities in his position as Active Chairman have been set by the Company's Board of Directors and in general include responsibility over strategic planning, acquisitions and strategic ventures and alliances, as well as overall direction of the Asian

activity of the Company. The employment agreement of Mr. Amit may be terminated by either party at any time, or not renewed at the end of any successive two-year extension of its term, by written notice of termination or non-renewal delivered to the other party six months in advance. We may, however, immediately terminate the employment of Mr. Amit in various circumstances, including a breach of fiduciary duty.

Effective January 1, 1998, we entered into an employment agreement with Mr. Yotam Stern, our Executive Vice President, Business & Strategy. The agreement has a two-year term, which is automatically renewed at the end of every two years thereafter. The agreement contains confidentiality and non-compete provisions for the term of Mr. Stern's employment and for a two-year period after the termination of his employment. Pursuant to his employment agreement, Mr. Stern may dedicate up to 40% of his time to work for Priortech or any of the Priortech entities. The employment agreement may be terminated by either party at any time, or not renewed at the end of any successive two-year extension of its term, by written notice of termination or non-renewal delivered to the other party six months in advance. We may, however, terminate Mr. Stern's employment immediately upon the occurrence of various circumstances, including a breach of fiduciary duty.

Starting 2001, we entered into employment agreements with Mr. Roy Porat, our CEO as of August 24, 2010, and President of our U.S. subsidiary, Camtek USA Inc., since March 2008. Mr. Porat's current employment agreement has an unlimited term. The agreement contains confidentiality and non-compete provisions for the duration of Mr. Porat's employment and for a two-year period after the termination of his employment. The employment agreement may be terminated by either party at any time, by written notice of termination delivered to the other party three months in advance. We may, however, terminate Mr. Porat's employment immediately upon the occurrence of various circumstances, including a breach of fiduciary duty.

C. Board Practices.

Composition of the Board of Directors

Our Articles provide that our Board of Directors shall consist of not less than five not more than ten directors, including the outside directors. Currently, our board consists of five directors.

Directors, other than outside directors, are elected by a resolution of the shareholders at the annual general meeting and serve until the conclusion of the next annual general meeting of the shareholders. Directors may be removed at any time by a resolution of the shareholders. Since directors may be elected and removed by a majority vote, Priortech Ltd., which holds a majority of our voting shares, has the power to elect all of our directors, subject to the restrictions placed on the election of outside directors as described below. The Chief Executive Officer is appointed by our Board of Directors. Each of the other officers is appointed by the Chief Executive Officer.

Our Articles provide that any director may appoint as an alternate director, by written notice to us or to the Chairman of the Board, any individual who is qualified to serve as director and who is not then serving as a director or alternate director for any other director. An alternate director has all of the rights and obligations of a director, excluding the right to appoint an alternate for him-self. Currently no alternate directors serve on our board.

Messrs. Rafi Amit, Yotam Stern and Eran Bendoly are each serving an approximately one-year term, which will expire at our 2011 annual general meeting of shareholders. Each of our outside directors, Messrs. Gabriela Heller and Rafi Koriat, served a three-year term in accordance with the Israeli Companies Law, which expired in September 2009. At our 2009 annual general meeting of shareholders, both of them were reappointed for a further three-year-term, until September 2012.

None of the members of our Board of Directors, except Messrs. Rafi Amit and Yotam Stern, is a party to a service contract with us, which would provide them with benefits upon termination of employment.

Outside Directors; Independent Directors

Under the Israeli Companies Law, public Israeli companies are required to appoint at least two directors who qualify as outside directors under Israeli law.

The outside directors must not have any “relationship” with us. For this purpose, “relationship” means any employment, business or professional relations, either in the present or in the preceding two years. An individual whose relatives, business partners, employers or controlled companies have a relationship with us may not serve as an outside director. In addition, an individual whose other business affairs may cause a conflict of interest with the performance of his duties as an outside director or interfere with his ability to serve as such may not serve as an outside director. Also, at least one of the outside directors must have financial and accounting expertise and the other must have professional qualifications, as defined in regulations promulgated under the Israeli Companies Law.

Outside directors are elected by a majority of the shares present and voting at the shareholders meeting. In addition, the shares voted in favor of their election must include at least one third of the shareholdings present and voting at the meeting, not counting abstentions, which are not held by controlling shareholders of the company. This minority approval requirement need not be met if the total number of shares not held by controlling shareholders of the company which are voted against the election of an outside director represents 1% or less of all of the voting rights.

Each of our outside directors serves a three-year term, and may be re-elected to serve in this capacity for one additional term of up to three years, and afterwards, as the Company is a dual listed company, may be re-elected for additional terms of up to three years each, provided that prior to their election by a majority of the shares present and voting at the shareholders meeting, such election is approved by the Company's Audit Committee and Board of Directors, on terms referred to in relevant regulations. An outside director can be removed from office only by either the same percentage of shareholders that may elect him, or by a court order. In either case, an outside director may be removed only if the outside director ceases to meet the statutory qualifications for serving as an outside director or breaches his fiduciary duty. The court may also remove an outside director from office if he or she is unable to perform his or her duties on a regular basis. If at the time an outside director is appointed by the shareholders, all other directors are of the same gender, the outside director to be appointed shall be of the other gender.

Neither we nor our subsidiaries may, prior to the lapse of two years after the termination of membership on our board of any of our outside directors, employ such former outside director, engage him or her to serve as an executive officer or director for us or retain his or her professional services.

Ms. Gabriela Heller and Mr. Rafi Koriat currently serve as our outside directors.

The Sarbanes-Oxley Act of 2002, as well as related rules subsequently implemented by the Securities and Exchange Commission, or the SEC, and the Nasdaq Global Market, or Nasdaq, require foreign private issuers, such as us, to comply with various corporate governance practices. Nevertheless, the Company has decided to opt-out of certain of these practices and follows its home country practice pursuant to Nasdaq Rule 4350(a), as disclosed in Item 16G - "Corporate Governance".

We believe that we are currently in compliance with, and we intend to take all actions necessary for us to maintain compliance with, the applicable corporate governance requirements of the Sarbanes-Oxley Act, the rules adopted by the SEC and the listing standards of Nasdaq.

Under the Nasdaq listing requirements, we are required to have a majority of independent directors on our Board of Directors. Ms. Gabriela Heller and Messrs. Rafi Koriat and Eran Bendoly all qualify as our independent directors under Nasdaq rules.

Internal Auditor

The board of directors of an Israeli public company must appoint an internal auditor proposed by the audit committee. The role of the internal auditor is to examine, among other things, the compliance of the company's conduct with applicable law and orderly business procedures. An internal auditor may not hold any other position in the company, have any business affairs outside of the company which may create a conflict of interest with his or her duties as internal auditor or be an "interested party". For this purpose, an "interested party" is a person who holds 5% or more of the company's shares, serves as or has the power to appoint a director or the chief executive officer of the company, is otherwise personally employed by the company or serves on its board or is a relative of any of these parties. The only exception to the rule against an internal auditor being employed by the company is that the internal auditor may serve as an ombudsman, provided that this does not interfere with the performance of the duties of the internal auditor. In addition, the internal auditor may not be a member of the company's independent accounting firm. We currently have an internal auditor who meets the independence requirements of Israeli law.

Committees of the Board of Directors

The Israeli Companies Law provides that a public company must appoint an audit committee and may also appoint other committees to the board of directors, unless otherwise specified in the Company's Articles. The board of directors may delegate its powers to such committees of the board of directors as it deems appropriate, subject to the provisions of the Israeli Companies Law. Powers that may not be delegated include, among others, the power to distribute dividends, the determination of general company policy, the issuance of securities, the issuance of shares (unless such issuance is under an employee share option plan) and the approval of financial reports. However, those matters can be delegated to committees for the purpose of making recommendations to the full board of directors. According to the Companies Law, a committee to which powers have been delegated shall be composed only of directors. However, a committee whose purpose is only to make a recommendation can be composed of non-directors unless otherwise specified in the Company's Articles. According to the Companies Law, at least one outside director must be appointed to serve on each committee of the board, excluding the audit committee, which must be comprised of at least three directors, including all of the outside directors of the Company. However, the Sarbanes-Oxley Act and the Nasdaq listing requirements require that all members of the audit committee be independent. The audit committee may not include the chairman of the board, any director who is employed by the company or regularly provides service to it, a controlling shareholder, or a relative of any such individual. Our Board of Directors has an audit committee and a compensation committee.

Audit Committee. The Audit Committee oversees and approves the retention, performance and compensation of our independent registered public accounting firm and establishes and oversees the implementation of procedures concerning our systems of internal accounting and auditing control. The Audit Committee is also responsible for identifying deficiencies in the management of our business and proposing solutions for any such deficiencies, and, in accordance with the Israeli Companies Law and the Sarbanes-Oxley Act, approving certain acts and transactions that involve conflicts of interest or that involve interested parties. The members of our Audit Committee are Ms. Gabriela Heller and Messrs. Eran Bendoly and Rafi Koriat, all of whom are independent directors in accordance with Nasdaq listing requirements. Mr. Bendoly and Ms. Heller qualify as financial experts for purposes of the Sarbanes-Oxley Act and the Nasdaq listing requirements, and Ms. Heller and Mr. Koriat qualify as outside directors under Israeli Companies Law.

Compensation Committee. The Compensation Committee reviews and makes recommendations to our board concerning the terms of the compensation packages provided to our employees, including our executive officers, and the terms of any bonus, share options or other awards to be provided to our employees, including our executive officers. Under Israeli law, all compensation arrangements with a general manager who is not a director require the approval of the board of directors. Arrangements regarding the compensation of directors require approval of the audit

committee, the board of directors and the shareholders, in that order, and if the director holds a controlling interest in the company, special shareholder approvals are required. See "Duties of Office Holders and Approval of Transactions under Israeli Law." The members of our Compensation Committee are Ms. Heller and Messrs. Koriat and Bendoly.

Financial Statement Review Committee. The Companies Regulations (Provisions and conditions regarding the approval procedure of the financial reports) of 2010, which were enacted in February 2010, also require public companies to appoint a committee for the review of the company's financial reports ("the Financial Statement Review Committee") and sets forth a procedure for the approval of the financial reports. Under the said Companies Regulations, the composition of the Financial Statement Review Committee must meet a number of conditions including the requirement that all its members must be Board of Directors members and the majority of the members must be independent directors as defined in the Companies Law. In addition, under the regulations, an audit committee that fulfills the required composition conditions set out in the Companies Regulations can be considered as the Financial Statement Review Committee.

Accordingly, since the Company's Audit Committee has already been operating in compliance with U.S. legal requirements (as described above), which satisfy the conditions of the Israeli Financial Statement Review Committee, the Board of Directors, after confirming that the requirements of the said regulations are fulfilled, decided that the Audit Committee will serve as the Financial Statement Review Committee.

Amendment no. 16 to the Companies Law

On March 7, 2011 amendment no. 16 (“Amendment 16”) to the Companies Law was enacted by the Israeli Knesset. Amendment 16, which will come into effect mid May, 2011, places a special emphasis on the autonomy of the board of directors and the external directors and on the composition and responsibilities of the audit committee. Under Amendment 16, among others: (i) the approval of certain interested party transactions will require the affirmative vote of a majority of the shares and in addition either that (a) the majority (rather than one third) of the shares held by shareholders who do not have a personal interest in the transaction attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered) or (b) that the total number of disinterested shares voted against the proposal does not exceed 2% (rather than 1%) of the aggregate voting rights; (ii) the approval of the appointment of an external director will require the affirmative vote of a majority of the shares and in addition either that (a) the majority (rather than one third) of the shares held by shareholders who are not controlling shareholders attending in person or represented by proxy have voted in favor of the proposal (shares held by abstaining shareholders shall not be considered) or (b) that the total number of disinterested shares voted against the proposal does not exceed 2% (rather than 1%) of the aggregate voting rights; (iii) the majority of members of the audit committee shall be independent directors (as defined under Amendment 16), and the audit committee chairman shall be an external director (which is currently the composition of our audit committee); (iv) the quorum required to determine a decision of the audit committee shall be not less than a majority of the independent directors, including at least one external director; and (v) the audit committee shall determine whether certain related party transactions are considered extraordinary transactions for the purpose of the Companies Law and should be approved as such.

Duties of Office Holders and Controlling Shareholders and Approval of Transactions under Israeli Law

Office Holders

The Israeli Companies Law codifies the duty of care and the fiduciary duties that office holders have towards the company. An office holder’s duty of care includes the duty to act as a “reasonable” office holder would have acted in the same position and under the same circumstances. An office holder’s fiduciary duty requires the office holder to act in good faith and for the good of the company, which includes:

- avoiding conflicts of interest between the office holder’s position with the company and his personal affairs;
- avoiding any competition with the company;
- avoiding the exploitation of the company’s business opportunities for personal gain; and
- revealing to the company any information or documents relating to the company’s affairs which the office holder has received due to his position.

An “office holder,” under the Israeli Companies Law, is anyone serving, regardless of formal title, as a director, general manager, chief executive officer, executive vice president, vice president, or any other executive reporting directly to the general manager. Each person listed in the table under “Directors and Senior Management” is one of our office holders. All arrangements as to compensation of office holders who are neither directors nor controlling shareholders are approved by our compensation committee. The compensation of office holders who are directors or controlling shareholders, and any other employee who is a controlling shareholder or a close relative of such controlling shareholder, as defined in the Companies Law, must also be approved by our Audit Committee, our Board of Directors and our shareholders, in that order. Special shareholder voting procedures are required for the approval of compensation of office holders or employees who are also controlling shareholders or any relative thereof.

Disclosure of Personal Interest

The Israeli Companies Law requires an office holder or controlling shareholder of a public company to disclose any personal interest in an existing or proposed transaction with the company, no later than at the first board meeting in which the transaction is discussed. A personal interest also includes an interest in any company in which the person, his or her close relative or any entity in which such person or close relative has a personal interest, is a direct or indirect 5% or greater shareholder, is a director or the general manager or has the right to appoint at least one director or the general manager. Board approval is required to approve the transaction, and no transaction that is adverse to the company's interest may be approved. Approval by the company's audit committee and board of directors is required for an extraordinary transaction, meaning any transaction that is not in the ordinary course of business, is not on market terms or is likely to have a substantial effect on the company's profitability, assets or liabilities. A director who has a personal interest in a matter may not be present at a board of directors or audit committee meeting during discussions or vote on the matter. However, a director with a personal interest may be present if the transaction to be discussed is not an extraordinary transaction, or if a majority of the audit committee members or the directors, as the case may be, has a personal interest in the matter. If a majority of the board of directors or the audit committee has a personal interest in the transaction, shareholder approval is also required.

Transactions with Controlling Shareholders

A controlling shareholder is a shareholder who has the ability to direct the activities of a company, including a shareholder who holds 25% or more of the voting rights if no other shareholder holds more than 50% of the voting rights. Under Israeli law, the disclosure requirements regarding personal interests that apply to directors and office holders also apply to a controlling shareholder of a public company.

Required Approval. Extraordinary transactions with a controlling shareholder and a controlling shareholder's close relative or in which a controlling shareholder (or its relative) has a personal interest, and the terms of compensation of a controlling shareholder or a relative of a controlling shareholder who is a director, executive officer or employee, require the approval of the audit committee, the board of directors and the shareholders of the company. This shareholder approval must include the majority of shares voted at the meeting. In addition, either:

- the majority must include at least one-third of the shares of disinterested shareholders voted at the meeting; or
- the total number of shares of disinterested shareholders voted against the transaction must not exceed one percent of the aggregate voting rights in the company (but see expected changes in the required majority under Amendment No. 16 to the Companies Law above).

A shareholder who participates in this vote must provide notice to the company prior to voting, stating whether such shareholder has a personal interest in the transaction. In the absence of this notice, the shareholder may not vote on the matter, and his or her vote shall not be counted.

Approval of Certain Specific Extraordinary Transactions. According to regulations promulgated under the Israeli Companies Law, the following specific kinds of extraordinary transactions with a controlling shareholder do not require shareholder approval, provided that the audit committee and the board of directors have approved the transaction and determined that it is one of the following:

- the extension of an existing transaction which was previously approved in accordance with the Israeli Companies Law, provided no material change has been made to the terms of the extended transaction;
- a transaction that benefits only the company;

- a transaction made in accordance with the terms of a framework transaction previously approved in accordance with the requirements of the Israeli Companies Law;
- a transaction constituting part of a transaction with a third party or a joint offer to contract with a third party, provided that the benefit to the company does not materially differ than that to the controlling shareholder, taking into account the proportional interest of each of the parties; or
- a transaction between companies controlled by a common controlling shareholder or between a public company and its controlling shareholder or a third party, in whom the controlling shareholder has a personal interest, provided that the transaction is on market terms, is in the ordinary course of business and does not adversely affect the interests of the company.

Insurance, Indemnification and Exemption

Our Articles provide that, subject to the provisions of the Israeli Companies Law, we may:

(1) Obtain insurance for our office holders covering their liability for any act performed in their respective capacities as an office holder with respect to:

- a violation of the duty of care to us or to another person;
- a breach of fiduciary duty, provided that the office holder acted in good faith and had reasonable grounds to assume that the act would not cause us harm; and
- a monetary liability imposed on an office holder for the benefit of another person.

(2) Undertake to indemnify our office holders or to indemnify an office holder retroactively for a liability imposed or approved by a court, and for reasonable legal fees incurred by the office holder in his or her capacity as an office holder, in proceedings instituted against the office holder by the company, on its behalf or by a third party, in connection with criminal proceedings in which the office holder was acquitted, or in connection with criminal proceedings or other proceedings in which the office holder was investigated but not indicted, or as a result of a conviction for a crime that does not require proof of criminal intent or as result of proceeding in which a monetary liability was imposed regarding a crime that does not require proof of criminal intent. An advance undertaking to indemnify an office holder must be limited to categories of events that can be reasonably foreseen in light of the Company's activities, and to an amount which is reasonable under the circumstances, as determined by the board of directors.

We may exempt, in advance, an office holder from all or part of his or her responsibility for damages occurring as a result of a breach of his or her duty of care. However, we may not exempt, in advance, an office holder for breach of his or her duty of care in respect of distribution of dividends. We may also approve an action taken by the office holder, even if performed in breach of his or her fiduciary duty, if the office holder was acting in good faith, the action does not adversely affect us and the office holder has revealed to the board his or her personal interest in the action.

Notwithstanding the foregoing, we may not insure, indemnify or exempt an office holder for any breach of his or her fiduciary duty, or for a violation of his or her duty of care (1) if the act was committed recklessly or with intent, or (2) if the act was committed with the intent to realize improper personal gain, or (3) for any fine imposed on the office holder, except as provided above.

As required under Israeli law, our Audit Committee, Board of Directors and shareholders have approved the indemnification and insurance of our office holders, as well as the resolutions necessary both to exempt our office holders in advance from any liability for damages arising from a breach of their duty of care to us, and to provide them with the indemnification undertakings and insurance coverage they have received from us in accordance with our Articles.

The Israeli Securities Law- 1968 and the Securities Law Amendment

On February 27, 2011, an amendment to the Israeli Securities Law- 1968, came into effect ("Securities Law Amendment"); this amendment applies to Israeli public companies, including companies the securities of which are also listed on NASDAQ Capital Market. The main purpose of the Securities Law Amendment is creating an administrative enforcement procedure to be used by the Israeli Securities Authority, or ISA, to enhance the efficacy of enforcement in the securities market in Israel. The new administrative enforcement procedure may be applied to any company or person (including director, officer or shareholder of a company) performing any of the actions specifically designated as breaches of law under the Securities Law Amendment. Furthermore, the Securities Law Amendment requires that the chief executive officer of a company supervise and take all reasonable measures to prevent the company or any of its employees from breaching the Israeli Securities Law. The chief executive officer is presumed to have fulfilled such supervisory duty if the company adopts internal enforcement procedures designed to prevent such breaches, appoints a representative to supervise the implementation of such procedures and takes measures to correct the breach and prevent its reoccurrence.

Under the Securities Law Amendment, a company cannot obtain insurance against or indemnify a third party (including its officers and/or employees) for any administrative procedure and/or monetary fine (other than for payment of damages to an injured party). The Securities Law Amendment permits insurance and/or indemnification for expenses related to an administrative procedure, such as reasonable legal fees, provided that it is permitted under the company's articles of association.

We are currently examining the implications of the Securities Law Amendment; however, its effect and consequences, as well as our scope of exposure, are yet to be determined in practice. There is no assurance that we will not be required to take certain actions in order to enhance our compliance with the provisions of the Securities Law Amendment, such as adopting and implementing an internal enforcement plan to reduce our exposure to potential breaches of the Israeli Securities Law, or amending our articles of association to permit insurance and/or indemnification as contemplated by the Securities Law Amendment.

D. Employees.

Employees

The following table sets forth for the last three years, the number of our employees engaged in the specified activities at the end of each year:

	As of December 31,		
	2010	2009	2008
Executive management	11	11	11
Research and development	92	97	97
Sales support	188	162	151
Sales and marketing	41	32	62
Administration	67	61	68
Operations	114	86	98
Total	513	449	487

The following table sets forth for the last three years, the number of our employees located in the following geographic regions at the end of each year:

	2010	As of December 31, 2009	2008
China (including Hong Kong)	178	148	159
Taiwan	66	40	35
Japan	6	6	14
Other Asia	28	24	30
Europe	3	11	14
North America	18	21	19
Israel	214	199	216
Total	513	449	487

The increase in our workforce is related to higher demand for our products in 2010 compared to 2009. See Item 5 “Results of operations”.

With respect to our Israeli employees, we have no collective bargaining agreements with our employees. However, by administrative order, certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations, relating primarily to the length of the work day, minimum wages, pension contributions, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment, are applicable to our employees. In accordance with these provisions, the salaries of our Israeli employees are partially indexed to the Consumer Price Index in Israel, depending on the rate of increase of the Consumer Price Index.

We consider our relationship with our employees to be good, and we have never experienced a labor dispute, strike or work stoppage.

E. Share Ownership.

The following table sets forth certain information with respect to the beneficial ownership of our outstanding ordinary shares by our directors and executive officers.

Beneficial ownership is determined in accordance with the rules of the SEC and generally means sole or shared power to vote or direct the voting or to dispose or direct the disposition of any ordinary shares. Except as indicated by footnote, the persons named in the table below have sole voting and investment power with respect to all ordinary shares shown as beneficially owned by them. The percentage of beneficial ownership is based upon 29,277,983 ordinary shares outstanding as of December 31, 2010.

Name	Number of Ordinary Shares Owned(1)	Percentage of Total Outstanding Ordinary Shares	
Rafi Amit(2)	17,790,022	60.76	%
Yotam Stern(3)	17,843,187	60.94	%
	18,153,140	62.00	%

Directors and executive officers as a group
(14 persons)(4)

- (1) Ordinary shares relating to options currently exercisable or exercisable within 60 days of the date of this Annual Report are deemed outstanding for computing the percentage of the persons holding such securities but are not deemed outstanding for computing the percentage of any other person. As of the date of this Annual Report, the total number of options held by the persons included in the above table, that are currently exercisable or exercisable within 60 days of the date hereof, is 213,313.
- (2) Mr. Amit directly owns 45,060 of our ordinary shares. In addition, as a result of a voting agreement relating to a majority of Priortech's voting equity, Mr. Amit may be deemed to control Priortech. As a result, Mr. Amit may be deemed to beneficially own the shares of Camtek held by Priortech. Mr. Amit disclaims beneficial ownership of such shares.
- (3) Mr. Stern directly owns 106,400 of our ordinary shares. In addition, as a result of a voting agreement relating to a majority of Priortech's voting equity, Mr. Stern may be deemed to control Priortech. As a result, Mr. Stern may be deemed to beneficially own the shares of Camtek held by Priortech. Mr. Stern disclaims beneficial ownership of such shares.
- (4) Includes Messrs. Amit's and Stern's interest in ordinary shares beneficially owned by Priortech. Our directors and executive officers as a group directly own 429,803 of our ordinary shares. Each of our directors and executive officers, other than Messrs. Amit and Stern, beneficially owns less than 1% of our outstanding ordinary shares as of May 31, 2010 (including options held by each such person which have vested or will vest within 60 days of May 31, 2010) and have therefore not been listed separately.

Restricted Share Unit and Option Plans

General. We currently maintain one restricted share unit plan and one active share option plan.

The purpose of our restricted share unit and option plans is to afford an incentive to our officers, directors, employees and consultants and those of our subsidiaries, to acquire a proprietary interest in us, to increase their efforts on our behalf and to promote the success of our business.

Restricted Share Unit Plan. In August 2007, the Company approved the 2007 Restricted Share Unit Plan (the “RSU Plan”), for the grant of restricted share units, each of which imparts the right to an ordinary share of the Company, to selected employees, officers, directors and consultants of the Company. The RSU Plan is being administered by our Board of Directors.

No RSUs were granted in 2010. In 2009, 832,500 RSUs were granted.

The total number of RSUs to be granted pursuant to the RSU Plan is 1,500,000, out of which 583,229 are available for grant as of the date of this Annual Report.

Under the RSU Plan, RSUs are granted for no consideration and the exercise price for each grantee is no more than the underlying share’s nominal value, unless otherwise determined by the Board. The RSUs vest according to a four-year vesting schedule, with 25% of the shares vest on the first anniversary of the date of grant and the remaining vesting on a quarterly basis, unless otherwise determined by our Board of Directors.

Option Plans

General. As of December 31, 2010, there were 489,701 outstanding options to acquire our ordinary shares pursuant to our share option plans at a weighted average exercise price of \$3.21, exercisable at various dates through July 2015. Future options to be granted by us to our employees, officers, directors and consultants or those of our affiliates will only be made pursuant to the 2003 Share Option Plan.

In January 2011, the Company’s Board of Directors authorized the increase in the number of shares available under its share option plans by 600,000 to 1,598,800. In January 2011 we granted 615,000 share options to employees.

Administration of Our Share Option Plans. Our option plans are administered by our Board of Directors. Under these option plans, options to purchase our ordinary shares may also be granted to our officers, directors, employees or consultants and those of our subsidiaries. The exercise price of options is determined, under our option plans, by our Board of Directors, and is generally set as the fair market value (although some options are exercisable for no additional consideration and are the equivalent of restricted stock grants). The vesting schedule of the options is also determined by the Board of Directors; generally the options vest over a four-year period. Each option granted under the option plans is exercisable between four to ten years from the date of the grant of the option, according to the plan under which they were granted and subject to certain early expiration provisions, such as in the event of termination.

The Share Option Plans. In September 1997, we adopted a share option plan under which options to purchase our ordinary shares were granted to employees, as determined by the board from time to time. This plan was amended in 2000 and in 2003, each time in order to comply with new Israeli tax legislation.

In November 2000, we adopted three share option plans: the Executive Share Option Plan, the US Incentive Stock Option Plan and the European Employee Share Option Plan. Under these plans, options were granted to employees, directors, executive officers and consultants of our company and our affiliates around the world.

In October 2003, we adopted our 2003 Share Option Plan and its corresponding Sub-Plan for Grantees Subject to United States Taxation and Sub-Plan for Grantees Subject to Israeli Taxation. The total number of options that may be granted under the 2003 Share Option Plan is 998,800 options.

During 2010 and 2009 we did not grant any options to employees.

As of December 31, 2010, there were options exercisable and vested for 480,701 ordinary shares (out of the total outstanding options of 489,701) at a weighted average exercise price of \$3.19 per share, and unvested options exercisable for 9,000 ordinary shares at a weighted average exercise price of \$4.133.

Item 7. Major Shareholders and Related Party Transactions.

A. Major Shareholders.

The following table provides information regarding the beneficial ownership of our ordinary shares as of March 31, 2011, as to each person or entity who beneficially owns more than 5.0% of our outstanding ordinary shares. None of these shareholders has different voting rights than any of the Company's other shareholders.

Beneficial ownership is determined in accordance with the rules of the SEC and generally means sole or shared power to vote or direct the voting or to dispose or direct the disposition of any ordinary shares. Except as indicated by footnote, the person named in the table below has sole voting and investment power with respect to all ordinary shares shown as beneficially owned by it. The percentage of beneficial ownership is based upon 29,333,569 ordinary shares outstanding as of March 31, 2011.

Beneficial Ownership			
	Number of Ordinary Shares*	Percentage	
Prioritech Ltd.	17,723,337	60.6	%
Avigdor Willenz	1,604,758	5.48	%

*A majority of the voting equity in Prioritech Ltd. is subject to a voting agreement. As a result of this agreement, Messrs. Rafi Amit, Yotam Stern, Itzhak Krell, David Kishon, heirs of Haim Langmas, Zehava Wineberg and Hanoch Feldstien may be deemed to control Prioritech Ltd. The voting agreement does not provide for different voting rights for our major shareholder than the voting rights of other holders of our ordinary shares. Prioritech's principal executive offices are located at South Industrial Zone, Migdal Ha'Emek 23150, Israel.

As of March 31, 2011, there were a total of 10 holders of record of our issued and outstanding ordinary shares, of which 7 were registered with addresses in the United States. Such United States holders were, as of such date, the holders of record of approximately 34.1% of our issued and outstanding ordinary shares. The number of record holders in the United States is not representative of where such beneficial holders are resident because many of these ordinary shares were held of record by brokers or other nominees.

B. Related Party Transactions.

Ordinary Course Transactions and Activities with Prioritech and its Affiliates

From time to time we have entered into transactions in the ordinary course of business with Prioritech and its affiliates. Our purchases of materials, such as PCBs and assembled PCBs from Prioritech and its affiliates, totaled \$1,955,000 \$684,000 and \$1,804,000 in 2010, 2009 and 2008, respectively. In addition, we purchase bare PCBs and assembled PCBs from a Prioritech subsidiary for the development and manufacture of our systems so long as the price charged and other payment terms are comparable to the best offer we could obtain from a third party. Our total revenues from sales to affiliates of Prioritech totaled \$83,000, \$843,000 and \$467,000 in 2010, 2009 and 2008, respectively. We act jointly with Prioritech with regard to various governmental, administrative and commercial matters, which we believe is to the mutual advantage of both parties. Unpaid balances between Prioritech and its subsidiaries in Israel and us bear interest at 5.5%. As of December 31, 2010, the remaining balance Prioritech and its affiliates owed us under transactions made in the ordinary course of business with them was \$401,000. We believe that these transactions and activities were conducted on terms and conditions as favorable to us as those which we could have entered into with unaffiliated third parties.

Registration Rights Agreement with Prioritech

On March 1, 2004, we entered into a registration rights agreement providing for us to register with the SEC certain of our ordinary shares held by Prioritech. This registration rights agreement may be used in connection with future offerings of our ordinary shares, and includes, among others, the following terms: (a) Prioritech is entitled to make up to three demands that we register our ordinary shares held by Prioritech, subject to delay due to market conditions; (b) Prioritech will be entitled to participate and sell our ordinary shares in any future registration statements initiated by us, subject to delay due to market conditions; (c) we will indemnify Prioritech in connection with any liabilities incurred in connection with such registration statements due to any misstatements or omissions other than information provided by Prioritech, and Prioritech will indemnify us in connection with any liabilities incurred in connection with such registration statements due to any misstatements or omissions in written statements by Prioritech made for the purpose of their inclusion in such registration statements; and (d) we will pay all expenses related to registrations which we have initiated, except for certain underwriting discounts or commissions or legal fees, and Prioritech will pay

all expenses related to a registration initiated at its demand in which we are not participating.

On December 30, 2004, the Registration Rights Agreement with Prioritech was amended. The amendment concerns primarily the grant of unlimited shelf registration rights thereunder to Prioritech with respect to its holdings in us, and the assignability of those shelf registration rights to its transferees.

Employment Agreements with Messrs. Rafi Amit and Yotam Stern

For a description of the employment agreements with our Active Chairman of the Board, Mr. Rafi Amit, and our Director and Executive Vice President – Business and Strategy – Mr. Yotam Stern, see above in Item 6 B "Compensation – Employment Agreements".

C. Interests of Experts and Counsel.

Not Applicable.

Item 8. Financial Information.

A. Consolidated Statements and Other Financial Information.

Please see the consolidated financial statements listed in Item 18 for audited consolidated financial statements prepared in accordance with this Item.

Legal Proceedings

On May 10, 2004, a lawsuit was filed against us in the District Court in Nazareth, Israel, by our competitor, Orbotech Ltd., alleging that the Dragon and Falcon systems infringe upon a patent held by Orbotech Ltd. and requesting injunctive relief and damages. The patent upon which the claim is asserted expired in February 2008. The court advised the parties to turn to mediation. The parties participated in one mediation meeting, after which they decided to end the mediation and to hold direct negotiations between them. Despite the unsuccessful direct negotiations, the court ordered another mediation meeting which is scheduled for July 2011. Currently, court sessions have been postponed for as long as the mediation process continues. We can not estimate the range of loss for this claim, as it is still at an early stage. However, we believe that we have substantial defenses against the validity of Orbotech's patent and substantial defenses against Orbotech's claims. So far no evidence has been filed by Orbotech with the court to support the claim of infringement, and we expect the infringement allegation would be difficult to prove. Also, the allegedly infringing element is only optional and was hardly used in Camtek's system, regardless of this claim. Therefore, we estimate the probability of an unfavorable outcome in this litigation to be remote and accordingly, no provision has been recorded by the Company.

On February 23, 2005, a lawsuit was filed against us in the District Court in Jerusalem by Orbotech Ltd., alleging infringement of a patent held by Orbotech Ltd. regarding a specific illumination block (an apparatus for illuminating and controlling the illumination of scanned objects), seeking injunctive relief and damages. The court ruled, based on a court's scientific advisor's opinion and prime facie evidence only, that Camtek infringed the patent, and granted Orbotech a provisional remedy, i.e. interim relief, which prevents Camtek from manufacturing the allegedly infringing illumination block in suit. The claim currently awaits the court's decisions in several pending preliminary motions filed by both parties. The patent upon which the claim is asserted expired in February 2007. At the court's recommendation, the parties held one mediation meeting, after which they have decided to conduct direct negotiations between them, without the mediator. These direct negotiations were unsuccessful. We believe that we have good defenses in the infringement aspect of the claim. The Company further believes that it has claims with respect to the validity of the asserted patent, as well as other defenses such as estoppel and lack of good faith on the part of Orbotech. We cannot currently estimate the range of loss for this claim, as it is still at an early stage. However, we believe that we have a strong invalidity defense due to a prior publication of the alleged invention; The allegedly infringing element is an illumination block referred to as "new block – 155", which due to an Interlocutory injunction was never installed in any of Camtek's systems. Orbotech is trying to expand the scope of the lawsuit to an "old block", but we consider their chances in succeeding to do so minute. Therefore, we estimate the probability of an

unfavorable outcome in this litigation to be remote and accordingly, no provision has been recorded by the Company.

On July 14, 2005, a lawsuit was filed against us in the United States District Court for the District of Minnesota ("Court") by one of the Company's competitors in the field of semiconductor wafer inspection equipment, August Technology Corporation (today Rudolph Technologies Inc., hereinafter "Rudolph," having acquired August Technology Corporation), alleging infringement of U.S Patent No. 6,826,298 ("298 patent") and seeking injunctive relief and damages. On March 5, 2009 a jury verdict was rendered in favor of Rudolph, awarding damages of approximately \$6.8 million with regard to sales of Camtek's Falcon products in the United States. The jury also found that the infringement was not willful. On August 28, 2009, the Court entered judgment ordering the Company to pay the jury award, as well as an additional \$1.2 million in prejudgment interest. The Court also issued an injunction ("Injunction") ordering the Company to discontinue all sales and marketing of Falcon in the United States. Pursuant to the terms of the Injunction, service and repair of Falcons sold prior to the jury verdict is permitted to keep the systems in original operating condition. The Injunction relates only to the Company's Falcon operations in the United States, and should not have an effect on any of the Company's other operations. The Company filed an appeal with the Court of Appeals for the Federal Circuit on August 10, 2010, after the Court's denial of the Company's post-judgment motions. On November 17, 2010, the Magistrate Judge found that Rudolph was entitled to \$645,946 in supplemental damages reflecting Falcon sales occurring after the time period considered by the jury, and on January 7, 2011, the Court upheld the supplemental damages award. The Company has posted a bond in the Court, staying collection of any award pending resolution of the appeal. On March 9, 2011, Rudolph filed a motion seeking \$322,973 in enhanced damages for an allegedly willful post-verdict Falcon sale, as well a motion seeking \$1.2 million and unspecified attorneys fees for alleged contempt of the Injunction. The Company believes it has strong defenses to these charges and intends to vigorously oppose these motions. An appeal hearing is scheduled for April 7, 2011, but we expect final decision on our appeal to be received no earlier than the second half of 2011. See also "We have a history of losses, and we cannot assure you that we will not incur additional losses in the future. Moreover, if our business deteriorates, we could face liquidity problems" above. Although it is difficult to estimate the outcome of a patent infringement case, and while estimating the outcome of litigation can never be a precise exercise, we believe that although judgment has been entered, the probability of an unfavorable outcome of this litigation after the appeal process is less than 50% and accordingly, no provision has been recorded by the Company. We currently estimate the possible range of loss in this case, if any, to be \$0 to \$9 million (including interest).

On March 7, 2008, a purported Class Action Complaint ("CAC"), Yuval Lapiner v. Camtek, Ltd. et al., was filed in the United States District Court for the Northern District of California on behalf of purchasers of our common stock between November 22, 2005 and December 20, 2006. Mr. Lapiner filed a Consolidated Amended Class Action Complaint on January 2, 2009, naming the Company and certain of its directors and officers as defendants. It alleges that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated there under, and breached fiduciary duties by making false and misleading statements in the Company's SEC filings and press releases. The plaintiff seeks unspecified compensatory damages against the defendants, as well as attorneys' fees and costs. We filed a motion to dismiss the CAC, as amended, on February 17, 2009, and the Court granted this motion on June 2, 2009. However, the Court gave plaintiff leave to amend his complaint, which he did when he filed a Second Consolidated Amended Class Action Complaint ("SAC") on July 10, 2009. We filed a motion to dismiss the SAC and the court granted this motion on February 2, 2011. The Court, however, gave plaintiff leave to amend his complaint which he did when he filed a Third Amended Complaint ("TAC") on April 1, 2011. Defendants intend to move to dismiss the TAC and their motion is due on May 16, 2011. Camtek is unable to estimate a range of loss for this claim, given the fact that it is still at an early stage. Accordingly, no provision has been made in our financial statements in respect of this claim. The court granted Camtek's initial and second motions to dismiss this claim and we do not believe that these complaints have merit. The Company expects that the loss, if any, will be covered by the Company's directors and officers' insurance policy.

On June 1, 2010, Rudolph filed a complaint against us in the United States District Court for the District of Minnesota in which Rudolph alleged infringement of their U.S. Patent 7,779,528 relating to semiconductor wafer inspection technology similar to that described in the '298 patent. The complaint has not yet been served. However,

Camtek believes that it has good defenses and intends to aggressively defend itself from the allegations in this claim and its right to sell its tools in the United States. At this preliminary stage it is impossible for the Company to assess the probability of the outcome of the lawsuit or to reasonably estimate its effect on the Company's activities and financial results, if any.

On November 1, 2010, a lawsuit has been filed by Fish & Richardson P.C. ("F&R") in the United States District Court for the District of Minnesota against us. The suit arises from F&R's representation of Camtek in an action against it by Rudolph Technologies Inc., referred to above. F&R alleges that Camtek owes it approximately \$2.25 million in unpaid attorney's fees arising from F&R's representation of Camtek at this trial level proceeding. Camtek disputes this claim, asserting that F&R inflated its fees by defending the matter inefficiently, and that F&R charged fees which were substantially beyond the estimated legal costs provided to Camtek periodically in advance of incurring such fees. Camtek also has potential malpractice counterclaims against F&R and is in the process of evaluating whether or not to bring such claims. The current status of the matter is that F&R has obtained a default judgment against Camtek, after asserting that service of the Summons and Complaint was properly effected upon Camtek, and Camtek failed to timely answer or otherwise appear in the action. Camtek only learned of F&R's alleged service after F&R's motion for default and currently has retained local counsel in Minnesota to seek to vacate the default judgment, as Camtek's position is that service was, in fact, never made upon Camtek. All these amounts were already recorded in our results of operations in the respective month they were received and as such a provision for the full amount has been made in our financial statements in respect of this claim.

In July 2005, the Company, together with our parent company, Priortech Ltd., filed a lawsuit in Israel against Orbotech Ltd., in respect of damages in the amount of \$4.1 million incurred by it due to a claim and a motion for injunction filed against the Company by Orbotech in May 2004, in the District Court in Nazareth. The Company believes that Orbotech's claim and motion against it were not filed in good faith, but in order to thwart Camtek's secondary public offering that was scheduled few days after the submission of Orbotech's claim and motion and was supposed to approximately \$40 million for the Company and Priortech Ltd. Trial is now expected to continue after the submission of primary affidavit and expert opinion by Orbotech on March 9, 2011.

On November 3, 2010, the Company filed a lawsuit in Germany against Rudolph Technologies Inc., alleging that Rudolph's edge inspection equipment sold under the "Axi" and "Edge Inspection module E25, 30, 35" trademark infringes Camtek's patent no. DE 101 31 665 B4. As the claim has been filed in German, it is currently being translated into English. It will be delivered to Rudolph Technologies Inc. as the next step of the proceedings. An oral hearing is scheduled for July 13, 2011.

We are not a party to any other material legal proceedings.

B. Significant Changes.

None.

Item 9. The Offer and Listing.

A. Offer and Listing Details.

Price History of Ordinary Shares

Since April 22, 2004, the primary trading market for our ordinary shares has been the Nasdaq Global Market, where our ordinary shares are listed and traded under the symbol "CAMT". From July 28, 2000 through February 4, 2003, our ordinary shares were listed and traded on the Nasdaq National Market and from February 5, 2003 through April 21, 2004, our ordinary shares were listed and traded on the Nasdaq SmallCap Market (now the Nasdaq Capital Market).

For the period between November 26, 2001 and October 21, 2003, our ordinary shares were also listed on the Tel Aviv Stock Exchange, or TASE. During such period, the trading activity in our ordinary shares on the TASE was insignificant. At our request, our ordinary shares were de-listed from the TASE. In December 2005, we re-listed our

ordinary shares on the TASE.

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The following table sets forth, for the periods indicated, the high and low reported sales prices of our ordinary shares:

	TASE (1)		Nasdaq	
	High	Low	High	Low
Annual and Quarterly Market Prices				
Fiscal year ended December 31, 2006:	7.96	4.07	8.40	4.08
Fiscal Year Ended December 31, 2007:	4.57	1.69	4.65	1.70
2008:				
Fiscal Year Ended December 31, 2008:	1.84	0.29	1.81	0.31
2009:				
First Quarter	0.44	0.24	0.49	0.21
Second Quarter	0.60	0.36	0.64	0.35
Third Quarter	1.37	0.31	2.11	0.46
Fourth Quarter	2.80	1.01	2.90	1.02
Fiscal Year Ended December 31, 2009:	2.80	0.24	2.90	0.21
2010:				
First Quarter	3.24	2.06	3.23	2.21
Second Quarter	3.60	2.24	3.30	2.30
Third Quarter	2.75	2.25	2.78	2.26
Fourth Quarter	3.04	2.37	2.98	2.40
Fiscal Year Ended December 31, 2010:	3.60	2.06	3.23	2.21
First Quarter 2011:	4.61	2.88	4.65	2.88
Monthly Market Prices for the Most Recent Six Months:				
October 2010	2.75	2.47	2.63	2.44
November 2010	3.04	2.38	2.98	2.40
December 2010	2.88	2.37	2.93	2.44
January 2011	3.79	2.88	3.87	2.88
February 2011	4.61	3.36	4.65	3.52
March 2011	4.34	3.51	4.44	3.60

1) The closing prices of our ordinary shares on the TASE have been translated into U.S. dollars, using the daily representative rate of exchange of the NIS to the U.S. dollar, as published by the Bank of Israel for the applicable day of the high/low amount in the specified period.

B. Plan of distribution.

Not applicable.

C. Markets.

As noted above, the Company's ordinary shares are traded on the Nasdaq Global Market under the symbol "CAMT". Since December 2005, our ordinary shares are traded also on the Tel-Aviv Stock Exchange and we are subject to the Israeli legislation, which applies to companies that are traded in dual listing.

D. Selling Shareholders.

Not applicable.

E. Dilution.

Not applicable.

F. Expenses of the Issue.

Not applicable.

Item 10. Additional Information.

A. Share Capital

Not applicable.

B. Memorandum and Articles

Following is a summary of material information concerning our share capital and a brief description of the material provisions contained in our Memorandum of Association and our Articles.

General

Our authorized share capital consists of one class of shares, which are our ordinary shares. Out of our authorized share capital of 100,000,000 ordinary shares, par value NIS 0.01 per ordinary share, 29,333,569 ordinary shares are outstanding and fully-paid as of March 31, 2011.

The ordinary shares do not have preemptive rights. The ownership and voting of our ordinary shares are not restricted in any way by our Articles, or by the laws of the State of Israel, except for shareholders who are citizens of countries in a state of war with Israel. Under the Israeli Companies Law, Israeli companies may purchase and hold their own shares, subject to the same conditions that apply to distribution of dividends (see "Dividend and Liquidation Rights" below). These shares do not confer any rights whatsoever for as long as they are held by us. Additionally, a subsidiary may purchase or hold shares of its parent company to the same extent that the parent company is entitled to purchase its own shares, and these shares do not confer any voting rights for as long as they are held by the subsidiary.

Transfer of Shares and Notices

Ordinary shares are issued in registered form. Ordinary shares registered on the books of the transfer agent in the United States may be freely transferred on the transfer agent's books. Each shareholder of record is entitled to receive at least 21 days prior notice for a general meeting of the shareholders.

Dividend and Liquidation Rights

Our Board of Directors may, without seeking shareholder approval, declare a dividend to be paid to the holders of ordinary shares out of our retained earnings or our earnings derived over the two most recent years, whichever is higher, as reflected in the last audited or reviewed financial report prepared less than six months prior to distribution, provided that there is no reasonable concern that a payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. Dividends are distributed to shareholders in proportion to the nominal value of their respective holdings. In the event of our liquidation, after satisfaction of liabilities to creditors, our assets will be distributed to the holders of ordinary shares in proportion to the nominal value of their respective holdings. This right may be affected by the grant of preferential dividend or distribution rights to the holders of any class of shares with preferential rights that may be authorized in the future. Our shareholders would need to approve any class of shares with preferential rights.

Modification of Class Rights

The Israeli Companies Law provides that the articles of a company may not be modified in such a manner that would have a detrimental effect on the rights of a particular class of shares without the vote of a majority of the affected class.

Voting, Shareholders' Meetings and Resolutions

Holders of ordinary shares have one vote for each ordinary share held on all matters submitted to a vote of the shareholders. These voting rights may be affected by the grant of special voting rights to the holders of any class of shares with preferential rights that may be authorized in the future; however, currently no holders of our securities have any special voting rights.

An annual meeting of the shareholders must be held every year, and not later than 15 months following the last annual meeting. A special meeting of the shareholders may be convened by the board of directors at its decision to do so or upon the demand of any of: (1) two of the directors or 25% of the then serving directors, whichever is fewer; (2) shareholders owning at least 5% of the issued share capital and at least 1% of the voting rights in the company; or (3) shareholders owning at least 5% of the voting rights in the company. If the board does not convene a meeting upon a valid demand of any of the above, then whoever made the demand, and in the case of shareholders, those shareholders holding more than half of the voting rights of the persons making the demand, may convene a meeting of the shareholders to be held within three months of the demand. Alternatively, upon petition by the individuals making the demand, a court may order that a meeting be convened.

The quorum required for a meeting of shareholders consists of at least two shareholders present in person or by proxy within one half hour of the time scheduled for the beginning of the meeting, who hold or represent together at least 33 1/3% of the voting power in our company. A meeting adjourned due to lack of a quorum is generally adjourned to the same day in the following week at the same time and place or any time and place as the directors designate in a notice to the shareholders. If a quorum is not present at the reconvened meeting, the meeting may be held with any number of participants. However, if the meeting was convened following a demand by the shareholders, the quorum will be that minimum number of shareholders authorized to make the demand.

In any shareholders' meeting, a shareholder can vote either in person or by proxy. General meetings of shareholders will be held in Israel, unless decided otherwise by our board.

Most resolutions at a shareholders' meeting may be passed by a majority of the voting power of the company represented at the shareholders' meeting and voting on the matter. Resolutions requiring special voting procedures

include the appointment and removal of outside directors, approval of transactions with controlling shareholders and the approval for the chairman of the board to also serve as chief executive officer. See “Management -Duties of Office Holders and Approval of Transactions under the Israeli Law.”

Under the Israeli Companies Law, a shareholder has a duty to act in good faith and in a customary manner in exercising his rights and duties towards the company and other shareholders, to refrain from prejudicing the rights of other shareholders and to refrain from abusing his power in the company. The rights and duties apply, among other things, to voting at the general meeting of the shareholders on any of the following matters: (1) amendments to the articles; (2) an increase in the company’s authorized share capital; (3) a merger; or (4) an approval of those related party transactions that require shareholder approval.

In addition, any shareholder who: (1) is a controlling shareholder; (2) knows that its vote will determine the outcome of a shareholder vote; or (3) under the provisions of the articles, has the power to appoint or to prevent the appointment of an office holder in the company, is under a duty to act in fairness towards the company. Israeli law does not define the substance of this duty of fairness, however the laws of contracts, regarding breach of contract, shall apply to violations of the duty to act in fairness.

Anti-Takeover Effects of Israeli Laws; Mergers and Acquisitions Under Israeli Law

The Israeli Companies Law allows a merger to be effected without the need for court approval if the merger receives the approval of the boards of directors of each of the merging companies and a majority of the shareholders present and voting at the general shareholders' meeting of each of the merging companies. However, such approval by the general shareholders' meeting is not required, among others, if the merging company is the full owner of the other party to the merger, or if the following three conditions are fulfilled - the merger does not require the change of the merging company's articles of association, the merging company is not issuing more than 25% of its share capital as part of the merger and a person will not become a controlling shareholder as a result of the merger. Israeli law also provides that in addition to the approval of the merger by the requisite majority at the shareholders' general meeting, if either party to the merger or its interested parties hold 25% or more of the shares, or any other type of control, of the other party to the merger, then the majority must also include a majority of the shares held by those shareholders present and voting (excluding abstainees) who do not have an interest in the other party.

Israeli law does not require court approval of a merger other than in specified situations. However, upon petition by a creditor of a merging company, the court may delay or prevent the consummation of the merger, or provide any orders to secure the creditors' rights, if it deems there to be a reasonable concern that as a result of the merger, the surviving company will not be able to meet the obligation to creditors of the target company.

A merger may not be completed until 30 days have passed since the resolution was adopted by the general meeting of each of the merging companies, 50 days have passed from the time that the merger proposal was filed with the Israeli Registrar of Companies by each of the merging companies and until all required approvals have been obtained and submitted to the Registrar of Companies.

In addition, the Israeli Companies Law contains provisions dealing with arrangements between a company and its shareholders. These arrangements may be used to effect squeeze-out transactions in which the target company becomes a wholly-owned subsidiary of the acquirer. These provisions generally require that the merger be approved by a majority of the shareholders voting at a shareholders meeting, which needs to hold at least 75% of the share capital represented at the same meeting. In addition to shareholder approval, court approval of the transaction is required, which entails further delay.

The Israeli Companies Law also 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, any person would become an holder of 25% or more of the company's voting power. This rule does not apply if there is already another holder of 25% or more of the voting power of the company. Similarly, the Israeli Companies Law 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 holder of 45% or more of the voting power of the company. This rule does not apply if someone else already holds 45% or more of the voting power of the company or if such acquisition of shares is made in a private offering, following the consent of the company's general meeting of shareholders or if following the acquisition the purchaser will become a controlling shareholder.

An acquisition of shares following which the purchaser would become a holder of more than 90% of a public company's shares must be made by a tender offer for the purchase of all the remaining shares; if a tender offer is not

accepted by holders of less than 5% of the company's issued shares, or the issued shares of the class of shares relevant to the tender offer, and accepted by more than 50% of the holders who do not have a personal interest in the other party, then the holders of the remaining shares must sell their shares to the acquirer on the terms of the tender offer, although they may petition the court to raise the offered price on the basis that it is an "unfair" price. Nevertheless, a tender offer will be accepted if holders of less than 2% of the company's issued shares, or the issued shares of the class of shares relevant to the tender offer, do not accept it. However, the acquirer will not be permitted to acquire tendered shares, to the extent that the acquisition of those shares would bring the acquirer's holdings to more than 90% of the target company's shares, or class of shares, in which case the acquirer may only purchase the balance which will bring the acquirer's holdings to 90%. In addition, a shareholder who holds more than 90% of the shares of a public company may not purchase additional shares as long as he is holding more than 90%. Shares acquired in violation of these provisions become dormant and cease to confer any rights upon their holder; and all rights are suspended as long as the shares are held by the acquirer.

In addition, our technology developed pursuant to the terms of the Law for the Encouragement of Industrial Research and Development, 1984, may not be sold or transferred to third parties without the prior approval of a governmental committee. Approval for the sale or transfer of technology may be granted only if the recipient undertakes to abide by all of the provisions of the Law for the Encouragement of Industrial and Research Development and its associated regulations, including the restrictions on the transfer of know-how, the obligation to manufacture in Israel and the obligation to pay royalties in an amount that might be increased (see also The government grants we receive for research and development expenditures restrict our ability to manufacture products or to transfer technologies outside of Israel, under Risk Factors above). These requirements could inhibit the acquisition of us by others. However, an amendment to the Law for the Encouragement of Industrial Research and Development enables the transfer of know-how outside of Israel, and the manufacture outside of Israel, under very limited and specific conditions, including additional payment of certain amounts.

Finally, Israeli tax law treatment of certain acquisitions, such as stock-for-stock swap between an Israeli company and a foreign company, may be less favorable than the treatment that may be applicable under U.S. tax law. For example, Israeli tax law may subject a shareholder who exchanges his ordinary shares for shares in a foreign corporation to immediate taxation. However, a stock-for-stock swap of listed securities will not be subject to taxation until the earlier of: (1) the time at which the shares will be sold; or (2) for 50% of the stock, the lapse of two years from the date of the transaction, and for the remaining 50%, the lapse of four years from the date of the transaction. Also, such stock-for-stock swap is conditioned upon the submission of a request to the Israeli tax authorities at least 30 days prior to the swap and the receipt of an approval to perform such swap prior to its completion.

Transfer Agent

The transfer agent and registrar for the ordinary shares is the American Stock Transfer & Trust Company, New York, New York.

C. Material Contracts.

None.

D. Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our ordinary shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding certain transactions. However, legislation remains in effect pursuant to which currency controls can be imposed by administrative action at any time.

The ownership or voting of our ordinary shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our memorandum of association or articles of association or by the laws of the State of Israel.

E. Taxation

U.S. Federal Income Tax Considerations

Subject to the limitations described herein, this discussion summarizes certain U.S. federal income tax consequences of the purchase, ownership and disposition of our ordinary shares to a U.S. holder. A U.S. holder is a holder of our ordinary shares who is:

- an individual citizen or resident of the United States for U.S. federal income tax purposes;
- a corporation (or another entity taxable as a corporation for U.S. federal income tax purposes) created or organized under the laws of the United States, any political subdivision thereof, or the District of Columbia;
- an estate, the income of which may be included in gross income for U.S. federal income tax purposes regardless of its source; or
- a trust (i) if, in general, a U.S. court is able to exercise primary supervision over its administration and one or more U.S. persons have the authority to control all of its substantial decisions, or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

Unless otherwise specifically indicated, this discussion does not consider the U.S. tax consequences to a person that is not a U.S. holder (a “non-U.S. holder”) and considers only U.S. holders that will own ordinary shares as capital assets (generally, for investment).

This discussion is based on current provisions of the Internal Revenue Code of 1986, as amended (the “Code”), current and proposed Treasury Regulations promulgated under the Code and administrative and judicial interpretations of the Code, all as currently in effect and all of which are subject to change, possibly with retroactive effect. This discussion does not address all aspects of U.S. federal income taxation that may be relevant to any particular U.S. holder based on the U.S. holder’s particular circumstances. In particular, this discussion does not address the U.S. federal income tax consequences to U.S. holders who are broker-dealers, insurance companies, tax-exempt organizations, financial institutions or financial services entities, grantor trusts, real estate investment trusts, regulated investment companies, certain former citizens or former long-term residents of the United States, or U.S. holders who own, directly, indirectly or constructively, 10% or more of our outstanding voting shares, U.S. holders who have elected mark-to-market accounting, U.S. holders holding the ordinary shares as part of a hedging, straddle or conversion transaction, U.S. holders that received ordinary shares as a result of exercising employee stock options or otherwise as compensation, U.S. holders whose functional currency is not the U.S. dollar, and U.S. holders who are subject to the alternative minimum tax.

If a partnership (or any other entity treated as a partnership for U.S. federal income tax purposes) holds our ordinary shares, the tax treatment of the partnership and a partner in such partnership will generally depend on the status of the partner and the activities of the partnership. Such a partner or partnership should consult its tax advisor as to its tax consequences.

You are advised to consult your tax advisor with respect to the specific U.S. federal, state, local and foreign income tax consequences of purchasing, holding or disposing of our ordinary shares.

Taxation of Distributions on the Ordinary Shares

The amount of a distribution with respect to the ordinary shares will equal the amount of cash and the fair market value of any property distributed and will also include the amount of any non-U.S. taxes withheld from such distribution. A distribution paid by us with respect to the ordinary shares to a U.S. holder will be treated as dividend income to the extent that the distribution does not exceed our current and accumulated earnings and profits, as determined for U.S. federal income tax purposes. Dividends that are received by U.S. holders that are individuals, estates or trusts will be taxed at the rate applicable to long-term capital gains (currently a maximum rate of 15% for taxable years beginning on or before December 31, 2012), provided that such dividends meet the requirements of “qualified dividend income.” For this purpose, qualified dividend income generally includes dividends paid by a non-U.S. corporation if certain holding period and other requirements are met and either (a) the stock of the non-U.S. corporation with respect to which the dividends are paid is “readily trad