

CAMTEK LTD  
Form 20-F  
April 11, 2013

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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, 2012

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:

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Ordinary Shares, nominal value NIS 0.01 per share  
(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)

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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:

29,896,933 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

T 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, 2012, 2011 and 2010, and "Selected Balance Sheet Data" as of December 31, 2012 and 2011 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, 2009 and 2008 and "Selected Balance Sheet Data" as of December 31, 2010, 2009 and 2008 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.

|  | Year Ended December 31, |          |          |           |          |
|--|-------------------------|----------|----------|-----------|----------|
|  | 2012                    | 2011     | 2010     | 2009      | 2008     |
| U.S. Dollars (in thousands, except per share data)                   |                         |          |          |           |          |
| <b>Selected Statement of Operations Data:</b>                        |                         |          |          |           |          |
| <b>Revenues:</b>   |                         |          |          |           |          |
| Sales of products  | 66,929                  | 88,404   | 70,235   | 39,196    | 62,135   |
| Service fees   | 17,618                  | 18,624   | 17,545   | 14,325    | 13,328   |
| Total revenues   | 84,547                  | 107,028  | 87,780   | 53,521    | 75,463   |
| <b>Cost of revenues:</b>   |                         |          |          |           |          |
| Cost of products sold  | 35,908                  | 48,039   | 38,464   | 25,069    | 37,073   |
| Cost of services   | 11,574                  | 11,549   | 10,897   | 10,970    | 10,542   |
| Total cost of revenues   | 47,482                  | 59,588   | 49,361   | 36,039    | 47,615   |
| Gross profit   | 37,065                  | 47,440   | 38,419   | 17,482    | 27,848   |
| Research and development costs                                       | 12,916                  | 14,077   | 12,906   | 10,319    | 12,801   |
| Selling, general and administrative expenses                         | 21,138                  | 24,341   | 20,662   | 17,667    | 24,834   |
| Impairment charge in respect of goodwill and other intangible assets | 3,031                   | -        | -        | -         | -        |
| Total operating expenses   | 37,085                  | 38,418   | 33,568   | 27,986    | 37,635   |
| Operating income (loss)  | (20 )                   | 9,022    | 4,851    | (10,504 ) | (9,787 ) |
| Financial (expenses) income, net                                     | 233                     | (2,900 ) | (1,478 ) | (952 )    | 1,000    |
| Income (loss) before income taxes                                    | 213                     | 6,122    | 3,373    | (11,456 ) | (8,787 ) |
| Income taxes   | (210 )                  | (744 )   | (557 )   | (386 )    | (770 )   |
| Net income (loss)  | 3                       | 5,378    | 2,816    | (11,842 ) | (9,557 ) |
| <b>Earnings (loss) per ordinary share:</b>                           |                         |          |          |           |          |
| Basic  | 0.00                    | 0.18     | 0.10     | (0.40 )   | (0.32 )  |
| Diluted  | 0.00                    | 0.18     | 0.09     | (0.40 )   | (0.32 )  |
| <b>Weighted average number of ordinary shares outstanding:</b>       |                         |          |          |           |          |
| Basic  | 29,849                  | 29,557   | 29,259   | 29,218    | 29,916   |
| Diluted  | 30,013                  | 30,009   | 30,360   | 29,218    | 29,916   |

|  | Year Ended December 31, |         |        |        |        |
|--|-------------------------|---------|--------|--------|--------|
|  | 2012                    | 2011    | 2010   | 2009   | 2008   |
| U.S. Dollars (in thousands, except per share data) |                         |         |        |        |        |
| <b>Selected Balance Sheet Data:</b>                |                         |         |        |        |        |
| Cash and cash equivalents                          | 18,867                  | 22,185  | 9,577  | 15,802 | 15,949 |
| Short-term deposits                                | 7,160                   | 4,100   | -      | -      | -      |
| Restricted deposit                                 | -                       | -       | 5,182  | -      | -      |
| Total assets                                       | 99,008                  | 104,757 | 96,271 | 79,415 | 84,735 |
| Bank credit  | 6,252                   | 6,792   | 2,600  | -      | -      |



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|  |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|
| Convertible loan                       | -          | -          | -          | 1,666      | 3,333      |
| Total liabilities                      | 38,671     | 44,824     | 42,279     | 28,394     | 22,020     |
| Additional paid in capital             | 61,415     | 61,014     | 60,452     | 60,279     | 60,281     |
| Shareholders' equity                   | 60,337     | 59,933     | 53,992     | 51,021     | 62,715     |
| Ordinary issued and outstanding shares | 29,896,933 | 29,717,964 | 29,277,983 | 29,235,743 | 29,135,108 |

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B. Capitalization and Indebtedness.

Not applicable.

C. Reasons for the Offer and Use of Proceeds.

Not applicable.

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 cannot predict the cycles in these markets. Also, these markets are negatively affected by periods of economic downturns.

The semiconductor industry as well as the printed circuit board (“PCB”) and the integrated circuit substrate (“IC substrate”) industries are characterized by cyclicity. During the second half of 2008 and the first half of 2009 our markets experienced a significant downturn, as a result of the severe global economic recession and industry overcapacity. During the second half of 2009, through 2010 and until the end of the third quarter of 2011, we experienced continued growth due to the increased capacity and demand in the markets in which we operate. However, 2012 was a volatile year which ended in a relatively slow pace of business, and we anticipate that the current slow pace of business will continue to be reflected in our results during the first or second quarter of 2013.

The occurrences of cyclical downturns in our industries are very difficult to predict. In the event of a reduction in demand during cyclical downturns 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 incurred major losses in past years and may not sustain profitable operations in the future. Moreover, if our business deteriorates, we could face liquidity problems.

In 2012 we recorded net income of \$3 thousand after recording net income of \$5.4 and \$2.8 million in 2011 and 2010, respectively. Despite having had net income in 2012, 2011 and 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 2012 our operations provided \$4.0 million in cash. In 2011 our operations provided \$9.8 million in cash and in 2010 we used \$0.04 million in cash. On December 31, 2012, we had cash and cash equivalents of \$18.9 million, in addition to which we had \$7.2 million in short-term deposits, against which are bank loans of \$6.3 million. We may use cash in our operations during 2013 for working capital and investment activities and may continue to incur significant additional legal expenses and other costs associated with certain patent infringement actions all of which may reduce our available cash resources and harm our operations. See below “Our products may infringe on the

intellectual property rights of others, which could result in claims against us. Our existing patent infringement claims expose us to costs and risks".

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.

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

Competition in the markets we serve is intense. During market downturns competition is intensified due to the reduced demand for the 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 more 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 automated optical inspection, or 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 include FEI Company, SII Nanotechnology Japan, Hitachi Ltd. and Carl Zeiss, Inc.

In the PCB 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. and local AOI vendors in China and Taiwan. 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.

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:

- customer budget cycles and installation schedules;
- the size, timing and shipment of substantial orders;
- lack of visibility / low levels of backlog from the preceding quarter;
- product mixes;
- product introductions and the penetration period of new products;

- timing of evaluation and qualification of our products by new customers;

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- rapid shifts in industry capacity;
- pricing of our products;
- timing of new product upgrades or enhancements;
- interest and exchange rates;
- possible impairment of goodwill and other assets; and
- legal expenses and the impact of legal actions.

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

In 2009, we invested in the development of two potential 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 may, in the future, continue to acquire businesses and assets. 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 operations; failure to estimate the acquired businesses’ 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 the fair value of certain assets acquired, liabilities assumed and contingent liabilities; and the loss of key employees of the acquired operations.

Currently we invest substantial resources in the development of our TEM sample preparation tool for the semiconductor industry (see Item 4.B – Business Overview – Product Lines- Sample preparation systems- Xact) and our digital material deposition system for the PCB industry; both products originated in whole or in part from the acquisitions of Sela and Printar and in both cases the extent of actual growth derived from said products did not meet our expectations. If we fail to successfully conclude the development at the rate we expect or if our prospective customers adopt other products or use alternative technologies, our future growth and our results of operations may be adversely affected.

In addition, principally as a result of acquisition activity, our future results of operations may be influenced by the possibility of impairment charges being incurred as a result of decline in value of goodwill and other intangible assets, 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”). In 2012 we recorded an impairment of goodwill and IP R&D in the amounts of \$575 thousand and \$957 thousand, respectively, related to the Printar acquisition and an additional impairment of goodwill in the amount of \$1.5 million related to the Sela acquisition (see Note 9– Goodwill and Intangible Assets, Net, of the financial statements). Future acquisitions could also result in potentially dilutive issuances of equity securities, a 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.

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 economic or market conditions and the entry of stronger competitors or new technologies.

A 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 may result in inventory write-offs. Excess inventory due to customers' demands for a short lead-time can also lead to material inventory write-offs.

Our sales process to new and existing customers usually 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 several new products such as the Xact product line (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 affect our revenues, cash flow and results of operations.

The long sales process may cause an increase in inventory levels and a risk for inventory write downs and write-offs; for more details regarding recent inventory write downs and write-offs see Item 5.A – Operating Results – Critical Accounting Policies – Valuation of Inventory.

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, which might subsequently cause an increase of inventory, which can lead to material inventory write-offs.

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 are in the Asia Pacific region. In 2012, our sales in the Asia Pacific region accounted for approximately 79% of our total revenues, of which approximately 30% of our total revenues were from sales in China and Hong Kong, 20% from sales in Korea and 13% from sales in Taiwan. In addition, parts of the manufacturing and assembly of our AOI systems for the PCB 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, as have North and South Korea, and Japan has for a number of years experienced significant economic instability, intensified by the earthquake and tsunami events that occurred in March 2011. 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 further 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, 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.

Our products may infringe on the intellectual property rights of others, which could result in claims against us. Our existing patent infringement claims expose us to costs and risks.

Third parties, including our competitor August Technology Corporation's (today Rudolph Technologies Inc.), 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 be costly 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; see in Item 8.A – "Consolidated Statements and Other Financial Information"- "Legal Proceedings" below.

Without derogating from the generality of the above, we cannot guarantee that we will ultimately prevail against Rudolph Technologies Inc. patent infringement claims. If Rudolph were to succeed with its infringement actions, it could have a negative impact on our business by impairing our ability to sell some of our AOI systems in the United States and could result in monetary damages being assessed against us which will affect our profitability and liquidity. Rudolph's actions have already subjected, and may continue to subject, us to significant legal and other defense costs, which would impact our cash resources and profitability. In the event that we do not prevail against these claims, we may also be liable for court costs and attorney's fees incurred by the claimants in these litigations (see Item 8.A – "Consolidated Statements and Other Financial Information"- "Legal Proceedings"- "Litigation with Rudolph Technologies Inc.").





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 and may incur substantial costs as a result thereof. This could result in a loss of revenues or adversely affect our profits.

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 markets in which we operate. 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. Adopting new technologies may also result in material inventory write-offs which will adversely affect our results of operations.

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.

While a portion of our manufacturing is performed in our production facilities in Israel and in China, we outsource some of our manufacturing processes to a contract manufacturer that is located in Israel ("Contract Manufacturer"). From time to time, we have experienced and may in the future experience delays in shipments from our Contract Manufacturer. In addition 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 ("Key Suppliers").

Although we believe that our Contract Manufacturer and Key Suppliers have sufficient economic incentive to perform our manufacturing, the resources devoted to these activities are not within our control, and we cannot assure you that manufacturing problems will not occur in the future. In addition, the operations of our Contract Manufacturer and Key Suppliers are not under our control, and may themselves in the future experience manufacturing problems, including inferior quality and insufficient quantities of components. These delays, disruptions, quality control problems and loss in capacity could result in delays in deliveries of our products to our customers, which could subject us to penalties payable to our customers, increased warranty costs and possible cancellation of orders. If our Contract Manufacturer and Key Suppliers experience financial, operational, manufacturing capacity or other difficulties, or shortages in components required for manufacturing, our supply may be disrupted and we may be required to seek alternate manufacturers. We may be unable to secure alternate manufacturers that meet our needs in a timely and cost-effective manner.



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 information for the development of our products. We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality and non-disclosure agreements to protect our proprietary know-how and intellectual property. 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., European or Israeli laws. In addition, we have a manufacturing facility in China, in which we manufacture certain components and assemble most of our AOI systems for the PCB 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, and thus may have negative impact on our profitability.

Currency exchange rate fluctuations may affect the prices of our products. Our products' prices in most countries are denominated in dollars except for Europe and Japan and, as of 2011, 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. Therefore 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, as of 2011, part of our revenues from products in China is 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 Chinese Renminbi (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 corporate headquarters is located in Migdal Ha'Emek, in the northern part of Israel. Any event affecting this site, including a natural disaster, labor stoppages or armed conflict, may disrupt or indefinitely discontinue our ability to fulfill manufacturing demands and generate revenues, thus negatively impacting our business (see also "We depend on a limited number of suppliers, and in some cases a sole supplier and/or subcontractor" above and "Conducting business in Israel entails special risks" below).

We also have a manufacturing facility in China, in which we manufacture certain components and assemble most of our AOI systems for the PCB 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.

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 approximately 57% of our issued and outstanding ordinary shares. As a result, Priortech has the power to control the outcome of certain 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, David Kishon, Itzhak Krell (deceased), Haim Langmas (deceased), Zehava Wineberg and Hanoch Feldstien ("Founding Members") are parties to that certain voting agreement dated March 26, 1992, governing inter-alia joint voting at Priortech's general meeting of the shareholders and the right of first refusal among themselves. As of March 20, 2013 the Founding Members or their heirs aggregately hold 37.4% of the voting power at Priortech's general meeting of the shareholders and as such may be deemed to control Priortech.

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

We purchase products from, or sell products to companies controlled by Priortech Ltd., our principal shareholder, directly or indirectly, or in which Priortech has substantial holdings, and act jointly with such companies 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 our efforts to obey by Israeli law procedural requirements, including special board of directors, audit committee and at some occasions shareholder approvals for interested party transactions, we cannot be certain that the possible detrimental effects of any of these transactions and activities be eliminated. 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, holds several other positions in the Priortech group including the position of chief executive officer at P.C.B Technologies Ltd., an Israeli public company controlled by Priortech. For more details regarding our senior management arrangements, see Item 6 B below - "Compensation – Employment Agreements".

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.

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 2012 we were not a PFIC. We currently expect that we will not be a PFIC in 2013. 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, 2013 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 in Item 10.E below "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, 2012 through March 24, 2013, the closing price of our ordinary shares ranged from \$1.35 to \$2.84 (See Item 9 A below- "Price History of Ordinary Shares"). 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;
  - adverse decisions in litigation matters;
- 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;
  - 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, and one was brought against us. Although this claim was dismissed, we cannot assure that similar complaints would not be filed in the future.

#### 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;
- the interruption or curtailment of trade between Israel and its present trading partners;
- a significant downturn in the economic or financial condition of Israel; and
- a full or partial mobilization of the reserve forces of the Israeli army.

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors. 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 during the past five years Israel was engaged in several armed conflicts in the Gaza Strip. None of the above had any material impact on our operations. Further, since the beginning of 2011 there has been political turmoil and outbreaks of violence throughout the Middle East, such as in neighboring Syria, some of which ended in a revolutionary change of governments, such as in neighboring Egypt and Libya. The effects of the aforementioned political turmoil are yet to unfold but contribute to the general atmosphere of instability in the region. In addition, the threat of Iran becoming armed with nuclear weapons, with all that it entails, has gradually intensified in the last couple of months. 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 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 programs 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, if any. 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 received 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 had fully repaid our previously received grants from the OCS. Sela and Printar, from which we acquired businesses and assets, also received OCS grants. 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 outside of Israel rights in the technology developed with the grants 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 total production of those products from inception of their production until cessation thereof. 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.

In 2010, a dispute has arisen between us and the OCS in Israel with respect to an amount of approximately \$0.7 million regarding repayment of an increased amount of grants pertaining to certain of our products, the manufacturing and assembly of which has been moved to a foreign subsidiary. Based inter-alia on the nature and/or quantities of products manufactured or assembled by our foreign subsidiary and in conjunction with the 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, 2012 the amount of unpaid grants received, including interest accrued by Sela, amounted to \$2.6 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, 2012, the amount of unpaid grants received, including interest accrued by Camtek and the liabilities assumed from Printar but not the amounts accrued by Sela, amounted to \$6.3 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; see item 10.B- "Memorandum and Articles"- "Anti-Takeover Effects of Israeli Laws; Mergers and Acquisitions Under Israeli Law". In addition, 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. See below in Item 4.C “Organizational Structure”.

In our first years of operation, we provided manual optical inspection equipment to address the needs of the PCB industry. In September 2001, we acquired a developer and producer of AOI systems for the semiconductor manufacturing and packaging industry ("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 have accounted for a significant portion of our total sales. Applying our core technologies, we developed the Gannet, our AOI system for the front end market in the semiconductors industry, 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 further development), and the Legend, designated for the application of identification nomenclature on certain PCB, commonly used in the PCB industry. We are not manufacturing new Legend systems, but still support an installed base of more than 28 active Legend systems and sell ink products used by Legend systems. Printar's technology could also be used in the future for various other applications in the field of electronic manufacturing. In 2012 we recorded an impairment of goodwill and IP R&D in the amounts of \$575 thousand and \$957 thousand, respectively, related to the Printar acquisition (see Note 9 – Goodwill and Intangible Assets, Net, of the financial statements).

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. Many of the systems developed by Sela are located at leading semiconductor fabrication facilities. Sela developed the Xact, a TEM sample preparation tool using AIM technology. The first Xact system was sold in the first quarter of 2009, and sales of this system continued in 2010 and 2011. The second generation of Xact was introduced in the fourth quarter of 2011, and is still undergoing modifications and improvements in order to assure full compliance to customers' demands. In 2012 we recorded an impairment of goodwill in the amount of \$1.5 million related to the Sela acquisition (see Note 9– Goodwill and Intangible Assets, Net, of the financial statements).

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), 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), which whole amount was repaid by 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 our ordinary shares 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 currently 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](http://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 and technologically advanced solutions dedicated to enhancing production processes and increasing yields, enabling and supporting customers' latest technologies in the semiconductor and PCB and IC substrate industries.

Camtek addresses the specific needs of these interconnected industries with dedicated solutions based on a wide and advanced platform of technologies including intelligent imaging, image processing, adaptive ion milling (AIM) and digital material deposition (DMD). Camtek's solutions range from micro-to-nano by applying its technologies to the industries' specific requirements.

We design, develop, manufacture and market products based on three core technologies: AOI; DMD; and 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 PCB 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.

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.

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's customers include major semiconductor fabrications, including top 20 companies, as well as leading research institutes. We have recently, however, concluded that: (i) our Xact systems would require us to conduct additional development efforts in order to assure full customer compatibility and (ii) at this stage the market environment for SELA products is relatively weaker than expected. Accordingly, in 2012 we recorded an impairment of goodwill in connection with the Sela acquisition.

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 eight years ago and maintains an installed base of more than 28 active 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 continues to be under development. The development period of the SM technology is taking longer than anticipated to bring the products to market. Accordingly, in 2012 we recorded an impairment of IP R&D and goodwill in connection with the Printar acquisition. Once our SM digital printing system ("GreenJet") is fully commercialized, the acquisition of Printar's assets should enable us to offer to our customers in the PCB industry a broader range of products, while relying on our existing operational, R&D and sales and marketing infrastructure.

## 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 contains numerous IC dice ("chips"). AOI is implemented at various stages along the manufacturing process: both at the front end manufacturing processes, such as lithography and CMP (chemical mechanical polishing) and the back end processes, such as bump, probe mark and post dicing. The inspection process looks for defects such as cracks, foreign materials or mechanical damage, and 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 taken from failed products and reviewed with electronic microscopes. Sela's products are used to prepare these samples for review.



At the back end stage of the process, our AOI systems verify that the dice are free of defects, and that the electronic probe tips used for functional testing of the finished dice on the wafer did not cause any critical damage to the terminal pads on the dice. 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 any defects that may have been caused to the ICs during electrical probe testing and the dicing of the wafer.

In 3D-IC 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 3D-IC 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. The 3D-IC technology also provides for larger bumps/balls of up to 300 to 500 micron tall to be placed on the die while 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 utilizes 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 product performance and reliability. This testing may sum 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 product performance and reliability. This testing may sum to a significant amount of the overall product cost.

At the front end stage of the process, our AOI system inspects front end stages of the semiconductor fabrication. 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.

Sela’s products are used to prepare samples for review in the front end, using AIM technology. 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 and smart phones, notebook computers, tablets, digital cameras, 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 of 25 to 120  $\mu\text{m}$  (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 legend printing on PCBs, as described above, includes screen-printing and photo imaging, while traditional Solder Mask (SM) application includes SM coating, in various methods, and photo imaging. Traditional SM applications involve high production costs, time-consuming procedures and several production steps. If and when available, Camtek's Digital Material Deposition (DMD) - SM printing would allow significant simplification of the SM process, which leads to faster cycle time, higher registration accuracy 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 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 PCB. These substrates feature conductive lines that are 8 to 25  $\mu\text{m}$  (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 a designated platform 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 are 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.

#### Gannet

The Gannet system is 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.

## 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.

## Xact

The Xact performs cutting-edge TEM and STEM (Scanning transmission electron microscopy) sample preparation in line with the semiconductor and nanotechnology roadmap requirements for next generation physical failure analysis and characterization. The Xact utilizes 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.

## EM3i

A dedicated, automated, time-saving and user-friendly system, usually sold in conjunction with the Xact systems, enabling 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 EM3i 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.

## PCB and IC Substrate Industry AOI Systems

Our AOI products for this industry consist of five product lines: the Phoenix, Dragon and Orion for the inspection of inner and outer layers of PCB panels and ultra-fine-line IC substrate and large area masks (LAM) dedicated for inspection of artwork.

### Phoenix

The Phoenix product family, introduced in November 2011, is designed to support a broad range of the most demanding PCB and IC substrate applications, while keeping pace with the dynamic technology changes in the industry. It enables customers to increase AOI room total yield and offers high performance in all AOI aspects. The Phoenix product family is enhanced with Spark - Camtek's unique and powerful detection engine providing high detection capabilities, while minimizing false calls. Spark's open architecture software enables easy adaptation to new applications and technology, and supports critical dimensions detection.

### 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  $\mu\text{m}$  (microns) conductor line width, up to high density substrates having 12  $\mu\text{m}$  (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.

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## LAM

LAM is specially designed for main-stream LAM inspection. It offers unparalleled detection ability on LAM with down to 25  $\mu\text{m}$  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 the operator's comfort during work while delivering high image quality and productivity.

\* CVR-100 is designed for verification of panels after inspection on the Phoenix, Dragon, 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 (our AVI system which was designed for final inspection (AFI) of IC substrates and high density interconnect (HDI) panels) (see below "Sales, Marketing and Customer Support").

## Direct Digital Material Deposition (DMD)

## INK

Camtek manufactures and distributes ink specially designed for utilization by Legend systems designed for high-performance digital legend printing technology.

Our customer base includes the majority of the largest PCB manufacturers worldwide and 25 semiconductor manufacturers, among them outsourced semiconductor assembly and test (OSAT), integrated device manufacturers (IDM) and wafer level packaging subcontractors. Our customers, many of whom have multiple facilities, are located in 34 countries throughout Asia, Europe and North America. In 2012, 2011 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.

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

|                     | Year Ended December 31,     |         |        |
|---------------------|-----------------------------|---------|--------|
|                     | 2012                        | 2011    | 2010   |
|                     | U.S. Dollars (In thousands) |         |        |
| China and Hong Kong | 25,008                      | 34,113  | 33,614 |
| Korea               | 17,004                      | 23,233  | 16,621 |
| Other Asia          | 10,739                      | 7,487   | 11,089 |
| United States       | 9,482                       | 11,699  | 10,075 |
| Taiwan              | 11,292                      | 16,458  | 7,862  |
| Western Europe      | 6,998                       | 6,956   | 4,033  |
| Japan               | 2,370                       | 4,618   | 3,270  |
| Rest of the world   | 1,654                       | 2,464   | 1,216  |
| Total               | 84,547                      | 107,028 | 87,780 |

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:

|                           | Year Ended December 31,     |         |        |
|---------------------------|-----------------------------|---------|--------|
|                           | 2012                        | 2011    | 2010   |
|                           | U.S. Dollars (In thousands) |         |        |
| PCB and IC substrates (1) | 16,479                      | 30,708  | 26,378 |
| MEP (2)                   | 50,450                      | 57,696  | 43,857 |
| Service Fees              | 17,618                      | 18,624  | 17,545 |
| Total Revenues            | 84,547                      | 107,028 | 87,780 |

(1) Includes sales of Printar's products

(2) Includes sales of Sela's products

#### Sales, Marketing and Customer Support

We have established a global distribution and support network throughout the territories in which we sell, install and support 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 the last two years, we signed several distribution rights agreements with different Japanese, European and North African companies, under which these companies sell, install and support our products in Japan, Europe and North Africa, respectively.

In 2009 we signed a memorandum of understanding (MOU) with Utechzone Co Ltd., our former competitor in the field of automated inspection of finished IC substrates. In accordance with the terms of the MOU, we were entitled to exclusively distribute, install and support Utechzone's Automatic Visual Inspection (AVI) systems designated for detection of defects on surface of finished printed circuit boards or finished substrates for integrated circuit carriers systems. As a result of the MOU we ceased the development and marketing of our then existing AVI systems product

line (commercially known as the "Pegasus" product line). We recorded our first sale under the MOU in the first quarter of 2010. As of fourth quarter of 2012, Utechzone breached the provisions stipulated in the MOU causing an impact on our revenues and profitability in 2012 and first quarter of 2013.

As of December 31, 2012, 43 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.

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. Under our service and maintenance contracts, we provide prompt on-site customer support.

We take various measures to secure customers' payment on a case by case basis by means of letters of credit, bank notes and credit checking.

### 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 twelve weeks. We utilize subcontractors for the production of subsystems. Since the beginning of 2010 our Falcon and Condor systems are manufactured by a single contractor 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. During times of rapid increase in demand in the PCB and semiconductor industries, the delivery time of suppliers in these industries is extended. However, to date, we have been able to obtain sufficient units of these components to meet our needs in a timely fashion.

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 PCB 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. and local AOI vendors in China and Taiwan. DMD competitors include 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;
  - Ability to maintain competitive pricing;
  - 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:

|                                     | December 31,           |         |         |
|-------------------------------------|------------------------|---------|---------|
|                                     | 2012                   | 2011    | 2010    |
|                                     | (dollars in thousands) |         |         |
| Building and leasehold improvements | 98                     | 811     | 1,193   |
| Machinery and equipment*            | 2,040                  | 215     | 41      |
| Office furniture and equipment      | 1,535                  | 140     | 311     |
| Total                               | \$3,673                | \$1,166 | \$1,545 |

\* including transfer of inventory to fixed assets in the sum of \$1,638, \$347 and \$(141) in 2012, 2011 and 2010, respectively.

## Material Effects of Governmental Regulations

The following EU directives, which represent the European standard required in order to sell in Europe, apply: Machinery Directive 2006/42/EC and EMC 2004/108/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 ISO9001:2008. In addition, all types modules of systems are tested by independent laboratories that certify their compliance with these governmental regulations and have required accreditation.

## C. Organizational Structure

Prioritech 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 Ltd., a subsidiary of Prioritech, is one of the largest PCB manufacturers in Israel. Prioritech currently holds approximately 57% of our outstanding ordinary shares. Our revenues from sales to affiliated and subsidiaries of Prioritech, totaled \$142,000, \$2,397,000 and \$83,000 in 2012, 2011 and 2010, respectively. In addition to these sales of products, 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.

The following table shows the Company's subsidiaries, all of which are wholly owned by us (except for Camtek HK Ltd., in which Prioritech Ltd., our controlling shareholder, holds no more than one percent of the voting rights) or by our subsidiaries, together with each subsidiary's jurisdiction of incorporation, as of the date of this report.

| Name of Subsidiary | Jurisdiction of<br>Incorporation |
|--------------------|----------------------------------|
| Camtek H.K. Ltd.   | Hong Kong                        |
| Camtek USA Inc.    | New Jersey, USA                  |
| CAMTEK (EUROPE) NV | Belgium                          |

Camtek Electronic China  
Technologies  
(Suzhou) Co. Ltd.  
(CET)

Camtek Imaging China  
Technology (CIT)

S E L A - Israel  
Semiconductor  
Engineering  
Laboratories Ltd

Sela Semiconductor California, USA  
Engineering  
Laboratories Inc.

Camtek Japan Ltd. Japan

Camtek Taiwan Ltd. Taiwan

Camtek South East Singapore  
Asia Pte Ltd.

Camtek Korea Ltd. South Korea

Penta-I 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 28,000 square feet.

Aggregate office rent expenses in 2012 amounted to approximately \$1.0 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 semiconductor manufacturing and packaging industry and PCB and IC substrate 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 under development) 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 2012 were to manufacturers in the Asia Pacific region, including China, South East Asia, Korea and Taiwan. This fact is due to, among other factors, the migration of the electronic manufacturers into this region following the development and growth of electronics industry centers in the region.

In 2012, our sales to customers in the Asia Pacific region accounted for approximately 79% of our total revenues, including approximately 30% of our total revenues from sales in China and Hong Kong, 20% in Korea and 13% 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 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 in our markets 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.

From the first quarter of 2010 until the fourth quarter of 2012 we have been actively engaged in the distribution, installation and support of our former competitor Utechzone's Co Ltd., Automatic Visual Inspection (AVI) systems designated for detection of defects on surface of finished printed circuit boards or finished substrates for integrated circuit carriers systems. As of the fourth quarter of 2012, Utechzone breached the provisions stipulated in the

memorandum of understanding governing our mutual relationship causing an impact on our revenues and profitability in 2012 and first quarter of 2013. As of the date of this Annual Report we are unable to assess when and if our business relationship with Utechzone will be restored or the potential impact of above mentioned on our future business results in 2013

## 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. In the limited circumstances when the products are installed by a trained distributor acting as an end user, revenue is recognized upon delivery assuming all other criteria for revenue recognition are met.

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 instruments.

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 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 or service/maintenance 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 2012, 2011 and 2010 we wrote-off inventory in the amount of approximately \$2 million, \$1 million and \$0.2 million, respectively. The write off amounts are included in the line item "Cost of products sold", in the consolidated statements of operations. The write offs create a new cost basis and are a permanent reduction of inventory cost. The write-off in the amount of approximately \$2 million in 2012 related to: (i) \$1.4 million due to inventory and items associated with product lines of Xact and EM3 products which were deemed obsolete; and (ii) \$0.6 due to damaged, obsolete, excess or slow moving inventory.; the write-off in the amount of \$1 million in 2011 related to: (i) \$0.5 million due to a strategic decision by the Company to discontinue certain old products; and (ii) \$0.5 million due to slow moving inventory and items deemed obsolete. Inventory that is not expected to be converted or consumed in 2013 is classified as non-current. As of December 31, 2012, a \$7.1 million portion of our inventory was classified as non-current. Management periodically evaluates our 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, technologically 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 Item 3 above- "We have expanded and may attempt to further expand our activity in the markets in which we operate through merger and acquisition (M&A) activity. Such activity may result in operating difficulties, losses and other adverse consequences").

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.

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.

**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. In 2012 we recorded an impairment of goodwill and IP R&D in the amounts of \$575 thousand and \$957 thousand, respectively, related to the Printar acquisition and an additional impairment of goodwill in the amount of \$1.5 million related to the Sela acquisition (see Note 9 – 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 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 (see also "Intangible assets" above).

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.

Valuation of Long-Lived Assets. We apply ASC Subtopic 360-10, "Property, Plant and Equipment. 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 ASC Subtopic 740-10 Income Taxes – Overall. 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, 2012. 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 September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company implemented the provisions of ASU 2011-08 as of January 1, 2012. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements.

In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The Company implemented the provisions of the ASU prospectively as of January 1, 2012. The adoption of ASU 2011-04 in 2012 did not have a material effect on the Company's consolidated financial statements.

#### New Standards and Interpretations - Not Yet Adopted

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company will implement the provisions of ASU 2011-11 as of January 1, 2013. The Company expects that the adoption of ASU 2011-11 will not have a material effect on its consolidated financial statements.

#### Results of Operations

##### Year Ended December 31, 2012 compared to Year Ended December 31, 2011

**Revenues.** Revenues in 2012 decreased by 21% to \$84.5 million from \$107 million in the year ended December 31, 2011. In 2012, sales to the PCB and IC substrate and MEP industries decreased by 46% and 13%, respectively, compared to previous year. Sales of all products decreased by 24% to \$67.0 million in the year ended December 31, 2012, from \$88.4 million in the year ended December 31, 2011. The decrease in sales is attributed mainly to the recent economic downturn in the markets we serve which negatively impacted our customers spending patterns. 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 decreased by 5% to \$17.6 million in the year ended December 31, 2012, from \$18.6 million for the year ended December 31, 2011 mainly as a result of a decrease in Legend related service revenues.

**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 decreased by \$10.4 million to \$37.0 million in 2012 from \$47.4 million in 2011, representing a decrease of 22%. Our gross margin decreased to 43.8% in 2012, compared to a gross margin of 44.3% in 2011, primarily due to decreased revenues as described above and the level of fixed costs included in the cost of goods sold. In addition, in 2012 we reported an inventory write-off in the amount of approximately \$2 million compared with an inventory write-off in the amount of \$1 million reported in 2011. Our gross profit on product sales decreased by \$9.4 million to \$31.0 million in 2012, compared to \$40.4 million in 2011. Our gross profit on service revenue decreased by \$1.1 million in 2012 to \$6.0 million, compared to \$7.1 million in 2011, primarily due to the fixed costs associated with services, which were not reduced to reflect the decrease in sales.

**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 2012 were \$12.9 million compared to \$14.1 million in 2011. Research and development expenses decreased in 2012 by \$1.2 million, primarily due to reductions in salary expenses and in payments to sub-contractors.

**Selling, General and Administrative Expenses.** Selling, general and administrative expenses consist primarily of expenses associated with salaries, commissions, promotion and travel, professional services and rent costs. Our selling, general and administrative expenses decreased by 13% to \$21.1 million in 2012 from \$24.3 million in 2011. Selling expenses have decreased mainly due to the variable expenses associated with the decreased revenues, as described above as well as income resulting from a legal dispute, the outcome of which was more favorable than originally provided for.

**Impairment charge in respect of goodwill and other intangible assets.** During the fourth quarter of 2012, due to certain developments in business and in research and development activity of the project during the year, we reviewed the business outlook of the Xact project, made certain personnel changes and decided to cease our marketing efforts of the legacy product, which resulted in an impairment of our goodwill with respect to SELA. Accordingly we recorded an impairment charge of \$1.5 million. In addition, during the fourth quarter of 2012, due to delays in the development activity of GreenJet during the year, we reviewed the business outlook of the DMD project, made certain personnel changes and decided to delay our marketing efforts which resulted in an impairment of our goodwill and IPR&D with respect to DMD. Accordingly we recorded an impairment charge of \$575 thousand and \$957 thousand, respectively. No impairment charges were recognized in 2011 or 2010.

**Financial Expenses, Net.** We had net financial income of \$0.2 million in 2012, as compared to net financial expenses of \$2.9 million in 2011. These changes relate mainly to income recorded in 2012 of \$0.4 million related to a revaluation of contingent consideration and certain future liabilities recorded with respect to business combination of Printar and Sela, compared to expenses of \$2.1 million in 2011. Foreign currency income, net, resulting from transactions not denominated in U.S. Dollars, amounted to \$84 thousand in 2012 compared to expenses of \$308 thousand in 2011.

**Provision for Income Taxes.** Income tax expenses in 2012 were \$0.2 million compared to \$0.7 million in 2011, mainly due to decreased revenues.

**Net Income.** We realized net income of \$3 thousand in 2012 compared to \$5.4 million in 2011, in light of the factors discussed above.

Year Ended December 31, 2011 compared to Year Ended December 31, 2010

Revenues. Revenues in 2011 increased by 22% to \$107 million from \$87.8 million in the year ended December 31, 2010. In 2011, sales to the PCB and IC substrate and MEP industries increased by 16% and 32%, respectively, compared to previous year. Sales of all products increased by 26% to \$88.4 million in the year ended December 31, 2011, from \$70.2 million in the year ended December 31, 2010. The increase in sales to both PCB and MEP industries was attributed mainly to increased demand for our products as a result of the high capacity and increased unit demands driven by new electronic devices and technology evolving in these two industries and to the recovery from the global economic recession. In addition, the increase in the revenues from the MEP industry was also a result of our continued growth of sales of sample preparation products and the 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 6% to \$18.6 million in the year ended December 31, 2011, from \$17.6 million for the year ended December 31, 2010, primarily due to increased revenue from continuing service as our installed base increased.

**Gross Profit.** Our total gross profit increased by \$9 million to \$47.4 million in 2011 from \$38.4 million in 2010, representing an increase of 23.5%. Our gross margin increased to 44.3% in 2011, compared to a gross margin of 43.8% in 2010, primarily due to increased revenues as described above. In addition, in 2011 we reported an inventory write-off in the amount of \$1 million compared with an inventory write-off in the amount of \$0.16 million reported in 2010. Our gross profit on product sales increased by \$8.6 million to \$40.4 million in 2011, compared to \$31.8 million in 2010. Our gross profit on service revenue increased by \$0.5 million in 2011 to \$7.1 million, compared to \$6.6 million in 2010, mainly due to an increase in service revenues accompanied with a smaller increase in direct expenses like service engineers, which is the main service expense component.

**Research and Development Costs.** Total research and development expenses for 2011 were \$14.1 million compared to \$12.9 million in 2010. Research and development expenses increased in 2011 by \$1.2 million, primarily due to an increase in employee related expenses, as well as an increase in engineering material costs and external services related to the Company's future products to the MEP and PCB industries.

**Selling, General and Administrative Expenses.** Our selling, general and administrative expenses increased by 17.8% to \$24.3 million in 2011 from \$20.7 million in 2010. 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.

**Financial Expenses, Net.** We had net financial expenses of \$2.9 million in 2011, as compared to net financial expenses of \$1.5 million in 2010. These changes relate mainly to an expense recorded in 2011 of \$2.1 million related to a revaluation of contingent consideration and certain future liabilities recorded with respect to business combination of Printar and Sela, compared to \$1.4 million 2010. Foreign currency income (expense), net, resulting from transactions not denominated in U.S. Dollars, amounted to \$308 thousands in 2011 compared to \$(3) thousands in 2010.

**Provision for Income Taxes.** Income tax expenses in 2011 were \$0.7 million compared to \$0.6 million in 2010, mainly due to increased revenues.

**Net Income.** We realized net income of \$5.4 million in 2011 compared to \$2.8 million in 2010, in light of the factors discussed above

## B. Liquidity and Capital Resources

Our cash and cash equivalent balances totaled approximately \$18.9 million as of December 31, 2012, and \$22.2 million as of December 31, 2011, in addition to \$7.2 million which was classified as short term deposits (December 31, 2011 - \$4.1 million). Our cash is invested in bank deposits. The bank deposits are spread among several banks, primarily in Israel.

From our inception through December 31, 2012 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 \$43.1 million as of December 31, 2012 and \$46.9 million as of December 31, 2011. The decrease is mainly attributed to the decrease in accounts receivables and inventory, offset by a decrease in other current liabilities.

Our capital expenditures during 2012 were approximately \$2.3 million, mainly due to operating activities.

In 2012 we have received: (i) \$1.5 million short term loan with a term of one year and interest at the rate of Libor + 3.0% per annum and an additional \$0.5 million short term loan with a term of one year and interest at the rate of Libor + 3.5% per annum, both from Bank Leumi L'Israel Ltd. ("Bank Leumi"); and (ii) a \$1.5 million short term loan with a term of one year and interest at the rate of Libor + 3.0% per annum and an additional \$0.66 million short term loan with a term of one year and interest at the rate of Libor + 3.1% per annum, both from Bank Mizrahi Tefahot Ltd. ("Bank Mizrahi") (the "2012 Loans"). In 2011 we have received: (i) a \$1.2 million long term loan with a term of two years and interest at the rate of Libor + 3.8% per annum from Bank Leumi and \$1.5 million short term loan with a term of one year and interest at the rate of Libor + 3.8% per annum; (ii) a long term loan of \$2 million for a term of three years and interest at the rate of Libor + 4% per annum and \$1.5 million short term loan with a term of nine months and interest at the rate of Libor + 3.7% per annum, both from Bank Mizrahi (the "2011 Loans"). In 2010 we have received: (i) a \$1.3 million long term loan with a term of three years and interest at the rate of Libor + 2.875% per annum from Bank Leumi; and (ii) a \$2 million long term loan with a term of three years and interest at the rate of Libor + 4% per annum from Bank Mizrahi (the "2010 Loans"). As of December 31, 2012 the outstanding amount of the 2012, 2011 and 2010 loans was \$4.16 million, \$0.6 million and \$1.49 million, respectively.

Our obligations to both Bank Leumi and Bank Mizrahi are secured pari passu by a lien on our facility in Israel and a fixed and floating charge on our assets.

In addition, in 2011 we signed a covenant agreement with Bank Mizrahi and revised our covenant agreement with Bank Leumi. We are currently required to comply with various ongoing financial covenants, including among others: minimum cash balances, EBITDA minimums, equity minimums, revenue minimums, bank debt to open receivables ratio, receivables together with cash to total credit line and guarantees ratio, and credit line and guarantees to the total balance ratio. The Company was in full compliance with the aforementioned financial covenants as of the December 31, 2012 and expects to continue to comply with these covenants in 2013.

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 2012 and as of the date of this Annual Report, there is no current intention to buy shares. As of December 31, 2012, \$1.1 million remains of the \$2 million authorized for the share repurchase program.

We anticipate that our existing capital resources and cash flows from operations will be adequate to satisfy our liquidity requirements through 2013. 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, 2012, we had positive cash flow from operations of \$4.0 million compared to a positive cash flow from operations of \$9.8 million in the year ended December 31, 2011. This decrease is primarily due to the decrease in net income in the amount of \$5.4 million. The decrease in net income between 2012 and 2011 should be adjusted to exclude the effect of a \$3.0 million non-cash impairment charge in respect of goodwill and other intangible assets, offset by \$2.6 million adjusted to exclude non-cash income from revaluation of liabilities related to the Sela and Printar acquisitions. 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.

#### Cash flow from investing activities

Cash flow used in investing activities in 2012 was \$6.0 million, primarily due to the investment in short term deposits and fixed assets. Cash flow used in investing activities in 2011 was \$0.4 million, primarily due to short term deposit of \$4.1 million and capital expenditures of \$1.1 million offset by a restricted deposit of \$5.2 million, which was released in 2011.

Our capital expenditures in 2012 were used primarily for investment in the implementation of an ERP system and investment in electronic equipment and for the maintenance of our facilities in Israel and China. Our capital expenditures in 2011 were used primarily for the maintenance of our facilities in Israel and China.

#### Cash flow from financing activities

Cash flow used in financing activities in 2012 was \$1.2 million, mainly due to the repayment of long-term loans.

Cash flow provided by financing activities in 2011 was \$3.4 million, mainly due to receipt of \$4.8 million in loans from banks, offset by repayments to the OCS in a sum of \$0.6 million, as well as earn-out payments for Sela in a sum of \$0.4 million and repayment of loans from banks in a sum of \$0.6 million.

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.

#### Effective Corporate Tax Rate

Camtek's production facility in Israel has been granted "Approved Enterprise" status under the Investment Law (as defined in Item 10 below). 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 – Israeli Taxation - Tax Benefits Under the Law for the Encouragement of Capital Investments, 1959."

Out of Camtek's retained earnings as of December 31, 2012 approximately \$20.8 million are tax-exempt earnings attributable to its Approved Enterprise and approximately \$7.0 million are tax-exempt earnings attributable to its Beneficiary Enterprise. The tax-exempt income attributable to the Approved and Beneficiary 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 Beneficiary 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, 2012, if the income attributed to the Approved Enterprise was distributed as dividend, we would incur a tax liability of approximately \$5.2 million. If income attributed to the Beneficiary Enterprise was distributed as dividend, or upon liquidation, we would incur a tax liability in the amount of approximately \$ 1.8 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.

China income tax - Our Chinese subsidiaries are subject to income tax based upon the amount of their taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. Our subsidiaries in China were entitled to: (i) zero tax for the first two years following the earlier of: the year it becomes profitable or 2008; and (ii) 50% tax reduction from the standard tax rate of 25%, for the following three years. In 2012 the tax holiday for CET will end and the tax rate will be 25%. The tax holiday for CIT will end in 2013 and in 2012 the tax rate was 12.5%.

#### 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 2012 there was no significant impact to our costs expressed in dollars. In addition, starting 2011, part of our revenues from products in China are 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 research and development efforts are primarily focused on:

- completing the development of our digital material deposition systems in the solder mask activity;
  - 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; and
- increasing productivity and reducing cost of ownership of our 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, 2012, we had 87 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, \$14.1 million and \$12.9 million for the years ended December 31, 2012, 2011 and 2010, respectively, representing 15%, 13.2% and 14.7% 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 163 patents pending in Israel and worldwide and 13 US provisional applications. In addition, we have 75 registered patents in the following countries: USA (27), Israel (9), Europe (7), Korea (4), Japan (6), Singapore (4), China (12) and Taiwan (6). These patents relate to our proprietary technology and know-how developed for products in the PCB and semiconductor industries. We also have 10 registered trademarks in Israel and 1 registered trademark in Japan.

#### D. Trend Information

As of the fourth quarter of 2011 through 2012 we are experiencing a slowdown in demand for our products, in both PCB and IC substrate industry and the semiconductor manufacturing and packaging industry, as a result of the a general slowdown in the markets we serve.

#### 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, 2012, minimum future rental payments under such non-cancelable operating leases were approximately \$3.2 million.

#### F. Contractual Obligations and Other Commercial Commitments.

As of December 31, 2012, we had contractual obligations and commercial commitments of:

| Contractual Obligations                                      | Payment Due in |                     |                             |           | More than<br>5<br>years |
|--|----------------|---------------------|-----------------------------|-----------|-------------------------|
|  | Total          | Less than 1<br>Year | 1-3 years<br>(in thousands) | 3-5 years |                         |
| Contingent consideration in respect of business combinations | 5,303          | 335                 | 2,182                       | 1,777     | 1,009                   |
| Purchase obligations (1)                                     | 7,938          | 7,938               | -                           | -         | -                       |
| OCS  | 5,490          | 209                 | 1,663                       | 1,429     | 2,189                   |
| Severance obligation   | 742            | -                   | -                           | -         | 742                     |

|                                 |        |        |       |       |       |
|---------------------------------|--------|--------|-------|-------|-------|
| Other long-term obligations (2) | 3,156  | 1,905  | 1,249 | 2     | -     |
| Bank Loan Agreements            | 6,252  | 5,752  | 500   | -     | -     |
| Total                           | 28,881 | 16,139 | 5,594 | 3,208 | 3,940 |

(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, 2012, the minimum future rental payments (including future vehicle rental of our subsidiaries) were approximately \$1,431.

Our subsidiaries have entered into various operating lease agreements, principally for office space. As of December 31, 2012, minimum future rental payments under these leases amounted to \$1,725.



## 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       | 64  | Active Chairman of the Board of Directors                  |
| Yotam Stern     | 60  | Executive Vice President, Business & Strategy and director |
| Gabi Heller*    | 48  | Director   |
| Rafi Koriat*    | 66  | Director   |
| Eran Bendoly    | 48  | Director   |
| Roy Porat       | 46  | Chief Executive Officer and President of Camtek USA Inc.   |
| Moshe Eisenberg | 46  | Vice President – Chief Financial Officer                   |
| Ayelet Peled    | 48  | Vice President – Human Resources                           |
| Moshe Baruch    | 58  | Vice President – Research and Development                  |
| Moshe Grencel   | 59  | Vice President – Operations                                |
| Michael Lev     | 59  | Vice President – Intellectual Property                     |
| Aharon Sela     | 60  | Vice President – Sales and President of Camtek Hong Kong   |
| Amir Tzchori    | 45  | Vice President – PCB Manager and President of Camtek China |
| Dr. Boaz Nitzan | 48  | Vice President – DMD                                       |

\*External 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 from 1987 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 on our Board of Directors since 1987 (and as the Chairman of our Board of Directors from May 2009 until August 2010). From 2001 Mr. Stern has served as our Executive Vice President, Business & Strategy (see Item 6 B "Compensation – Employment Agreements"). From 1998 until 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. As of November, 2012 Mr. Stern also serves as Chief Executive Officer of P.C.B Technologies Ltd., our affiliate which is also controlled by Priortech Ltd. Mr. Stern holds a B.A. in Economics from Hebrew University of Jerusalem.



Gabi Heller has served on our Board of Directors since September 2006. Ms. Heller has 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 Chief Financial Officer 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 currently serves 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 and Board member in the fields of semiconductor assembly and processing equipment, optical network components, nanotechnology and other related emerging fields. Prior to his present position as founder and Chief Executive Officer of Korel Business Ltd., which specializes in strategic positioning and guiding high tech companies and management, and his additional responsibility as Co-Chairman of NanoIsrael International Conference, Mr. Koriat was Chief Executive Officer of Lambda Crossing engaged in the development and manufacturing of optical components for networks (2001-2006) and Founder and Chief Executive Officer of Steag CVD Systems Ltd. and its subsidiary, Steag CVD Inc. in San Jose, California; both companies are engaged in the development and manufacturing 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 Executive Officer of Oliben Ltd., a private business consulting firm. From 2009 to 2012 Mr. Bendoly served as the Chief Financial Officer of Expand Networks Ltd., 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.

Moshe Eisenberg has served as our Chief Financial Officer since November 2011. From 2010 to 2011 Mr. Eisenberg served as the Chief Financial Officer of Exlibris, a global provider of library automation solution for the academic market. Prior to that, from 2005 to 2009, Mr. Eisenberg served as the Chief Financial Officer of Scopus Video Networks. Ltd., a leading provider of digital compression, decoding & video processing. Prior to that, Mr. Eisenberg held various professional and managerial positions at Gilat Satellite (GILT) and its wholly owned US subsidiary, Spacenet Inc. Mr. Eisenberg holds an MBA from Tel Aviv University and a B.Sc. in Agricultural Economics from the Hebrew University of Jerusalem.

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.

Moshe Baruch has served as our Vice President - Research and Development since September, 2012. From 1996-2012 Mr. Baruch held various R&D positions at KLA-Tencor, including the executive position of R&D manager (2005-2012). Prior to that, Mr. Baruch held several R&D leadership positions at large Israeli-based companies, developing multi-disciplinary products for the defense industry, including Rafael Advanced Defense Systems Ltd., Elta Systems Ltd., and Tadiran Electronic Systems Ltd.; Mr. Baruch holds a B.Sc. in mathematics and computer science from Ben Gurion University.

Moshe Grencel has served as our Vice President - Operations since January 2007. From 2004 until 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 PCB and semiconductor manufacturing and packaging areas. Mr. Lev holds a M.Sc. in Electrical Communication from Azerbaijan Polytechnic Institute.

Aharon Sela has served as President of Camtek Hong Kong since March 2008 and as our VP 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.

Amir Tzhori serves as our corporate Vice President - PCB (AOI) Manager and President of Camtek China since December 2010. From July 2008 to July 2010, Mr. Tzhori served as President of Camtek Imaging Technology (CIT), one of our subsidiaries in 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.

Dr. Boaz Nitzan has served as our Vice President- Digital Material Deposition Division since September, 2012. Prior to joining Camtek, Dr. Nitzan held several executive positions, leading cross-functional research and development of novel technology products. From January 2010 to August 2012 Dr. Nitzan served as Chief Executive Officer at AMS Technologies and as Vice President of R&D and Production at BPT - Bio Pure Technology, From 2006 to 2009 Dr. Nitzan served as Vice President R&D at Power Paper Ltd., . Dr. Nitzan holds Ph.D. in Physical Chemistry from Bar-Ilan University.

B. Compensation.

Compensation of Executive Officers and Directors

The aggregate remuneration paid by us for the year ended December 31, 2012 to all the persons listed in Section A above (Directors and Senior Management), in addition to Mr. Gilad Golan who was our Vice President - Research and Development until September 2012, when he was replaced by Moshe Baruch, Mr. Ran Kipper who was our Vice President - MEP Manager until February 2013 and Mr. Colin Smith who was our Vice President – Sela Manager until the fourth quarter of 2012 was approximately \$3.4 million (excluding annual bonus payments for services rendered in the fiscal year ended December 31, 2011), 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 external directors and the reimbursement of their expenses (see in item 6.C below "Board Practices" - "Remuneration of Directors"). 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. Israeli courts require 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 of August 2010 Mr. Amit has been serving as our Active Chairman on a 75% basis, and while fulfilling this role he is responsible for 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 1998 through 2012, the relationship between the Company and Mr. Yotam Stern, in his capacity as our Chief Financial Officer (1998-2001) and Executive Vice President- Business & Strategy (2001-2012), was regulated by the provisions as stipulated in his employment agreement dated January 1, 1998. Pursuant to changes made to this agreement in 2005, Mr. Stern dedicated 40% of his time to work for our parent company, Priortech Ltd.. Mr. Stern received from the Company 60% of a full time salary and was compensated directly by Priortech for the remaining 40% of his time. In October, 2011 Mr. Stern's terms of employment were re-approved by the General Meeting of Shareholders for a consecutive three years period. As of November 2012, Mr. Stern also began serving as the chief executive officer of PCB Technologies Ltd., our affiliate which is also controlled by Priortech Ltd. while continuing to dedicate 40% of his time to work as chief executive officer of Priortech. In order to accommodate his new position in PCB Technologies, Mr. Stern's employment agreement with the Company is expected to be reconsidered.

Starting 2001, we entered into employment agreements with Mr. Roy Porat, our Chief Executive Officer as of August 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 external directors. Currently, our board consists of five directors.

Directors, other than external 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, 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 external 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 himself. Currently no alternate directors serve on our board.

Messrs. Rafi Amit, Yotam Stern and Eran Bendoly were re-nominated at our 2012 annual general meeting of shareholders following their recommendation by the Company's independent directors in accordance with the rules of the Nasdaq Global Market ("Nasdaq Rules") and are each serving an approximately one-year term, which is due to expire at our 2013 annual general meeting of shareholders. As Mr. Eran Bendoly is considered an independent director under the Nasdaq Rules, he did not participate in the recommendation with respect to his nomination. Our external directors, Messrs. Gabi Heller and Rafi Koriat were reappointed at our 2012 annual general meeting of shareholders for a further three-year-term, which is due to expire on September 2015. Both had already served two consecutive three-year terms which expired in September 2009 and September 2012, respectively.

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.

Independent Directors

As a company organized in Israel whose ordinary shares are listed for quotation on the Nasdaq Global Market, we are required to comply with the rules of the SEC and the Nasdaq Rules applicable to listed companies, as well as with the Companies Law, which is applicable to all Israeli companies. Under the Nasdaq Rules, a majority of our directors is required to be independent; The independence standard under the Nasdaq Rules excludes, among others, any person who is a current or former (at any time during the past three years) employee of a company or its affiliates as well as the immediate family members of an executive officer (at any time during the past three years) of a company or its affiliates. Ms. Gabi Heller and Messrs. Rafi Koriat and Eran Bendoly all qualify as our independent directors under the Nasdaq Rules.

External Directors

Under the Companies Law, we are required to appoint at least two external directors. Each committee of a company's board of directors which is authorized to exercise the board of directors' authorities is required to include at least one external director, except for the audit committee and the compensation committee, which are required to include all of the external directors. Ms. Gabi Heller and Mr. Rafi Koriat currently serve as our external directors.





**Qualification.** To qualify as an external director, an individual or his or her relative, partner, employer, any person to whom such person is directly or indirectly subject to, or any entity under his or her control may not have, as of the date of appointment, or may not have had during the previous two years, any affiliation with the company, any entity controlling the company on the date of the appointment or with any entity controlled, at the date of the appointment or during the previous two years, by the company or by its controlling shareholder. In general, the term “affiliation” includes: an employment relationship, a business or professional relationship maintained on a regular basis, control and service as an office holder; The Companies Law defines the term “office holder” of a company to include a director, the chief executive officer, the chief business manager, a vice general manager, deputy general manager and any officer that reports directly to the chief executive officer or any other person fulfilling any of the foregoing positions (even if such person’s title is different).

“Control” is defined in the Israeli Securities Law as the ability to direct the actions of a company but excluding a power that is solely derived from a position as a director of the company or any other position with the company; a person who is holding 50% or more of the “controlling power” in the company – voting rights or the right to appoint a director or a general manager – is automatically considered to possess control.

In addition, no person can serve as an external director if the person’s position or other business creates, or may create, conflicts of interest with the person’s responsibilities as an external director or may otherwise interfere with the person’s ability to serve as an external director.

**Election and Term of External directors.** External directors are elected by a majority vote at a shareholders’ meeting, provided that either:

- majority of the shares voted at the meeting, which are not held by controlling shareholders or shareholders with personal interest in approving the appointment (excluding personal interest not resulting from contacts with the controlling shareholder), not taking into account any abstentions, vote in favor of the election; or

- the total number of shares referred to above, voted against the election of the external director, does not exceed two percent of the aggregate voting rights in the company.

In a company in which, at the date of appointment of an external director, all the directors are of the same gender, the external director to be appointed shall be of the other gender.

An external director can be removed from office only by the same majority of shareholders that is required to elect an external director, or by a court, if the external director ceases to meet the statutory qualifications with respect to his or her appointment, or if he or she violates his or her duty of loyalty to the company. The court may also remove an external director from office if he or she is unable to perform his or her duties on a regular basis.

Each of our external directors serves a three-year term, and may be re-elected to serve in this capacity for two additional terms of three years each. Thereafter, he or she may be reelected by our shareholders for additional periods of up to three years each only if the audit committee, followed by the board, have approved that considering the expertise and special contribution of the external director to the work of the board and its committees, the appointment for a further term of service is beneficial to the company.

**Financial and Accounting Expertise.** Pursuant to the Companies Law and regulations promulgated thereunder, (1) each external director must have either “accounting and financial expertise” or “professional qualifications” and (2) at least one of the external directors must have “accounting and financial expertise”. A director with “accounting and financial expertise” is a director whose education, experience and skills qualifies him or her to be highly proficient in understanding business and accounting matters and to thoroughly understand the company’s financial statements and

to stimulate discussion regarding the manner in which financial data is presented. A director with “professional qualifications” is a person that meets any of the following criteria: (i) has an academic degree in economics, business management, accounting, law, public administration; (ii) has a different academic degree or has completed higher education in an area relevant to the company’s business or which is relevant to his or her position; or (iii) has at least five years’ experience in any of the following, or has a total of five years’ experience in at least two of the following: (A) a senior position in the business management of a corporation with substantial business activities, (B) a senior public position or a senior position in the public service, or (C) a senior position in the company’s main fields of business.

## Remuneration of Directors

Directors' remuneration requires the approval of the compensation committee, the board of directors and the shareholders (in that order). However, according to regulations promulgated under the Companies Law with respect to the remuneration of external directors, the compensation committee and shareholder's approval may be waived if the remuneration to be paid to the external directors is between the fixed and maximum amounts set forth in the regulations.

According to the regulations promulgated under the Companies Law concerning the remuneration of external directors (the "Remuneration Regulations"), external directors are generally entitled to an annual fee, a participation fee for each meeting of the board of directors or any committee of the board on which he or she serves as a member, and reimbursement of travel expenses for participation in a meeting which is held outside of the external director's place of residence. The minimum, fixed and maximum amounts of the annual and participation fees are set forth in the Remuneration Regulations, based on the classification of the company according to the amount of its capital. According to the Remuneration Regulations, the compensation committee and shareholder's approval may be waived if the annual and participation fees to be paid to the external directors are within the range of the fixed annual fee or the fixed participation fee and the maximum annual fee or the maximum participation fee for the company's level, respectively. However, remuneration of an external director in an amount which is less than the fixed annual fee or the fixed participation fee, respectively, requires the approval of the compensation committee, the board of directors and the shareholders (in that order). The remuneration of external directors must be made known to the candidate for such office prior to his/her appointment and, subject to certain exceptions, will not be amended throughout the three-year period during which he or she is in office. A company may compensate an external director in shares or rights to purchase shares, other than convertible debentures which may be converted into shares, in addition to the annual remuneration, the participation award and the reimbursement of expenses, subject to certain limitations set forth in the Remuneration Regulations. We pay our external directors a fixed annual fee, a fixed participation fee and reimbursement of expenses. In addition, we have granted our external directors options to purchase the Company's shares.

Additionally, according to other regulations promulgated under the Companies Law, shareholders' approval for directors' compensation and employment arrangements is not required if both the compensation committee and the board of directors resolve that either (i) the directors' compensation and employment arrangements are solely for the benefit of the company or (ii) the remuneration to be paid to any such director does not exceed the maximum amounts set forth in the Remuneration Regulations; provided however that no holder of 1% or more of the issued and outstanding share capital or voting rights in the company objects to such exemption from shareholders' approval requirement, such objection to be submitted to the company in writing not later than fourteen days from the date the company notifies its shareholders regarding the adoption of such resolution by the company. If such objection is duly and timely submitted, then the remuneration arrangement of the directors will require shareholders' approval as detailed above.

Neither we nor any of our subsidiaries has entered into a service contract with any of our current directors that provide for benefits upon termination of their service as directors.

## Internal Auditor

Under the Companies Law, the board of directors of a public company must appoint an internal auditor proposed by the audit committee. The internal auditor may be an employee of the company but may not be an interested party, an office holder or a relative of the foregoing, nor may the internal auditor be the company's independent accountant or its representative. The role of the internal auditor is to examine, among other things, whether the company's conduct complies with applicable law, integrity and orderly business procedure. The internal auditor has the right to request

that the chairman of the audit committee convene an audit committee meeting, and the internal auditor may participate in all audit committee meetings. We currently have an internal auditor who meets the independence requirements of Israeli law.

## Committees of the Board of Directors

### Audit Committee

Nasdaq Requirements. Under the Nasdaq Rules, we are required to have an audit committee consisting of at least three independent directors, all of whom are financially literate and one of whom has been determined by the board to be the audit committee financial expert. We have adopted an audit committee charter as required by the Nasdaq Rules. The responsibilities of the audit committee under the Nasdaq Rules include evaluating the independence of a company's auditors. The members of our Audit Committee are Ms. Gabi Heller and Messrs. Eran Bendoly and Rafi Koriat, all of whom are independent directors in accordance with Nasdaq Rules. Mr. Bendoly and Ms. Heller qualify as financial experts for purposes of the Sarbanes-Oxley Act and the Nasdaq Rules, and Ms. Heller and Mr. Koriat qualify as external directors under Israeli Companies Law.

The Nasdaq Rules require that director nominees be selected or recommended for the board's selection either by a nominations committee composed solely of independent directors or by a majority of independent directors, in a vote in which only independent directors participate, subject to certain exceptions. Similarly, the compensation payable to a company's CEO and other executive officers must be determined or recommended to the board for determination either by a majority of the independent directors on the board, in a vote in which only independent directors participate, or a compensation committee comprised solely of independent directors, subject to certain exceptions. Our compensation committee, comprised solely of independent directors, was delegated to conduct these functions with respect to the CEO and other executive officers. Certain amendments to Israeli Companies Law which entered into effect in December 2012 now govern the process of approvals required in order to determine the compensation payable to a company's CEO and other executive officers; for more details see in Compensation Committee below.

Companies Law Requirements. Under the Companies Law, the board of directors of any Israeli company whose shares are publicly traded must appoint an audit committee, comprised of at least three directors including all of the external directors. In addition, the majority of the members must meet certain independence criteria and may not include the chairman of the board, any controlling shareholder or any director employed by, providing services to, or whose main livelihood is generated from, the Company or a controlling shareholder of the Company.

The role of our audit committee is (1) to identify irregularities and deficiencies in the management of our business, in consultation with the internal auditor and our independent auditors, and to suggest appropriate courses of action to amend such irregularities; (2) to define whether certain acts and transactions that involve conflicts of interest are material or not and whether transactions that involve interested parties are extraordinary or not, and to approve such transactions; (3) to oversee and approve the retention, performance and compensation of our independent auditors and to establish and oversee the implementation of procedures concerning our systems of internal accounting and auditing control; (4) to examine the performance of our internal auditor and whether he is provided with the required resources and tools necessary for him to fulfill his role, considering, among others, the Company's size and special needs; and (5) to set procedures for handling complaints made by Company's employees in connection with management deficiencies and the protection to be provided to such employees.

Those who are not entitled to be members, shall not attend audit committee's meetings or take part in its decisions, unless the chairman of the audit committee has determined that such person is required for the presentation of a certain matter. Nevertheless an employee who is not a controlling shareholder or a relative thereof, may be present at the discussion but not in the decision taking, and the legal counsel and secretary, not being controlling shareholders or relatives thereof may, pursuant to the Audit Committee's request, be present during the discussion and decision making.

The quorum for discussions and decisions shall be the majority of the members, provided that the majority of the present members are independent directors and at least one of them is an external director.

Ms. Gabi Heller and Mr. Rafi Koriat serve as our two external directors and meet the independence criteria defined in the Companies Law. Mr. Koriat is the chairman of our audit committee.

## Compensation Committee

According to a recent amendment to the Israeli Companies Law entered into effect in December 2012 ("Amendment 20"), the board of directors of any Israeli company whose shares are publicly traded, must appoint a compensation committee, comprised of at least three directors, including all of the external directors which shall be the majority of its members and one thereof must serve as the chairman of the committee. The remaining members of the Committee must satisfy the criteria for remuneration applicable to the external directors and qualified to serve as members of the audit committee pursuant to Companies Law requirements, as described above.

The compensation committee is responsible for: (i) making recommendations to the board of directors with respect to the approval of the compensation policy (see below) and any extensions thereto; (ii) periodically reviewing the implementation of the compensation policy and providing the board of directors with recommendations with respect to any amendments or updates thereto; (iii) reviewing and resolving whether or not to approve arrangements with respect to the terms of office and employment of office holders; and (iv) determining whether or not to exempt a transaction with a candidate for chief executive officer from shareholder approval.

The terms of office and employment of office holders (other than directors and the chief executive officer) require the approval of the compensation committee and the board of directors, provided such terms are in accordance with the Company's compensation policy. Shareholder approval is also required if the compensation of such officer is not in accordance with such policy. However, in special circumstances the compensation committee and then the board of directors may nonetheless approve such compensation even if such compensation was not approved by the shareholders, following a further discussion and for detailed reasoning.

The terms of office and employment of directors, the chief executive officer or controlling shareholders (or a relative thereof) - regardless of whether such terms conform to the company's compensation policy or not - should be approved by the compensation committee, the board of directors and the shareholders, by a special majority (except for approval of terms of office and employment of directors, which are consistent with the company's compensation policy, and require approval by a regular majority). Such special majority should include (i) at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded), or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the matter hold two percent or less of the voting power of the company. Such shareholder approval by a special majority will also be required with respect to determining the terms of office and employment of a director or the chief executive officer during the transition period until the Company adopts a compensation policy. Notwithstanding the above, in special circumstances the compensation committee and then the board of directors may nonetheless approve compensation for the chief executive officer, even if such compensation was not approved by the shareholders, following a further discussion and for detailed reasoning.

The attendance and participation in the meetings of the compensation committee is limited, similarly to the limitations on attendance and participation in meetings of the audit committee. The quorum for discussions and decisions shall be the majority of the members, provided that the majority of the present members are independent directors and at least one of them is an external director.

Until December 2012, our former compensation committee, comprised of Ms. Heller and Messrs. Koriat and Bendoly, conducted reviews and made recommendations to our board regarding the terms of the compensation packages provided to our executive officers, including the terms of any bonus, share options or other awards to be provided to our executive officers.



Shortly after Amendment 20 came into effect, we re-appointed Ms. Heller and Messrs. Koriat and Bendoly as compensation committee members in accordance with the provisions stipulated in Amendment 20.

#### Compensation Policy

Amendment 20 also requires us to adopt a compensation policy by September 12, 2013, which will set forth company policy regarding the terms of office and employment of office holders, including compensation, equity awards, severance and other benefits, exemption from liability and indemnification, and which must take into account, among other things, providing proper incentives to directors and officers, management of risks by the company, the officer's contribution to achieving corporate objectives and increasing profits, and the function of the officer or director.

The compensation policy must be approved by the board of directors, after considering the recommendations of the compensation committee. The compensation policy must also be approved by a majority our shareholders, provided that (i) such majority includes at least a majority of the shareholders who are not controlling shareholders and who do not have a personal interest in the matter, present and voting (abstentions are disregarded), or (ii) the non-controlling shareholders and shareholders who do not have a personal interest in the matter who were present and voted against the policy hold two percent or less of the voting power of the company. The compensation policy must be reviewed from time to time by the board, and must be re-approved or amended by the board of directors and the shareholders at least every three years. If the compensation policy is not approved by the shareholders, the compensation committee and the board of directors may nonetheless approve the policy, following further discussion of the matter and for detailed reasons.

The company intends to take all necessary steps in order to complete the adoption of a compensation policy prior to September 12, 2013.

#### Approval of Certain Transactions with Related Parties

The Companies Law requires the approval of the audit committee, thereafter the approval of the board of directors and in certain cases — the approval of the shareholders, in order to effect specified actions and extraordinary transactions, such as the following:

- transactions with office holders and third parties - where an office holder has a personal interest in the transaction;
- employment terms of office holders who are not directors, and employment terms of directors (and terms of engagement with a director in other roles);
- extraordinary transactions with controlling parties, and extraordinary transactions with a third party -where a controlling party has a personal interest in the transaction, or any transaction with the controlling shareholder or his relative regarding terms of service - provided directly or indirectly (including through a company controlled by the controlling shareholder) - and terms of employment (for a controlling shareholder who is not an office holder). A “relative” is defined in the Companies Law as spouse, sibling, parent, grandparent, descendant, spouse’s descendant, sibling or parent and the spouse of any of the foregoing.

Such extraordinary transactions with controlling shareholders require the approval of the audit committee, the board of directors and the majority of the voting power of the shareholders present and voting at the general meeting of the company (not including abstentions), provided that either:

- the majority of the shares of shareholders who have no personal interest in the transaction and who are present and voting, vote in favor; or
- shareholders who have no personal interest in the transaction who vote against the transaction do not represent more than two percent of the aggregate voting rights in the company.

Any shareholder participating in the vote on approval of an extraordinary transaction with a controlling shareholder must inform the company prior to the voting whether or not he or she has a personal interest in the approval of the transaction, and if he or she fails to do so, his or her vote will be disregarded.

Further, transactions with a controlling shareholder or his relative concerning terms of service or employment need to be re-approved once every three years.



In accordance with regulations promulgated under the Companies Law, certain defined types of extraordinary transactions between a public company and its controlling shareholder(s) are exempt from the shareholder approval requirements. However, such exemptions will not apply if one or more shareholders holding at least 1% of the issued and outstanding shares or voting rights, objects to the use of these exemptions in writing not later than 14 days from the date the company notifies the shareholders of the proposed adoption of such resolution approving the transaction.

- In addition, the approval of the audit committee, followed by the approval of the board of directors and the shareholders, is required to effect a private placement of securities, in which either (i) 20% or more of the company's outstanding share capital prior to the placement is offered, and the payment for which (in whole or in part) is not in cash, in tradable securities registered in a stock exchange or not under market terms, and which will result in an increase of the holdings of a shareholder that holds 5% or more of the company's outstanding share capital or voting rights or will cause any person to become, as a result of the issuance, a holder of more than 5% of the company's outstanding share capital or voting rights or (ii) a person will become a controlling shareholder of the company.

A "controlling party" is defined in the Securities Law and in the Companies Law for purposes of the provisions governing related party transactions as a person with the ability to direct the actions of a company, or a person who holds 25% or more of the voting power in a public company if no other shareholder owns more than 50% of the voting power in the company, but excluding a person whose power derives solely from his or her position as a director of the company or any other position with the company, provided that two or more persons holding voting rights in the company, who each have a personal interest in the approval of the same transaction, shall be deemed to be one holder.

Audit committee approval is also required (and thereafter, the approval of the board of directors and in certain cases – the approval of the shareholders) to approve the grant of an exemption from the responsibility for a breach of the duty of care towards the company, or for the provision of insurance or an undertaking to indemnify any office holder of the company; see below under "Insurance, Indemnification and Exemption".

## Duties of Office Holders and Shareholders

### Duties of Office Holders

#### Fiduciary Duties

The Companies Law imposes a duty of care and a duty of loyalty on all office holders of a company, including directors and officers. The duty of care requires an office holder to act with the level of care with which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty includes avoiding any conflict of interest between the office holder's position in the company and his personal affairs, avoiding any competition with the company, avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others, 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 as an office holder.

The company may approve an action by an office holder from which the office holder would otherwise have to refrain due to its violation of the office holder's duty of loyalty if: (i) the office holder acts in good faith and the act or its approval does not cause harm to the company, and (ii) the office holder discloses the nature of his or her interest in the transaction to the company a reasonable time before the company's approval.

Each person listed in the table under "Directors and Senior Management" above is considered an office holder under the Companies Law (for definition of "office holder" under the Companies Law see in "External directors" above).



#### Disclosure of Personal Interests of an Office Holder

The Companies Law requires that an office holder of a company promptly disclose any personal interest that he or she may and all related material information and documents known to him or her relating to any existing or proposed transaction by the company. If the transaction is an extraordinary transaction, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's siblings, parents and descendants and the spouses of any of these people, or any corporation in which the office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager. An extraordinary transaction is defined as a transaction other than in the ordinary course of business; otherwise than on market terms; or that is likely to have a material impact on the company's profitability, assets or liabilities.

In the case of a transaction which is not an extraordinary transaction, after the office holder complies with the above disclosure requirements, only board approval is required unless the articles of association of the company provide otherwise. The transaction must not be adverse to the company's interest. Furthermore, if the transaction is an extraordinary transaction, then, in addition to any approval stipulated by the articles of association, it also must be approved by the company's audit committee and then by the board of directors, and, under certain circumstances, by a meeting of the shareholders of the company. A director who has a personal interest in a transaction, may be present if a majority of the members of the board of directors or the audit committee, as the case may be, has a personal interest. If a majority of the board of directors has a personal interest, then shareholders' approval is also required.

#### Duties of Shareholders

Under the Companies Law, a shareholder has a duty to act in good faith toward the company and other shareholders and to refrain from abusing his or her power in the company, including, among other things, voting in a general meeting of shareholders on any amendment to the articles of association, an increase of the company's authorized share capital, a merger or approval of interested party transactions which require shareholders' approval.

In addition, any controlling shareholder, any shareholders who knows that it possess power to determine the outcome of a shareholder vote and any shareholder who, pursuant to the provisions of a company's articles of association, has the power to appoint or prevent the appointment of an office holder in the company, is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty but provides that a breach of his duty is tantamount to a breach of fiduciary duty of an office holder of the company.

#### Insurance, Indemnification and Exemption

Pursuant to amendments to the Companies Law and the Securities Law, which came into effect in 2011, the Israeli Securities Authority is authorized to impose administrative sanctions, including monetary fines, against companies like ours and their officers and directors for certain violations of the Securities Law or the Companies Law; and the Companies Law provides that companies like ours may indemnify their officers and directors and purchase an insurance policy to cover certain liabilities, if provisions for that purpose are included in their articles of association.

In the Company's annual general meeting of shareholders, held in October 2011, shareholders resolved to amend the Company's articles of association, in order to set the legal corporate framework that will allow the Company to continue to be able to indemnify and insure its office holders to the full extent permitted by law, in accordance with the aforementioned recent amendments.

#### Office Holders' Exemption

Under the Companies Law, an Israeli company may not exempt an office holder from liability for a breach of his or her duty of loyalty, but may exempt in advance an office holder from his or her liability to the company, in whole or in part, for a breach of his or her duty of care (except in connection with distributions), provided that the Articles of Association allow it to do so. Our Articles of Association allow us to exempt our office holders to the fullest extent permitted by law.

#### Office Holders' Insurance

Our amended Articles of Association provide that, subject to the provisions of the Companies Law, we may enter into a contract for the insurance of all or part of the liability of any of our office holders imposed on the office holder in respect of an act performed by him or her in his or her capacity as an office holder for, in respect of each of the following:

a breach of his or her duty of care to us or to another person;

a breach of his or her duty of loyalty to us, provided that the office holder acted in good faith and had reasonable cause to assume that his or her act would not prejudice our interests; and

a financial liability imposed upon him or her in favor of another person.

Without derogating from the aforementioned, subject to the provisions of the Companies Law and the Securities Law, we may also enter into a contract to insure an office holder, in respect of expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder or payment required to be made to an injured party, pursuant to certain provisions of the Securities Law

#### Office Holder's Indemnification

Our Articles of Association provide that, subject to the provisions of the Companies Law and the Securities Law, we may indemnify any of our office holders in respect of an obligation or expense specified below, imposed on or incurred by the office holder in respect of an act performed in his capacity as an office holder, as follows:

a financial liability imposed on him or her in favor of another person by any judgment, including a settlement or an arbitration award approved by a court. Such indemnification may be approved (i) after the liability has been incurred or (ii) in advance, provided that our undertaking to indemnify is limited to events that our board of directors believes are foreseeable in light of our actual operations at the time of providing the undertaking and to a sum or criterion that our board of directors determines to be reasonable under the circumstances, provided, that such event, sum or criterion shall be detailed in the undertaking;

reasonable litigation expenses, including attorney's fees, incurred by the office holder as a result of an investigation or proceeding instituted against him by a competent authority which concluded without the filing of an indictment against him and without the imposition of any financial liability in lieu of criminal proceedings, or which concluded without the filing of an indictment against him but with the imposition of a financial liability in lieu of criminal proceedings concerning a criminal offense that does not require proof of criminal intent or in connection with a financial sanction (the phrases "proceeding concluded without the filing of an indictment" and "financial liability in lieu of criminal proceeding" shall have the meaning ascribed to such phrases in section 260(a)(1a) of the Companies Law);

reasonable litigation expenses, including attorneys' fees, expended by an office holder or charged to the office holder by a court, in a proceeding instituted against the office holder by the Company or on its behalf or by another person, or in a criminal charge from which the office holder was acquitted, or in a criminal proceeding in which the office holder was convicted of an offense that does not require proof of criminal intent; and

expenses, including reasonable litigation expenses and legal fees, incurred by an office holder in relation to an administrative proceeding instituted against such office holder, or payment required to be made to an injured party, pursuant to certain provisions of the Securities Law;



The Company may undertake to indemnify an office holder as aforesaid, (a) prospectively, provided that, in respect of the first act (financial liability) the undertaking is limited to events which in the opinion of the board of directors are foreseeable in light of the Company's actual operations when the undertaking to indemnify is given, and to an amount or criteria set by the board of directors as reasonable under the circumstances, and further provided that such events and amount or criteria are set forth in the undertaking to indemnify, and (b) retroactively; provided, however, that the total aggregate indemnification amount that the Company shall be obligated to pay to all of its Office Holders, for all matters and circumstances described above, shall not exceed an amount equal to twenty five percent (25%) of the shareholders' equity at the time of the indemnification.

#### Limitations on Insurance and Indemnification

The Companies Law provides that a company may not insure, exempt or indemnify an office holder for any breach of his or her liability arising from any of the following:

- a breach by the office holder of his or her duty of loyalty, except that the company may enter into an insurance contract or indemnify an office holder if the office holder acted in good faith and had a reasonable basis to believe that the act would not prejudice the company;
- a breach by the office holder of his or her duty of care if the breach was done intentionally or recklessly, unless it was committed only negligently;
- any act or omission done with the intent to derive an illegal personal benefit; or
- any fine, civil fine, financial sanction or monetary settlement in lieu of criminal proceedings imposed on such office holder.

In addition, under the Companies Law, exemption and indemnification of, and procurement of insurance coverage for, our office holders must be approved by our audit committee and our board of directors and, with respect to an office holder who is a director, also by our shareholders.

Following the approval by our shareholders of the amendment to our Articles of Association in October 2011, the Company's shareholders approved the amendment of the Company's indemnification letters to be granted to each of the Company's present and future office holders, which were extended to cover exemption from, indemnification and insurance of those liabilities imposed under the Companies Law and the Securities Law discussed above. Hence, we indemnify our office holders to the fullest extent permitted under the Companies Law.

We currently hold directors' and officers' liability insurance for the benefit of our office holders, which includes directors. This policy was approved by our audit committee and board of directors on December 20, 2012, pursuant to the authorization by our shareholders at the annual general meeting of shareholders held on July 21, 2010, to the Company's board of directors to renew or replace the then-approved policy and/or to purchase alternative or additional policies for subsequent periods on terms which are similar to the terms of the then-approved policy, for the benefit of all directors and officers of the Company who may serve from time to time.

Insofar as indemnification for liabilities arising under the United States Securities Act of 1933, as amended, may be permitted to our directors, officers and controlling persons, we have been advised that, in the opinion of the SEC, such indemnification is against public policy as expressed in the Securities Act and is, therefore, unenforceable.

#### 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. The main purpose of the Securities Law Amendment is the creation of 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 CEO 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 CEO 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 have adopted and implemented an internal enforcement plan to reduce our exposure to potential breaches of the Israeli Securities Law, after amending our articles of association and letters of indemnification to permit, among others, insurance and/or indemnification as contemplated by the Securities Law Amendment (for further details regarding such amendments see in "Insurance, Indemnification and Exemption" above).

#### 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, |      |      |
|--------------------------|--------------------|------|------|
|                          | 2012               | 2011 | 2010 |
| Executive management     | 13                 | 12   | 11   |
| Research and development | 87                 | 97   | 92   |
| Sales support            | 169                | 174  | 188  |
| Sales and marketing      | 41                 | 47   | 41   |
| Administration           | 70                 | 65   | 67   |
| Operations               | 104                | 133  | 114  |
| Total                    | 484                | 528  | 513  |

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:

|                             | As of December 31, |      |      |
|-----------------------------|--------------------|------|------|
|                             | 2012               | 2011 | 2010 |
| China (including Hong Kong) | 183                | 197  | 178  |
| Taiwan                      | 32                 | 36   | 66   |
| Japan                       | 8                  | 7    | 6    |
| Other Asia                  | 31                 | 31   | 28   |
| Europe                      | 4                  | 4    | 3    |
| North America               | 19                 | 20   | 18   |
| Israel                      | 207                | 233  | 214  |
| Total                       | 484                | 528  | 513  |

The decrease in our workforce is related to the decrease in business volume in 2012 compared to 2011. 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 cost of living expenses in Israel, depending on its applicable rate of increase

With respect to our (or any of our subsidiaries) Chinese employees, certain provisions of Chinese Labor Contract Law and Social Insurance Law primarily govern the formation of employer-employee relations, termination of employment, severance pay, worker dispatch, part-time employment and social insurance.

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 29,896,933 ordinary shares outstanding as of December 31, 2012.

| Name  | Number of Ordinary Shares Owned(1) | Percentage of Total Outstanding Ordinary Shares |   |
|---|------------------------------------|---|---|
| Rafi Amit(2)  | 16,989,799                         | 56.83   | % |
| Yotam Stern(3)  | 17,040,939                         | 57.00   | % |
| Directors and executive officers as a group (15 persons)(4) | 17,357,187                         | 58.05   | % |

- (1) Ordinary shares relating to options currently exercisable or exercisable within 60 days as 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 113,100. Exercisable options are at a weighted average exercise price of \$3.84 and shall be deemed expired between December 2013 to March 2017.
- (2) Mr. Amit directly owns 49,560 of our ordinary shares. In addition, as a result of a voting agreement relating to a majority of Prioritech's voting equity, Mr. Amit may be deemed to control Prioritech. As a result, Mr. Amit may be deemed to beneficially own the shares of Camtek held by Prioritech. Mr. Amit disclaims beneficial ownership of such shares.
- (3) Mr. Stern directly owns 108,200 of our ordinary shares. In addition, as a result of a voting agreement relating to a majority of Prioritech's voting equity, Mr. Stern may be deemed to control Prioritech. As a result, Mr. Stern may be deemed to beneficially own the shares of Camtek held by Prioritech. Mr. Stern disclaims beneficial ownership of such shares.
- (4) Includes Messrs. Amit's and Stern's interest in ordinary shares beneficially owned by Prioritech. Our directors and executive officers as a group directly own 474,198 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 March 24, 2013 (including 36,750 restricted shares and 113,100 options held by each such person which have vested or will vest within 60 days of March 24, 2013) and have therefore not been listed separately. Exercisable options are at a weighted average exercise price of 3.84\$ and shall be deemed expired between December 2013 to March 2017.

## 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 restricted stock units (“RSUs”) were granted in 2012, 2011 and 2010.

The total number of RSUs which can be granted pursuant to the RSU Plan is 1,500,000, out of which 665,825 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, 2012, there were 1,195,085 outstanding options to acquire our ordinary shares pursuant to our share option plans at a weighted average exercise price of \$3.15, exercisable at various dates through December 2022. 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.

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 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 1,598,800 options.

In 2012 we granted 134,010 share options to officers and employees at a weighted average exercise price of \$1.60.

As of December 31, 2012, there were options exercisable and vested for 395,395 ordinary shares (out of the total outstanding options of 1,195,085) at a weighted average exercise price of \$3.29 per share, and unvested options



exercisable for 799,690 ordinary shares at a weighted average exercise price of \$1.80.

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 24, 2013, 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 29,898,500 ordinary shares outstanding as of March 24, 2013.

|                    | Beneficial Ownership             |            |   |
|--------------------|----------------------------------|------------|---|
|                    | Number<br>of Ordinary<br>Shares* | Percentage |   |
| Prioritech Ltd.(1) | 16,919,739                       | 56.59      | % |
| Avigdor Willenz(2) | 1,862,678                        | 6.23       | % |

- (1) 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, David Kishon, Zehava Wineberg and Hanoch Feldstien and the estates of Itzhak Krell and Haim Langmas, 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.
- (2) Based on information provided in a statement on Schedule 13G/A filed with the SEC on February 25, 2013 by Avigdor Willenz.

#### B. Related Party Transactions.

##### Ordinary Course Transactions and Activities with Prioritech's Affiliates

From time to time we have entered into transactions in the ordinary course of business with Prioritech's affiliates. Among others, 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 \$142,000, \$2,397,000 and \$83,000 in 2012, 2011 and 2010, respectively. In addition, 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's subsidiary in Israel and us bear interest at 5.5%. As of December 31, 2012, the remaining balance Prioritech's affiliates owed us under transactions made in the ordinary course of business with them was \$391 thousand. 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 Priortech was amended. The amendment concerns primarily the grant of unlimited shelf registration rights thereunder to Priortech with respect to its holdings in us, and the assignability of those shelf registration rights to its transferees.

#### Employment Agreement 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 & 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

##### Litigation with Rudolph Technologies Inc.

On July 14, 2005, a lawsuit was filed against the Company 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", after August Technology's acquisition by Rudolph). This suit alleged that the Company's Falcon inspection system infringed Rudolph's U.S. Patent No. 6,826,298 ("298 Patent") and sought injunctive relief and damages. On March 6, 2009, a jury verdict in favor of Rudolph was rendered in this action, awarding Rudolph damages of approximately \$6.8 million for the Company's sales of its Falcon products in the United States. On August 28, 2009, the Court entered judgment ordering the Company to pay the jury award, and an additional \$1.2 million in prejudgment interest. The Court also issued an injunction ("Injunction") prohibiting future sales and marketing of the Falcon product in the United States. On January 7, 2011, the Court found that Rudolph was entitled to an additional \$645,946 in damages for Falcon sales which occurred after the time period considered by the jury.

The Company appealed the Court's judgment to the United States Court of Appeals for the Federal Circuit on August 10, 2010, and posted a bond with the Court to stay collection of the judgment pending resolution of the appeal. On August 22, 2011, the Court of Appeals for the Federal Circuit found that the Minnesota trial court had erred in its instructions to the jury regarding the construction/meaning of a material claim term in the asserted '298 Patent and vacated the finding of infringement, the damages award and the Injunction. The Court of Appeals remanded the case to the Court for a limited trial based on a corrected claim construction. If the jury finds that the Company infringes the '298 Patent, the Court could re-enter the original award of \$8,023,268.34, which will also bear interest commencing as of the original judgment through a final judgment on the retrial. The parties are awaiting a trial date.

Although it is difficult to predict the outcome of this patent infringement case, the Company believes that it has strong legal position in the remanded trial post the Federal Circuit decision, and intends to continue to vigorously defend it in the District Court and in the Court of Appeals, if required. The total range of loss for this case is between \$0 to \$8.2 million (excluding interest), with respect to which the Company has not recorded any accruals.

On March 9, 2011, in conjunction with the '298 Patent infringement case, Rudolph filed a motion for contempt seeking approximately \$1.2 million and unspecified attorneys' fees for alleged contempt of the Court's Injunction due to certain post verdict sales of Falcon systems.

On March 26, 2012, the Court issued an Order adopting the Magistrate Judge's Report and Recommendation issued August 11, 2011, on contempt and damages in a sum of \$1,291,892. The Magistrate Judge also awarded Rudolph with \$70,626.36 in attorney fees. The Court held that some of the Company's communications made during 2009 related to the eventual sale of some of its Falcon systems in Asia, were prohibited by the Injunction that was then in place (as mentioned above, the Injunction was vacated by the U.S. Court of Appeals for the Federal Circuit in August 2011). On April 10, 2012 Chief Judge Davis excused himself stating that he could no longer be "fair and impartial". On April 17, 2012 the Company filed a Rule 60 motion requesting that the contempt judgment be set aside for lack of due process. The new District Judge reduced the amount of sanctions award by half. The new judge denied the Company's request for a jury trial on contempt and sanctions. The Company has taken steps to appeal the sanctions award and submitted its opening appeal brief on November 30, 2012. The Company deposited \$729 thousand with the Court as a bond while the appeal is pending. Although it is difficult to predict the outcome of this litigation, the Company believes that it has strong arguments against the current residual award of \$645,946 and intends to vigorously continue the proceedings it initiated at the Court of Appeals in order to overturn this award. The total range of loss for this case is between \$0 to \$650 thousand (excluding interest) in excess of amounts already accrued by the Company.

On December 27, 2011, Rudolph filed, but did not serve, a complaint in the Court charging the Company with infringement of Rudolph's U.S. Patent 7,779,528 ("528 Patent") relating to semiconductor wafer inspection technology similar to that described in the '298 Patent. On January 19, 2012, the Company filed a reexamination request with the U.S Patent and Trademark Office ("PTO") seeking reexamination of the '528 Patent. The PTO granted the reexamination request and preliminarily found that 18 claims were invalid. This PTO decision is not final and could change. On April 13, 2012, Rudolph served the '528 suit and agreed to stay the case until the completion of the reexamination. The parties presented the Court with a joint motion to stay the case. The Court has agreed to stay the case for 90 days at a time. The parties must reapply at the end of each stay period for a further stay. The case remains stayed at present. As Rudolph did not demand a specific dollar amount (but an accounting for damages and an injunction against infringing activity), the Company is unable to estimate the possible range of loss in this case and the effect on the Company's activities and results of operation, if any.

Litigation by Fish & Richardson P.C.

On May 7, 2012, we and Fish & Richardson P.C. mutually agreed to settle and released all claims regarding dispute related to F&R representation of Camtek in the past (see financial statements, Note 15(C)- "Commitments and Contingencies"- "Litigation").

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.

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  |
| <b>Annual and Quarterly Market Prices</b>                    |          |      |        |      |
| Fiscal Year Ended December 31, 2008:                         | 1.84     | 0.29 | 1.81   | 0.31 |
| Fiscal Year Ended December 31, 2009:                         | 2.80     | 0.24 | 2.56   | 0.25 |
| Fiscal Year Ended December 31, 2010:                         | 3.60     | 2.06 | 3.30   | 2.21 |
| <b>2011:</b>   |          |      |        |      |
| First Quarter  | 4.61     | 2.88 | 4.65   | 2.88 |
| Second Quarter   | 4.08     | 2.59 | 4.11   | 2.55 |
| Third Quarter  | 3.51     | 2.00 | 3.45   | 1.80 |
| Fourth Quarter   | 2.20     | 1.71 | 2.25   | 1.68 |
| Fiscal Year Ended December 31, 2011:                         | 4.61     | 1.71 | 4.65   | 1.68 |
| <b>2012:</b>   |          |      |        |      |
| First Quarter  | 2.84     | 1.74 | 2.77   | 1.75 |
| Second Quarter   | 2.58     | 2.16 | 2.57   | 2.08 |
| Third Quarter  | 2.30     | 1.75 | 2.26   | 1.73 |
| Fourth Quarter   | 1.90     | 1.37 | 1.84   | 1.35 |
| Fiscal Year Ended December 31, 2012:                         | 2.84     | 1.37 | 2.77   | 1.35 |
| <b>Monthly Market Prices for the Most Recent Six Months:</b> |          |      |        |      |
| Oct-12   | 1.90     | 1.70 | 1.84   | 1.68 |
| Nov-12   | 1.70     | 1.36 | 1.74   | 1.35 |
| Dec-12   | 1.51     | 1.37 | 1.48   | 1.37 |
| Jan-13   | 1.47     | 1.37 | 1.50   | 1.34 |
| Feb-13   | 1.77     | 1.39 | 1.75   | 1.40 |
| Mar-13   | 1.49     | 1.41 | 1.48   | 1.39 |
| First Quarter 2013:  | 1.77     | 1.37 | 1.75   | 1.34 |

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.

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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 also traded 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.

Register

Our registration number at the Israeli registrar of companies is 51-123543-4.

Objectives and Purposes

Our Articles and Memorandum provide that our purpose is to engage in any lawful endeavor.

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, 29,896,933 ordinary shares are outstanding and fully-paid as of December 31, 2012.

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.

## Directors

Our Articles provide that our Board of Directors shall consist of not less than five not more than ten directors, including the external directors. Currently, our board consists of five directors. Directors are required to vacate his or her office: upon death, resignation, removal by a resolution of the General Meeting or if he or she are found to be non compos mentis or has been declared bankrupt (or if a legal entity - it has adopted a resolution of voluntary liquidation or winding-up, or a liquidation order has been issued with respect thereto).

Each director shall have 1 (one) vote and resolutions of the Board of Directors will be adopted by a majority of all directors voting with respect thereto.

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 himself or herself. Currently no alternate directors serve on our board.

In accordance with the Israeli Companies Law, the approval of a majority of the non-interested members of our audit committee or compensation committee (as applicable) and our board of directors, and, in certain circumstances our shareholders, is generally required in case of transactions between us and our directors or other office holders (or transactions benefiting our directors or other office holders). The Companies Law requires that an office holder of a company promptly disclose any personal interest, and all related material information and documents, that he or she, and in some, cases his or her spouse, sibling, parent, grandparent, descendant, spouse's descendant, sibling or parent and the spouse of any of the foregoing or any corporation in which the director or other office holder is a 5% or greater shareholder, director or general manager or in which he or she has the right to appoint at least one director or the general manager, may hold in an existing or proposed transaction involving the company including all related material information known to him or her and any documents in their position, in connection with any such existing or proposed transaction (see item 6C-"Approval of Certain Transactions with Related Parties"; "Duties of Office Holders and Shareholders").

## 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 usually 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.

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## 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 external directors, approval of transactions with controlling shareholders, the terms of office and employment of directors, the chief executive officer or controlling shareholders (except for approval of terms of office and employment of directors, which are consistent with the company's compensation policy, and require approval by a regular majority) and the approval for the chairman of the board to also serve as chief executive officer. See in Item 6 C above "Approval of Certain Transactions with Related Parties" and "Committees of the Board of Directors".

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

In general, a merger of a company requires the approval of the holders of a majority of 75% of the voting power represented at the annual or special general meeting in person or by proxy or by a written ballot, as shall be permitted, and voting thereon in accordance with the provisions of the Companies Law. Upon the request of a creditor of either party of the proposed merger, the court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties to the merger. In addition, a merger may not be completed unless at least (i) 50 days have passed from the time that the requisite proposal for the merger has been filed by each party with the Israeli Registrar of Companies and (ii) 30 days have passed since the merger was approved by the shareholders of each party.

The Companies Law also provides that, an acquisition of shares in a public company must be made by means of a tender offer if as a result of the acquisition the purchaser would become a holder of a "control block" (i.e., shares conferring twenty-five percent or more of the voting rights at the general meeting), or if as a result of the acquisition the purchaser would become a holder of 45% or more of the voting power in the company, unless there is already a holder of a "control block" , or a holder of 45% or more of the voting power in the company, respectively. These requirements do not apply if, the acquisition (1) was made in a private placement that received shareholders' approval (including approval of the purchaser becoming a holder of a "control block", or 45% or more, of the voting power in the company, unless there is already a holder of a "control block" or 45% or more, respectively, of the voting power in the company), (2) was from a holder of a "control block" in the company and resulted in the acquirer becoming a holder of a "control block" , or (3) was from a holder of 45% or more of the voting power in the company and resulted in the acquirer becoming a holder of 45% or more of the voting power in the company. The tender offer must be extended to all shareholders, but the offeror is not required to purchase more than 5% of the company's outstanding shares, regardless of how many shares are tendered by shareholders. The tender offer may be consummated only if (i) at least 5% of the company's outstanding shares will be acquired by the offeror and (ii) the number of shares tendered in the offer exceeds the number of shares whose holders objected to the offer.

If as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's outstanding shares, the acquisition must be made by means of a tender offer for all of the outstanding shares. If as a result of such full tender offer the acquirer would own more than 95% of the outstanding shares, then all the shares that the acquirer offered to purchase will be transferred to it. The law provides for appraisal rights if any shareholder files a request in court within six months following the consummation of a full tender offer, but the acquirer will be entitled to stipulate that tendering shareholders forfeit their appraisal rights. If as a result of a full tender offer the acquirer would own 95% or less of the outstanding shares, then the acquirer may not acquire shares that will cause his shareholding to exceed 90% of the outstanding shares.

Furthermore, certain provisions of other Israeli laws may have the effect of delaying, preventing or making more difficult an acquisition of or merger with us. For example, Israel tax law treats some acquisitions, such as share-for-share exchanges between an Israeli company and another company less favorably than U.S. tax law. In addition, approvals of a merger that may be in certain circumstances required under the Restrictive Trade Practices Law of 1988, and under of the Israeli Law for the Encouragement of Industrial Research and Development of 1984 may impede, delay or restrict our ability to consummate a merger or similar transaction. See Item, "Additional Information—Mergers and Acquisitions under Israeli Law" in this Annual Report, for additional discussion about some anti-takeover provisions.

#### 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, grantor trusts, S corporations, 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 20% for taxable years beginning after 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 tradable” on an established securities market in the U.S. (e.g., the NASDAQ Global Market) or (b) the non-U.S. corporation is eligible for benefits of a comprehensive income tax treaty with the U.S. which includes an information exchange program and is determined to be satisfactory by the U.S. Secretary of the Treasury. The United States Internal Revenue Service (“IRS”) has determined that the U.S.-Israel income tax treaty is satisfactory for this purpose. Dividends that fail to meet such requirements, and dividends received by corporate U.S. holders, are taxed at ordinary income rates. No dividend received by a U.S. holder will be a qualified dividend (1) if the U.S. holder held the ordinary share with respect to which the dividend was paid for less than 61 days during the 121-day period beginning on the date that is 60 days before the ex-dividend date with respect to such dividend, excluding for this purpose, under the rules of Code Section 246(c), any period during which the U.S. holder has an option to sell, is under a contractual obligation to sell, has made and not closed a short sale of, is the grantor of a deep-in-the-money or otherwise nonqualified option to buy, or has otherwise diminished its risk of loss by holding other positions with respect to, such ordinary share (or substantially identical securities); or (2) to the extent that the U.S. holder is under an obligation (pursuant to a short sale or otherwise) to make related payments with respect to positions in property substantially similar or related to the ordinary share with respect to which the dividend is paid. If we were to be a “passive foreign investment company (as such term is defined in the Code) for any taxable year, dividends paid on our ordinary shares in such year or in the following taxable year would not be qualified dividends. See discussion below regarding our PFIC status at “Tax Consequences if We Are a Passive Foreign Investment Company”. In addition, a non-corporate U.S. holder will be able to take a qualified dividend into account in determining its deductible investment interest (which is generally limited to its net investment income) only if it elects to do so; in such case the dividend will be taxed at ordinary income rates.

The amount of any distribution which exceeds the amount treated as a dividend will be treated first as a non-taxable return of capital, reducing the U.S. holder's tax basis in its ordinary shares to the extent thereof, and then as capital gain from the deemed disposition of the ordinary shares. Corporate holders will not be allowed a deduction for dividends received in respect of the ordinary shares.

Dividends paid by us in NIS will generally be included in the income of U.S. holders at the dollar amount of the dividend (including any non-U.S. taxes withheld there from), based upon the exchange rate in effect on the date the distribution is included in income. U.S. holders will have a tax basis in the NIS for U.S. federal income tax purposes equal to that dollar value. Any subsequent gain or loss in respect of the NIS arising from exchange rate fluctuations will generally be taxable as U.S. source ordinary income or loss.

Subject to the limitations set forth in the Code and the Treasury Regulations there under, U.S. holders may elect to claim as a foreign tax credit against their U.S. federal income tax liability for non-U.S. income taxes withheld from dividends received in respect of the ordinary shares. The conditions and limitations on claiming a foreign tax credit include, among others, computation rules under which foreign tax credits allowable with respect to specific classes of income cannot exceed the U.S. federal income taxes otherwise payable with respect to each such class of income. In this regard, dividends paid by us generally will be foreign source "passive income" for U.S. foreign tax credit purposes. U.S. holders that do not elect to claim a foreign tax credit may instead claim a deduction for the non-U.S. income taxes withheld if such U.S. holders itemize their deductions for U.S. federal income tax purposes. The rules relating to foreign tax credits are complex, and you should consult your tax advisor to determine whether and to what extent you would be entitled to this credit. A U.S. holder will be denied a foreign tax credit for non-U.S. income taxes withheld from a dividend received on the ordinary shares (i) if the U.S. holder has not held the ordinary shares for at least 16 days of the 31-day period beginning on the date which is 15 days before the ex-dividend date with respect to such dividend or (ii) to the extent the U.S. holder is under an obligation to make related payments with respect to positions in substantially similar or related property. Any days during which a U.S. holder has substantially diminished its risk of loss on the ordinary shares are not counted toward meeting the required 16-day holding period.

The discussion above is subject to the discussion below entitled "Tax Consequences if We Are a Passive Foreign Investment Company".

#### Taxation of the Disposition of Ordinary Shares

Subject to the discussion below under "Tax Consequences if We Are a Passive Foreign Investment Company," upon the sale, exchange or other disposition of our ordinary shares, a U.S. holder will recognize capital gain or loss in an amount equal to the difference between the amount realized on the disposition and the U.S. holder's tax basis in such ordinary shares. The gain or loss recognized on the disposition of such ordinary shares will be long-term capital gain or loss if the U.S. holder held the ordinary shares for more than one year at the time of the disposition. Long-term capital gains of certain non-corporate shareholders are subject to a maximum rate of 20% for taxable years beginning after December 31, 2012. Gain or loss recognized by a U.S. holder on a sale, exchange or other disposition of ordinary shares generally will be treated as U.S. source income or loss for U.S. foreign tax credit purposes.

A U.S. holder that uses the cash method of accounting calculates the dollar value of the proceeds received on the sale as of the date that the sale settles. However, a U.S. holder that uses the accrual method of accounting is required to calculate the value of the proceeds of the sale as of the trade date and may therefore realize foreign currency gain or loss. A U.S. holder may avoid realizing foreign currency gain or loss by electing to use the settlement date to determine the proceeds of sale for purposes of calculating the foreign currency gain or loss. In addition, a U.S. holder that receives foreign currency upon disposition of ordinary shares and converts the foreign currency into dollars after the settlement date or trade date (whichever date the U.S. holder is required to use to calculate the value of the proceeds of sale) may have foreign exchange gain or loss based on any appreciation or depreciation in the value of the foreign currency against the dollar, which will generally be U.S. source ordinary income or loss.

#### Medicare Tax

With respect to taxable years beginning after December 31, 2012, certain non-corporate U.S. holders will be subject to an additional 3.8% Medicare tax on all or a portion of their "net investment income", which may include dividends on, or capital gains recognized from the disposition of, our ordinary shares. U.S. holders are urged to consult their own tax advisors regarding the implications of the additional Medicare tax on their investment in our ordinary shares.

#### Tax Consequences if We Are a Passive Foreign Investment Company

For U.S. federal income tax purposes, we will be a passive foreign investment company, or PFIC, if either (1) 75% or more of our gross income in a taxable year is passive income, or (2) 50% or more of the value (determined on the basis of a quarterly average) of our assets in a taxable year produce or are held for the production of passive income. If we own (directly or indirectly) at least 25% by value of the stock of another corporation, we will be treated for purposes of the foregoing tests as owning our proportionate share of that other corporation's assets and as directly earning our proportionate share of that other corporation's income. If we are a PFIC, a U.S. holder must determine under which of three alternative taxing regimes it wishes to be taxed:

- The "QEF" regime applies if the U.S. holder elects to treat us as a "qualified electing fund" ("QEF") for the first taxable year in which the U.S. holder owns our ordinary shares or in which we are a PFIC, whichever is later, and if we comply with certain reporting requirements. A U.S. holder may not make a QEF election with respect to warrants. If the QEF regime applies, then, for each taxable year that we are a PFIC, such U.S. holder will include in its gross income a proportionate share of our ordinary earnings (which is taxed as ordinary income) and net capital gain (which is taxed as long-term capital gain), subject to a separate election to defer payment of taxes, which deferral is subject to an interest charge. These amounts would be included in income by an electing U.S. holder, whether or not such amounts are actually distributed to the U.S. holder. A U.S. holder's basis in our ordinary shares for which a QEF election has been made would be increased to reflect the amount of any taxed but undistributed income. Generally, a QEF election allows an electing U.S. holder to treat any gain realized on the disposition of his ordinary shares as capital gain.

Once made, the QEF election applies to all subsequent taxable years of the U.S. holder in which it holds our ordinary shares and for which we are a PFIC and can be revoked only with the consent of the IRS.

If a QEF election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

- A second regime, the "mark-to-market" regime, may be elected so long as our ordinary shares are "marketable stock" (e.g., "regulatory traded" on the NASDAQ Global Market). Under current law, a mark-to-market election cannot be made with respect to warrants. Pursuant to this regime, in any taxable year that we are a PFIC, an electing U.S. holder's ordinary shares are marked-to-market each taxable year and the U.S. holder recognizes as ordinary income or

loss an amount equal to the difference as of the close of the taxable year between the fair market value of our ordinary shares and the U.S. holder's adjusted tax basis in our ordinary shares. Losses are allowed only to the extent of net mark-to-market gain previously included by the U.S. holder under the election for prior taxable years. An electing U.S. holder's adjusted basis in our ordinary shares is increased by income recognized under the mark-to-market election and decreased by the deductions allowed under the election.

Under the mark-to-market election, in a taxable year that we are a PFIC, gain on the sale of our ordinary shares is treated as ordinary income, and loss on the sale of our ordinary shares, to the extent the amount of loss does not exceed the net mark-to-market gain previously included, is treated as ordinary loss. The mark-to-market election applies to the taxable year for which the election is made and all later taxable years, unless the ordinary shares cease to be marketable stock or the IRS consents to the revocation of the election.

If the mark-to-market election is made after the first taxable year in which a U.S. holder holds our ordinary shares and we are a PFIC, then special rules would apply.

- A U.S. holder making neither the QEF election nor the mark-to-market election is subject to the “excess distribution” regime. Under this regime, “excess distributions” are subject to special tax rules. An excess distribution is either (1) a distribution with respect to our ordinary shares that is greater than 125% of the average distributions received by the U.S. holder from us over the shorter of either the preceding three taxable years or such U.S. holder’s holding period for our ordinary shares prior to the distribution year or (2) gain from the disposition of our ordinary shares.

Excess distributions must be allocated ratably to each day that a U.S. holder has held our ordinary shares. A U.S. holder must include amounts allocated to the current taxable year and any taxable year prior to the first taxable year in which we were a PFIC, its gross income as ordinary income for that year. All amounts allocated to other taxable years of the U.S. holder would be taxed at the highest tax rate for each such year applicable to ordinary income and the U.S. holder also would be liable for interest on the deferred tax liability for each such year calculated as if such liability had been due with respect to each such year. The portions of gains and distributions that are not characterized as “excess distributions” are subject to tax in the current taxable year as ordinary income under the normal tax rules of the Code.

A U.S. person who inherits shares in a foreign corporation that was a PFIC in the hands of the decedent, is generally denied the otherwise available step-up in the tax basis of such shares to fair market value at the date of death. Instead, such U.S. holder’s basis would generally be equal to the lesser of the decedent’s basis or the fair market value of the ordinary shares on the date of death. Furthermore, if we are a PFIC, each U.S. holder will generally be required to file an annual report with the IRS.

Based on an analysis of our assets and income, we believe that we were not a PFIC for our taxable year ended December 31, 2012. We currently expect that we will not be a PFIC in 2013. 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. There can be no assurance that we will not become a PFIC for the current taxable year ending December 31, 2013 or in a future taxable year. We will notify U.S. holders in the event we conclude that we will be treated as a PFIC for any taxable year to enable U.S. holders to consider whether or not to elect to treat us as a QEF for U.S. federal income tax purposes, to “mark-to-market” the ordinary shares, or to become subject to the “excess distribution” regime, and we expect that in such event we will provide U.S. holders with the information needed to make a QEF election.

U.S. holders are urged to consult their tax advisors regarding the application of the PFIC rules, including eligibility for and the manner and advisability of making, the QEF election or the mark-to-market election.

#### Non-U.S. Holders of Ordinary Shares

Except as described below, a non-U.S. holder of ordinary shares will not be subject to U.S. federal income or withholding tax on the receipt of dividends on, and the proceeds from the disposition of, an ordinary share, unless, in the case of U.S. federal income taxes, that item is effectively connected with the conduct by the non-U.S. holder of a trade or business in the United States and, in the case of a resident of a country which has an income tax treaty with

the United States, that item is attributable to a permanent establishment in the United States or, in the case of an individual, a fixed place of business in the United States. In addition, gain recognized by an individual non-U.S. holder on the disposition of ordinary shares will be subject to tax in the United States if the non-U.S. holder is present in the United States for 183 days or more in the taxable year of the sale and certain other conditions are met.

## Information Reporting and Backup Withholding

A U.S. holder (except for certain exempt recipients, such as corporations) generally is subject to information reporting and may be subject to backup withholding at rate of up to 28% with respect to dividends paid on, and the receipt of the proceeds from the disposition of, the ordinary shares. A U.S. holder of our ordinary shares who does not provide a correct taxpayer identification number may be subject to penalties imposed by the IRS. Backup withholding will generally not apply if a U.S. holder provides a correct taxpayer identification number, certifies that such holder is not subject to backup withholding or otherwise establishes an exemption.

Non-U.S. holders generally will not be subject to information reporting or backup withholding with respect to the payment of dividends on, or proceeds from the distribution of, our ordinary shares provided the non-U.S. holder provides its taxpayer identification number, certifies to its foreign status or otherwise establishes an exemption.

Backup withholding is not an additional tax and may be claimed as a credit against the U.S. federal income tax liability of a holder, or alternatively, the holder may be eligible for a refund of any excess amounts withheld under the backup withholding rules, in either case, provided that the required information is furnished to the IRS.

## ISRAELI TAXATION

The following summary describes the current tax structure applicable to companies in Israel, with special reference to its effect on us. It also discusses Israeli tax consequences material to persons purchasing our ordinary shares. We recommend that you consult your tax advisor as to the particular tax consequences of an investment in our ordinary shares.

### General Corporate Tax Structure

The corporate tax rate applicable in 2012 was 25% and the staged reduction planned for the corporate tax rate was cancelled due to an amendment to the income tax ordinance.

However, the effective tax rate payable by a company that derives income from an approved enterprise, discussed further below, may be considerably less. See below in "Tax Benefits under the Law for Encouragement of Capital Investments, 1959".

### Taxation under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 1985, or the "Inflationary Adjustments Law," was intended to neutralize the erosion of capital investments and to prevent tax benefits resulting from deduction of inflationary expenses. This law applied a supplementary set of inflationary adjustments to the normal taxable profits and losses computed under the regular cost principles.

On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 ("the Amendment") was passed by the Knesset. According to the Amendment, the Inflationary Adjustments Law is no longer applicable subsequent to the 2007 tax year, except for certain transitional provisions.

Further, according to the Amendment, commencing with the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes is no longer calculated. Additionally, depreciation on fixed assets and tax loss carry forwards is no longer linked to future changes in the CPI, such that these amounts will continue to be linked only to the CPI as of the end of the 2007 tax year and will not be linked to CPI changes after this date.

Tax benefits under the Law for Encouragement of Capital Investments, 1959 (the "Investment Law")

The Company's production facility has been granted "Approved Enterprise" status under the Investment Law. The Company participates in the Alternative Benefits Program and, accordingly, income from its 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; this is due to the fact that the Company operates 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 enterprises which may be approved by the Investment Center by setting criteria for the approval of a facility as a "Beneficiary Enterprise", such as provisions generally requiring 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 already granted will remain subject to the provisions of the law as they were on the date of such approval. Therefore, the Company's 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 Amendment, as part of a new Beneficiary Enterprise, will subject the Company to taxes upon distribution or liquidation.

The Company has been granted the status of Approved Enterprise, under the Investment Law, for investment programs for the periods ending 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.

The Investment Law and the criteria for receiving an "approved enterprise" or "beneficiary enterprise" status may be amended from time to time and there is no assurance that we will be able to obtain additional benefits under the Investment Law.

On December 29, 2010, the Investment Law was amended to significantly revise the tax incentive regime in Israel commencing on January 1, 2011. The December 2010 amendment introduced a new status of "preferred enterprise," replacing the existing status of "beneficiary enterprise." Similarly to "beneficiary enterprise," a preferred enterprise is an industrial company meeting certain conditions, including deriving a minimum of 25% of its income from export activities. However, under the December 2010 amendment, the requirement for a minimum investment in production assets in order to be eligible for the benefits granted under the Investments Law was cancelled. A preferred enterprise is entitled to a reduced flat tax rate with respect to preferred enterprise income at the following rates:

| Tax Year     | Development "Zone A" | Other Areas within Israel | Regular Corporate Tax Rate |
|--------------|----------------------|---------------------------|----------------------------|
| 2011-2012    | 10%                  | 15%                       | 24%-25%                    |
| 2013-2014    | 7%                   | 12.5%                     | 25%                        |
| 2015 onwards | 6%                   | 12%                       | 25%                        |



In addition, the December 2010 amendment introduced a new status of "special preferred enterprise" which is an industrial company fulfilling certain additional conditions, including having a total preferred enterprise income of at least NIS 1.5 billion in a given tax year. The tax rate applicable for a period of 10 years to income generated by such an enterprise will be reduced to 5% if located in development "Zone A," or to 8% if located in other area within the State of Israel.

Dividend distributed from income which is attributed to “preferred enterprise” or “special preferred enterprise” will be subject to withholding tax at source at the following rates: (i) Israeli resident corporation – 0%, (ii) Israeli resident individual – 15% (iii) non-Israeli resident - 15%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

The December 2010 amendment was also revised to allow financial assistance to companies located in development Zone A to be granted not only as a cash grant but also as a loan. The rates for grants and loans could be up to 20% of the amount of the approved investment.

The provisions of the December 2010 amendment do not apply to companies currently having an “approved enterprise” or “beneficiary enterprise” status, which will continue to be entitled to the tax benefits according to the provisions of the Investment Law prior to the December 2010 amendment, unless the company having the benefits of such status has elected by filing with the Israeli Tax Authority not later than the date prescribed for the filing of the company's annual tax return for the respective year, to adopt the provisions of the December 2010 amendment. Such election cannot be later rescinded. A company having the status of “beneficiary enterprise” or “approved enterprise” making such election by July 30, 2015 will be entitled to distribute income generated by the “approved enterprise,” subject to withholding tax at source at the following rates: (i) Israeli resident corporations – 0%, (ii) Israeli resident individuals – 15% (iii) non-Israeli residents - 15%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

As of the December 31, 2012, the Company has not chosen the election of the Amendment to the law.

Out of the Company's retained earnings as of December 31, 2012, approximately \$20.8 million are tax-exempt earnings attributable to its Approved Enterprise programs and approximately \$7.0 million are tax-exempt earnings attributable to its Beneficiary Enterprise program. The tax-exempt income attributable to the Approved and Beneficiary Enterprise cannot be distributed to shareholders without subjecting the Company to taxes. If these retained tax-exempt profits are distributed, the Company will be taxed at the reduced corporate tax rate applicable to such profits (currently - 25% according to the implementation of the Investment Law). According to the Investment Law, tax-exempt income generated under the Beneficiary Enterprise status will be taxed upon dividend distribution or complete liquidation, whereas tax exempt income generated under the Approved Enterprise status will be taxed only upon dividend distribution. As of December 31, 2012, if the income attributed to the Approved Enterprise was distributed as dividend, the Company would incur a tax liability of approximately \$5.2 million. If income attributed to the Beneficiary Enterprise was distributed as dividend, including upon liquidation, the Company would incur a tax liability in the amount of approximately \$ 1.8 million.

These amounts will be recorded as an income tax expense for the period in which the Company declares the dividend.

The Company intends to reinvest the amount of its tax-exempt income and not distribute any amounts of its undistributed tax exempt income as dividend. Accordingly, no deferred income taxes have been provided on income attributable to the Company's 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 the Company's fulfilling the conditions stipulated by the Investment Law, regulations published there under and the certificates of approval for the specific investments in approved enterprises.

Should the Company fail to meet such requirements in the future, income attributable to its Programs could be subject to the statutory Israeli corporate tax rate and the Company could be required to refund a portion of the tax benefits already received, with respect to such program. The Company's management believes that the Company is meeting the aforementioned conditions.



Law for the Encouragement of Industrial Research and Development, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984, research and development programs approved by the Research Committee of the Office of the Chief Scientist (“OCS”) are eligible for grants, in exchange for payment of royalties from revenues generated by the products developed in accordance with the programs. Once a project is approved, the OCS will award grants between 20-50% of the project’s approved budget, in exchange for royalties at a rate of 2% to 6%, depending on the date of approval of the project, of the proceeds from the sales of the products that are developed from projects funded by the OCS. These royalties must be paid starting from commencement of sales of those products and ending when 100% of the dollar value of the grant was repaid or, for projects approved after January 1, 1999, the dollar amount of the grant plus interest at the rate LIBOR for dollar deposits in a twelve-month period.

The terms of this Israeli governmental participation also require that unless otherwise stipulated in the Certificate of Approval received from the OCS for developing the product, the products developed with government grants be manufactured in Israel, unless the Research Committee of the OCS, in its discretion, consents to manufacturing abroad. In addition, in the event that any of the manufacturing rights are sold or transferred to parties or performed outside of Israel, if approved by the Research Committee of the OCS, a company may be required to pay royalties at a higher rate and be liable to an increased aggregate pay back amount depending on the portion of manufacturing performed outside of Israel, up to a maximum of 300% of the dollar amount of the grant, unless the amount of production outside Israel is less than 10% of the total production of those products from inception of their production until cessation thereof. In this particular event, although the OCS may object to the transfer of production within 30 days from the receipt of an announcement to that effect, this law does not impose obligation to pay increased royalties to the OCS. The Research Committee of the OCS may, in special cases, approve the transfer or sale of the technology outside of Israel. Such sale or transfer, even if approved, may impose on a company a substantial payment, which generally may be as high as three times the amount of the grants received by a company, less any royalty payments already paid to the government. This approval is not required for the export of any products resulting from that research development. Approval of the sale or transfer of technology within Israel may be granted only if the recipient abides by all of the provisions of this law and the regulations promulgated there under, including the restrictions on the sale or transfer of know-how and the obligation to pay royalties in an amount that may be increased. There can be no assurance that this consent, if requested, will be granted.

Each application to the OCS is reviewed separately, and grants are based on the program’s approval by the research committee of the OCS. Expenditures supported under other incentive programs of the State of Israel are not eligible for OCS grants.

In 2009 we submitted a research and development plan to the OCS with respect to Printar’s research and development program, and received grants in the amount of \$598,000 (as of the date of this Annual Report). We did not submit any additional R&D plans for 2010, 2011 and 2012. In addition, we participate in the programs which are based on the existing OCS approved projects of Printar and Sela, both acquired during 2009. Sela and Printar received government grants from the OCS for the financing of significant portion of their product development expenditures in previous years, before their acquisition by us. As of the date of this Annual Report, the amount of non-repaid grants received by Sela and Printar amounted to \$1,719 million and \$3,407 million, respectively. (see also in Item 3 above- "Risks relating to our Operations in Israel"- "The government grants we received for research and development expenditures restrict our ability to manufacture products or to transfer technologies outside of Israel").

Net Operating Loss Carry forwards

As of December 31, 2012, the Company and its Israeli subsidiaries had a net operating loss, or NOL, of \$46.4 million carry forward for Israeli tax purposes.



#### Law for the Encouragement of Industry (Taxes), 1969

We believe that we currently qualify as an “Industrial Company” within the meaning of the Law for the Encouragement of Industry (Taxes), 1969 (the “Industry Encouragement Law”). According to the Industry Encouragement Law, an “Industrial Company” is a company resident in Israel, at least 90% of the income of which, in a given tax year, exclusive of income from specified government loans, capital gains, interest and dividends which are not classified for such company as business income, is derived from an industrial enterprise owned by it. An “Industrial enterprise” is defined as an enterprise whose major activity in a given tax year is industrial production.

The following corporate tax benefits are available to Industrial Companies:

- amortization of the cost of purchased know-how and patents over an eight-year period for tax purposes;
- amortization of expenses incurred in some cases in connection with a public issuance of publicly traded securities over a three-year period; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for the benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. No assurance can be given that we qualify or will continue to qualify as an “Industrial Company” or that the benefits described above will be available in the future.

#### Taxation of Shareholders’ Capital Gains

Israeli law imposes a capital gains tax on the sale of capital assets. The law distinguishes between the “Real Gain” and the “Inflationary Surplus.” The Real Gain is the difference between the total capital gain and the Inflationary Surplus. The Inflationary Surplus is computed on the basis of the difference between the Israeli consumer price index in the month of sale and the month of purchase. The Inflationary Surplus accumulated after January 1, 1994 is exempt from capital gains tax. A foreign resident may reduce the tax rate used for the Inflationary Surplus to zero if calculated according to the exchange rate of the foreign currency or the Israeli consumer price index. At the end of 2011, the Israeli income tax ordinance was amended (amendment no. 187) and stated that real capital gain accrued commencing as of January 1, 2012 by shareholders who holds less than 10% of the company rights, will be taxed at a 25% rate (instead of 20% in prior years). If the shareholder holds, directly or indirectly, 10% or more of one of our means of control at the time of sale or at any time during the preceding 12 months period, real capital gains will be taxed at a 30% rate (instead of 25% in prior years).

#### Application of the U.S.-Israel Tax Treaty to Capital Gains Tax

Under Israeli law, the capital gain from the sale of shares by non-Israeli residents is tax exempt in Israel as long as our shares are listed on the Nasdaq Global Market or any other stock exchange recognized by the Israeli Ministry of Finance, and provided certain other conditions are met, the most relevant of which are: (A) the capital gain is not attributed to the foreign resident’s permanent establishment in Israel, (B) the shares were acquired by the foreign resident after the company’s shares had been listed for trading on the foreign exchange, and (C) if the seller is a corporation, less than 25% of its means of control are held by Israeli residents. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly.

In addition, under the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, or the U.S.-Israel Tax Treaty, Israeli capital gains tax will not apply to the sale, exchange or disposition of ordinary shares by a person:

- who holds such shares as a capital asset;
- who qualifies as a resident of the United States within the meaning of the U.S.-Israel tax treaty; and
- who is entitled to claim the benefits available to the person by the U.S.-Israel Tax Treaty.

However, this exemption does not apply, among other cases, if the gain is attributable to a permanent establishment of such person in Israel, or if the holder is a resident of the United States within the meaning of the U.S.-Israeli Tax Treaty who holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the 12-month period preceding the sale, exchange or disposition, subject to certain conditions. Under these circumstances, the sale, exchange or disposition would be subject to Israeli tax, to the extent applicable. However, under the U.S.-Israel Tax Treaty, such U.S. resident generally will be permitted to claim a credit for the Israeli taxes paid against the U.S. federal income tax imposed on the sale, exchange or disposition, subject to the limitations under U.S. law applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not relate to U.S. state or local taxes.

#### Taxation of Non-Residents on Receipt of Dividends

Nonresidents of Israel are subject to Israeli income tax on the receipt of dividends paid on the ordinary shares at the rate of 20%, or 25% if the dividend recipient is a significant Controlling Shareholder, (according to amendment no. 187, commencing on January 1, 2012, the rate for a non-resident recipient is 25% regardless the rate of his holdings.) which tax will be withheld at source, unless the dividends are paid from income derived from an Approved Enterprise during the applicable benefit period, or a different rate is provided in a treaty between Israel and the shareholder's country of residence. Under the U.S.-Israel Tax Treaty, the maximum tax on dividends paid to a holder of the ordinary shares who is a U.S. Resident will be 25%. However, when dividends are paid from income derived during any period for which the Israeli company is not entitled to the reduced tax rate applicable to an Approved Enterprise under Israel's Law for the Encouragement of Capital Investments-1959, the maximum tax will be 12.5% if the holder is a company holding shares representing 10% or more of the voting power during the part of the taxable year preceding the date of payment of dividends and during the whole of its prior taxable year, if any, and, if the company has not derived more than 25% of its revenues from passive income. When dividends are paid from income derived during any period for which the Israeli company is entitled to the reduced tax rate applicable to an Approved Enterprise then the tax will be 15%.

#### F. Dividends and Paying Agents.

Not applicable.

#### G. Statement by Experts.

Not applicable.

#### H. Documents on Display.

We file annual reports and other information with the SEC. You may inspect and copy such material at the public reference facilities maintained by the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. You may also obtain copies of such material from the SEC at prescribed rates by writing to the Public Reference Section of the SEC, 450 Fifth Street, N.W., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information on the public reference room.

The SEC maintains an Internet web site at <http://www.sec.gov> that contains reports and other material that are filed through the SEC's Electronic Data Gathering, Analysis and Retrieval, or EDGAR, system.

Our ordinary shares are quoted on the NASDAQ Global Market. You may inspect reports and other information concerning us at the offices of the Financial Industry Regulatory Authority, 9513 Key West Avenue, Rockville, Maryland 20850. Information about us is also available on our site at <http://www.camtek.co.il>. Such information on our site is not part of this Annual Report.





As a foreign private issuer, we are exempt from the rules under the Securities Exchange Act of 1934, as amended, or Exchange Act, prescribing the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and "short-swing" profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file periodic reports and financial statements with the SEC as frequently or as promptly as United States companies whose securities are registered under the Exchange Act.

#### I. Subsidiary Information.

Not applicable.

#### Item 11. Quantitative and Qualitative Disclosures about Market Risk

##### Interest Rate Risk

Our exposure to market risk for changes in interest rates relates primarily to our loans. As of December 31, 2012, we had credit facilities with banks in Israel; see Item 5.B above – "Liquidity and Capital Resources".

##### Foreign Currency Rate Fluctuations

The currency of the primary economic environment in which our operations are conducted is the U.S. dollar, as most of our revenues are derived in dollars, and 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. Also, most of our marketing expenses are denominated in dollars or are dollar linked, and 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. In Europe, Japan and China, if there is a significant devaluation in the local currency as compared to the dollar, the prices of our products will decrease relative to that local currency and negatively affect our revenues and income. 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. An increase in the NIS value relative to the dollar will increase our costs expressed in dollar, and a decrease in the NIS value relative to the dollar will decrease our costs expressed in dollar. In addition, 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. During 2012, the value of the U.S. dollar weakened against the NIS by 2.1%. In addition, during 2012, the value of the U.S. dollar weakened against the CNY by 0.4%.

The open hedging transactions as of December 31, 2012, are displayed in the following table:

|  | Sum of notional<br>amount in<br>dollars<br>(thousands) | Sum of fair<br>market value<br>in dollars<br>(thousands) |
|--|--|--|
| Options                                |  |  |
| Buy dollars and Sell NIS (Put options) | 3,100  | 81   |

Sell dollars and Buy NIS (call options):                    3,100                    (7                    )

76

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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 net income as part of financial expenses, net.

Our balance sheet exposure to fluctuations in the exchange rate between the U.S. dollar and other currencies are primarily from NIS denominated balances. As of December 31, 2012, we had net liabilities of approximately \$3.9 million, denominated in NIS. Any fluctuation in the exchange rate between the NIS and the U.S. dollar of 1% will cause us expenses of \$39,000 or income for the same amount in case of increase or decrease in rates, respectively.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

## PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

Not applicable.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

Not Applicable.

Item 15. Controls and Procedures.

(a)  
Disclosure  
Controls  
and  
Procedures.

Our management, including our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2012, and have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2012, our CEO and CFO concluded that, as of such date, the Company's disclosure controls and procedures were effective.

(b)  
Management's  
Annual  
Report on  
Internal  
Control Over  
Financial  
Reporting.

Our management, under the supervision of our CEO and CFO, is responsible for establishing and maintaining adequate internal control over our financial reporting as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Internal control over financial reporting is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurances with respect to financial statement preparation and presentation. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may decline.

Our management evaluated the effectiveness of our internal control over financial reporting based on the framework established in Internal Control – Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission.

Based on this evaluation, management has assessed the effectiveness of our internal control over financial reporting, as at December 31, 2012, and concluded that such internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) is effective.

This Annual Report does not include an attestation report of the Company's registered public accounting firm regarding the effectiveness of the Company's internal control over financial reporting. Management's report was not subject to attestation by the Company's registered public accounting firm. The Dodd–Frank Wall Street Reform and Consumer Protection Act that was signed into law on July 21, 2010, provides, among other things, an exemption to issuers that are neither “accelerated filers”, nor “large accelerated filers” (as defined in Rule 12b–2 of the Securities Exchange Act), from the requirement to include auditor attestation on the effectiveness of its internal controls over financial reporting, thus permitting us to provide only management's report in this Annual Report.

(c)  
Attestation  
Report of  
the  
Registered  
Public  
Accounting  
Firm.

Not Applicable.

(d)  
Changes in  
Internal  
Control  
over  
Financial  
Reporting.

There were no changes to our internal control over financial reporting that occurred during the period covered by this Annual Report that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

Item 16A.                    Audit Committee Financial Expert

Our Board of Directors has determined that each of Mr. Bendoly and Ms. Heller qualify as "audit committee financial experts" and "independent directors" for purposes of the Sarbanes-Oxley Act and the Nasdaq Rules.

Item 16B.                    Code of Ethics

We adopted a Code of Ethics, which is applicable to all of our directors, officers and employees, including our principal executive, financial and accounting officers and persons performing similar functions. A copy of the Code of Ethics, in its current version, is available on our website, [www.camtek.co.il](http://www.camtek.co.il). We will also provide a copy of the Code of Ethics to any person, without charge, upon written request addressed to our CFO at our corporate headquarters in Israel: Camtek Ltd., Ramat Gabriel Industrial Zone, P.O. BOX 544, Migdal Ha'Emek, Israel.

## Item 16C. Principal Accountant Fees and Services

Our Audit Committee maintains a policy of approving and recommending only those services to be performed by our independent auditors which are permitted under the Sarbanes-Oxley Act of 2002 and the applicable rules of the SEC relating to auditor's independence, and which are otherwise consistent with and will encourage, and are remunerated at levels that accord with, the basic principles of auditor independence.

The following table presents the aggregate amount of fees for professional services rendered to the Company by our principal accountant Somekh Chaikin, a member firm of KPMG International, for the years ended December 31, 2012 and 2011:

| Fee Category | For Services<br>Rendered during<br>2012 | For Services<br>Rendered during<br>2011 |
|--------------|---|---|
| Audit Fees   | \$ 223,904                              | \$ 235,000                              |

Audit Fees: Consist of the aggregate fees billed for professional services rendered for the audit of our annual financial statements and services that are normally provided by independent registered public accounting firm in connection with statutory and regulatory filings or engagements.

Our Audit Committee has adopted a policy for pre-approval of audit and permitted non-audit services. Under the policy, the Audit Committee will pre-approve all auditing services and permitted non-audit services (including the fees and other terms) to be performed for the Company by its independent auditor to the extent required by law. All of the fees listed in the table above were approved by the Audit Committee. In addition, the Audit Committee may adopt policies and procedures to permit delegation of authority to subcommittees consisting of one or more members when appropriate, including the authority to grant pre-approvals of audit and permitted non-audit services. Decisions of the subcommittee to grant pre-approvals will be presented to the full Audit Committee at its next scheduled meeting.

## Item 16D. Exemptions from the Listing Standards for Audit Committees.

Not applicable.

## Item 16E. Purchases of Equity Securities by the Issuer and Affiliated Purchasers.

Not applicable.

## Item 16F. Change in Registrant's Certifying Accountant.

Not applicable.

## Item 16G. Corporate Governance.

Pursuant to Rule 5615(a)(3) of the Nasdaq Rules, we are relying on our home country practice in lieu of the requirements set out in Rule 5615(a)(3) that all securities listed on Nasdaq be eligible for a direct registration program operated by a registered clearing agency. Our procedures regarding the issuance of stock certificates comply with Israeli law and practice. According to the Israeli Companies Law, a share certificate is defined as a certificate in which the name of the owner registered in the company registers is stated, stating the number of shares he owns. In the event that what is registered in the company's shareholders register conflicts with a share certificate, then the evidentiary

value of the shareholder register outweighs the evidentiary value of the share certificate. A shareholder registered in the company's shareholders register is entitled to receive from the company a certificate evidencing his ownership of the share.



The Company has also opted out of the shareholder approval requirements regarding stock option plans and other equity based compensation arrangements as set forth in Nasdaq Rule 5635 and Nasdaq Rule 5605(d), respectively. Thus, as required under Israeli Companies Law, special shareholder voting procedures were followed for the approval of compensation of office holders or employees who are controlling shareholders or any relative thereof. In accordance with Israeli law requirements, equity based compensation arrangements with office holders or employees who are not controlling shareholders or any relative thereof, as well as equity plans, are approved by our Board of Directors.

Further, the Company has opted out of the annual meeting requirement, as set forth in NASDAQ Rule 5620(a), which requires Camtek to hold its annual meetings of shareholders within twelve months of the end of a company's fiscal year end. Instead, Camtek is following home country practice and law in this respect. Israeli law requires that an annual meeting of the shareholders be held every year, and not later than 15 months following the last annual meeting (see in Item 10 B above "Additional Information" – "Voting, Shareholders' Meetings and Resolutions"). Our 2013 annual general meeting of shareholders should be held on or before December 31, 2013.

Item 16T. Mine Safety Disclosure.

Not Applicable.

### PART III

Item 17. Consolidated Financial Statements.

The Company has furnished financial statements and related information specified in Item 18.

Item 18. Consolidated Financial Statements.

Our consolidated financial statements and report of independent registered public accounting firm in connection therewith, as appear below, are hereby incorporated into this Annual Report.

Camtek Ltd.  
and its subsidiaries

Consolidated Financial Statements  
As of December 31, 2012 and 2011  
and for each of the years  
in the three year period  
ended December 31, 2012

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INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders  
Camtek Ltd.

We have audited the accompanying consolidated balance sheets of Camtek Ltd. and subsidiaries (“the Company”) as of December 31, 2012 and 2011, and the related consolidated statements of operations, shareholders’ equity and cash flows for each of the years in the three-year period ended December 31, 2012. These consolidated financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Camtek Ltd. and subsidiaries as of December 31, 2012 and 2011, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2012 in conformity with U.S. generally accepted accounting principles.

Somekh Chaikin  
Certified Public Accountants (Israel)  
Member firm of KPMG International

Tel Aviv, Israel

April 11, 2013

Camtek Ltd. and its subsidiaries

## Consolidated Balance Sheets

|  | December 31,                |                |
|--|-----------------------------|----------------|
|  | 2012                        | 2011           |
|  | U.S. Dollars (In thousands) |                |
| <b>Assets</b>                                    |                             |                |
| <b>Current assets</b>                            |                             |                |
| Cash and cash equivalents (Note 3)               | 18,867                      | 22,185         |
| Short-term deposits                              | 7,160                       | 4,100          |
| Accounts receivable, net (Note 15B)              | 23,076                      | 25,451         |
| Inventories (Note 4)                             | 18,335                      | 24,355         |
| Due from affiliates (Note 22)                    | 391                         | 388            |
| Other current assets (Note 5)                    | 2,210                       | 3,357          |
| Deferred tax asset (Note 21)                     | 367                         | 110            |
| <b>Total current assets</b>                      | <b>70,406</b>               | <b>79,946</b>  |
| <b>Fixed assets (Note 6)</b>                     |                             |                |
| Cost   | 28,830                      | 26,580         |
| Less - Accumulated depreciation                  | 13,008                      | 12,003         |
| <b>Fixed assets, net</b>                         | <b>15,822</b>               | <b>14,577</b>  |
| Long-term inventory (Note 4)                     | 7,090                       | 1,954          |
| Long-term deposit (Note 7)                       | 729                         | -              |
| Deferred tax asset (Note 21)                     | 107                         | 132            |
| Other assets (Note 8)                            | 304                         | 304            |
| Intangible assets, net (Note 9)                  | 2,971                       | 4,191          |
| Goodwill (Note 9)                                | 1,579                       | 3,653          |
|  | 12,780                      | 10,234         |
| <b>Total assets</b>                              | <b>99,008</b>               | <b>104,757</b> |
| <b>Liabilities and shareholder's equity</b>      |                             |                |
| <b>Current liabilities</b>                       |                             |                |
| Short-term loan (Note 10)                        | 4,160                       | 3,000          |
| Accounts payable –trade                          | 7,610                       | 6,773          |
| Long-term bank loans – current portion (Note 12) | 1,592                       | 1,700          |
| Other current liabilities (Note 11)              | 13,850                      | 21,568         |
| <b>Total current liabilities</b>                 | <b>27,212</b>               | <b>33,041</b>  |
| <b>Long-term liabilities</b>                     |                             |                |

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|   |               |                |
|---|---------------|----------------|
| Long-term bank loans (Note 12)  | 500           | 2,092          |
| Liability for employee severance benefits (Note 13)   | 710           | 652            |
| Other long-term liabilities (Note 14)   | 10,249        | 9,039          |
|   | 11,459        | 11,783         |
| <b>Total liabilities</b>  | <b>38,671</b> | <b>44,824</b>  |
| <b>Commitments and contingencies (Note 15)</b>  |               |                |
| <b>Shareholders' equity (Note 17)</b>   |               |                |
| Ordinary shares NIS 0.01 par value, authorized 100,000,000 shares,<br>issued 31,989,309 as of December 31, 2012 and<br>31,810,340 as of December 31, 2011, outstanding<br>29,896,933 as of December 31, 2012 and 29,717,964 as of December 31, 2011 | 133           | 133            |
| Additional paid-in capital  | 61,415        | 61,014         |
| Retained earnings   | 687           | 684            |
|   | 62,235        | 61,831         |
| Treasury stock, at cost (2,092,376 as of December 31, 2012 and 2011)  | (1,898 )      | (1,898 )       |
| <b>Total shareholders' equity</b>   | <b>60,337</b> | <b>59,933</b>  |
| <b>Total liabilities and shareholders' equity</b>   | <b>99,008</b> | <b>104,757</b> |

The accompanying notes are an integral part of the consolidated financial statements.

Camtek Ltd. and its subsidiaries

## Consolidated Statements of Operations

|  | Year Ended December 31,                            |                 |                 |
|--|--|-----------------|-----------------|
|  | 2012   | 2011            | 2010            |
|  | U.S. Dollars (In thousands, except per share data) |                 |                 |
| <b>Revenues:</b>   |  |                 |                 |
| Sales of products  | 66,929   | 88,404          | 70,235          |
| Service fees   | 17,618   | 18,624          | 17,545          |
| <b>Total revenues (Note 19, 20A)</b>                                 | <b>84,547</b>                                      | <b>107,028</b>  | <b>87,780</b>   |
| <b>Cost of revenues:</b>   |  |                 |                 |
| Cost of products sold  | 35,908   | 48,039          | 38,464          |
| Cost of services   | 11,574   | 11,549          | 10,897          |
| <b>Total cost of revenues</b>  | <b>47,482</b>                                      | <b>59,588</b>   | <b>49,361</b>   |
| <b>Gross profit</b>  | <b>37,065</b>                                      | <b>47,440</b>   | <b>38,419</b>   |
| Research and development costs                                       | 12,916   | 14,077          | 12,906          |
| Selling, general and administrative expenses (Note 20B)              | 21,138   | 24,341          | 20,662          |
| Impairment charge in respect of goodwill and other intangible assets | 3,031  | -               | -               |
| <b>Total operating expenses</b>                                      | <b>37,085</b>                                      | <b>38,418</b>   | <b>33,568</b>   |
| <b>Operating income (loss)</b>                                       | <b>(20 )</b>                                       | <b>9,022</b>    | <b>4,851</b>    |
| <b>Financial income (expenses), net (Note 20C)</b>                   | <b>233</b>   | <b>(2,900 )</b> | <b>(1,478 )</b> |
| <b>Income before income taxes</b>                                    | <b>213</b>   | <b>6,122</b>    | <b>3,373</b>    |
| <b>Income tax expense (Note 21)</b>                                  | <b>(210 )</b>                                      | <b>(744 )</b>   | <b>(557 )</b>   |
| <b>Net income</b>  | <b>3</b>   | <b>5,378</b>    | <b>2,816</b>    |
| <b>Earnings per ordinary share (Note 18):</b>                        |  |                 |                 |
| Basic  | 0.00   | 0.18            | 0.10            |
| Diluted  | 0.00   | 0.18            | 0.09            |
| <b>Weighted average number of ordinary shares outstanding:</b>       |  |                 |                 |
| Basic  | 29,849   | 29,557          | 29,259          |
| Diluted  | 30,013   | 30,009          | 30,360          |

The accompanying notes are an integral part of the consolidated financial statements.

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Camtek Ltd. and its subsidiaries

## Consolidated Statements of Shareholders' Equity

|  | Ordinary Shares<br>NIS 0.01 par value<br>U.S.<br>Dollars<br>(In<br>Shares thousands) | Number of<br>Treasury<br>Shares | Additional<br>paid-in<br>capital | Retained<br>earnings<br>(accumulated<br>losses) | Treasury<br>stock | Total<br>shareholders'<br>equity |
|--|--|---------------------------------|----------------------------------|---|-------------------|----------------------------------|
|  | U.S. Dollars (In thousands)  |                                 |                                  |   |                   |                                  |
| Balances at<br>December 31,<br>2009      | 31,328,119   | 132                             | (2,092,376)                      | 60,297  | (7,510 )          | (1,898 ) 51,021                  |
| Exercise of RSUs                         | 42,240   | *                               | -                                | *   | -                 | -                                |
| Share based<br>compensation<br>expense   | -  | -                               | -                                | 155   | -                 | - 155                            |
| Net income                               | -  | -                               | -                                | -   | 2,816             | - 2,816                          |
| Balances at<br>December 31,<br>2010      | 31,370,359   | 132                             | (2,092,376)                      | 60,452  | (4,694 )          | (1,898 ) 53,992                  |
| Exercise of share<br>options and<br>RSUs | 439,981  | 1                               | -                                | 145   | -                 | - 146                            |
| Share based<br>compensation<br>expense   | -  | -                               | -                                | 417   | -                 | - 417                            |
| Net income                               | -  | -                               | -                                | -   | 5,378             | - 5,378                          |
| Balances at<br>December 31,<br>2011      | 31,810,340   | 133                             | (2,092,376)                      | 61,014  | 684               | (1,898 ) 59,933                  |
| Exercise of RSUs                         | 178,969  | *                               | -                                | *   | -                 | -                                |
| Share based<br>compensation<br>expense   | -  | -                               | -                                | 401   | -                 | - 401                            |
| Net income                               | -  | -                               | -                                | -   | 3                 | - 3                              |
| Balances at<br>December 31,<br>2012      | 31,989,309   | 133                             | (2,092,376)                      | 61,415  | 687               | (1,898 ) 60,337                  |

\* Less than \$ 1 thousand.

The accompanying notes are an integral part of the consolidated financial statements.

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## Consolidated Statements of Cash Flows

|   | Year Ended December 31,     |              |                |
|---|-----------------------------|--------------|----------------|
|   | 2012                        | 2011         | 2010           |
|   | U.S. Dollars (In thousands) |              |                |
| <b>Cash flows from operating activities:</b>  |                             |              |                |
| Net income  | 3                           | 5,378        | 2,816          |
| Adjustments to reconcile net income to net cash provided by (used in) operating activities: |                             |              |                |
| Depreciation and amortization   | 2,125                       | 2,366        | 2,262          |
| Impairment charge in respect of goodwill and other intangible assets                        | 3,031                       | -            | -              |
| Accrued interest on restricted deposit  | -                           | 7            | (7)            |
| Deferred tax benefit  | (232)                       | (36)         | (40)           |
| Share based compensation expense  | 401                         | 417          | 155            |
| Provision for bad debts, net  | 167                         | (2)          | 324            |
| Revaluation of contingent liabilities and interest expense on liabilities to the OCS        | (586)                       | 1,997        | 1,345          |
| <b>Changes in operating assets and liabilities:</b>   |                             |              |                |
| Accounts receivable   | 2,270                       | 3,451        | (10,651)       |
| Inventories   | 34                          | (318)        | (7,360)        |
| Due to / from affiliates  | (3)                         | (4)          | (40)           |
| Other assets  | 1,147                       | (787)        | (723)          |
| Accounts payable – trade  | 837                         | (2,988)      | 5,267          |
| Other current liabilities   | (5,302)                     | 290          | 6,474          |
| Liability for employee severance benefits   | 58                          | 26           | 139            |
| <b>Net cash provided by (used in) operating activities</b>                                  | <b>3,950</b>                | <b>9,797</b> | <b>(39)</b>    |
| <b>Cash flows from investing activities:</b>  |                             |              |                |
| Restricted deposit  | -                           | 5,175        | (5,175)        |
| Investment in long-term deposit   | (729)                       | -            | -              |
| Investment in short-term deposits   | (3,060)                     | (4,100)      | -              |
| Purchase of fixed assets  | (2,035)                     | (1,064)      | (1,686)        |
| Purchase of intangible assets   | (222)                       | (483)        | (207)          |
| <b>Net cash used in investing activities</b>  | <b>(6,046)</b>              | <b>(472)</b> | <b>(7,068)</b> |
| <b>Cash flows from financing activities:</b>  |                             |              |                |
| Increase in bank loans  | 4,160                       | 6,200        | 2,668          |
| SELA earn-out payments  | (331)                       | (421)        | (220)          |
| Payment to OCS  | (289)                       | (609)        | (228)          |
| OCS grant received  | -                           | -            | 215            |
| Repayment of loans  | (4,700)                     | (1,950)      | (109)          |
| Share issuance, net   | -                           | 146          | -              |
| Repayment of long-term convertible loan   | -                           | -            | (1,666)        |

|  |          |        |          |
|--|----------|--------|----------|
| Net cash (used in) provided by financing activities  | (1,160 ) | 3,366  | 660      |
| Effect of exchange rate changes on cash              | (62 )    | (83 )  | 222      |
| Net (decrease) increase in cash and cash equivalents | (3,318 ) | 12,608 | (6,225 ) |
| Cash and cash equivalents at beginning of the year   | 22,185   | 9,577  | 15,802   |
| Cash and cash equivalents at end of the year         | 18,867   | 22,185 | 9,577    |

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## Consolidated Statements of Cash Flows

|  | Year ended December 31,     |       |      |
|--|-----------------------------|-------|------|
|  | 2012                        | 2011  | 2010 |
|  | U.S. Dollars (In thousands) |       |      |
| <b>Supplementary cash flows information:</b> |                             |       |      |
| <b>A. Cash paid during the year for:</b>     |                             |       |      |
| Interest                                     | 137                         | 157   | 126  |
| Income taxes                                 | 348                         | 495   | 411  |
| <b>B. Non-cash transactions:</b>             |                             |       |      |
| Transfer of inventory to fixed assets        | 1,638                       | 1,197 | 730  |
| Transfer of fixed assets to inventory        | 788                         | 850   | 871  |

The accompanying notes are an integral part of the consolidated financial statements.

Notes to the Financial Statements

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Note 1 - General

A. Camtek Ltd. (“Camtek”), an Israeli corporation, is a majority owned (56.59%) subsidiary of Priortech Ltd. (“Parent”), an Israeli corporation listed on the Tel-Aviv Stock Exchange. Camtek designs, develops manufactures and markets automatic optical inspection systems (“AOI systems”) and related products. Camtek’s AOI systems are used for yield enhancement for various applications in the electronic supply chain industry. The main applications along this supply chain are the production of microelectronics, printed circuit boards (PCB) and electronic packaging.

In 2009 the Company completed a transaction to acquire certain assets and liabilities from Printar Ltd. (“Printar”), an Israeli company and signed an agreement to acquire 100% of SELA- Semiconductor Engineering Laboratories Ltd. (“SELA”). The Company applied the revised principles of ASC Topic 805, Business Combinations to these acquisitions.

All of Camtek’s activities are conducted in one reportable business segment.

Notes to the Financial Statements

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## Note 2 - Significant Accounting Policies

## A. Principles of consolidation

The accompanying consolidated financial statements, which include the accounts of Camtek and its subsidiaries (collectively “the Company”), are prepared in accordance with accounting principles generally accepted in the United States of America (“US GAAP”). All material intercompany balances and transactions have been eliminated in consolidation.

## B. Use of estimates

The preparation of the consolidated financial statements in conformity with US GAAP requires management to make estimates and assumptions about future events. These estimates and the underlying assumptions affect the amounts of assets and liabilities reported, disclosures about contingent assets and liabilities, and reported amounts of revenues and expenses. Such estimates include valuation of accounts receivable, inventories, intangible assets, other long-lived assets, legal contingencies, and contingent consideration among others. These estimates and assumptions are based on management’s best estimates and judgment. Management evaluates its estimates and assumptions on an ongoing basis using historical experience and other factors, including the current economic environment, which management believes to be reasonable under the circumstances. It is often difficult to accurately estimate the ultimate outcome of a contingent liability. Different variables can affect the timing and amount that management provides for certain contingent liabilities. The Company’s assessments are therefore subject to estimates made by management and its legal counsel. Adverse revision in management estimates of the potential liability could materially impact the Company’s financial condition, results of operations or liquidity.

The Company adjusts such estimates and assumptions when facts and circumstances dictate. As future events and their effects cannot be determined with precision, actual results could differ significantly from these estimates. Changes in those estimates resulting from continuing changes in the economic environment will be reflected in the financial statements in future periods.

## C. Foreign currency transactions

The functional currency of the Company and its subsidiaries is the U.S. Dollar. Revenue generated by the Company and its subsidiaries is primarily generated outside of Israel and a majority thereof is received in U.S. Dollars. In addition, materials and components purchased and marketing expenses incurred are either paid for in U.S. Dollars or in New Israeli Shekels (“NIS”) linked to changes in the U.S. Dollar/NIS exchange rate. The purchase of materials and components and other operating expenses recorded by a subsidiary in China is incurred in Chinese RMB. A significant portion of the Company’s expenses are incurred in Israel and paid for in NIS. Transactions not denominated in U.S. Dollars are recorded upon their initial recognition according to the exchange rate in effect on the date of the transaction. Exchange rate differences arising upon the settlement of monetary items or upon reporting the Company’s monetary items at exchange rates different from that by which they were initially recorded during the period, or reported in previous financial statements, are charged to financial income (expenses), net.

## D. Cash equivalents

All highly liquid investments purchased with original maturities of three months or less are considered to be cash equivalents.

E. Accounts receivable and allowance for doubtful accounts

Accounts receivable are recorded at the outstanding recognized amount and do not bear interest. The allowance for doubtful accounts represents Management's best estimate of the probable loss inherent in existing accounts receivable balances as a result of possible non-collection. In determining the appropriate allowance, Management bases its estimate on information available about specific debtors, including aging of the balance, assessment of the underlying security received, the history of write-offs, relationships with the customers and the overall creditworthiness of the customers.

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## Notes to the Financial Statements

## Note 2 - Significant Accounting Policies (cont'd)

## F. Inventories

Inventories consist of completed systems, partially completed systems and components and other raw materials, and are recorded at the lower of cost or market. Cost is determined by the moving – average cost method basis.

Inventory write-downs are recorded at the end of each fiscal period for damaged, obsolete, excess and slow-moving inventory. These write-downs, to the lower of cost or market value, create a new cost basis that is not subsequently marked up based on changes in underlying facts and circumstances.

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.

Inventory that is not expected to be converted or consumed within the next year is classified as non-current, based on Management's estimates taking into account market conditions.

## G. Fixed assets

Fixed assets are stated at cost less accumulated depreciation, and are depreciated over their estimated useful lives on a straight-line basis.

Annual rates of depreciation are as follows:

|                                |           |
|--------------------------------|-----------|
| Building                       | 2%        |
| Machinery and equipment        | 10% - 33% |
| Office furniture and equipment | 6% - 20%  |
| Automobiles                    | 15%       |

Leasehold improvements are amortized by the straight-line method over the shorter of the lease term or the estimated useful economic life of such improvements.

Certain of the Company's finished goods are systems used as demonstration systems, training systems, and for product development in the Company's laboratories ("internal use"). These systems are identical to the systems that Camtek sells in its ordinary course of business. In circumstances where the Company intends to utilize such systems for its internal use, the Company transfers them from inventory to fixed assets. The rationale for the transfer is that the Company does not have the intention to sell these systems in the ordinary course of business but rather expects to use them for its internal use over their expected useful lives. These systems are recorded as fixed assets at cost and depreciated over their useful lives.

## H. Intangible assets

Patent registration costs are recorded at cost and amortized, beginning with the first year of utilization, over its expected useful life.

Intangible assets purchased as part of the business combinations were recorded at their fair value and are amortized based on their remaining estimated useful lives. Acquired in-process research and development (IPR&D) will be amortized starting at the initial date of recording revenues from the associated technology.

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Notes to the Financial Statements

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## Note 2 - Significant Accounting Policies (cont'd)

## I. Long-lived assets

The Company reviews its 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 to the extent that the asset's carrying amount exceeds its fair value (See Note 9).

## J. 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. 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 entity 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 an acquisition 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.

The Company has set its annual impairment testing date at December 31. As of December 31, 2012, based on the Company's annual impairment test, an impairment charge was recognized (As of December 31, 2011 - no impairment charge was recognized). (See Note 9).

## K. Fair values of financial instruments

The carrying amounts for cash equivalents, short-term deposits, accounts receivable, accounts payable, short-term liabilities to banks and amounts due to/from affiliates approximate fair value because of the short-term duration of those items.

The fair value of the long-term deposit approximates the carrying amount, since it bears floating rate interest at the market rate.

The fair value of long-term liabilities to banks also approximate the carrying amounts, since they bear floating rate interest at rates close to prevailing market rates.

The contingent consideration liabilities relating to the Company's business combinations are measured at fair value at each balance sheet date.



Notes to the Financial Statements

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## Note 2 - Significant Accounting Policies (cont'd)

## L. 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 collectibility is reasonably assured.

In the limited circumstances when the products are installed by a trained distributor acting as an end user, revenue is recognized upon delivery assuming all other criteria for revenue recognition are met.

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

The Company implements the provisions of 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. The Company's multiple deliverables consist of product sales and non-standard warranties. A non-standard warranty is one that is for a period longer than 12 months.

Accordingly, income from a non-standard warranty is deferred as unearned revenue and is recognized ratably as revenue commencing with and over the applicable warranty term.

The Company routinely evaluates its 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, the Company has concluded that none of its products have such embedded software.

## M. Warranty

The Company records a liability for standard product warranty obligations at the time of sale based upon historical warranty experience. The term of the warranty is generally twelve months.

For the Company's treatment of non-standard warranties, see Note 2(L) – Revenue recognition.

## N. Income taxes

The Company accounts for income taxes in accordance with the asset and liability method whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The Company provides a valuation allowance to reduce deferred tax assets to the amount that is more likely than not to be realized.

The Company recognizes the effect of income tax positions only if those positions are more likely than not of being sustained. Recognized uncertain income tax positions are measured at the largest amount that is more than 50% likely of being realized. Changes in recognition or measurement are reflected in the period in which the change in judgment occurs.

O. Research and development

Research and development costs are expensed as incurred.

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Notes to the Financial Statements

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## Note 2 - Significant Accounting Policies (cont'd)

## P. Earnings / loss per ordinary share

Basic earnings/loss per ordinary share is calculated using only weighted average ordinary shares outstanding. Diluted earnings per share, if relevant, gives effect to dilutive potential ordinary shares outstanding during the year. Such dilutive shares consist of incremental shares, using the treasury stock method, from the assumed exercise of share options, warrants and convertible loan. (See Note 18).

For the years ended December 31, 2012, 2011 and 2010, the effect of the exercise of all outstanding Restricted Share Units ("RSUs") is dilutive and has been included in computing dilutive earnings per ordinary share.

For the years ended December 31, 2012 and 2011 the effect of the exercise of some outstanding share options is dilutive and has been included in computing dilutive earnings per ordinary share.

For the year ended December 31, 2010, the effect of the exercise of all outstanding share options is anti-dilutive and has not been included in computing dilutive loss per ordinary share.

## Q. Share-based compensation

The Company accounts for its employee share-based compensation as a cost in the financial statements. All awards are equity classified and therefore such cost is measured at the grant date fair value of the award. The Company estimates share option grant date fair value using the Black-Scholes-Merton option-pricing model. (For details see Note 17).

## R. Fair value measurements

The Company implements the provisions of ASC Topic 820 "Fair Value Measurements and Disclosures" ("ASC 820"). ASC 820 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to measurements involving significant unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are as follows:

Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the Company has the ability to access at the measurement date.

Level 2 inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs are unobservable inputs for the asset or liability. (For details see Note 23).

## S. Derivative instruments

The Company enters into option contracts and forward exchange agreements in order to reduce its exposure with respect to various commitments in currencies other than the dollar, in connection with expenses in New Israeli Shekels.

The Company does not issue or hold derivative financial instruments for trading purposes, but rather to manage its foreign currency exposure. Nevertheless, these transactions do not meet all the conditions for hedge accounting and accordingly, the changes in fair value of such instruments are recorded directly to financial income (expenses), net.

The Company's foreign exchange derivative contracts are marked-to-market based on the determined fair value of open contracts at period end. (See Note 16).



Notes to the Financial Statements

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## Note 2 - Significant Accounting Policies (cont'd)

## T. 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.

## U. Government-sponsored research and development

The Company records grants received from the Office of the Chief Scientist of the Israeli Ministry of Industry and Trade (the "OCS") as a liability, if it is probable that the Company will have to repay the grants received. If it is not probable that the grants will be repaid, the Company records the grants as a reduction to research and development expenses. Royalties paid to the OCS are recognized as a reduction of the above liability.

The Company accounts for OCS liabilities acquired in business combinations within the confines of debt obligations and as such changes in the liability from period to period, caused by changes to the estimated timing of future repayments and accrued interest, are accounted for prospectively and recorded as financial expenses (income). (See Note 14 and Note 15F)

## V. Recently issued and adopted accounting standards

1. In September 2011, the FASB issued ASU 2011-08, Intangibles—Goodwill and Other (Topic 350): Testing Goodwill for Impairment. This ASU permits an entity to make a qualitative assessment of whether it is more likely than not that a reporting unit's fair value is less than its carrying amount before applying the two-step goodwill impairment test. If an entity concludes it is not more likely than not that the fair value of a reporting unit is less than its carrying amount, it need not perform the two-step impairment test. The ASU is effective for annual and interim goodwill impairment tests performed for fiscal years beginning after December 15, 2011. Early adoption is permitted. The Company implemented the provisions of ASU 2011-08 as of January 1, 2012. The adoption of ASU 2011-08 did not have a material effect on the Company's consolidated financial statements.

2. In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. The Company implemented the provisions of the ASU prospectively as of January 1, 2012. The adoption of ASU 2011-04 in 2012 did not have a material effect on the Company's consolidated financial statements.

## W. New standards and interpretations not yet adopted

In December 2011, the FASB issued ASU No. 2011-11, Balance Sheet (Topic 210): Disclosures about Offsetting Assets and Liabilities. ASU 2011-11 requires an entity to disclose information about offsetting and related arrangements to enable users of financial statements to understand the effect of those arrangements on its financial position, and to allow investors to better compare financial statements prepared under U.S. GAAP with financial statements prepared under International Financial Reporting Standards (IFRS). The new standards are effective for annual periods beginning January 1, 2013, and interim periods within those annual periods. Retrospective application is required. The Company will implement the provisions of ASU 2011-11 as of January 1, 2013. The Company expects that the adoption of ASU 2011-11 will not have a material effect on its consolidated financial statements.

X. All amounts in the notes to the financial statements are in thousands unless otherwise stated.

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## Notes to the Financial Statements

## Note 3 - Cash and Cash Equivalents

|  | Interest Rate as of<br>December 31, 2012<br>% | December 31,<br>2012 | December 31,<br>2011 |
|--|---|----------------------|----------------------|
|  |   | U.S. Dollars         |                      |
| Cash in hand and in banking institutions |   | 13,790               | 9,339                |
| Deposits                                 | 0.25 – 1.75                                   | 4,987                | 12,529               |
| Restricted                               |   | 90                   | 317                  |
|  |   | 18,867               | 22,185               |

As of December 31, 2012, \$90 were restricted against credit lines to banking institutions in Hong Kong (denominated in Hong Kong Dollars).

As of December 31, 2011, approximately \$200 were restricted against the Company's foreign exchange derivatives, \$90 were restricted against credit lines to banking institutions in Hong Kong (denominated in Hong Kong Dollars), and \$27 in Belgium (denominated in Euro).

The Company's cash and cash equivalent balance at December 31, 2012 and 2011 is denominated in the following currencies:

|                     | December 31,<br>2012 | December 31,<br>2011 |
|---------------------|----------------------|----------------------|
|                     | U.S. Dollars         |                      |
| US Dollars          | 13,933               | 17,449               |
| New Israeli Shekels | 1,742                | 2,077                |
| Euro                | 1,476                | 669                  |
| Chinese RMB         | 1,149                | 1,243                |
| Other currencies    | 567                  | 747                  |
|                     | 18,867               | 22,185               |

## Notes to the Financial Statements

## Note 4 - Inventories

|   | December 31,<br>2012      2011<br>U.S. Dollars |        |
|---|--|--------|
| Components  | 12,313   | 13,323 |
| Systems partially completed   | 6,658  | 6,654  |
| Completed systems, including systems at customer locations not yet sold | 6,454  | 6,332  |
|   | 25,425   | 26,309 |

Inventories are presented in:

|                  | December<br>31,<br>2012 | December<br>31,<br>2011<br>U.S. Dollars |
|------------------|-------------------------|---|
| Current assets   | 18,335                  | 24,355                                  |
| Long-term assets | 7,090                   | 1,954                                   |
|                  | 25,425                  | 26,309                                  |

## Long-term Inventory:

At December 31, 2012, \$7,090 of the Company's inventory is in excess of requirements for the year 2013 based on Management's estimate and the recent level of sales (at December 31, 2011- \$1,954). A portion of this long-term inventory is comprised of spare parts. The Company's policy is to keep components to provide support and service to systems sold by it to its customers over the past years (usually the support is over a period of seven to ten years) until the Company announces it will not continue to support certain systems. Therefore, this inventory is usually consumed over longer periods than inventory held for sale, and as such the respective amount that is not expected to be consumed in the next year is classified as non-current. Management believes that this amount will be utilized according to its forecasted sales. Management believes no loss will be incurred on its disposition.

The remaining portion of long-term inventory consists of DMD and SELA components and systems which in Management's estimation will not be sold in the current period. Management believes that this amount will be utilized according to its forecasted sales. Management believes no loss will be incurred on its disposition.

As of December 31, 2012, based on the Company's assessment of the weak market for SELA products, an obsolescence provision was made in the amount of \$1,420 against a portion of the SELA inventory, related to older product lines. The provision is recorded in the costs of products sold line item in the consolidated statement of operations. This provision creates a new cost basis that is not subsequently marked up based on changes in underlying facts and circumstances.



## Notes to the Financial Statements

## Note 5 - Other Current Assets

|                                  | December 31, |       |
|----------------------------------|--------------|-------|
|                                  | 2012         | 2011  |
|                                  | U.S. Dollars |       |
| Due from Government institutions | 501          | 1,537 |
| Income tax receivables           | 97           | 132   |
| Due from employees               | 48           | 73    |
| Prepaid expenses                 | 427          | 472   |
| Advances to suppliers            | 340          | 31    |
| Deposits for operating leases    | 151          | 339   |
| Other                            | 646          | 773   |
|                                  | 2,210        | 3,357 |

## Note 6 - Fixed Assets, net

|                                | December 31, |        |
|--------------------------------|--------------|--------|
|                                | 2012         | 2011   |
|                                | U.S. Dollars |        |
| Land                           | 863          | 863    |
| Building                       | 10,230       | 10,224 |
| Machinery and equipment        | 9,721        | 8,930  |
| Office furniture and equipment | 6,680        | 5,267  |
| Automobiles                    | 99           | 151    |
| Leasehold improvements         | 1,237        | 1,145  |
|                                | 28,830       | 26,580 |
| Less accumulated depreciation  | 13,008       | 12,003 |
|                                | 15,822       | 14,577 |

Depreciation expenses for the years ended December 31, 2012, 2011 and 2010 amounted to \$1,640, \$1,911, and \$1,862, respectively.

In accordance with agreements signed in August 2010 and August 2011 with Bank Leumi L'Israel and in August 2011 with Bank Mizrahi, a lien has been placed on the Company's facility in Israel. See Note 15(D) and Note 15(E).

## Note 7 – Long-Term Deposit

In October 2012, the Company was required to post an appeal bond of \$729 with the United States District Court for the District of Minnesota ("the Court"), in order to stay collection of the judgment pending resolution of the appeal. The bond accrues interest at the US Treasury Bill daily rate. See Note 15(C).

Note 8 - Other Assets

December 31,  
2012          2011  
U.S. Dollars

|                               |     |     |
|-------------------------------|-----|-----|
| Deposits for operating leases | 304 | 304 |
|-------------------------------|-----|-----|

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## Notes to the Financial Statements

## Note 9 - Goodwill and Intangible Assets, net

| A. | Goodwill                      | December 31, |       |
|----|-------------------------------|--------------|-------|
|    |                               | 2012         | 2011  |
|    |                               | U.S. Dollars |       |
|    | Gross goodwill                | 3,653        | 3,653 |
|    | Accumulated impairment losses | (2,074 )     | -     |
|    | Net goodwill                  | 1,579        | 3,653 |

1. During the fourth quarter of 2012, due to delays in the development activity of GreenJet during the year, the Company reviewed the business outlook of the digital material deposition (DMD) project, made certain personnel changes and decided to delay its marketing efforts which resulted in an impairment of the Company's goodwill and IPR&D with respect to DMD. As of December 31, 2012, based on the Company's impairment test, the carrying amount was greater than the fair value of the reporting unit (as determined using the present value of future cash flows) and the carrying amount of the reporting unit's goodwill exceeded the implied value of that goodwill, resulting in an impairment charge of \$575 in respect of the goodwill recorded in the Printar acquisition (see also Note 9B). The impairment charge was recorded in a separate line item within operating expenses in the consolidated statement of operations.
2. During the fourth quarter of 2012, due to certain developments in business and in research and development activity of the Xact project during the year, the Company reviewed the business outlook of the project, made certain personnel changes and decided to cease its marketing efforts of the legacy product, which resulted in an impairment of the Company's goodwill with respect to SELA. As of December 31, 2012, based on the Company's impairment test, the carrying amount was greater than the fair value of the reporting unit (as determined using the present value of future cash flows) and the carrying amount of the reporting unit's goodwill exceeded the implied value of that goodwill, resulting in an impairment charge of \$1,499 in respect of the goodwill recorded in the SELA acquisition. The impairment charge was recorded in a separate line item within operating expenses in the consolidated statement of operations.

As of December 31, 2011, based on the Company's annual impairment test, no impairment charge was recognized for the goodwill of either acquisition.

| B. | Intangible assets, net    | December 31, |       |
|----|---------------------------|--------------|-------|
|    |                           | 2012         | 2011  |
|    |                           | U.S. Dollars |       |
|    | Patent registration costs | 1,663        | 1,441 |
|    | IPR&D                     | 1,002        | 1,002 |
|    | Technology                | 2,854        | 2,854 |



|   |       |       |
|---|-------|-------|
| Customer relationships                  | 45    | 45    |
| Intangible assets at cost               | 5,564 | 5,342 |
| Accumulated amortization and impairment | 2,593 | 1,151 |
| Total intangible asset, net             | 2,971 | 4,191 |

Patent registration costs are amortized over their estimated useful life of 10 years. Customer relationships and the Legend technology are amortized over their estimated useful lives of 5 years. The remaining technologies are amortized over their estimated useful lives of 10-12 years.

## Notes to the Financial Statements

## Note 9 - Goodwill and Intangible Assets, net (cont'd)

## B. Intangible assets, net (cont'd)

Amortization expense for the years ended December 31, 2012, 2011 and 2010 amounted to \$485, \$455 and \$400, respectively. The amortization expense for 2012 includes the write-off of patents with a net value of \$28 which were abandoned (in 2011 and 2010 - \$24 and \$0, respectively).

In 2012, the Company recorded an impairment charge of \$957 with respect to the acquired IPR&D based on the annual impairment test (as determined using the present value of future cash flows). (see also Note 9A). The impairment charge was recorded in a separate line item within operating expenses in the consolidated statement of operations. Based on the Company's impairment tests in 2011 and 2010, no impairment charge was recognized.

As of December 31, 2012, the estimated amortization expenses of intangible assets for the years 2013 to 2017 is as follows:

| Year ending<br>December 31, | U.S. Dollars |
|-----------------------------|--------------|
| 2013                        | 415          |
| 2014                        | 369          |
| 2015                        | 331          |
| 2016                        | 321          |
| 2017                        | 312          |
|                             | 1,748        |

## Note 10 - Short-Term Loan

In 2012 the Company received various short-term loans totaling \$4,160 from Bank Mizrahi and Bank Leumi L'Israel. The loans are each for up to twelve months and accrue interest in the range of Libor + 3% to Libor + 3.5%.

In August and December 2011 the Company received short-term loans of \$1,500 each from Bank Mizrahi and Bank Leumi L'Israel. The loans were for periods of nine months and twelve months, respectively and accrue interest at a rate of Libor + 3.70% and Libor + 3.8%, respectively. These loans were fully repaid in accordance with the original terms.

## Notes to the Financial Statements

## Note 11 - Other Current Liabilities

|  | December 31, |        |
|--|--------------|--------|
|  | 2012         | 2011   |
|  | U.S. Dollars |        |
| Accrued compensation and related benefits          | 5,478        | 6,235  |
| Government institutions                            | 539          | 691    |
| Income tax payables                                | 325          | 400    |
| Current maturities of OCS liability (1)            | 209          | 485    |
| Current maturities of contingent consideration (1) | 335          | 2,475  |
| Accrued warranty costs                             | 1,150        | 1,637  |
| Commissions  | 1,895        | 2,358  |
| Advances from customers and deferred revenues      | 1,843        | 2,186  |
| Accrued expenses                                   | 2,076        | 5,101  |
|  | 13,850       | 21,568 |

Changes in the product warranty obligation are as follows:

|                        | 2012     | December 31, |          |
|------------------------|----------|--------------|----------|
|                        |          | 2011         | 2010     |
|                        |          | U.S. Dollars |          |
| Beginning of year      | 1,637    | 1,494        | 595      |
| New warranties         | 2,159    | 3,179        | 2,404    |
| Reductions             | (2,646 ) | (3,036 )     | (1,505 ) |
| Balance at end of year | 1,150    | 1,637        | 1,494    |

(1) See also Note 14 – Other long-term liabilities

## Notes to the Financial Statements

## Note 12 - Long-term loans

In August 2010, the Company received a long-term loan from Bank Leumi L'Israel in the amount of \$1,300. The long-term loan is subject to certain financial covenants. See also Note 15(D).

The loan bears interest of Libor + 2.875% per annum. It is to be repaid in quarterly payments (principal and interest) over three years.

In December 2011, the Company received a further long-term loan from Bank Leumi L'Israel in the amount of \$1,200. The long-term loan is subject to identical covenants to the loan described above.

The loan bears interest of Libor + 3.8% per annum. It is to be repaid in quarterly payments over two years.

In August 2011, the Company received a long-term loan from Bank Mizrahi in the amount of \$2,000. The long-term loan is subject to certain financial covenants. See also Note 15(E).

The loan bears interest of Libor + 4.0% per annum. It is to be repaid in quarterly payments (principal and interest) over three years.

Principal repayments of the Company's long-term loans subsequent to December 31, 2012 are as follows:

|      | U.S.<br>Dollars |
|------|-----------------|
| 2013 | 1,592           |
| 2014 | 500             |
|      | 2,092           |

## Note 13 - Liability for Employee Severance Benefits

Under Israeli law and labor agreements the Company is required to pay severance payments to each employee who was employed by the Company for over one year and has been terminated by the Company or resigned under certain specified circumstances.

1. The liability in respect of most of its employees is discharged by participating in a defined contribution pension plan and making regular deposits with a pension fund or by individual insurance policies. The liability deposited with the pension fund is based on salary components as prescribed in the existing labor agreement. The custody and management of the amounts so deposited are independent of the companies and accordingly such amounts funded (included in expenses on an accrual basis) and related liabilities are not reflected in the balance sheet.
2. The liability for severance pay which is not covered by the contribution plan amounted to \$710 and \$652 as of December 31, 2012 and 2011, respectively.
3. Severance pay expenses were \$1,104, \$1,073, and \$895 in 2012, 2011 and 2010, respectively.

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## Notes to the Financial Statements

## Note 14 - Other Long-Term Liabilities

|  | December 31, |       |
|--|--------------|-------|
|  | 2012         | 2011  |
|  | U.S. Dollars |       |
| Liability for contingent consideration in respect of business combinations (1) | 4,968        | 4,412 |
| Liability to OCS, mainly in respect of business combinations (2)               | 5,281        | 4,627 |
|  | 10,249       | 9,039 |

(1) In accordance with ASC Topic 820 (Statement 157), the Company's liabilities for contingent consideration in respect of the acquisitions of Printar and SELA (see Note 23) are measured at fair value using Level 3 inputs.

(2) Of the total long-term liability to OCS, \$4,683 is in respect of the acquisitions of Printar and SELA. As of December 31, 2012 and 2011, only the accretion of time value had affected the remaining liabilities to the OCS resulting from the acquisitions, net of royalty repayments made to the OCS. The effective interest rate used in the capitalization of the liabilities to the OCS in respect of the acquisitions of Printar and SELA as of December 31, 2012 were 16% and 20%, respectively. (As of December 31, 2011, 20% for both Printar and SELA).

The remaining \$598 of the liability to OCS is in respect of new grants received in 2010 and 2009.

See Note 11 for current maturities of liability for contingent consideration and liability to OCS.

## Notes to the Financial Statements

## Note 15 - Commitments and Contingencies

## A. Operating leases

The Company's subsidiaries have entered into various non-cancelable operating lease agreements, principally for office space. In 2010, the Company entered into a new framework agreement for non-cancelable operating leases for vehicles for a period of 36 months.

As of December 31, 2012, minimum future rental payments under such non-cancelable operating leases are as follows:

| Year Ending<br>December 31, | U.S. Dollars |
|-----------------------------|--------------|
| 2013                        | 1,905        |
| 2014                        | 922          |
| 2015                        | 327          |
| Thereafter                  | 2            |
|                             | 3,156        |

Aggregate office rent expenses amounted to \$979, \$968, and \$1,043 in 2012, 2011 and 2010, respectively.

## B. Allowance for doubtful debts

The following is a summary of the allowance for doubtful accounts related to accounts receivable for the years ended December 31:

|      | Balance at<br>beginning<br>of period | Provision | Reversal of<br>provision | Write-off of<br>provision | Balance at<br>end of<br>period |
|------|--------------------------------------|-----------|--------------------------|---------------------------|--------------------------------|
|      | U.S. Dollars                         |           |                          |                           |                                |
| 2010 | 4,026                                | 324       | -                        | (496 )                    | 3,854                          |
| 2011 | 3,854                                | 357       | (359 )                   | (1,625 )                  | 2,227                          |
| 2012 | 2,227                                | 307       | (140 )                   | (1,071 )                  | 1,323                          |

## C. Litigation

1. On July 14, 2005, a lawsuit was filed against the Company 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", after August Technology's acquisition by Rudolph). This suit alleged that the Company's Falcon inspection system infringed Rudolph's U.S. Patent No. 6,826,298 ("298 Patent") and sought injunctive relief and damages. On March 6, 2009, a jury verdict in favor of Rudolph was rendered in this action, awarding Rudolph damages of approximately \$6.8

million for the Company's sales of its Falcon products in the United States. On August 28, 2009, the Court entered judgment ordering the Company to pay the jury award, and an additional \$1.2 million in prejudgment interest. The Court also issued an injunction ("Injunction") prohibiting future sales and marketing of the Falcon product in the United States. On January 7, 2011, the Court found that Rudolph was entitled to an additional \$646 in damages for Falcon sales which occurred after the time period considered by the jury.



Notes to the Financial Statements

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## Note 15 - Commitments and Contingencies (cont'd)

## C. Litigation (cont'd)

The Company appealed the Court's judgment to the United States Court of Appeals for the Federal Circuit on August 10, 2010, and posted a bond with the Court to stay collection of the judgment pending resolution of the appeal. On August 22, 2011, the Court of Appeals for the Federal Circuit found that the Minnesota trial court had erred in its instructions to the jury regarding the construction/meaning of a material claim term in the asserted '298 Patent and vacated the finding of infringement, the damages award and the Injunction. The Court of Appeals remanded the case to the Court for a limited trial based on a corrected claim construction. If the jury finds that the Company infringes the '298 Patent, the Court could re-enter the original award of \$8,023, which will also bear interest commencing as of the original judgment through a final judgment on the retrial. The parties are awaiting a trial date.

Although it is difficult to predict the outcome of this patent infringement case the Company believes that it has strong legal position in the remanded trial post the Federal Circuit decision, and intends to continue to vigorously defend it in the District Court and in the Court of Appeals, if required. The total range of loss for this case is between \$0 to \$8.2 million (excluding interest) with respect to which the Company has not recorded any accruals.

On March 9, 2011, in conjunction with the '298 Patent infringement case, Rudolph filed a motion for contempt seeking approximately \$1.2 million and unspecified attorneys' fees for alleged contempt of the Court's Injunction due to certain post verdict sales of Falcon systems.

On March 26, 2012, the Court issued an Order adopting the Magistrate Judge's Report and Recommendation issued August 11, 2011, on contempt and damages in a sum of \$1,292. The Magistrate Judge also awarded Rudolph with \$71 in attorney fees. The Court held that some of the Company's communications made during 2009 related to the eventual sale of some of its Falcon systems in Asia, were prohibited by the Injunction that was then in place (as mentioned above, the Injunction was vacated by the U.S. Court of Appeals for the Federal Circuit in August 2011). On April 10, 2012 Chief Judge Davis excused himself stating that he could no longer be "fair and impartial". On April 17, 2012 the Company filed a Rule 60 motion requesting that the contempt judgment be set aside for lack of due process. The New District Judge reduced the amount of sanctions award by half. The new judge denied the Company's request for a jury trial on contempt and sanctions. The Company has taken steps to appeal the sanctions award and submitted its opening appeal brief on November 30, 2012. The Company deposited \$729 with the Court as a bond while the appeal is pending. Although it is difficult to predict the outcome of this litigation, the Company believes that it has strong arguments against the current residual award of \$646 and intends to vigorously continue the proceedings it initiated at the Court of Appeals in order to overturn this award. The total range of loss for this case is between \$0 to \$650 (excluding interest) in excess of amounts already accrued by the Company.

Notes to the Financial Statements

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## Note 15 - Commitments and Contingencies (Cont'd)

## C. Litigation (cont'd)

2. On December 27, 2011, Rudolph filed, but did not serve, a complaint in the Court charging the Company with infringement of Rudolph's U.S. Patent 7,779,528 ("528 Patent") relating to semiconductor wafer inspection technology similar to that described in the '298 Patent. On January 19, 2012, the Company filed a reexamination request with the U.S. Patent and Trademark Office ("PTO") seeking reexamination of the '528 Patent. The PTO granted the reexamination request and preliminarily found that 18 claims were invalid. This PTO decision is not final and could change. On April 13, 2012, Rudolph served the '528 suit and agreed to stay the case until the completion of the reexamination. The parties presented the Court with a joint motion to stay the case. The Court has agreed to stay the case for 90 days at a time. The parties must reapply at the end of each stay period for a further stay. The case remains stayed at present. As Rudolph did not demand a specific dollar amount (but an accounting for damages and an injunction against infringing activity), the Company is unable to estimate the possible range of loss in this case and the effect on the Company's activities and results of operation, if any.
3. On November 1, 2010, a lawsuit was filed by Fish & Richardson P.C. ("F&R") in the United States District Court for the District of Minnesota (Civil Action No. 10-4436) against us. The lawsuit arose from F&R's representation of Camtek in the '298 patent action against it by Rudolph Technologies Inc., referred to above. F&R alleged that Camtek owed it approximately \$2.25 million in unpaid attorney's fees arising from F&R's representation of Camtek at this trial level proceeding. Camtek disputed 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. On May 7, 2012, the parties mutually agreed to settle and released all claims regarding this dispute.

## Notes to the Financial Statements

## Note 15 - Commitments and Contingencies (Cont'd)

## D. Agreement with Bank Leumi L'Israel

In connection with the issuance of an appeal bond, in August 2010 the Company signed an agreement with Bank Leumi L'Israel, according to which the Bank provided a bank guarantee in the amount of \$8,925 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 \$1,300 (see Note 12 – Long-term loan). In addition, the Company received short-term loans in the amount of approximately \$1,400 and factoring facilities of additional \$1,300. As of December 31, 2012 these factoring facilities have not been utilized. The Company's obligations to the Bank were secured by a lien on its facility in Israel, restricted deposits in the amount of approximately \$5,200 and a floating charge on its assets.

Following the Company's successful appeal in the infringement dispute with Rudolph, the appeal bond was officially released in September 2011. As such, the Bank ceased to provide the guarantee and the restrictions were removed from the deposits.

In addition, the Company signed a covenant agreement with the Bank, amended in December 2011, which requires it to comply with the following financial covenants:

- On December 31 each year, the following covenants will be met:
  - 1) Adjusted shareholders' equity will be not less than 50% of the total balance sheet. (1)
  - 2) Adjusted shareholders' equity will be not less than \$40,000. (1)
  - 3) Total annual sales will be not less than \$60,000.
  - 4) From the date of the agreement, operating profits (EBITDA) will be positive.

(1) 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.

- At the end of each quarter, the Company's cash balance will be not less than \$11,500, including deposits and liens to Bank Leumi.
- Total foreign assets of the Company at the end of each quarter will be greater than their total debts and liabilities.
  - The ratio of debt to banks to open receivables should be not greater than 70% at the end of each quarter.
  - No lien may be placed on any of its subsidiaries' assets without prior written approval from the Bank.

In addition, the Company made a commitment not to significantly change its majority shareholders without prior written permission from the Bank. Similarly, the Company committed not to perform a merger without written permission from the Bank.

As of December 31, 2012 and 2011, the Company was in full compliance with the amended financial covenants.

In accordance with the updated agreements, the Company's obligations to both Bank Leumi and Bank Mizrahi are secured pari passu by a lien on its facility in Israel and a fixed and floating charge on its assets.

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## Notes to the Financial Statements

## Note 15 - Commitments and Contingencies (cont'd)

## E. Agreement with Bank Mizrahi

In July 2011 the Company signed an agreement with Bank Mizrahi for a credit facility (see Notes 10, 12). The Company's obligations to the Bank were secured by a lien on its facility in Israel and a floating charge on its assets. In addition, the Company signed a covenant agreement with the Bank which requires it to comply with the following financial covenants:

At any time prior to the complete repayment of the credit, the Company is required to ensure:

- The ratio of customers' balances and cash balances to its credit facilities including guarantees will not be less than 150%.
- The ratio of the Company's credit facilities including guarantees to the total balance sheet will not exceed 20%.
  - Shareholders' equity will not be less than 40% of the total balance sheet.
  - Shareholders' equity will not be less than \$40,000.

In the event that the Company is in breach of any of the covenants by no more than 10% it will be given two financial quarters to achieve compliance.

As of December 31, 2012 and 2011 the Company was in full compliance with these financial covenants.

## F. Chief Scientist

Through its acquisition of Printar and SELA, the Company participates in programs sponsored by the Israeli government for the support of research and development activities. The Company is committed to pay amounts to the Chief Scientist (OCS) at rates of 3.5% of the sales of products resulting from this research and development, up to an amount equal to 100% of the grants received by the Company, and for grants received after January 1, 1999 also bearing interest at the rate of LIBOR.

The obligation to pay these royalties is contingent on actual sales of the products and in the absence of such sales, no payment is required.

As of December 31, 2012 the amount of non-repaid grants received including interest accrued, in respect of Printar and SELA, amounted to \$5,660 and \$2,590, respectively (December 31, 2011 - \$5,450 and \$2,750, respectively). The liabilities to the OCS were recorded at fair value as part of the purchase price allocation related to the acquisition of Printar and SELA and as of December 31, 2012 amounted to \$2,989 and \$1,903, respectively (December 31, 2011 - \$2,643 and \$1,871, respectively). (See Note 14 – Other long-term liabilities).

In 2009 and 2010, the Company received further grants in the amount of \$598 from the OCS in connection with the research and development activities related to the Printar acquisition.

G. Dispute with Chief Scientist

A dispute has arisen between the Company and the OCS in Israel in the amount of approximately \$700, including accrued interest, regarding the royalty rate to be paid in respect of certain of the Company's products, the manufacturing and assembly of which has been moved to a foreign subsidiary.

Management, based on an opinion of its legal advisors, believes that the probability of an unfavorable resolution to this dispute is less than 50%. Accordingly, no accrual has been recorded in the financial statements in respect of this matter.

H. Outstanding Purchase Orders

As of December 31, 2012, the Company has purchase orders of \$7,938 (2011 - \$13,256) which mainly represent outstanding purchase commitments for inventory components ordered by the Company in the normal course of business.

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## Notes to the Financial Statements

## Note 16 - Concentration of Risk and Financial Instruments

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, short-term bank deposits and trade receivables. The Company's cash equivalents are maintained with multiple high-quality institutions and the composition and maturities of investments are regularly monitored by management.

The Company relies on single source and limited source suppliers and subcontractors for a number of essential components and subsystems of its products. The Company does not have agreements with all of these suppliers and subcontractors for the continued supply of the components or subsystems they provide. An interruption in supply from these sources would disrupt production and adversely affect the Company's ability to deliver products to its customers, which could have an adverse effect on the Company's business, revenues and results of operations.

The trade receivables of the Company are derived from sales to a large number of customers, primarily large industrial corporations located mainly in Asia, the United States and Europe. The Company generally does not require collateral; however, in certain circumstances, the Company may require a letter of credit, other collateral or additional guarantees. An allowance for doubtful accounts is determined with respect to those amounts that the Company has determined to be doubtful of collection. The Company performs ongoing credit evaluations of its customers.

The carrying amounts of financial instruments approximate fair value.

## Liquidity:

The Company anticipates that its existing resources and cash flows from operations will be adequate to satisfy its liquidity requirements through calendar year 2013. If available liquidity will not be sufficient to meet the Company's operating and loan obligations as they come due, Management's plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company's cash requirements throughout 2013. See also Note 15 (D) and Note 15 (E).

## Derivative Instruments

The Company enters into foreign exchange instruments to manage its U.S. Dollar to NIS currency exchange risks. The terms of all of these currency instruments are less than one year. The notional amounts and fair value of derivatives as of December 31, 2012 are:

|  | Notional<br>amount | Fair value<br>U.S. Dollars |
|--|--------------------|----------------------------|
| <b>Options</b>                               |                    |                            |
| Buy put options (Buy dollars and Sell NIS)   | 3,100              | 81                         |
| Sell call options (Sell dollars and Buy NIS) | 3,100              | (7 )                       |

The fair value of the instruments generally reflects the estimated amounts that the Company would receive or pay upon termination of the contracts at the reporting date.

The Company's derivative instruments are measured at fair value on the measurement date using Level 2 inputs.

Such instruments had a combined fair value gain of \$608 and loss of \$(819) for the years ended December 31, 2012 and 2011, respectively, based on quotations from financial institutions. The Company does not apply hedge accounting. Gains /losses on these instruments are recognized in the consolidated statement of operations.

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## Notes to the Financial Statements

## Note 17 - Shareholders' Equity

## A. General

The Company shares are traded on the NASDAQ National Market under the symbol of CAMT, and also listed and traded on the Tel-Aviv stock exchange.

## B. Purchase of Ordinary Shares

On September 17, 2001, the Company announced that the Board of Directors authorized a share repurchase program to acquire up to \$3,000 of the Company's ordinary shares from time to time in open market transactions. During September 2001, the Company purchased 250,000 ordinary shares at a cost of \$592 and during 2002 the Company purchased 761,619 ordinary shares at a total cost of \$401 in connection with such program.

In 2008, the Board of Directors authorized a further share repurchase program Repurchases will not exceed a total aggregate price of \$2,000. In 2008 1,080,757 shares were repurchased for an aggregate price of \$905.

## C. Stock Option Plan

As of December 31, 2012, the Company has five stock option plans for employees and directors. Future options will be granted only pursuant to the 2003 Share Option Plan described below.

In October 2003, the Company adopted a stock option plan (the Plan) pursuant to which the Company's Board of Directors may grant stock options to officers and key employees. The total number of options which may be granted to directors, officers, employees and consultants under this plan, is limited to 1,598,800 options. Stock options can be granted with an exercise price equal to or less than the stock's fair market value at the date of grant. All stock options have 10-year terms and vest and become fully exercisable after 2 or 4 years from the date of grant.

As of December 31, 2012, there are 108,041 additional options available for grant under the Plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that used the weighted average assumptions in the following table. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

|                         | 2012 Grant  | 2011 Grant |
|-------------------------|-------------|------------|
| Dividend yield          | 0           | 0          |
| Expected volatility     | 63%         | 63%-65%    |
| Risk-free interest rate | 0.84%-0.92% | 1.6%-2.8%  |
| Expected life (years)   | 6.2-6.4     | 6          |
| Vesting period (years)  | 2-4         | 2-4        |

In the years ending December 31, 2012 and 2011, 134,010 and 846,804 options were granted, respectively. No options were granted during the year ended December 31, 2010. The total intrinsic value of options exercised during the years

ended December 31, 2012, 2011 and 2010 was \$0.00, \$0.00 and \$0.00 respectively. The total intrinsic value of options vested at December 31, 2012 was \$0.00.

The total stock option compensation expense amounted to \$329, \$297, and \$26 in 2012, 2011 and 2010, respectively.

As of December 31, 2012, there was \$789 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.14 years.

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## Notes to the Financial Statements

## Note 17 - Shareholders' Equity (cont'd)

## C. Stock Option Plan (cont'd)

Share option activity during the past three years is as follows:

|   | 2012                   |  | Year Ended December 31,<br>2011       |  | 2010  |   |
|---|------------------------|--|---------------------------------------|--|---|---|
|   | Number<br>of<br>shares | Weighted<br>average<br>exercise<br>price<br>US\$ | Number<br>of<br>shares                | Weighted<br>average<br>exercise<br>price<br>US\$ | Number<br>Of<br>Shares  | Weighted<br>average<br>exercise<br>price<br>US\$          |
| Outstanding at<br>January 1                         | 1,234,199              | 3.31   | 489,701                               | 3.21   | 537,301   | 3.15  |
| Granted   | 134,010                | 1.60   | 846,804                               | 3.35   | -   | -   |
| Forfeited   | (173,124 )             | 3.11   | (53,400 )                             | 3.35   | (47,600 )   | 2.99  |
| Exercised   | -                      | -  | (48,906 )                             | 2.98   | -   | -   |
| Outstanding at year<br>end                          | 1,195,085              | 3.15   | 1,234,199                             | 3.31   | 489,701   | 3.21  |
| Vested at year end                                  | 395,395                | 3.29   | 412,395                               | 3.26   | 480,701   | 3.19  |
|   |                        |  | Number<br>of<br>shares<br>outstanding | Weighted<br>average<br>exercise<br>price US\$    | Weighted<br>Average<br>Remaining<br>Contractual<br>term (years) | Aggregate<br>intrinsic<br>Value (in<br>US\$<br>thousands) |
| Outstanding as of December 31, 2012                 |                        |  | 1,195,085                             | 3.15   | 6.25  | 80  |
| Vested and expected to vest at December 31,<br>2012 |                        |  | 1,099,478                             | 3.15   | 6.25  | -   |
| Exercisable at December 31, 2012                    |                        |  | 395,395                               | 3.29   | 1.71  | -   |

The following table summarizes information about share options at December 31, 2012:

| Range of<br>exercise price US\$ | Number<br>outstanding | Weighted<br>average<br>remaining<br>contractual<br>life in years | Weighted<br>average<br>exercise<br>price US\$ | Number<br>exercisable | Weighted<br>average<br>exercise<br>price US\$ |
|---------------------------------|-----------------------|--|---|-----------------------|---|
|                                 |                       |  |   |                       |   |

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|           |           |      |      |         |      |
|-----------|-----------|------|------|---------|------|
| 2.98-3.29 | 276,395   | 0.98 | 2.98 | 276,395 | 2.98 |
| 3         | 54,000    | 2.74 | 3    | 54,000  | 3    |
| 5         | 10,000    | 3.37 | 5    | 10,000  | 5    |
| 6.15      | 10,000    | 3.58 | 6.15 | 10,000  | 6.15 |
| 4.5       | 30,000    | 4.06 | 4.5  | 30,000  | 4.5  |
| 3.95      | 15,000    | 4.23 | 3.95 | 15,000  | 3.95 |
| 3.76      | 540,500   | 8.08 | 3.76 | -       | 3.76 |
| 2.86      | 40,000    | 8.50 | 2.86 | -       | 2.86 |
| 2.01      | 55,000    | 8.75 | 2.01 | -       | 2.01 |
| 0.00      | 30,180    | 8.99 | 0.00 | -       | -    |
| 1.82      | 30,000    | 9.92 | 1.82 | -       | 1.82 |
| 1.81      | 34,010    | 9.92 | 1.81 | -       | 1.81 |
| 1.4       | 70,000    | 9.92 | 1.4  | -       | 1.4  |
|           | 1,195,085 | 6.25 | 3.15 | 395,395 | 3.29 |

The following table summarizes information about nonvested options at December 31, 2012:

|                              | Options    | Weighted average grant-date fair value |
|------------------------------|------------|--|
| Balance at January 1, 2012   | 821,804    | 2.03                                   |
| Granted                      | 134,010    | 0.81                                   |
| Vested                       | -          | -                                      |
| Forfeited                    | (156,124 ) | 2.19                                   |
| Balance at December 31, 2012 | 799,690    | 1.80                                   |

Notes to the Financial Statements

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## Note 17 - Shareholders' Equity (cont'd)

## D. Restricted Share Unit Plan

In August 2007, the Company adopted a Restricted Share Unit ("RSU") Plan (the "Plan") pursuant to which the Company's board of directors may grant shares to officers and key employees. The total number of shares, which may be granted to directors, officers, employees and consultants under this Plan, is limited to 1,500,000 authorized but unissued Shares, after it was increased in 2009 by an additional 1,200,000 from 300,000 authorized but unissued shares.

The exercise price for each grantee shall be as determined by the Board and specified in the applicable RSU notice of grant; provided, however, that unless otherwise determined by the Board (which determination shall not require shareholder approval unless so required in order to comply with Mandatory Law), the exercise price shall be no more than the underlying share's nominal value. For the removal of any doubt, the Board is authorized (without the need for shareholder approval unless so required in order to comply with Mandatory Law) to determine that the exercise price of an RSU is to be \$0.00.

Unless otherwise determined by the Board with respect to any specific grantee or to any specific grant, (which determination shall not require shareholder approval unless so required in order to comply with Mandatory Law) and provided accordingly in the applicable RSU notice of grant, the RSUs shall vest (become automatically exercised) according to the following 4-year vesting schedule:

- a. Upon the completion of a full 12 (twelve) months of continuous service – 25%.
- b. Upon the lapse of each full additional 3 (three) months of the grantee's continuous service thereafter, until all the RSU are vested, i.e. 100% of the grant will be vested after 4 years. – 6.25% per quarter.

2009 grant vesting schedule as determined by the Board in April 2009 is as follows:

- a. Upon the completion of a full 24 (twenty four) months of continuous service – 50%.
- b. Upon the completion of a full 12 (twelve) months of continuous service – 25%.
- c. Upon the completion of a full 12 (twelve) months of continuous service – 25%.

Forfeited units are returned to the pool.

Total share based awards expense amounted to \$72, \$120, and \$129 in 2012, 2011 and 2010, respectively.

The total unrecognized compensation cost amounted to \$17, which is being amortized over the vesting period.

As of the balance sheet date the number of RSU's available for grant was 665,825.

Activity under the Restricted Share Unit Plan was as follows:

|                                 | Awards<br>available<br><br>for grant | Number of<br>awards<br><br>outstanding | Weighted-<br>average<br>fair value<br>US\$ |
|---------------------------------|--------------------------------------|--|--|
| Balance as of December 31, 2011 | 638,130                              | 359,910                                | 0.42                                       |
| Awards granted                  | -                                    | -                                      | -  |
| Exercised                       | -                                    | (178,969 )                             | 0.45                                       |
| Forfeited                       | 27,695                               | (27,695 )                              | 0.38                                       |
| Balance as of December 31, 2012 | 665,825                              | 153,246                                | 0.39                                       |

## Notes to the Financial Statements

## Note 18 - Earnings Per Ordinary Share

The following table summarizes information related to the computation of basic and diluted earnings per Ordinary Share for the years indicated:

|  | Year ended December 31,                            |        |        |
|--|--|--------|--------|
|  | 2012   | 2011   | 2010   |
|  | U.S. Dollars (In thousands, except per share data) |        |        |
| Net income attributable to Ordinary Shares   | 3  | 5,378  | 2,816  |
| Weighted average number of Ordinary Shares outstanding used in basic earnings per Ordinary Share calculation   | 29,849   | 29,557 | 29,259 |
| Add assumed exercise of outstanding dilutive potential Ordinary Shares   | 164  | 452    | 1,101  |
| Weighted average number of Ordinary Shares outstanding used in diluted earnings per Ordinary Share calculation | 30,013   | 30,009 | 30,360 |
| Basic income per Ordinary Share  | 0.00   | 0.18   | 0.10   |
| Diluted income per Ordinary Share  | 0.00   | 0.18   | 0.09   |

## Note 19 - Geographic Information

Substantially all fixed assets are located in Israel and substantially all revenues are derived from shipments to other countries. Revenues are attributable to geographic areas/countries based upon the destination of shipment of products and related services as follows:

|                     | Year Ended December 31, |         |        |
|---------------------|-------------------------|---------|--------|
|                     | 2012                    | 2011    | 2010   |
|                     | U.S. Dollars            |         |        |
| China and Hong Kong | 25,008                  | 34,113  | 33,614 |
| Korea               | 17,004                  | 23,233  | 16,621 |
| Asia- Other         | 10,739                  | 7,487   | 11,089 |
| United States       | 9,482                   | 11,699  | 10,075 |
| Taiwan              | 11,292                  | 16,458  | 7,862  |
| Western Europe      | 6,998                   | 6,956   | 4,033  |
| Japan               | 2,370                   | 4,618   | 3,270  |
| Rest of the world   | 1,654                   | 2,464   | 1,216  |
|                     | 84,547                  | 107,028 | 87,780 |





## Notes to the Financial Statements

## Note 20 - Selected Income Statement Data

| A. | Revenues                                     | Year Ended December 31, |                |               |
|----|--|-------------------------|----------------|---------------|
|    |  | 2012                    | 2011           | 2010          |
|    |  | U.S. Dollars            |                |               |
|    | Printed Circuit Boards and                   |                         |                |               |
|    | IC substrates                                | 16,479                  | 30,708         | 26,378        |
|    | Microelectronics                             | 50,450                  | 57,696         | 43,857        |
|    | Service fees                                 | 17,618                  | 18,624         | 17,545        |
|    | <b>Total Revenues</b>                        | <b>84,547</b>           | <b>107,028</b> | <b>87,780</b> |
| B. | Selling, general and administrative expenses | Year Ended December 31, |                |               |
|    |  | 2012                    | 2011           | 2010          |
|    |  | U.S. Dollars            |                |               |
|    | Selling (a1)                                 | 13,827                  | 15,614         | 12,370        |
|    | General and administrative                   | 7,311                   | 8,727          | 8,292         |
|    |  | 21,138                  | 24,341         | 20,662        |
|    | (a1) Including shipping and handling costs   | 1,076                   | 1,469          | 1,491         |
| C. | Financial income (expenses), net             | Year Ended December 31, |                |               |
|    |  | 2012                    | 2011           | 2010          |
|    |  | U.S. Dollars            |                |               |
|    | Interest expense                             | (163 )                  | (100 )         | (112 )        |
|    | Interest income                              | 38                      | 32             | 14            |
|    | Re-evaluation of contingent consideration    | 1,037                   | (1,264 )       | (629 )        |
|    | Interest expense on liabilities to the OCS   | (667 )                  | (791 )         | (733 )        |
|    | Other, net                                   | (12 )                   | (777 )         | (18 )         |
|    |  | 233                     | (2,900 )       | (1,478 )      |

Other, net includes foreign currency income (expense) resulting from transactions not denominated in U.S. Dollars amounting to \$84, \$(308), and \$(3) in 2012, 2011 and 2010, respectively.



Notes to the Financial Statements

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## Note 21 - Income Taxes

## A. Tax under various laws

The Company and its subsidiaries are assessed for tax purposes on a separate basis. Each of the subsidiaries is subject to the tax rules prevailing in the country of incorporation.

## B. Tax benefits under the Law for Encouragement of Capital Investments, 1959 ("the Investment Law")

The Company's production facilities have been granted "Approved Enterprise" status under the Investment Law. The Company participates in the Alternative Benefits Program and, accordingly, income from its 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 the Company operates 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 "Beneficiating Enterprise", such provisions generally require that at least 25% of the Beneficiating 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 the tax benefits.

In addition, the Amendment provides that the terms and benefits included in any approval certificate 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, the Company's 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 Beneficiating Enterprise, will subject the Company to taxes upon distribution or liquidation.

The Company 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 Beneficiating Enterprise according to the Amendment, for the period ending in 2014 ("Programs"). SELA has also been granted the status of Beneficiating Enterprise according to the Amendment, for the period ending in 2014.

Out of Camtek's retained earnings as of December 31, 2012 approximately \$20,800 are tax-exempt earnings attributable to its Approved Enterprise and approximately \$6,992 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).



Notes to the Financial Statements

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## Note 21 - Income Taxes (cont'd)

## B. Tax benefits under the Law for Encouragement of Capital Investments, 1959 ("the Investment Law") (cont'd)

As of December 31, 2012, if the income attributed to the Approved Enterprise were distributed as dividend, Camtek would incur a tax liability of approximately \$5,200. If income attributed to the Beneficiating Enterprise were distributed as dividend, or upon liquidation, Camtek would incur a tax liability in the amount of approximately \$1,748. These amounts will be recorded as an income tax expense in the period in which the Company declares the dividend.

The Company intends to indefinitely reinvest the amount of its tax-exempt income and not distribute any amounts of its undistributed tax exempt income as dividend. Accordingly, no deferred tax liabilities have been provided on income attributable to the Company's Approved and Beneficiating Enterprise Programs as the undistributed tax exempt income is essentially permanent in duration.

The entitlement to the above benefits is conditional upon the Company's 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 the Approved Enterprises. In the event of failure to meet such requirements in the future, income attributable to its Programs could be subject to the statutory Israeli corporate tax rates and the Company could be required to refund a portion of the tax benefits already received, with respect to such Programs. As of December 31, 2012 and 2011, the Company's management believes that the Company has met the aforementioned conditions.

## Amendment to the Law for the Encouragement of Capital Investments – 1959

On December 29, 2010, the Knesset approved the Economic Policy Law for 2011-2012, which includes an amendment to the Law for the Encouragement of Capital Investments – 1959 (hereinafter – “the Amendment to the Law”). The Amendment to the Law was published in the Official Gazette on January 6, 2011. The Amendment to the Law is effective from January 1, 2011 and its provisions will apply to preferred income derived or accrued in 2011 and thereafter by a preferred company, per the definition of these terms in the Amendment to the Law. Companies can choose to not be included in the scope of the Amendment to the Law and to stay in the scope of the law before its amendment until the end of the benefits period. The 2012 tax year is the last year companies can choose as the year of election, providing that the minimum qualifying investment began in 2010.

The Amendment provides that only companies in Development Area A will be entitled to the grants track and that they will be entitled to receive benefits under this track and under the tax benefits track at the same time. In addition, the existing tax benefit tracks were eliminated (the tax exempt track, the “Ireland track” and the “Strategic” track) and two new tax tracks were introduced in their place, a preferred enterprise and a special preferred enterprise, which mainly provide a uniform and reduced tax rate for all the company's income entitled to benefits, such as: for a preferred enterprise – in the 2011-2012 tax years – a tax rate of 10% for Development Area A and of 15% for the rest of the country, in the 2013-2014 tax years – a tax rate of 7% for Development Area A and of 12.5% for the rest of the country, and as from the 2015 tax year – 6% for Development Area A and 12% for the rest of the country. Furthermore, an enterprise that meets the definition of a special preferred enterprise is entitled to benefits for a period of 10 consecutive years and a reduced tax rate of 5% if it is located in Development Area A or of 8% if it is located in a different area.

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## Notes to the Financial Statements

## Note 21 - Income Taxes (cont'd)

## B. Tax benefits under the Law for Encouragement of Capital Investments, 1959 ("the Investment Law") (cont'd)

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall continue to apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. Furthermore, the Amendment to the Law provides relief (hereinafter – “the relief”) with respect to tax paid on a dividend received by an Israeli company from profits of an approved / alternative / beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice.

The Company estimates the weighted average tax rate applicable for the years in which it expects to utilize the loss carryforwards for tax purposes, whilst choosing the most beneficial reliefs for the purpose of calculating the deferred taxes in Israel.

As of the December 31, 2012, the Company has not chosen the election of the Amendment to the law.

## C. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969

The Company is an “industrial company” as defined by this law and as such is entitled to certain tax benefits, mainly accelerated depreciation as prescribed by regulations published under the Inflationary Adjustments Law and the right to deduct issuance costs as an expense for tax purposes.

## D. Composition of income (loss) before income taxes and income tax expense (benefit)

|                                    | Year Ended December 31, |       |        |
|------------------------------------|-------------------------|-------|--------|
|                                    | 2012                    | 2011  | 2010   |
|                                    | U.S. Dollars            |       |        |
| Income (loss) before income taxes: |                         |       |        |
| Israel                             | (1,299 )                | 677   | (645 ) |
| Non-Israeli                        | 1,512                   | 5,445 | 4,018  |
|                                    | 213                     | 6,122 | 3,373  |
| Income tax expense (benefit):      |                         |       |        |
| Current:                           |                         |       |        |
| Israel                             | 44                      | 45    | 35     |
| Non-Israeli                        | 398                     | 735   | 562    |
|                                    | 442                     | 780   | 597    |
| Deferred:                          |                         |       |        |

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|             |        |       |       |
|-------------|--------|-------|-------|
| Israel      | -      | -     | -     |
| Non-Israeli | (232 ) | (36 ) | (40 ) |
|             | (232 ) | (36 ) | (40 ) |
|             | 210    | 744   | 557   |

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## Notes to the Financial Statements

## Note 21 - Income Taxes (cont'd)

## E. Income taxes included in the statements of operations:

The following is a reconciliation of the theoretical income tax expense, assuming all income is taxed at the statutory tax rate applicable to Israeli companies, and the actual income tax expense:

|  | 2012    | Year Ended December 31, |  | 2010       |
|--|---------|-------------------------|--|------------|
|  |         | 2011                    |  |            |
|  |         | U.S. Dollars            |  |            |
| Income before income taxes   | 213     | 6,122                   |  | 3,373      |
| Statutory tax rate   | 25 %    | 24 %                    |  | 25 %       |
| Theoretical income tax expense   | 53      | 1,469                   |  | 843        |
| Increase (decrease) in income tax expense resulting from:  |         |                         |  |            |
| Tax expense (benefits) arising from "Approved and Beneficiating Enterprises" and preferential tax rate in China                | 492     | 3,347                   |  | (588 )     |
| Change in valuation allowance *  | (983)   | (5,423)                 |  | 1,233      |
| Non-deductible expenses  | 548     | 37                      |  | 49         |
| Differences between Israeli currency and dollar-adjusted financial statements-net  | 160     | 686                     |  | (809 )     |
| Nondeductible stock-based compensation   | 102     | 102                     |  | 44         |
| Other **   | (162 )  | 526                     |  | (215 )     |
| Actual income tax expense  | 210     | 744                     |  | 557        |
| Per share effect of the tax benefits arising from "Approved and Beneficiating Enterprises" and preferential tax rate in China: |         |                         |  |            |
| Basic  | \$ 0.02 | \$ 0.11                 |  | \$ (0.02 ) |
| Diluted  | \$ 0.02 | \$ 0.11                 |  | \$ (0.02 ) |

\*Included within the change in valuation allowance are realized benefits of operating loss carryforwards of \$635, \$2,007, and \$40 for the years ended December 31, 2012, 2011 and 2010, respectively.

\*\* Mainly due to foreign tax rate differential.

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## Notes to the Financial Statements

## Note 21 - Income Taxes (cont'd)

## F. Income taxes included in the balance sheets

The tax effects of temporary differences that give rise to significant portions of the deferred tax assets and liabilities are presented below:

|   | December 31  |              |
|---|--------------|--------------|
|   | 2012         | 2011         |
|   | U.S. Dollars |              |
| <b>Deferred tax assets:</b>                           |              |              |
| Allowance for doubtful accounts                       | 82           | 136          |
| Accrued warranty                                      | 26           | 90           |
| Unearned revenue                                      | 182          | 150          |
| Severance pay   | 22           | 21           |
| Accrued expenses                                      | 370          | 471          |
| Net operating losses (NOL) carryforwards              | 4,258        | 4,695        |
| Other temporary differences*                          | 1,005        | 1,159        |
| <b>Total gross deferred tax assets</b>                | <b>5,945</b> | <b>6,722</b> |
| Valuation allowance                                   | (5,141 )     | (6,124 )     |
| <b>Deferred tax asset, net of valuation allowance</b> | <b>804</b>   | <b>598</b>   |
| <b>Deferred tax liability:</b>                        |              |              |
| Long- lived assets                                    | (330 )       | (356 )       |
| <b>Net deferred tax assets</b>                        | <b>474</b>   | <b>242</b>   |

\* Other temporary differences mainly relate to research and development expenses

Under FASB ASC Subtopic 740-10, deferred tax assets are to be recognized for the anticipated tax benefits associated with net operating loss carryforwards and deductible temporary differences, unless it is more likely than not that some or all of the deferred tax assets will not be realized. The adjustment is made by a valuation allowance. Since the future realization of the net operating loss carryforwards and deductible temporary differences is uncertain and not considered more likely than not, a valuation allowance has been established to reduce the deferred tax assets to their estimated realizable value. The amount of deferred tax assets considered realizable, however, could be changed in the near term if estimates of future taxable income during the carryforward period would change. The net change in the total valuation allowance was a decrease of \$983 for the year ended December 31, 2012, a decrease of \$5,423 for the year ended December 31, 2011 and an increase of \$1,233 for the year ended December 31, 2010.

As of December 31, 2012, Camtek has not provided for income taxes on the undistributed earnings of approximately \$12,871 of two of its major foreign subsidiaries since these earnings are intended to be indefinitely reinvested. A

deferred tax liability will be recognized when the Company no longer demonstrates that it plans to indefinitely reinvest these undistributed earnings. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

As of December 31, 2012, the Company and its subsidiaries in Israel have regular NOL carryforwards aggregating approximately \$46,406 that do not expire.

As of December 31, 2012, the major foreign subsidiaries have NOL carryforwards aggregating approximately \$4,742, of which approximately \$3,355 will expire from 2013 to 2028 and approximately \$1,387 can be carried forward indefinitely.

Notes to the Financial Statements

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## Note 21 - Income Taxes (cont'd)

## G.Reduction in corporate income tax rate in Israel

On July 14, 2009, the Knesset passed the Economic Efficiency Law (Legislation Amendments for Implementation of the 2009 and 2010 Economic Plan) - 2009, which provided, inter-alia, an additional gradual reduction in the company tax rate to 18% as from the 2016 tax year. In accordance with the aforementioned amendments, the company tax rates applicable as from the 2009 tax year are as follows: in the 2009 tax year - 26%, in the 2010 tax year - 25%, in the 2011 tax year - 24%, in the 2012 tax year - 23%, in the 2013 tax year - 22%, in the 2014 tax year - 21%, in the 2015 tax year - 20% and as from the 2016 tax year the company tax rate will be 18%.

On December 5, 2011, the Knesset approved the Law to Change the Tax Burden (Legislative Amendments) – 2011. According to the law the tax reduction that was provided in the Economic Efficiency Law, as aforementioned, will be cancelled and the company tax rate will be 25% as from 2012.

H. On February 26, 2008, the Israeli Income Tax Law (Inflationary Adjustments) (Amendment No. 20) (Restriction of Period of Application) – 2008 (“the 2008 Amendment”) was passed by the Knesset. According to the 2008 Amendment, the Inflationary Adjustments Law will no longer be applicable subsequent to the 2007 tax year, except for certain transitional provisions.

Further, according to the 2008 Amendment, commencing with the 2008 tax year, the adjustment of income for the effects of inflation for tax purposes will no longer be calculated. Additionally, depreciation on fixed assets and tax loss carryforwards will no longer be linked to future changes in the CPI subsequent to the 2007 tax year, and the balances that have been linked to the CPI through the end of the 2007 tax year will be used going forward.

I. The Company's Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. The subsidiaries in China were entitled to zero tax for the first two years following the earlier of either reaching profitability or 2008, and a 50% tax reduction from the standard tax rate of 25% for the following three years. The tax rate for both Chinese subsidiaries in 2011 was 12%-12.5%. The tax holidays ended in 2012 for Camtek Electronic Technology ("CET") and will end in 2013 for Camtek Imaging Technology ("CIT").

## J. Accounting for uncertainty in income taxes

FASB ASC Subtopic 740-10 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. This subtopic prescribes a minimum recognition threshold a tax position is required to meet before being recognized in the financial statements. FASB ASC Subtopic 740-10 also provides guidance on derecognition of tax positions, classification on the balance sheet, interest and penalties, accounting in interim periods, disclosure, and transition. FASB ASC Subtopic 740-10 requires significant judgment in determining what constitutes an individual tax position as well as assessing the outcome of each tax position.

For the years ended December 31, 2012, 2011 and 2010, the Company did not have any significant unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2012, 2011 and 2010, no interest and penalties related to unrecognized tax benefits have been accrued.

The Company and its subsidiaries in Israel file their income tax returns in Israel while its principle foreign subsidiaries file their income tax returns in Belgium, Hong Kong, United States of America and China. The Israeli tax returns of Camtek are open to examination by the Israeli Tax Authorities for the tax years beginning in 2008, in addition, the Israeli tax returns of SELA are open to examination by the Israeli Tax Authorities for the tax years beginning in 2007, while the tax returns of its principal foreign subsidiaries remain subject to examination for the tax years beginning in 1999 in Belgium, 2006 in Hong Kong and 2009 in the United States of America.

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## Notes to the Financial Statements

## Note 22 - Balances and Transactions with Related Parties

## A. Balances with related parties:

|                     | December<br>31,<br>2012 | December<br>31,<br>2011 |
|---------------------|-------------------------|-------------------------|
|                     | U.S. Dollars            |                         |
| Accounts receivable | -                       | 407                     |
| Due from affiliates | 391                     | 388                     |

## B. Transactions with related parties:

|                                      | 2012         | Year Ended December 31,<br>2011 | 2010  |
|--------------------------------------|--------------|---------------------------------|-------|
|                                      | U.S. Dollars |                                 |       |
| Purchases from Parent and affiliates | -            | 1,555                           | 1,955 |
| Interest income from Parent          | 15           | 31                              | -     |
| Sales to Parent and affiliates       | 142          | 2,397                           | 83    |

\* Less than \$1 thousand

Unpaid balances between Parent and its subsidiaries in Israel and the Company bear interest at 5.5%.

## Registration Rights Agreement with Parent

On March 1, 2004, the Company entered into a registration rights agreement providing for the Company to register with the SEC certain of its ordinary shares held by Parent. This registration rights agreement may be used in connection with future offerings of ordinary shares, and includes, among others, the following terms: (a) Parent is entitled to make up to three demands that the Company registers its ordinary shares held by Parent, subject to delay due to market conditions; (b) Parent will be entitled to participate and sell the Company's ordinary shares in any future registration statements initiated by the Company, subject to delay due to market conditions; (c) the Company will indemnify Parent in connection with any liabilities incurred in connection with such registration statements due to any misstatements or omissions other than information provided by Parent, and Parent will indemnify the Company in connection with any liabilities incurred in connection with such registration statements due to any misstatements or omissions in written statements by Parent made for the purpose of their inclusion in such registration statements; and (d) the Company will pay all expenses related to registrations which the Company has initiated, except for certain underwriting discounts or commissions or legal fees, and Parent will pay all expenses related to a registration initiated at its demand in which the Company is not participating.

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

Employment Agreements with the Active Chairman and the EVP

Effective 1998 through 2012, the relationship between the Company and its Chief Financial Officer (1998-2001) and Executive Vice President- Business & Strategy (“EVP”) (2001-2012), was regulated by the provisions as stipulated in his employment agreement dated January 1, 1998. Pursuant to changes made to this agreement in 2005, the EVP dedicated 40% of his time to work for Parent. The EVP received from the Company 60% of a full time salary and was compensated directly by the Parent for the remaining 40% of his time. In October, 2011 the EVP’s terms of employment were re-approved by the General Meeting of Shareholders for a consecutive three years period. As of November 2012, the EVP also began serving as the chief executive officer of an affiliate which is also controlled by the Parent, while continuing to dedicate 40% of his time to work for the Parent. Accordingly, in order to accommodate his new position in the affiliate, the EVP’s employment agreement with the Company is expected to be reconsidered.

Effective January 1, 1998, the Company entered into an employment agreement with its now Active Chairman of the Board of Directors ("Active Chairman"). Pursuant to latest changes made to this agreement in 2010, the Chairman dedicates 25% of his time in providing consulting and management services for Parent through Amitec – Advanced Multilayer Interconnect Technologies Ltd. – a wholly owned subsidiary of the Parent ("Amitec"). The Active Chairman receives from the Company 75% of a full time salary and is compensated directly by Amitec for the remaining 25% of his time.

The Active Chairman of the Board of Directors serves as the Chairman of Parent, and the EVP as a director of Parent.

The Active Chairman and EVP do not receive any additional compensation for their service as the Company’s directors.



## Notes to the Financial Statements

## Note 23 - Fair Value Measurements

The level in the fair value hierarchy within which an asset or liability is classified is based on the lowest level input that is significant to the fair value measurement in its entirety.

The Company measures its foreign currency derivative contracts and its long-term liabilities with respect to contingent consideration at fair value. The Company's foreign currency derivative contracts are classified within Level 2, because they are valued utilizing market observable inputs. The long-term liabilities arising from contingent consideration are classified within Level 3 because they are valued using significant inputs that are unobservable in the market such as the Company's weighted average cost of capital.

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2012 and December 31, 2011, aggregated by the level in the fair-value hierarchy within which those measurements fall:

| Description                           | December 31, 2012 | Quoted Prices in Active Markets for Identical Assets |                             | Significant Other Unobservable Inputs (Level 3) |
|---------------------------------------|-------------------|--|-----------------------------|---|
|                                       |                   | (Level 1)  | Observable Inputs (Level 2) |   |
| U.S. Dollars                          |                   |  |                             |   |
| <b>Assets</b>                         |                   |  |                             |   |
| Foreign currency derivative contracts | 74                | -  | 74                          | -   |
| <b>Total Assets</b>                   | <b>74</b>         | <b>-</b>   | <b>74</b>                   | <b>-</b>  |

| Description              | December 31, 2011 | Quoted Prices in Active Markets for Identical Assets |                             | Significant Other Unobservable Inputs (Level 3) |
|--------------------------|-------------------|--|-----------------------------|---|
|                          |                   | (Level 1)  | Observable Inputs (Level 2) |   |
| U.S. Dollars             |                   |  |                             |   |
| <b>Liabilities</b>       |                   |  |                             |   |
| Contingent consideration | 5,303             | -  | -                           | 5,303   |
| <b>Total Liabilities</b> | <b>5,303</b>      | <b>-</b>   | <b>-</b>                    | <b>5,303</b>                                    |

| Description                           | December 31, 2011 | Quoted Prices in Active Markets for Identical Assets |                             | Significant Other Unobservable Inputs (Level 3) |
|---------------------------------------|-------------------|--|-----------------------------|---|
|                                       |                   | (Level 1)  | Observable Inputs (Level 2) |   |
| U.S. Dollars                          |                   |  |                             |   |
| <b>Liabilities</b>                    |                   |  |                             |   |
| Foreign currency derivative contracts | 534               | -  | 534                         | -   |
| Contingent consideration              | 6,887             | -  | -                           | 6,887   |
| <b>Total Liabilities</b>              | <b>7,421</b>      | <b>-</b>   | <b>534</b>                  | <b>6,887</b>                                    |

The Company's accounting policy is to recognize transfers between levels of the fair value hierarchy on the date of the event or change in circumstances that caused the transfer. There were no transfers into or out of level 1, level 2, or level 3 for the year ended December 31, 2012.

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## Notes to the Financial Statements

## Note 23 - Fair Value Measurements (cont'd)

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) liabilities for the year ended December 31, 2012 and 2011:

|   | Level 3<br>U.S. Dollars<br>Contingent<br>consideration |
|---|--|
| December 31, 2011   | 6,887  |
| Settlement of liabilities                                     | (547 )   |
| Revaluation of fair value included in statement of operations | (1,037 )   |
| December 31, 2012   | 5,303  |
|   | Level 3<br>U.S. Dollars<br>Contingent<br>consideration |
| December 31, 2010   | 6,246  |
| Settlement of liabilities                                     | (623 )   |
| Revaluation of fair value included in statement of operations | 1,264  |
| December 31, 2011   | 6,887  |

The adjustments to fair value of the contingent consideration are recorded in the finance income (expense), net in the statement of operations.

The fair value of the contingent payment for Printar as of December 31, 2012, was based on the \$2,000 outstanding of the \$2,500 transaction price, discounted from the estimated payment dates to the valuation date using the weighted average cost of capital of 28%. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 refers to as Level 3 inputs. Key assumptions include management's estimation about future sales.

The fair value of the contingent consideration arrangement for SELA as of December 31, 2012, was estimated based on future earn-out payments discounted to the valuation date using the weighted average cost of capital of 21%. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 refers to as Level 3 inputs. Key assumptions include management's estimation about future sales.

Item 19. Exhibits.

Exhibit Exhibit  
No.

- 1.1 Memorandum of Association of Registrant (incorporated herein by reference to Exhibit 3.1 to Amendment No. 1 to the Registrant's Registration Statement on Form F-1, File No. 333-12292, filed with the Securities and Exchange Commission on July 21, 2000);
- 1.2 Articles of Registrant, as amended October 24, 2011.
- 4.1 Amended and Restated Employee Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8, File No. 333-84476, filed with the Securities and Exchange Commission on March 18, 2002).
- 4.2 Amended and Restated Subsidiary Employee Option Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, File No. 333-84476, filed with the Securities and Exchange Commission on March 18, 2002).
- 4.3 Employee Share Option Plan - Europe (incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, File No. 333-49982, filed with the Securities and Exchange Commission on November 15, 2000).
- 4.4 Executive Share Option Plan (incorporated herein by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-8, File No. 333-60704, filed with the Securities and Exchange Commission on May 11, 2001).
- 4.5 2003 Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8, File No. 333- 113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.6 Sub-Plan for Grantees Subject to United States Taxation (incorporated herein by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, File No. 333-113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.7 Sub-Plan for Grantees Subject to Israeli Taxation (incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, File No. 333-113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.8 2007 Restricted Share Unit Plan (incorporated herein by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 30, 2008).
- 4.9 Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Registrant's Registration Statement on Form F-1, File No. 333-12292, filed with the Securities and Exchange Commission on July 21, 2000).
- 4.10

Registration Rights Amended and Restated Agreement by and between the Registrant and Priortech Ltd., dated December 30, 2004. (incorporated herein by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 30, 2005).

- 8.1 Subsidiaries of the Registrant (incorporated herein by reference to Exhibit 8.1 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 7, 2010).
- 12.1 Certification of Chief Executive Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 12.2 Certification of Chief Financial Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.\*
- 13.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.\*
- 15.1 Consent of Somekh Chaikin, a member firm of KPMG International.\*
- 101 The following financial information from Camtek Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2012, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2012, 2011 and 2010; (ii) Consolidated Balance Sheets at December 31, 2012 and 2011; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2012, 2011 and 2010; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2012, 2011 and 2010; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.\*

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‡ English translations from Hebrew original.

\* Filed herewith.

SIGNATURES

The Company hereby certifies that it meets all of the requirements for filing on Form 20-F and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CAMTEK LTD.

By: /s/ Roy Porat  
Name: Roy Porat  
Title: Chief Executive Officer

Date: April 11, 2013

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