STARWOOD PROPERTY TRUST, INC.
Form 10-Q
November 05, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended September 30, 2014

OR

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

Commission file number 001-34436

Starwood Property Trust, Inc.

(Exact name of registrant as specified in its charter)

Maryland (State or Other Jurisdiction of Incorporation or Organization)	**27-0247747** (I.R.S. Employer Identification No.)
591 West Putnam Avenue **Greenwich, Connecticut** (Address of Principal Executive Offices)	**06830** (Zip Code)

Registrant s telephone number, including area code:

(203) 422-8100

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 x No o

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) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes x No o

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

Large accelerated filer x	Accelerated filer o
Non-accelerated filer o (Do not check if a smaller reporting company)	Smaller reporting company o

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes o No x

The number of shares of the issuer s common stock, $0.01 par value, outstanding as of October 31, 2014 was 222,402,882.

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Special Note Regarding Forward-Looking Statements

This Quarterly Report on Form 10-Q contains certain forward-looking statements, including without limitation, statements concerning our operations, economic performance and financial condition. These forward-looking statements are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are developed by combining currently available information with our beliefs and assumptions and are generally identified by the words believe, expect, anticipate and other similar expressions. Forward-looking statements do not guarantee future performance, which may be materially different from that expressed in, or implied by, any such statements. Readers are cautioned not to place undue reliance on these forward-looking statements, which speak only as of their respective dates.

These forward-looking statements are based largely on our current beliefs, assumptions and expectations of our future performance taking into account all information currently available to us. These beliefs, assumptions and expectations can change as a result of many possible events or factors, not all of which are known to us or within our control, and which could materially affect actual results, performance or achievements. Factors that may cause actual results to vary from our forward-looking statements include, but are not limited to:

- factors described in our Annual Report on Form 10-K for the year ended December 31, 2013, this Quarterly Report on Form 10-Q and our Quarterly Reports on Form 10-Q for the quarters ended March 31, 2014 and June 30, 2014, including those set forth under the captions Risk Factors and Business ;

- defaults by borrowers in paying debt service on outstanding indebtedness;

- impairment in the value of real estate property securing our loans;

- availability of mortgage origination and acquisition opportunities acceptable to us;

- our ability to fully integrate LNR Property LLC, a Delaware limited liability company (LNR), which was acquired on April 19, 2013, into our business and achieve the benefits that we anticipate from this acquisition;

- potential mismatches in the timing of asset repayments and the maturity of the associated financing agreements;

- national and local economic and business conditions;

- general and local commercial and residential real estate property conditions;
- changes in federal government policies;
- changes in federal, state and local governmental laws and regulations;
- increased competition from entities engaged in mortgage lending and securities investing activities;
- changes in interest rates; and
- the availability of and costs associated with sources of liquidity.

In light of these risks and uncertainties, there can be no assurances that the results referred to in the forward-looking statements contained in this Quarterly Report on Form 10-Q will in fact occur. Except to the extent required by applicable law or regulation, we undertake no obligation to, and expressly disclaim any such obligation to, update or revise any forward-looking statements to reflect changed assumptions, the occurrence of anticipated or unanticipated events, changes to future results over time or otherwise.

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PART I - FINANCIAL INFORMATION

Item 1. Financial Statements

Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Balance Sheets

(Unaudited, amounts in thousands, except share data)

	As of September 30, 2014	As of December 31, 2013
Assets:		
Cash and cash equivalents	$ 327,322	$ 317,627
Restricted cash	45,725	69,052
Loans held-for-investment, net	5,198,927	4,363,718
Loans held-for-sale, at fair value	248,165	206,672
Loans transferred as secured borrowings	142,516	180,414
Investment securities ($522,835 and $566,789 held at fair value)	894,302	935,107
Intangible assets servicing rights ($130,420 and $150,149 held at fair value)	145,790	177,173
Residential real estate, net		749,214
Non-performing residential loans		215,371
Investment in unconsolidated entities	110,569	122,954
Goodwill	140,437	140,437
Derivative assets	13,354	7,769
Accrued interest receivable	35,065	37,630
Other assets	123,472	95,813
Variable interest entity (VIE) assets, at fair value	109,468,293	103,151,624
Total Assets	**$ 116,893,937**	**$ 110,770,575**
Liabilities and Equity		
Liabilities:		
Accounts payable, accrued expenses and other liabilities	$ 154,058	$ 225,374
Related-party payable	24,866	17,793
Dividends payable	108,056	90,171
Derivative liabilities	5,462	24,192
Secured financing agreements, net	2,708,108	2,257,560
Convertible senior notes, net	1,006,927	997,851
Secured borrowings on transferred loans	142,575	181,238
VIE liabilities, at fair value	108,879,922	102,649,263
Total Liabilities	**113,029,974**	**106,443,442**
Commitments and contingencies (Note 20)		
Equity:		
Starwood Property Trust, Inc. Stockholders Equity:		
Preferred stock, $0.01 per share, 100,000,000 shares authorized, no shares issued and outstanding		
	2,236	1,961

Common stock, $0.01 per share, 500,000,000 shares authorized, 223,602,551 issued and 222,388,801 outstanding as of September 30, 2014 and 196,139,045 issued and 195,513,195 outstanding as of December 31, 2013				
Additional paid-in capital		3,793,428		4,300,479
Treasury stock (1,213,750 shares and 625,850 shares)		(23,635)		(10,642)
Accumulated other comprehensive income		69,681		75,449
Retained earnings (accumulated deficit)		7,302		(84,719)
Total Starwood Property Trust, Inc. Stockholders Equity		3,849,012		4,282,528
Non-controlling interests in consolidated subsidiaries		14,951		44,605
Total Equity		**3,863,963**		**4,327,133**
Total Liabilities and Equity	**$**	**116,893,937**	**$**	**110,770,575**

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Operations

(Unaudited, amounts in thousands, except per share data)

	For the Three Months Ended September 30, 2014	For the Three Months Ended September 30, 2013	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013
Revenues:				
Interest income from loans	$ 110,669	$ 94,045	$ 321,034	$ 236,671
Interest income from investment securities	28,640	17,804	85,714	52,621
Servicing fees	34,641	36,509	101,533	75,644
Other revenues	7,418	2,034	15,816	3,908
Total revenues	**181,368**	**150,392**	**524,097**	**368,844**
Costs and expenses:				
Management fees	24,943	20,925	77,849	52,140
Interest expense	39,739	34,017	115,265	74,091
General and administrative	47,640	47,474	136,835	95,847
Business combination costs		342		17,958
Acquisition and investment pursuit costs	759	1,393	1,924	2,390
Depreciation and amortization	3,017	3,435	12,807	5,663
Loan loss allowance, net	1,575	1,160	1,933	1,915
Other expense	2,701	513	10,416	742
Total costs and expenses	**120,374**	**109,259**	**357,029**	**250,746**
Income before other income, income taxes and non-controlling interests	**60,994**	**41,133**	**167,068**	**118,098**
Other income:				
Income of consolidated VIEs, net	87,778	47,963	190,810	79,912
Change in fair value of servicing rights	(7,897)	(1,867)	(18,671)	1,031
Change in fair value of investment securities, net	1,860	(2,278)	15,180	(3,265)
Change in fair value of mortgage loans held-for-sale, net	15,517	25,857	48,018	26,315
Earnings from unconsolidated entities	3,805	2,222	13,432	6,733
Gain on sale of investments, net	1,332	6,184	12,965	19,690
Gain (loss) on derivative financial instruments, net	29,275	(22,451)	11,619	(65)
Foreign currency (loss) gain, net	(21,466)	9,580	(16,212)	3,495
Total other-than-temporary impairment (OTTI)	(264)	(86)	(2,256)	(1,460)
Noncredit portion of OTTI recognized in other comprehensive income	264	34	1,246	1,007
Net impairment losses recognized in earnings		(52)	(1,010)	(453)
Other income, net	28	374	738	413
Total other income	**110,232**	**65,532**	**256,869**	**133,806**
Income from continuing operations before income taxes	**171,226**	**106,665**	**423,937**	**251,904**
Income tax provision	(3,836)	(13,721)	(13,733)	(25,679)
Income from continuing operations	**167,390**	**92,944**	**410,204**	**226,225**
Loss from discontinued operations, net of tax (Note 3)		(3,698)	(1,551)	(12,044)
Net income	**167,390**	**89,246**	**408,653**	**214,181**
Net income attributable to non-controlling interests	(2,346)	(1,886)	(5,140)	(4,124)
Net income attributable to Starwood Property Trust, Inc.	**$ 165,044**	**$ 87,360**	**$ 403,513**	**$ 210,057**
Earnings per share data attributable to Starwood Property Trust, Inc.:				
Basic:				

Income from continuing operations	$	0.73	$	0.53	$	1.89	$	1.41
Loss from discontinued operations				(0.02)		(0.01)		(0.08)
Net income	$	0.73	$	0.51	$	1.88	$	1.33
Diluted:								
Income from continuing operations	$	0.73	$	0.53	$	1.88	$	1.41
Loss from discontinued operations				(0.02)		(0.01)		(0.08)
Net income	$	0.73	$	0.51	$	1.87	$	1.33
Dividends declared per common share	$	0.48	$	0.46	$	1.44	$	1.36

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Comprehensive Income

(Unaudited, amounts in thousands)

	For the Three Months Ended September 30,		For the Nine Months Ended September 30,	
	2014	2013	2014	2013
Net income	**$ 167,390**	**$ 89,246**	**$ 408,653**	**$ 214,181**
Other comprehensive income (loss) (net change by component):				
Cash flow hedges	530	(197)	559	1,583
Available-for-sale securities	3,954	(1,768)	(2,166)	(15,895)
Foreign currency remeasurement	(9,765)	10,967	(4,161)	3,924
Other comprehensive (loss) income	(5,281)	9,002	(5,768)	(10,388)
Comprehensive income	**162,109**	**98,248**	**402,885**	**203,793**
Less: Comprehensive income attributable to non-controlling interests	(2,346)	(1,886)	(5,140)	(4,124)
Comprehensive income attributable to Starwood Property Trust, Inc.	**$ 159,763**	**$ 96,362**	**$ 397,745**	**$ 199,669**

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Equity

(Unaudited, amounts in thousands, except share data)

	Common stock Shares	Common stock Par Value	Additional Paid-In Capital	Treasury Stock Shares	Treasury Stock Amount	Retained Earnings (Accumulated Deficit)	Accumulated Other Comprehensive Income (Loss)	Total Starwood Property Trust, Inc. Stockholders Equity	Non-Controlling Interests	Total Equity
Balance, January 1, 2014	**196,139,045**	**$ 1,961**	**$ 4,300,479**	**625,850**	**$ (10,642)**	**$ (84,719)**	**$ 75,449**	**$ 4,282,528**	**$ 44,605**	**$ 4,327,133**
Proceeds from public offering of common stock	25,300,000	253	564,442					564,695		564,695
Proceeds from ATM Agreement	759,000	8	18,338					18,346		18,346
Proceeds from DRIP Plan	2,430		58					58		58
Equity offering costs			(1,623)					(1,623)		(1,623)
Common stock repurchased				587,900	(12,993)			(12,993)		(12,993)
Stock-based compensation	1,025,144	10	21,491					21,501		21,501
Manager incentive fee paid in stock	376,932	4	8,986					8,990		8,990
Net income						403,513		403,513	5,140	408,653
Dividends declared, $1.44 per share						(311,492)		(311,492)		(311,492)
Spin-off of SWAY			(1,118,743)					(1,118,743)	(1,594)	(1,120,337)
Other comprehensive income, net							(5,768)	(5,768)		(5,768)
VIE non-controlling interests									382	382
Distribution to non-controlling interests									(33,582)	(33,582)
Balance, September 30, 2014	**223,602,551**	**$ 2,236**	**$ 3,793,428**	**1,213,750**	**$ (23,635)**	**$ 7,302**	**$ 69,681**	**$ 3,849,012**	**$ 14,951**	**$ 3,863,963**
Balance, January 1, 2013	**136,125,356**	**$ 1,361**	**$ 2,721,353**	**625,850**	**$ (10,642)**	**$ (72,401)**	**$ 79,675**	**$ 2,719,346**	**$ 77,859**	**$ 2,797,205**
Proceeds from public offering of common stock	59,225,000	593	1,512,926					1,513,519		1,513,519
Equity offering costs			(955)					(955)		(955)
Convertible senior notes			48,502					48,502		48,502
Stock-based compensation	523,731	5	12,865					12,870		12,870
Manager incentive fee paid in stock	13,188		367					367		367
Net income						210,057		210,057	4,124	214,181
Dividends declared, $1.36 per share						(227,177)		(227,177)		(227,177)
Other comprehensive loss, net							(10,388)	(10,388)		(10,388)
VIE non-controlling interests									(1,067)	(1,067)
									8,705	8,705

Non-controlling interest assumed through LNR acquisition										
Contributions from non-controlling interests									1,399	1,399
Distribution to non-controlling interests									(47,914)	(47,914)
Balance, September 30, 2013	**195,887,275**	**$ 1,959**	**$ 4,295,058**	**625,850**	**$ (10,642)**	**$ (89,521)**	**$ 69,287**	**$ 4,266,141**	**$ 43,106**	**$ 4,309,247**

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30,	
	2014	**2013**
Cash Flows from Operating Activities:		
Net income	$ 408,653	$ 214,181
Adjustments to reconcile net income to net cash provided by operating activities:		
Amortization of deferred financing costs	8,501	7,044
Amortization of convertible debt discount and deferred fees	9,376	5,693
Accretion of net discount on investment securities	(17,174)	(23,484)
Accretion of net deferred loan fees and discounts	(16,756)	(26,917)
Amortization of premium from secured borrowings on transferred loans	(862)	(1,211)
Share-based compensation	21,501	12,870
Share-based component of incentive fees	8,990	367
Change in fair value of fair value option investment securities	(15,180)	3,265
Change in fair value of consolidated VIEs	(71,105)	(22,428)
Change in fair value of servicing rights	18,671	(1,031)
Change in fair value of loans held-for-sale	(48,018)	(26,315)
Change in fair value of derivatives	(14,595)	(2,196)
Foreign currency loss (gain), net	15,767	(3,481)
Gain on non-performing loans and sale of investments	(13,907)	(23,728)
Other-than-temporary impairment	1,010	989
Loan loss allowance, net	1,933	1,915
Depreciation and amortization	13,178	8,022
Earnings from unconsolidated entities	(13,432)	(3,245)
Distributions of earnings from unconsolidated entities	9,354	2,315
Capitalized costs written off		1,517
Changes in operating assets and liabilities:		
Related-party payable, net	7,073	25,475
Accrued interest receivable, less purchased interest	(29,770)	(8,603)
Other assets	(6,192)	(6,874)
Accounts payable, accrued expenses and other liabilities	(46,997)	36,087
Originations of loans held-for-sale, net of principal collections	(1,159,058)	(847,844)
Proceeds from sale of loans held-for-sale	1,165,583	851,609
Net cash provided by operating activities	**236,544**	**173,992**
Cash Flows from Investing Activities:		
Spin-off of Starwood Waypoint Residential Trust	(111,960)	
Purchase of LNR, net of cash acquired		(586,383)
Purchase of investment securities	(67,230)	(82,754)
Proceeds from sales of investment securities	100,166	442,877
Proceeds from principal collections on investment securities	40,999	56,793
Origination and purchase of loans held-for-investment	(2,123,947)	(1,658,240)
Proceeds from principal collections on loans	966,350	394,616
Proceeds from loans sold	341,472	369,621
Acquisition and improvement of single family homes	(61,901)	(458,733)
Proceeds from sale of single family homes	1,784	6,696

Purchase of other assets	(18,731)	(1,631)
Purchase of non-performing loans		(153,141)
Proceeds from sale of non-performing loans	1,153	27,198
Investment in unconsolidated entities	(21,973)	(8,558)
Distribution of capital from unconsolidated entities	38,946	3,210
Payments for purchase or termination of derivatives	(16,081)	(648)
Proceeds from termination of derivatives	5,611	9,940
Return of investment basis in purchased derivative asset	1,222	1,533
Decrease (increase) in restricted cash, net	8,890	(54,860)
Net cash used in investing activities	**(915,230)**	**(1,692,464)**

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Condensed Consolidated Statements of Cash Flows (Continued)

(Unaudited, amounts in thousands)

	For the Nine Months Ended September 30, 2014	For the Nine Months Ended September 30, 2013
Cash Flows from Financing Activities:		
Borrowings under financing agreements	$ 2,917,281	$ 2,691,382
Proceeds from issuance of convertible senior notes		1,037,926
Principal repayments on borrowings	(2,459,837)	(3,123,571)
Payment of deferred financing costs	(11,536)	(13,281)
Proceeds from secured borrowings		95,000
Proceeds from common stock issuances	583,099	1,513,519
Payment of equity offering costs	(1,623)	(955)
Payment of dividends	(293,607)	(210,843)
Contributions from non-controlling interests		1,399
Distributions to non-controlling interests	(33,582)	(47,914)
Issuance of debt of consolidated VIEs	88,412	8,760
Repayment of debt of consolidated VIEs	(129,724)	(93,293)
Distributions of cash from consolidated VIEs	32,601	18,598
Net cash provided by financing activities	**691,484**	**1,876,727**
Net increase in cash and cash equivalents	12,798	358,255
Cash and cash equivalents, beginning of period	317,627	177,671
Effect of exchange rate changes on cash	(3,103)	908
Cash and cash equivalents, end of period	$ 327,322	$ 536,834
Supplemental disclosure of cash flow information:		
Cash paid for interest	$ 110,208	$ 54,548
Income taxes paid	19,040	24,794
Supplemental disclosure of non-cash investing and financing activities:		
Net assets distributed in spin-off of Starwood Waypoint Residential Trust	$ 1,008,377	$
Dividends declared, but not yet paid	108,056	90,130
Consolidation of VIEs (VIE asset/liability additions)	27,094,681	15,033,274
Deconsolidation of VIEs (VIE asset/liability reductions)	8,502,882	584,804
Unsettled common stock repurchased	12,993	
Fair value of assets acquired		1,152,360
Fair value of liabilities assumed		562,279
Unsettled trades and loans receivable		14,338
Interest only security received in connection with securitization		1,889

See notes to condensed consolidated financial statements.

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Starwood Property Trust, Inc. and Subsidiaries

Notes to Condensed Consolidated Financial Statements

As of September 30, 2014

(Unaudited)

1. Business and Organization

Starwood Property Trust, Inc. (STWD together with its subsidiaries, we or the Company) is a Maryland corporation that commenced operations in August 2009, upon the completion of our initial public offering (IPO). We are focused primarily on originating, acquiring, financing and managing commercial mortgage loans and other commercial real estate debt investments, commercial mortgage-backed securities (CMBS), and other commercial real estate-related debt investments in both the U.S. and Europe. We refer to the following as our target assets:

• commercial real estate mortgage loans, including preferred equity interests;

• CMBS; and

• other commercial real estate-related debt investments.

Our target assets may also include residential mortgage-backed securities (RMBS), certain residential mortgage loans, distressed or non-performing commercial loans, commercial properties subject to net leases and equity interests in commercial real estate. As market conditions change over time, we may adjust our strategy to take advantage of changes in interest rates and credit spreads as well as economic and credit conditions.

We have two reportable business segments as of September 30, 2014:

• Real estate investment lending (the Lending Segment) includes all business activities of the Company, excluding the LNR business, which generally represents investments in real estate-related loans and securities that are held-for-investment.

• LNR includes all business activities of the acquired LNR Property LLC (LNR) business excluding the consolidation of securitization VIEs.

1,118,484 205,878 155,730(58,934) 453,152 1,836,446

(1) All Covered Executives are employed on a full-time (100%) basis, except for Mr. Amit who dedicates 75% of his time to his role as our Active Chairman.
(2) Salary cost includes the Covered Executive's gross salary plus payment of social benefits made by the Company on behalf of such Covered Executive. Such benefits may include, to the extent applicable to the Covered Executive, payment, contributions and/or allocations for saving funds (e.g. Managers' Life Insurance Policy), education funds (referred to in Hebrew as "Keren Hishtalmut"), pension, severance, risk insurances (e.g. life, or work disability insurance), payments for social security and tax gross-up payments, vacation, car, medical insurance and benefits, phone, convalescence or recreation pay and other benefits and perquisites consistent with the Company's policies.
(3) Represents annual bonuses granted to the Covered Executives based on formulas set forth in the respective resolutions of the Company's Compensation Committee and Board of Directors.
(4) Represents the fair value on the grant date of equity based compensation actually granted during the year ended December 31, 2014
(5) Bracketed numbers represent the equity based compensation expenses recorded in the Company's consolidated financial statements for the year ended December 31, 2014 for each Covered Executive, based on the options' fair value on the grant date, calculated in accordance with accounting guidance for equity-based compensation.
(6) Includes relocation expenses which may consist of, to the extent applicable to the Covered Executive: housing, schooling, car, medical insurance and travel expenses for the Covered Executive and family members residing with such Covered Executive abroad.

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.

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Effective January 1, 1998, we entered into an employment agreement with Mr. Rafi Amit, who is currently our Chief Executive Officer and Chairman of the Board of Directors. 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. As of January 6, 2014, following the decision of Mr. Roy Porat, our former Chief Executive Officer, to step down from his position and upon the conclusion of a limited transition period and receipt of shareholder approval in March 2014, all responsibilities previously held by Mr. Porat were delegated to Mr. Amit in his capacity as our Active Chairman of the Board, without any further amendment of his terms of employment. 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.

C. Board Practices

Composition of the Board of Directors

Our Articles of Association (our "Articles") provide that our Board of Directors shall consist of not less than five and 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 generally appointed by our Board of Directors, but as Mr. Amit also holds the position of our Chairman of the Board, his appointment as Chief Executive Officer requires shareholder approval. 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-appointed at our 2014 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 2015 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 Mr. Rafi Amit, is a party to a service contract with us which would provide him or her 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.

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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 provided that the external director is not a related or competing shareholder or a relative of such shareholder, at the time of the appointment, and does not and did not have, any affiliation with a related or competing shareholder, at the time of the appointment or within the two years preceding the appointment. A

'related or competing shareholder' is a shareholder proposing the reappointment or a shareholder holding 5% or more of the outstanding shares or voting rights of the company, if at the time of the appointment, such shareholder, a controlling shareholder thereof or a company controlled by such shareholder or by a controlling shareholder thereof, have business relationships with the company or are competitors of the company. 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 who 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 with respect to relief in approval of certain related party transactions (the "Relief Regulations"), 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.

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 office holder 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 Chief Executive Officer 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.

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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 determine with respect to transactions with controlling shareholders, even if such are not extraordinary transactions, a duty to conduct a competitive process, under the supervision of the committee or under the supervision of whomever designated by the committee and according to standards determined by the committee, or to determine other proceedings, prior to entering into such transactions, all in accordance with the type of transaction; (4) to determine the method of approval of transactions which are not insignificant, including the types of transactions which shall require approval of the committee; (5) 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; (6) 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 (7) 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, if the committee so requests 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 an 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 thereof; (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.

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In addition, amendment of existing terms of office and employment of office holders who are not directors requires the approval of the compensation committee only if the compensation committee determines that the amendment is not material.

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.

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

Compensation Policy

Amendment 20 also required us to adopt a compensation policy, which sets 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 takes 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.

Our Compensation Policy is designed to balance between the importance of incentivizing office holders to reach personal targets and the need to assure that the overall compensation meets our Company's long-term strategic performance and financial objectives. The Policy provides our Compensation Committee and our Board of Directors with adequate measures and flexibility to tailor each of our office holder’s compensation package based, among other matters, on geography, tasks, role, seniority and capability. Moreover, the Policy is intended to motivate our office holders to achieve ongoing targeted results in addition to a high level business performance in the long term, without encouraging excessive risk taking.

The compensation policy and any amendments thereto must be approved by the board of directors, after considering the recommendations of the compensation committee and 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.

Our Compensation Policy for office holders was approved by our shareholders at the special general meeting of shareholders, held on October 14, 2013, following the favorable recommendation of the Compensation Committee and approval by the Board of Directors, and took effect thereafter. On November 12, 2014, an amendment to our Compensation Policy increasing the maximum yearly equity value which may be granted to any of our office holders including our Chief Executive Officer, was approved by our shareholders at the annual general meeting of shareholders, following the favorable recommendation of the compensation committee and approval by the Board of Directors, and took effect thereafter.

Approval of Certain Transactions with Related Parties

The Companies Law requires the approval of the audit committee or the compensation 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); and

- 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, or the compensation 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 shareholder" 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.

Compensation 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 be for the benefit of the company. 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 (or with respect to terms of office and employment, the compensation 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 (or with respect to terms of office and employment, the compensation 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 the Companies Law and the Securities Law, 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 (for further details regarding such amendments see in "Administrative Enforcement" below) 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.

Our Articles allow the Company to indemnify and insure its office holders to the full extent permitted by law.

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 allow it to do so. Our Articles allow us to exempt our office holders to the fullest extent permitted by law.

Office Holders’ Insurance

Our Articles 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.

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Office Holder's Indemnification

Our Articles 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;

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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 compensation committee and our board of directors and, with respect to an office holder who is a director, also by our shareholders. However, according to the Relief Regulations, shareholders' approval for the procurement of directors' insurance is not required if the insurance policy is approved by our compensation committee and (i) the terms of such policy are within the framework for insurance coverage as approved by our shareholders and set forth in our compensation policy; (ii) the premium paid under the insurance policy is at fair market value; and (iii) the insurance policy does not and may not have a substantial effect on the Company's profitability, assets or obligations; 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 the 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.

The Company's indemnification letters, granted to each of the Company's present and future office holders, 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 compensation committee and board of directors on June 8, 2014, after confirming that its terms are within the framework set forth under our compensation policy, and do not have a substantial effect on the Company's profitability, assets or obligations.

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.

Administrative Enforcement

The Israeli Securities Law includes 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. This 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. Furthermore, the Securities Law requires that the Chief Executive Officer of a company supervise and take all reasonable measures to prevent the company or any of its employees from breaching the Israeli Securities Law. The Chief Executive Officer is presumed to have fulfilled such supervisory duty if the company adopts internal enforcement procedures designed to prevent such breaches, appoints a representative to supervise the implementation of such procedures and takes measures to correct the breach and prevent its reoccurrence.

Under the Securities Law, 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 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. Our Articles and letters of indemnification permit, among others, insurance and/or indemnification as contemplated under the Securities Law (see in "Insurance, Indemnification and Exemption" above).

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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,		
	2014	2013	2012
Executive management	10	10	13
Research and development	89	84	87
Sales support	159	170	169
Sales and marketing	48	37	41
Administration	66	70	70
Operations	98	109	104
Total	470	480	484

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,		
	2014	2013	2012
China (including Hong Kong)	192	190	183
Taiwan	39	33	32
Japan	5	8	8
Other Asia	30	34	31
Europe	3	3	4
North America	19	20	19
Israel	182	192	207
Total	470	480	484

The decrease in our workforce is mainly related to the reorganization of the Sela division.

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.

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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 30,594,522 ordinary shares outstanding as of March 13, 2015.

Name	Number of Ordinary Shares Owned(1)	Percentage of Total Outstanding Ordinary Shares	
Priortech Ltd.	16,919,739	55.48	%
Rafi Amit(2)	16,994,299	55.73	%
Yotam Stern(3)	17,057,939	55.94	%
Gabi Heller(4)	5,000	0.02	%
Rafi Koriat(4)	5,000	0.02	%
Eran Bendoly(4)	240	-	
Moshe Eisenberg(4)	38,123	0.13	%
Ramy Langer(4)	0	-	
Amir Tzhori(4)	25,000	0.08	%
Dr. Boaz Nitzan(4)	19,668	0.06	%
Moshe Grencel(4)	45,000	0.15	%

(1) Ordinary shares relating to options currently exercisable or exercisable within 60 days as of March 13 , 2015, 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 as of _March 13 , 2015, 248,500.

(2) Mr. Amit directly owns ,24,560 of our Ordinary Shares. In addition, as a result of a voting agreement relating to a majority of Priortech's voting equity, Mr. Amit may be deemed to control Priortech. As a result, Mr. Amit may be deemed to beneficially own the shares of the Company held by Priortech. 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 Priortech's voting equity, Mr. Stern may be deemed to control Priortech. As a result, Mr. Stern may be deemed to beneficially own the shares of the Company held by Priortech. Mr. Stern disclaims beneficial ownership of such shares.

(4) Holding less than 1% of our outstanding Ordinary Shares (including options held by each such person which have vested or will vest within 60 days as of March 13, 2014) and have therefore not been listed separately.

Option Plans and Restricted Share Unit Plan

General

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

The purpose of our option plans and restricted share unit plan 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.

Option Plans

General. As of December 31, 2014, there were 833,799 outstanding options to acquire our ordinary shares pursuant to our 2003 Share Option Plan at a weighted average exercise price of $3.34, exercisable at various dates through 2022. As of December 31, 2014 there were no outstanding options to acquire any of our ordinary shares under the 2014 Share Option Plan. 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 2014 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. On December 30, 2013, our Board of Directors elected to further extend the period of our 2003 Share Option Plan until June 30, 2014. In October 2014, we adopted our 2014 Share Option Plan and its corresponding Sub-Plan for Grantees Subject to United States Taxation and Sub-Plan for Grantees Subject to Israeli Taxation which replaced our 2003 Share Option Plan. The total number of options that may be granted under the 2014 Share Option Plan is 3,000,000 options.

In 2014 we granted 296,000 share options under the 2003 Share Option Plan to officers and employees at a weighted average exercise price of $3.53. As of December 31, 2014, no options were granted under the 2014 Share Option Plan.

As of December 31, 2014, under the 2003 Share Option Plan there were options exercisable and vested for 423,291 ordinary shares (out of the total outstanding options of 833,799) at a weighted average exercise price of $3.56 per share, and unvested options exercisable for 410,508 ordinary shares at a weighted average exercise price of $3.12.

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 share units ("RSUs") were granted in 2014, 2013 and 2012.

The total number of RSUs which can be granted pursuant to the RSU Plan is 1,500,000, out of which 670,129 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.

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 13, 2015, 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 30,494,522 ordinary shares outstanding as of March 13, 2015.

	Beneficial Ownership	
	Number of Ordinary Shares*	Percentage
Priortech Ltd.(1)	16,919,739	55.48 %

(1) A majority of the voting equity in Priortech 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 Priortech 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. Priortech's principal executive offices are located at South Industrial Zone, Migdal Ha'Emek 23150, Israel.

B. Related Party Transactions.

Ordinary Course Transactions and Activities with Priortech's Affiliates

From time to time we have entered into transactions in the ordinary course of business with Priortech's affiliates. Among others, we purchase bare printed circuit boards and assembled printed circuit boards from a Priortech 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 Priortech totaled $297,000, $347,000 and $142,000 in 2014, 2013 and 2012, respectively. In addition, we act jointly with Priortech with regard to various governmental, administrative and commercial matters, which we believe is to the mutual advantage of both parties. Unpaid balances between Priortech's subsidiary in Israel and us bear interest at 5.5%. As of December 31, 2014, the remaining balance Priortech's affiliates owed us under transactions made in the ordinary course of business with them was $101,000. We believe that these transactions and activities were conducted on terms and conditions as favorable to us as those which we could have entered into with unaffiliated third parties.

Registration Rights Agreement with Priortech

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 Priortech. This registration rights agreement may be used in connection with future offerings of our ordinary shares, and includes, among others, the following terms: (a) Priortech is entitled to make up to three demands that we register our ordinary shares held by Priortech, subject to delay due to market conditions; (b) Priortech 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 Priortech in connection with any liabilities incurred in connection with such registration statements due to any misstatements or omissions other than information provided by Priortech, and Priortech 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 Priortech 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 Priortech 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 there under to Priortech with respect to its holdings in us, and the assignability of those shelf registration rights to its transferees.

Employment Agreement with Mr. Rafi Amit

For a description of the employment agreement with our Active Chairman of the Board and Chief Executive Officer, Mr. Rafi Amit, see above in Item 6 B "Compensation – Employment Agreements".

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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 (the "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 (the "'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 (the "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 supplemental award of $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 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. On February 9, 2015 a judgment in favor of Rudolph was entered in this action, awarding Rudolph the previously awarded damages of approximately $7.4 million, plus interest, together amounting to approximately $14.5 million, and also entering the Injunction.

The Company has filed its Notice of Appeal of the Court's judgment to the United States Court of Appeals for the Federal Circuit. On March 11, 2015, the Company also posted a $15 million bond with the Court to stay collection of the judgment pending resolution of the appeal. The bond was secured by a guarantee from Bank Mizrahi in respect of which the Company was required to place $7.9 million in a restricted deposit. In addition, this guarantee is secured by a lien that was previously placed on the Company's facility in Israel, in accordance with agreements signed in August 2010 and August 2011 with Bank Leumi L'Israel and in August 2011 with Bank Mizrahi.

Although it is difficult to predict the eventual outcome of this patent infringement case, the Company believes that it has a strong legal position, and intends to continue to vigorously defend itself. The total range of loss for this case is between $0 and $14.5 million (excluding future interest and legal fees), 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 sanctions in a sum of $1,291,892. The Magistrate Judge also awarded Rudolph $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 replacement 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 appealed the sanctions award and submitted its opening appeal brief on November 30, 2012. On November 18, 2013, the Court of Appeals issued an opinion finding that the underlying contempt and sanctions findings were not final, appealable orders until after the resolution of the retrial of infringement of the ’298 Patent infringement case in the Minnesota District Court. The Company deposited $729,298 with the Court as a bond while the appeal was pending. On February 9, 2015, the District Court overturned the contempt findings and accordingly vacated the previously awarded sanctions in the amount of $645,946. The Company has requested return of the deposited funds.

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On December 27, 2011, Rudolph filed, but did not serve, a complaint in the District Court charging the Company with infringement of Rudolph's U.S. Patent 7,779,528 (the "'528 Patent") relating to semiconductor wafer inspection technology similar to that described in the Patent. On January 19, 2012, the Company filed a reexamination request with the U.S Patent and Trademark Office (the "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 agreed to stay the case until the completion of the reexamination. The District Court 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. The Company denies infringement and believes the claims of the '528 Patent are invalid.

On March 12, 2015, Rudolph filed, but did not serve, a new lawsuit against the Company in the District Court alleging that the Eagle product infringes the '298 Patent in the United States. The lawsuit does not demand a specific dollar amount but rather asks for an accounting for damages and for a preliminary and permanent injunction against infringing activity. The Company believes that the Eagle does not infringe the '298 patent and intends to defend itself from the allegations in this claim.

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
Annual and Quarterly Market Prices				
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
Fiscal Year Ended December 31, 2011:	4.61	1.71	4.65	1.68
Fiscal Year Ended December 31, 2012:	2.84	1.37	2.77	1.35
2013:				
First Quarter	1.77	1.37	1.75	1.34
Second Quarter	2.44	1.41	2.40	1.40
Third Quarter	2.40	1.63	2.40	1.64
Fourth Quarter	5.45	1.68	5.75	1.67
Fiscal Year Ended December 31, 2013:	5.45	1.37	5.75	1.34
2014:				
First Quarter	5.64	3.60	5.40	3.52
Second Quarter	3.77	3.02	3.80	3.03
Third Quarter	4.40	3.16	5.02	3.20
Fourth Quarter	3.98	2.80	3.95	2.90
Fiscal Year Ended December 31, 2014:	5.64	2.80	5.40	2.90
Monthly Market Prices for the Most Recent Six Months:				
September 2014	4.37	3.58	4.43	3.47
October 2014	3.98	3.33	3.95	3.30
November 2014	3.38	2.80	3.28	2.90
December 2014	3.19	2.96	3.14	2.91
January 2015	3.42	3.00	3.34	2.94
February 2015	3.30	2.94	3.34	2.99

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

B. Plan of distribution.

Not applicable.

C. Markets.

As noted above, the Company's ordinary shares are traded on the Nasdaq Global Market under the symbol "CAMT". Since December 2005, our ordinary shares are also traded on the Tel-Aviv Stock Exchange and we are subject to certain parts of 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 legal business and may contribute a reasonable amount for a worthy cause, even if such contribution is not within the framework of the Company's business considerations.

Share Capital

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, 30,494,522 ordinary shares were outstanding and fully-paid as of December 31, 2014.

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. A director is required to vacate his or her office: upon death, resignation, removal by a resolution of the General Meeting or if he or she is found to be non compos mentis or has been declared bankrupt (or if a legal entity, has adopted a resolution of voluntary liquidation or winding-up, or a liquidation order has been issued with respect thereto).

Each director shall have 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.

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 such annual meeting must be 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 of Directors 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 of Directors.

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), approval for the chairman of the board to also serve as chief executive officer, approval of the Company's compensation policy, and any amendments thereto approval of a merger, or of a tender offer. See in Item 6 C above "Committees of the Board of Directors" and "Approval of Certain Transactions with Related Parties" and in "Anti-Takeover Effects of Israeli Laws; Mergers and Acquisitions under Israeli Law" below.

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 25% 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.

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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.

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).

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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%), 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" or PFIC (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.

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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 generally will be included in the income of U.S. holders at the dollar amount of the dividend (including any non-U.S. taxes withheld therefrom), 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 thereunder, U.S. holders may elect to claim 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 (other than in certain nonrecognition transactions), 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 generally subject to a maximum rate of 20%. 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 U.S. 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

Non-corporate U.S. holders may be subject to an additional 3.8% surtax 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., "regularly 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, in 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, 2014. We currently expect that we will not be a PFIC in 2015. 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, 2015 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 income 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, our 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 from backup withholding applies.

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 disposition 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 from backup withholding applies.

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.

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Certain U.S. holders (and to the extent provided in IRS guidance, certain non-U.S. holders) who hold interests in "specified foreign financial assets" (as defined in Section 6038D of the Code) are generally required to file an IRS Form 8938 as part of their U.S. federal income tax returns to report their ownership of such specified foreign financial assets, which may include our common shares, if the total value of those assets exceed certain thresholds. Substantial penalties may apply to any failure to timely file IRS Form 8938. In addition, in the event a holder that is required to file IRS Form 8938 does not file such form, the statute of limitations on the assessment and collection of U.S. federal income taxes of such holder for the related tax year may not close until three years after the date that the required information is filed. Holders should consult their own tax advisors regarding their tax reporting obligations.

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 2014 and 2015 is 26.5%.

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 the Encouragement of Capital Investments, 1959".

Tax benefits under the Law for the 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 (or up to 14 years commencing in the year in which the company was granted "Approved Enterprise" status), 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 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 a period ending in 2014. In addition Camtek has elected 2010 as the year of election for a period ending 2021 (collectively, "Programs"). Sela has also been granted the status of Beneficiary Enterprise according to

the Amendment, for a period ending in 2016.

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 "the December 2010 Amendment"). 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	7%	12.5%	25%
2014 onwards	9%	16%	26.5%

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.

Dividends 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 at 0%;(ii) Israeli resident individual at 15% in 2013 and 20% in 2014; and (iii) non-Israeli resident at 15% in 2013 and 20% in 2014, 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 at 0%;(ii) Israeli resident individuals at 20%; and (iii) non-Israeli residents at 20%, subject to a reduced tax rate under the provisions of an applicable double tax treaty.

As of the December 31, 2014, the Company has not elected to apply the December 2010 Amendment.

Out of the Company's retained earnings as of December 31, 2014, approximately $18.4 million are tax-exempt earnings attributable to its Approved Enterprise programs and approximately $9.8 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 at 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, 2014, if the income attributed to the Approved Enterprise was distributed as dividend, the Company would incur a tax liability of approximately $4.6 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 $2.5 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 thereunder 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 2012, 2013 and 2014. 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 Printar amounted to $6.0 million; all obligations with respect to the non-repaid grants to Sela, in the amount of $2.4 million (as of the date of the Sela Transaction) were assumed by the purchaser under the Sela Transaction.

In 2010, a dispute has arisen between us and the OCS in Israel with respect to an amount of approximately $770,000 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, among other matters, 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. (see also "The government grants we received for research and development expenditures restrict our ability to manufacture products or to transfer technologies outside of Israel" " under "Risks relating to our Operations in Israel" above).

Net Operating Loss Carry forwards

As of December 31, 2014, the Company and its Israeli subsidiaries had a net operating loss, or NOL, of $59 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 25%, or 30% if the dividend recipient is a significant Controlling Shareholder, 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 is not significant as we have no outstanding loans; 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. U.S. Dollar, as most of our revenues are derived in U.S. Dollars, and the prices of part of our materials and components are purchased in U.S. Dollars. Also, most of our marketing expenses are denominated in U.S. Dollars or are U.S. 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 U.S. 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 U.S. 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 U.S. Dollars, we believe that inflation and fluctuations in the NIS/U.S. 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 U.S. Dollar will increase our costs expressed in U.S. Dollar, and a decrease in the NIS value relative to the U.S. Dollar will decrease our costs expressed in U.S. Dollar. In addition, most of the expenses and purchases in China are also denominated in local currency. As our financial results are reported in U.S. Dollars, fluctuations in the CNY/U.S. 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 2014, the value of the U.S. Dollar strengthened against the NIS by 12.6%. In addition, during 2014, the value of the U.S. Dollar strengthened against the CNY by 0.5%.

The open hedging transactions as of December 31, 2014, are displayed in the following table:

	Sum of notional amount in U.S. Dollars (thousands)	Sum of fair market value in U.S. Dollars (thousands)
Options		
Buy U.S. Dollars and Sell NIS (Put options)	4,250	13
Sell U.S. Dollars and Buy NIS (call options):	4,250	(102)

In our consolidated financial statements, transactions and balances originally denominated in U.S. 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, 2014, we had net assets of approximately $6.4 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 $64 thousand 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 Active Chairman (and Chief Executive Officer) and our Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of December 31, 2014, 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 Active Chairman (and Chief Executive Officer) and Chief Financial Officer, 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, 2014, our Active Chairman (and Chief Executive Officer) and Chief Financial Officer 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 Active Chairman (and Chief Executive Officer) and Chief Financial Officer, 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 (1992) 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, 2014, 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 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. 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, 2014 and 2013:

Fee Category	For Services Rendered during 2014	For Services Rendered during 2013
Audit Fees (1)	$ 214,297	$ 227,429
Tax Fees (2)	$ 50,000	--

(1) 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.

(2) Tax Fees rendered by our auditor were for tax compliance and for tax consulting associated with international transfer pricing.

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 with respect to the following matters: the eligibly of our securities for a direct registration program; the composition and responsibilities of our Compensation Committee; the approval of stock option plans; and the annual meeting requirement – all as set forth below:

- We have opted out the requirement that all securities listed on Nasdaq be eligible for a direct registration program operated by a registered clearing agency as set forth in Rule 5615(a). 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.

- We have opted out the requirement to adopt and file a compensation committee charter as set forth in Rule 5605(d)(1). Instead, our Compensation Committee conducts itself in accordance with provisions governing the establishment and the responsibilities of a compensation committee as set forth in the Companies Law.

- We have opted out the requirement for shareholder approval of stock option plans and other equity based compensation arrangements as set forth in Nasdaq Rule 5635 and Nasdaq Rule 5605(d), respectively. Nevertheless, as required under the Israeli Companies Law, special shareholder voting procedures are followed for the approval of equity based compensation of certain office holders or employees who are controlling shareholders or any relative thereof, as well as of our Chief Executive Officer and members of our Board of Directors. Equity based compensation arrangements with office holders (chief executive officer and directors excluded) or employees who are not controlling shareholders or any relative thereof, are approved by our Compensation Committee and our Board of Directors, provided they are consistent with our Compensation Policy, as approved on October 14, 2013 by our shareholders, and in special circumstances in deviation therefrom, taking into account certain considerations as set forth in the Companies Law.

- We have opted out the requirement for conducting annual meetings 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 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 2015 annual general meeting of shareholders should be held on or before December 31, 2015.

Item 16H. 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, 2014

Camtek Ltd. and its subsidiaries

Financial Statements as at December 31, 2014

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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 its subsidiaries ("the Company") as of December 31, 2014 and 2013, and the related consolidated statements of income, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2014. 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 its subsidiaries as of December 31, 2014 and 2013, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2014 in conformity with U.S. generally accepted accounting principles.

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

Tel Aviv, Israel

March 18, 2015

Camtek Ltd. and its subsidiaries

Consolidated Balance Sheets

	Note	December 31, 2014	2013
		U.S. Dollars (In thousands)	
Assets			
Current assets			
Cash and cash equivalents	3	18,220	16,495
Short-term deposits		8,607	6,000
Trade accounts receivable, net	13B	22,341	27,048
Inventories	4	24,650	17,911
Due from affiliated companies	20	501	233
Other current assets	5	2,382	1,913
Deferred tax asset	19	858	938
Total current assets		77,559	70,538
Property, plant and equipment, net	6	13,025	14,481
Long-term inventory	4	1,476	2,225
Long-term restricted deposit	7	729	729
Deferred tax asset	19	891	975
Other assets	8	348	339
Intangible assets, net	9	928	1,008
Goodwill	9	1,555	1,555
		5,927	6,831
Total assets		96,511	91,850
Liabilities and shareholder’s equity			
Current liabilities			
Trade accounts payable		9,490	7,753
Other current liabilities	10	16,279	15,585
Total current liabilities		25,769	23,338
Long-term liabilities			
Liability for employee severance benefits	11	860	858
Other long-term liabilities	12	4,150	5,758
		5,010	6,616
Total liabilities		30,779	29,954
Commitments and contingencies	13		

Shareholders’ equity	15		
Ordinary shares NIS 0.01 par value, 100,000,000 shares authorized at December 31, 2014 and 2013; 32,586,898 and 32,497,902 issued shares at December 31, 2014 and 2013, respectively; 30,494,522 and 30,405,526 shares outstanding at December 31, 2014 and 2013, respectively		134	134
Additional paid-in capital		63,465	62,966
Retained earnings		4,031	694
		67,630	63,794
Treasury stock, at cost (2,092,376 as of December 31, 2014 and 2013)		(1,898)	(1,898)
Total shareholders' equity		65,732	61,896
Total liabilities and shareholders' equity		96,511	91,850

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

Camtek Ltd. and its subsidiaries

Consolidated Statements of Income

	Note	Year Ended December 31, 2014	2013	2012
		U.S. Dollars (In thousands, except per share data)		
Revenues:				
Sales of products		71,371	67,864	66,929
Service fees		16,942	17,541	17,618
Total revenues		88,313	85,405	84,547
Cost of revenues:				
Cost of products sold		35,870	38,692	35,908
Cost of services		11,424	12,311	11,574
Total cost of revenues		47,294	51,003	47,482
Gross profit		41,019	34,402	37,065
Research and development costs		14,406	14,370	12,916
Selling, general and administrative expenses	18A	21,417	22,362	21,138
Reorganization and impairment	1B, 12	60	(3,466)	3,031
Total operating expenses		35,883	33,266	37,085
Operating income (loss)		5,136	1,136	(20)
Financial income (expenses), net	18B	(1,220)	(1,738)	233
Income (loss) before income taxes		3,916	(602)	213
Income tax (expense) benefit	19	(579)	609	(210)
Net income		3,337	7	3
Earnings per ordinary share:	16			
Basic		0.11	0.00	0.00
Diluted		0.11	0.00	0.00
Weighted average number of ordinary shares outstanding:				
Basic		30,464	30,040	29,849
Diluted		30,545	30,094	30,013

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

Camtek Ltd. and its subsidiaries

Consolidated Statements of Shareholders' Equity

	Ordinary Shares NIS 0.01 par value		Number of Treasury	Additional paid-in	Retained earnings (accumulated	Treasury	Total shareholders'
	Number of Shares	U.S. Dollars (In thousands)	Shares	capital	losses)	stock	equity
				U.S. Dollars (In thousands)			
Balances at December 31, 2011	31,810,340	133	(2,092,376)	61,014	684	(1,898)	59,933
Exercise of share options and RSUs	178,969	*	-	*	-	-	-
share-based compensation expense	-	-	-	401	-	-	401
Net income	-	-	-	-	3	-	3
Balances at December 31, 2012	31,989,309	133	(2,092,376)	61,415	687	(1,898)	60,337
Exercise of share options and RSUs	508,593	1	-	1,171	-	-	1,172
Share-based compensation expense	-	-	-	380	-	-	380
Net income	-	-	-	-	7	-	7
Balances at December 31, 2013	32,497,902	134	(2,092,376)	62,966	694	(1,898)	61,896
Exercise of share options	88,996	*	-	191	-	-	191
Share-based compensation expense	-	-	-	308	-	-	308
Net income	-	-	-	-	3,337	-	3,337
Balances at December 31, 2014	32,586,898	134	(2,092,376)	63,465	4,031	(1,898)	65,732

*   Less than $ 1 thousand

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

Camtek Ltd. and its subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2014	2013	2012
	U.S. Dollars (In thousands, except per share data)		
Cash flows from operating activities:			
Net income	3,337	7	3
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	2,171	2,587	2,125
Loss on disposal of fixed assets	-	867	-
Impairment losses	-	1,708	3,031
Deferred tax benefit	164	(1,439)	(232)
Share based compensation expense	308	380	401
Provision for bad debts, net	180	54	167
Revaluation of liabilities and interest expense on liabilities to the OCS	522	(3,701)	(586)
Changes in operating assets and liabilities:			
Trade accounts receivable, net	5,173	(3,827)	2,270
Inventories	(5,908)	5,454	34
Due from affiliated companies	(268)	158	(3)
Other assets	(478)	262	1,147
Trade accounts payable	1,737	143	837
Other current liabilities	(987)	1,852	(5,302)
Liability for employee severance benefits, net	2	148	58
Net cash provided by operating activities	5,953	4,653	3,950
Cash flows from investing activities:			
Investment in long-term deposit	-	-	(729)
Payment of (investment in) short-term deposits	(2,607)	1,160	(3,060)
Purchase of fixed assets	(563)	(1,857)	(2,035)
Purchase of intangible assets	(154)	(142)	(222)
Net cash used in investing activities	(3,324)	(839)	(6,046)
Cash flows from financing activities:			
Increase in bank loans	-	-	4,160
Repayment of contingent liability	(268)	(640)	(331)
Payment to OCS	(181)	(267)	(289)
Repayment of loans	-	(6,252)	(4,700)
Proceeds from exercise of share options and RSUs	191	1,172	-
Net cash used in financing activities	(258)	(5,987)	(1,160)

Effect of exchange rate changes on cash	(646)	(199)	(62)
Net (decrease) increase in cash and cash equivalents	1,725	(2,372)	(3,318)
Cash and cash equivalents at beginning of the year	16,495	18,867	22,185
Cash and cash equivalents at end of the year	18,220	16,495	18,867

Camtek Ltd. and its subsidiaries

Consolidated Statements of Cash Flows

	Year Ended December 31,		
	2014	2013	2012
	U.S. Dollars (In thousands, except per share data)		
Supplementary cash flows information:			
A. Cash paid during the year for:			
Interest paid	-	131	137
Income taxes	575	250	348

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

Note 1 - Nature of Operations

A. Camtek Ltd. ("Camtek" or "Company"), an Israeli corporation, is a majority owned (55.48%) 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 semiconductor fabrication and the production of printed circuit boards (PCB).

B. In December 2013, the Company decided not to continue with the development of future models of its Xact product line which had been acquired as part of the acquisition of SELA – Semiconductor Engineering Laboratories Ltd. in 2009 ("SELA acquisition"). In December 2014, the Company entered into a buy-out arrangement to sell the remaining activities of the Sela division. The sale was completed in January 2015 and as part of this arrangement, Camtek will sell the Sela remaining systems in inventory, but will no longer continue to support the Sela customer base. Accordingly, during 2014 and 2013 the Company wrote off excess inventories, fixed assets, goodwill and adjusted its liabilities in respect to the SELA acquisition.

The impact of these decisions on the consolidated statement of income in the years ended December 31, 2014 and 2013 was as follows:

Account	Nature of impact	Year ended December 31, 2014 U.S. Dollars (in thousands)	Year ended December 31, 2013 U.S. Dollars (in thousands)
Cost of Revenues	Inventory write-off	205	3,052
Reorganization and impairment	Impairment charge with respect of technology, customer relationships and goodwill	-	1,656
Reorganization and impairment	Revaluation of liabilities in respect of SELA acquisition	(106)	(5,122)
Reorganization and impairment	Other	166	854
		265	440

Note 2 - Significant Accounting Policies

A. Basis of preparation of the financial statements

The consolidated financial statements of Camtek and its subsidiaries (collectively "the Company") have been prepared in accordance with accounting principles generally accepted in United States of America ("US GAAP"). All amounts in the notes to the financial statements are in thousands unless otherwise stated.

B. Principles of consolidation

The accompanying consolidated financial statements include the accounts of Camtek and its subsidiaries. All material intercompany balances and transactions have been eliminated in consolidation.

C. 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. As applicable to these financial statements, the most significant estimates and assumptions relate to revenue recognition, valuation of accounts receivable, inventories, goodwill, deferred tax assets, legal contingencies, contingent consideration and share based compensation 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.

D. 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. A significant portion of materials and components purchased and operating expenses incurred are either paid for in U.S. Dollars or in New Israeli Shekels ("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.

Note 2 - Significant Accounting Policies (cont'd)

E. Cash and cash equivalents

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

F. Trade 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.

G. 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.

H. Property, plant and equipment

These 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:

Land	1	%
Building	2	%
Machinery and equipment	10% - 33	%

Computer equipment and software	20%-33%
Office furniture and equipment	6% - 20%
Automobiles	15 %

Note 2 - Significant Accounting Policies (cont'd)

H. Property, plant and equipment (cont'd)

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.

I. 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.

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 step one, 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, 2014, based on the Company's annual impairment test, no impairment charge was recognized. As of December 31, 2013, based on the Company's annual impairment test, impairment charges were recognized. (See Note 9).

Note 2 - Significant Accounting Policies (cont'd)

K. Impairment of 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).

L. Fair values of financial instruments

The carrying amounts of the Company's financial instruments, including cash and cash equivalents, short-term deposits, trade accounts receivable, trade accounts payable and amounts from affiliates approximate fair value because of their short-term nature.

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

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

M. 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 to the distributor 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 elements) based on management's best estimate of their selling price where other sources of evidence are unavailable. The revenue relating to the undelivered elements is deferred using the relative selling price method utilizing vendor-specific-objective evidence ("VSOE") until delivery of the deferred elements.

The Company's multiple deliverable arrangements 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.

Note 2 - Significant Accounting Policies (cont'd)

N. 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(M) – Revenue recognition.

O. 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 uncertain 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.

Deferred tax liabilities and assets are classified as current or non-current based on the classification of the related asset or liability for financial reporting or, if not related to an asset or liability for financial reporting, according to the expected reversal dates of the specific temporary differences.

P. Research and development

Research and development costs are expensed as incurred.

Q. 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.

For the years ended December 31, 2014, 2013 and 2012, the effect of the exercise of outstanding dilutive potential share options and Restricted Share Units ("RSUs") has been included in computing dilutive earnings per ordinary share (see Note 16).

R. Share-based compensation

The Company accounts for its employee share-based compensation as an expense 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 15).

Note 2 - Significant Accounting Policies (cont’d)

S. 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 21).

T. 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 14).

U. 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.

V. 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-mentioned 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 12 and Note 13F).

Note 2 - Significant Accounting Policies (cont'd)

W. Recently issued and adopted accounting standards

- In July 2013, the FASB issued ASU 2013-11, Income Taxes (Topic 740): Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists. ASU 2013-11 requires an unrecognized tax benefit, or a portion of an unrecognized tax benefit, to be presented in the financial statements as a reduction to a deferred tax asset for a net operating loss carryforward, a similar tax loss, or a tax credit carryforward. The Company implemented the provisions of ASU 2013-11 as of January 1, 2014.

- In April 2014, the FASB issued ASU No. 2014-08, Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity. ASU 2014-08 change the requirements for reporting discontinued operations. This ASU limits discontinued operations reporting to disposals of components of an entity that represent strategic shifts that have a major effect on an entity's operations and financial results. The Company elected to early adopt this ASU as of January 1, 2014. Accordingly, further to that mentioned in Note 1B, Sela division is not presented as a discontinued operation.

X. New standards not yet adopted

In May 2014, the FASB issued ASU No. 2014-09, "Revenue from Contracts with Customers." ASU 2014-09 is a comprehensive new revenue recognition model that requires a company to recognize revenue to depict the transfer of goods or services to a customer at an amount that reflects the consideration it expects to receive in exchange for those goods or services. ASU 2014-09 also requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts, including significant judgments and changes in judgments and assets recognized from costs incurred to obtain or fulfill a contract. ASU 2014-09 is effective for annual reporting periods, and interim periods within that period, beginning after December 15, 2016 and early adoption is not permitted. Companies may use either a full retrospective or a modified retrospective approach to adopt ASU 2014-09. The Company has not yet determined the potential effects of the adoption of ASU 2014-09 on its Consolidated Financial Statements.

Note 3 - Cash and Cash Equivalents

	December 31,	
	2014	2013
	U.S. Dollars	
Bank balances	18,130	16,405
Restricted cash	90	90
	18,220	16,495

As of December 31, 2014 and 2013, $90 were restricted against credit lines to banking institutions in Hong Kong (denominated in Hong Kong Dollars).

Note 3 - Cash and Cash Equivalents (cont'd)

The Company's cash and cash equivalent balance at December 31, 2014 and 2013 is denominated in the following currencies:

	December 31,	
	2014	2013
	U.S. Dollars	
US Dollars	9,576	11,015
New Israeli Shekels	2,569	1,208
Euro	2,033	1,936
Japanese YEN	1,825	489
Chinese RMB	1,541	1,101
Other currencies	676	746
	18,220	16,495

Note 4 - Inventories

	December 31,	
	2014	2013
	U.S. Dollars	
Components	10,929	11,115
Work in process	5,575	3,795
Finished products *	9,622	5,226
	26,126	20,136

* including systems at customer locations not yet sold, as of December 31, 2014 and 2013, in the amount of $4,532 and $2,287 respectively.

Inventories are presented in:

	December 31,	
	2014	2013
	U.S. Dollars	
Current assets	24,650	17,911
Long-term assets (A)	1,476	2,225
	26,126	20,136

Note 4 - Inventories (cont'd)

(A) Long-term Inventory:

At December 31, 2014, $1,476 of the Company's inventory is classified in long-term assets based on Management's estimate and the recent level of sales (at December 31, 2013- $2,225). Of this amount, $1,401 is comprised of spare parts (at December 31, 2013 - $1,353). 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 Functional InkJet Technology ("FIT") components and systems which in Management's estimation will not be sold during the next 12 months. Management believes that according to its forecasted sales this amount will mainly be utilized in 2016. Management believes no loss will be incurred on its disposition.

(B) Inventory write-down

As of December 31, 2014, based on the Company's decision in December 2014 to sell the remaining activities of the Sela division, an obsolescence provision was recorded in the amount of $205 against SELA inventory (at December 31, 2013 - $3,052).

The provision is recorded in the costs of products sold line item in the consolidated statement of operations. This provision results in a new cost basis that is not subsequently marked up based on changes in underlying facts and circumstances.

In addition, as of December 31, 2014, based on Management's estimates regarding future sales, an additional provision of $283 was made in the costs of products sold line item in the consolidated statement of operations against damaged, obsolete, excess and slow-moving inventory (at December 31, 2013 - $540).

As a result of the above mentioned, the total amount of the inventory write-down for the year ended December 31, 2014 is $488 (2013 - $3,592).

Note 5 - Other Current Assets

	December 31, 2014	December 31, 2013
	U.S. Dollars	
Due from Government institutions	1,013	424
Prepaid expenses	584	454
Advances to suppliers	361	290
Deposits for operating leases	113	69

Other	311	676
	2,382	1,913

Note 6 - Property, Plant and Equipment, Net

	December 31,	
	2014	2013
	U.S. Dollars	
Cost:		
Land	863	863
Building	10,286	10,245
Machinery and equipment	5,943	6,504
Office furniture and equipment	1,202	1,202
Computer equipment and software	4,602	4,566
Automobiles	65	65
Leasehold improvements	1,057	1,048
	24,018	24,493
Less accumulated depreciation	10,993	10,012
	13,025	14,481

Depreciation expenses for the years ended December 31, 2014, 2013 and 2012 amounted to $1,937, $2,166, and $1,640, 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 13(D) and Note 13(E).

Note 7 - Long-Term Restricted 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 contempt judgment pending resolution of the appeal. The bond accrues interest at the US Treasury Bill daily rate. On February 9, 2015 this contempt appeal was successful, see Note 13(C).

Note 8 - Other Assets

	December 31,	
	2014	2013
	U.S. Dollars	
Deposits for operating leases	348	339

Note 9 - Goodwill and Intangible Assets, Net

A. Goodwill

	December 31, 2014	December 31, 2013
	U.S. Dollars	
Goodwill	3,653	3,653
Accumulated impairment losses	(2,098)	(2,098)
	1,555	1,555

1. Printar

As of December 31, 2014 and 2013, based on the Company's annual impairment tests, no impairment charge was recognized for the goodwill recorded in the Printar acquisition.

2. SELA

During the fourth quarter of 2013, the Company announced that it will not continue with development of future models of its Xact product line. This resulted in an impairment of the Company's remaining goodwill with respect to SELA in the amount of $24. The impairment charge was recorded in a separate line item within operating expenses in the consolidated statement of operations. See also Note 1(B).

B. Intangible assets, net

	December 31, 2014	December 31, 2013
	U.S. Dollars	
Patent registration costs	1,959	1,805
IPR&D	1,002	1,002
Technology	2,854	2,854
Customer relationships	45	45
Intangible assets at cost	5,860	5,706
Accumulated amortization and impairment	4,932	4,698
Total intangible asset, net	928	1,008

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

B. Intangible assets, net (cont'd)

Patent registration costs are amortized over their estimated useful life of 10 years. The IPR&D is amortized over its estimated useful life of 10 years.

Amortization expense for the years ended December 31, 2014, 2013 and 2012 amounted to $234, $421 and $485, respectively. The amortization expense for 2014 includes the write-off of patents with a net value of $37 which were abandoned (in 2013 and 2012 - $33 and $28, respectively).

In 2013, the Company recorded an impairment charge of $1,684 with respect to the technology and customer relationships 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.

As of December 31, 2014, the estimated amortization expenses of intangible assets for the years 2015 to 2019 is as follows:

Year ending December 31,	U.S. Dollars
2015	176
2016	138
2017	138
2018	138
2019	126
	716

Note 10 - Other Current Liabilities

	December 31,	
	2014	2013
	U.S. Dollars	
Accrued employee compensation and related benefits	6,306	6,546
Accrued expenses	2,146	2,291
Commissions	2,048	2,040
Current maturities of contingent consideration (1)	1,900	268
Advances from customers and deferred revenues	1,416	1,985
Accrued warranty costs (2)	1,151	1,304
Government institutions	1,084	992
Current maturities of OCS liability (1)	228	159
	16,279	15,585

(1) See also Note 12 – Other long-term liabilities

(2) Changes in the accrued warranty costs are as follows:

	Year Ended December 31,		
	2014	2013	2012
		U.S. Dollars	
Beginning of year	1,304	1,150	1,637
New warranties	2,152	2,327	2,159
Reductions	(2,305)	(2,173)	(2,646)
Balance at end of year	1,151	1,304	1,150

Note 11 - 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. The liability related to these severance payments is calculated on the basis of the latest salary of the employee multiplied by the number of years of employment as of the balance sheet date. The Company also has defined contribution plans for which it makes contributions to severance pay funds and appropriate insurance policies. Withdrawal of the reserve monies is contingent upon the fulfillment of detailed provision in the Severance Law.
Under local law in various territories in which the Company operates, employees with one year or more of service are entitled to receive a lump-sum payment upon termination of their employment based on their length of service and rate of pay at the time of termination.

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 $860 and $858 as of December 31, 2014 and 2013, respectively.

3. Severance pay expenses were $1,145, $1,081, and $1,104 in 2014, 2013 and 2012, respectively.

Note 12 - Other Long-Term Liabilities

	December 31,	
	2014	2013
	U.S. Dollars	
Liability for contingent consideration in respect of business combinations (1)	-	1,762
Liability to OCS, mainly in respect of business combinations (2)	4,150	3,996
	4,150	5,758

(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 21) are measured at fair value using Level 3 inputs. See Note 1B for the effect of the Company's decision regarding SELA's future operations.

(2) Liability to OCS is in respect of the acquisitions of Printar, SELA and new grants received in 2010 and 2009. See Note 1B for the effect of the Company's decision regarding SELA's future operations.

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, 2014 were 11% and 21%, respectively. (As of December 31, 2013, 10% and 21%, for Printar and SELA, respectively).

See Note 10 for current maturities of liability for contingent consideration and liability to OCS.

Note 13 - Commitments and Contingencies

A. Operating leases

The Company’s subsidiaries have entered into various non-cancelable operating lease agreements, principally for office space. In addition, in 2013, 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, 2014, minimum future rental payments under such non-cancelable operating leases are as follows:

Year Ending December 31,	U.S. Dollars
2015	1,558
2016	946
2017	287
Thereafter	-
	2,791

Aggregate office rent expenses amounted to $845, $1,002, and $979 in 2014, 2013 and 2012, 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 beginning of period	Provision	Reversal of provision	Write-off of provision	Balance at end of period
			U.S. Dollars		
2012	2,227	307	(140)	(1,071)	1,323
2013	1,323	272	(218)	(16)	1,361
2014	1,361	344	(164)	(15)	1,526

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 (the “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 (the “’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 (the "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 supplemental award of $646 in damages for Falcon sales which occurred after the time period considered by the jury.

Note 13 - Commitments and Contingencies (cont'd)

C. Litigation (cont'd)

1. (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 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. On February 9, 2015 a jury verdict in favor of Rudolph was rendered in this action, awarding Rudolph the previously awarded damages of $7,400 plus interest, together amounting to approximately $14,500 and also reinstating the Injunction.

The Company has filed its Notice of Appeal of the Court's judgment to the United States Court of Appeals for the Federal Circuit. On March 11, 2015, the Company also posted a $15,000 bond with the Court to stay collection of the judgment pending resolution of the appeal. The bond was secured by a guarantee from Bank Mizrahi in respect of which the Company was required to place $7,875 in a restricted deposit. In addition, this guarantee is secured by a lien that was previously placed on the Company's facility in Israel, in accordance with agreements signed in August 2010 and August 2011 with Bank Leumi L'Israel and in August 2011 with Bank Mizrahi.

Although it is difficult to predict the outcome of this patent infringement case, the Company believes that it has a strong legal position, and intends to continue to vigorously defend it in the Court and in the Court of Appeals, if required. The total range of loss for this case is between $0 to $14.5 million (excluding future interest and legal fees), 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 sanctions 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. On November 18, 2013 the Court of Appeals issued an opinion finding that the underlying contempt and sanctions findings were not final, appealable orders until after the resolution of the retrial of infringement of the '298 Patent infringement case in the Minnesota District Court. The Company deposited $729 with the Court as a bond while the appeal is pending. The jury verdict rendered February 9, 2015 in the '298 Patent infringement case ruled in favor of the Company in this action, and overturned the contempt findings and accordingly vacated the sanctions in the amount of $646. The Company has requested return of the deposited funds.

Note 13 - 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 (the "'528 Patent") relating to semiconductor wafer inspection technology similar to that described in the '298 Patent. On January 19, 2012, the Company filed a re-examination request with the U.S Patent and Trademark Office (the "PTO") seeking re-examination of the '528 Patent. The PTO granted the re-examination request and preliminarily found that 18 claims were invalid. This PTO decision is not final and could change. On April 13, 2012, Rudolph agreed to stay the case until the completion of the re-examination. The District Court 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. The Company denies infringement and believes the claims of the '528 Patent are invalid.

3. On March 12, 2015, Rudolph filed a new lawsuit against the Company in the District Court alleging that the Eagle product infringes the '298 Patent. The suit does not demand a specific dollar amount but rather asks for an accounting for damages and for a preliminary and permanent injunction against infringing activity. The Company believes that its Eagle does not infringe the '298 patent and intends to defend itself from the allegations in this claim.

D. Agreement with Bank Leumi L'Israel ("BLL")

In 2010, the Company was required to secure its obligations to BLL by a lien on its facility in Israel and a floating charge on its assets. Despite the completion of these obligations, these securities are still in place in order to facilitate the possibility of future credit.

E. Agreement with Bank Mizrahi

In July 2011 the Company signed an agreement with Bank Mizrahi for a credit facility. The Company's obligations to the Bank were secured by a lien on its facility in Israel and a floating charge on its assets.

As of December 31, 2014 the credit facility has not been utilized.

See Note 22 regarding an agreement signed with Bank Mizrahi in March 2015.

F. Chief Scientist

Through its acquisition of Printar and SELA in 2009, 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, 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, 2014 the amount of non-repaid grants received including interest accrued, in respect of Printar and SELA, amounted to $6,029 and $2,352, respectively (December 31, 2013 - $5,810 and $2,525, 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, 2014 amounted to $3,670 and $60 , respectively (December 31, 2013 - $3,303 and $202 , respectively). (See Note 12 – Other long-term liabilities).

In 2009 and 2010, the Company received further grants in the amount of $598 ($648 including accrued interest) from the OCS in connection with the research and development activities related to the Printar acquisition.

Note 13 - Commitments and Contingencies (cont'd)

G. Dispute with Chief Scientist

A dispute has arisen between the Company and the OCS in Israel in the amount of approximately $770, 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, 2014, the Company has purchase orders of $9,972 (2013 - $6,085) which mainly represent outstanding purchase commitments for inventory components ordered by the Company in the normal course of business.

Note 14 - Concentration of Risk and Financial Instruments

Financial instruments that potentially expose the Company to concentrations of credit risk consist of cash equivalents, short-term bank deposits and trade receivables. The carrying amounts of financial instruments approximate fair value.

Cash and cash equivalents
The Company's cash equivalents are maintained with multiple high-quality institutions and the composition and maturities of investments are regularly monitored by management.

Trade receivable
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.

Trade payable
The Company relies on limited source of suppliers and in some cases a sole supplier and/or 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.

Liquidity:

As mentioned in Note 13C1, in March 2015, the Company posted a $15,750 bond with the United States Court of Appeals. Although the bond was posted for an undetermined period of time and will impact the Company's liquidity, the Company anticipates that its existing resources and cash flows from operations will be adequate to satisfy its liquidity requirements through calendar year 2015. If available liquidity will not be sufficient to meet the Company's operating needs, Management's plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company's cash requirements.

Note 14 - Concentration of Risk and Financial Instruments (cont'd)

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, 2014 are:

	Notional amount	Fair value
	U.S. Dollars	
Options		
Buy put options (Buy dollars and Sell NIS)	4,250	13
Sell call options (Sell dollars and Buy NIS)	4,250	(102)

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 loss of $(96) and $(66) for the years ended December 31, 2014 and 2013, 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.

Note 15 - 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.

Note 15 - Shareholders' Equity (cont'd)

C. Stock Option Plan

As of December 31, 2014, the Company has six stock option plans for employees and directors. Future options will be granted only pursuant to the 2014 Share Option Plans 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 4 years from the date of grant. On December 30, 2013, the Board of Directors elected to further extend the period of 2003 share option plan until June 30, 2014.

In October 2014, the Company adopted a 2014 Share Plan and its corresponding Sub-Plan for Grantees Subject to United States Taxation and Sub-Plan for Grantees Subject to Israeli Taxation which replaced the 2003 Share Option Plan. The total number of options that may be granted under the 2014 Share Option Plan is 3,000,000 options.

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.

	2014 Grant	2013 Grant
Valuation assumptions:		
Dividend yield	0	0
Expected volatility	64%-71 %	64%-69%
Risk-free interest rate	1.67%-2.3%	1.74 %
Expected life (years)	4.8-6.4	6.4
Vesting period (years)	4	4

In the years ending December 31, 2014, 2013 and 2012, 296,000, 75,000 and 134,010 options were granted, respectively.

The total intrinsic value of outstanding as options as of December 31, 2014, 2013, and 2012 is $205, $813 and $42, respectively.

The total intrinsic value of vested options as of December 31, 2014, 2013, and 2012 is $87, $275 and $0 respectively.

The total intrinsic value of options exercised during 2014 is $190.

The total stock option compensation expense amounted to $308, $361, and $329 in 2014, 2013 and 2012, respectively.

As of December 31, 2014, there was $536 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 3.07 years.

Note 15 - Shareholders' Equity (cont'd)

C. Stock Option Plan (cont'd)

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

	Year Ended December 31,					
	2014		2013		2012	
	Number of options	Weighted average exercise price US$	Number of options	Weighted average exercise price US$	Number of options	Weighted average exercise price US$
Outstanding at January 1	735,519	2.99	1,195,085	3.15	1,234,199	3.31
Granted	296,000	3.53	75,000	1.73	134,010	1.60
Forfeited and cancelled	(108,724)	2.47	(174,915)	2.96	(173,124)	3.11
Exercised	(88,996)	2.14	(359,651)	3.26	-	-
Outstanding at year end	833,799	3.34	735,519	2.99	1,195,085	3.15
Vested at year end	423,291	3.56	368,016	3.42	395,395	3.29

	Number of options outstanding	Weighted average exercise price US$	Weighted Average Remaining Contractual term (years)	Aggregate intrinsic Value (in US$ thousands)
Outstanding as of December 31, 2014	833,799	3.34	0.73	205.66
Vested and expected to vest at December 31, 2014	800,958	3.34	0.73	189.20
Exercisable at December 31, 2014	423,291	3.56	3.00	87.68

The following table summarizes information about share options at December 31, 2014:

Exercise price US$	Number of outstanding options	Number exercisable	Weighted average remaining contractual life in years
0-2	155,000	66,248	7.82
3-5	668,799	347,043	7.19
6-7	10,000	10,000	1.58

	833,799	423,291	7.24

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Note 15 - Shareholders' Equity (cont'd)

C. Stock Option Plan (cont'd)

The following table summarizes information about nonvested options at December 31, 2014:

	Options	Weighted average grant- date fair value
Balance at January 1, 2014	367,503	1.32
Granted	296,000	1.82
Vested	(164,254)	1.88
Forfeited	(88,741)	1.21
Balance at December 31, 2014	410,508	1.48

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 vesting schedules as determined by the Board.

Forfeited units are returned to the pool.

Total share based awards expense amounted to $0, $19, and $72 in 2014, 2013 and 2012, respectively.

Note 15 - Shareholders' Equity (cont'd)

D. Restricted Share Unit Plan (cont'd)

The total unrecognized compensation cost amounted to $0.

As of the balance sheet date the number of RSU's available for grant was 670,129.

There was no activity under the Restricted Share Unit Plan in 2014.

Note 16 - 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,		
	2014	2013	2012
	U.S. Dollars (In thousands, except per share data)		
Net income attributable to Ordinary Shares	3,337	7	3
Weighted average number of Ordinary Shares outstanding used in basic earnings per Ordinary Share calculation	30,464	30,040	29,849
Add assumed exercise of outstanding dilutive potential Ordinary Shares	81	54	164
Weighted average number of Ordinary Shares Outstanding used in diluted earnings per Ordinary Share calculation	30,545	30,094	30,013
Basic income per Ordinary Share	0.11	0.00	0.00
Diluted income per Ordinary Share	0.11	0.00	0.00
Number of options excluded from the diluted earnings per share calculation due to their anti-dilutive effect	391	526	976

Camtek Ltd. and its subsidiaries

Notes to the Financial Statements as at December 31, 2014

Note 17 - Segment Information

Description of segments:

Until the fourth quarter of 2013, the Company operated under one reporting segment. During the first quarter of 2014, following a change in the role of the Company's chief operating decision-maker (“CODM”), the Company determined that it operates under two reportable segments.

The Company's segment information has been prepared in accordance with ASC 280, "Segment Reporting." Operating segments are defined as components of an enterprise engaging in business activities about which separate financial information is available that is evaluated regularly by the in deciding how to allocate resources and assess performance. The Company's CODM is its Active Chairman and Chief Executive Officer, who evaluates the Company's performance and allocates resources based on segment revenues and operating income.

The Company's reportable segments are as follows: semiconductor fabrication industry (“microelectronics”) and printed circuit boards industry (“PCB”).

Microelectronics - The semiconductor fabrication industry produces integrated circuits on silicon (or other semiconductor materials) wafers; each wafer contains numerous integrated circuits dices which are small block of semiconducting material on which a given functional circuit is fabricated.

PCB - A printed circuit board is the basic platform that supports and interconnects a broad range of electronic components, such as integrated circuit devices, resistors, capacitors, coils and the like, and enables them to operate as an electronic system. Printed circuit boards consist of traces, or lines, of conductive material, such as copper, laminated on either a rigid or a flexible insulating base.

Segment data:

The Company derives the results of its business segments directly from its internal management reporting system and by using certain allocation methods. The accounting policies the Company uses to derive business segment results are substantially the same as those the Company uses for consolidation of its financial statements. The CODM measures the performance of each business segment based on several metrics, including earnings from operations. CODM uses these results, in part, to evaluate the performance of, and to assign resources to, each of the business segments. The Company does not allocate to its reportable segments certain operating expenses, which it manages separately at the corporate level.

Note 17 - Segment Information (cont'd)

The Company does not allocate any assets to segments and, therefore, no amount of assets is reported to management and disclosed in the financial information for segments. Selected operating results information for each business segment was as follows for the year ended December 31, 2014, 2013 and 2012:

	Year Ended December 31,					
	Revenues			Income (loss) from operations		
	2014	2013	2012	2014	2013	2012
	U.S. Dollars			U.S. Dollars		
PCB	30,480	31,803	29,398	(2,422)	(1,588)	*
Microelectronics	57,833	53,602	55,149	9,922	5,605	*
Total	88,313	85,405	84,547	7,500	4,017	*

* It is impracticable to present 2012 income (loss) from operations by segment due to lack in internal management reporting system.

The reconciliation of segment operating results information to the Company's consolidated financial information was as follows:

	Year Ended December 31,	
	2014	2013
	U.S. Dollars	
Income from operations	7,500	4,017
Unallocated general and administrative expenses	2,056	2,501
Share-based compensation expenses	308	380
Financial expenses	1,220	1,738
Consolidated income (loss) before taxes	3,916	(602)

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,		
	2014	2013	2012
	U.S. Dollars		
China and Hong Kong	28,526	25,889	25,008
Taiwan	17,495	14,543	11,292
United States	12,518	11,705	9,482
Asia- Other	11,336	6,072	10,739
Korea	8,889	15,691	17,004
Western Europe	5,739	6,519	6,998
Japan	3,204	4,010	2,370

Rest of the world	606	976	1,654
	88,313	85,405	84,547

Note 18 - Selected Income Statement Data

A. Selling, general and administrative expenses

	Year Ended December 31,		
	2014	2013	2012
	U.S. Dollars		
Selling (1)	14,337	13,906	13,827
General and administrative	7,080	8,456	7,311
	21,417	22,362	21,138
(1) Including shipping and handling costs	879	652	1,076

B. Financial income (expenses), net

	Year Ended December 31,		
	2014	2013	2012
	U.S. Dollars		
Interest expense	(6)	(181)	(163)
Interest income	77	90	38
Re-evaluation of contingent consideration	(258)	(858)	1,037
Re-evaluation expense on liabilities to the OCS	(370)	(504)	(667)
Other, net (*)	(663)	(285)	(12)
	(1,220)	(1,738)	233

(*) Other, net includes foreign currency income (expense) resulting from transactions not denominated in U.S. Dollars amounting to $(546), $(188), and $84 in 2014, 2013 and 2012, respectively.

Note 19 - 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. Details regarding the tax environment of the Israeli companies

(1) Corporate tax rate

Presented hereunder are the tax rates relevant to the Company in Israel for the years 2012-2014:

2012 – 25%
2013 – 25%

2014 – 26.5%

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, by which, inter alia, the corporate tax rate would be raised by 1.5% to a rate of 26.5% as from 2014.

Current taxes for the reported periods are calculated according to the tax rates presented above, subject to the benefit under the Law for the Encouragement of Capital Investment.

Note 19 - Income Taxes (cont'd)

B. Details regarding the tax environment of the Israeli companies (cont'd)

(2) Benefits under the Law for the Encouragement of Capital Investments (hereinafter - "the Encouragement Law")

(a) Beneficiary enterprise

An industrial enterprise of the Company and a certain subsidiary were granted "Beneficiary Enterprise" status in accordance with the Encouragement Law. The Company has chosen 2005 and 2010 as the years of election.

The income generated by the "Beneficiary Enterprise" is exempt from tax over a period of up to 10 years beginning with the year in which the Company first had taxable income and subject to the years of election (limited to the earlier of a maximum period of 12 years from the year of election). The tax benefit period of the beneficiary enterprise that commenced operations in 2005 and 2007 will end in 2014 and 2016, respectively, whereas the benefit period of the beneficiary enterprise that commenced operations in 2010 will end in 2021. The benefits are contingent upon compliance with the terms of the Encouragement Law, such provisions generally require that at least 25% of the Beneficiary Enterprise's income will derive from export. The Company is currently in compliance with these terms.

A company having a beneficiary enterprise that distributes a dividend from exempt income, will be required in the tax year of the dividend distribution to pay income tax on the amount of the dividend distributed at the tax rate that would have been applicable to it in the year the income was produced if it had not been exempt from tax.

(b) 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"). Companies could choose not to be included in the scope of the Amendment to the Encouragement Law and to stay in the scope of the law before its amendment until the end of the benefits period of its approved/beneficiary enterprise. The Company has decided not to be included in the scope of the Amendment in respect of its applicable benefit programs.

On August 5, 2013 the Knesset passed the Law for Changes in National Priorities (Legislative Amendments for Achieving Budget Objectives in the Years 2013 and 2014) – 2013, which determined that as of 2014 tax year the tax rate on preferred income will be 9% for Development Area A and 16% for the rest of the country.

Note 19 - Income Taxes (cont'd)

B. Details regarding the tax environment of the Israeli companies (cont'd)

(2) Benefits under the Law for the Encouragement of Capital Investments (hereinafter - "the Encouragement Law") (cont'd)

(c) 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.

Out of Camtek's retained earnings as of December 31, 2014 approximately $18,400 are tax-exempt earnings attributable to its Approved Enterprise and approximately $9,800 are tax-exempt earnings attributable to its Beneficiating Enterprise. The tax-exempt income attributable to the Approved and Beneficiating Enterprises cannot be distributed to shareholders without subjecting the Company to taxes. If these retained tax-exempt profits are distributed, the Company would be taxed at the reduced corporate tax rate applicable to such profits (currently - 25% pursuant to the implementation of the Investment Law). According to the Amendment, tax-exempt income generated under the Beneficiating Enterprise will be taxed upon dividend distribution or complete liquidation, whereas tax exempt income generated under the Approved Enterprise will be taxed only upon dividend distribution (but not upon complete liquidation, as the tax liability will be incurred by the shareholders).

As of December 31, 2014, if the income attributed to the Approved Enterprise was distributed as dividend, the Company would incur a tax liability of approximately $4,600. If income attributed to the Beneficiary Enterprise was distributed as dividend, or upon liquidation, the Company would incur a tax liability in the amount of approximately $2,450. These amounts will be recorded as an income tax expense in the period in which the Company declares the dividend.

C. Details regarding the tax environment of the Non Israeli companies

Non Israeli subsidiaries are taxed according to the tax laws in their countries of residence as reported in their statutory financial statement prepared under local accounting regulations.

The subsidiaries in China were entitled to 50% tax reduction from the standard tax rate of 25% for a period of time. 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 ended in 2013 for Camtek Imaging Technology ("CIT").

As of December 31, 2014, Camtek has not provided for income taxes on the undistributed earnings of approximately $14,826 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. The Company's management has determined not to distribute any amounts of its undistributed income as a dividend if such distribution would result in a tax liability.

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Note 19 - Income Taxes (cont'd)

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

	Year Ended December 31,		
	2014	2013	2012
		U.S. Dollars	
Income (loss) before income taxes:			
Israel	2,975	(2,638)	(1,299)
Non-Israeli	941	2,036	1,512
	3,916	(602)	213
Income tax expense:			
Current:			
Israel	191	121	44
Non-Israeli	224	709	398
	415	830	442
Deferred tax expense (benefit):			
Israel	38	(1,287)	-
Non-Israeli	126	(152)	(232)
	164	(1,439)	(232)
	579	(609)	210

Note 19 - Income Taxes (cont'd)

E. Reconciliation of statutory tax expense to actual income tax

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:

	Year Ended December 31,		
	2014	2013	2012
		U.S. Dollars	
Income (loss) before income taxes	3,916	(602)	213
Statutory tax rate	26.5%	25%	25%
Theoretical income tax expense (benefit)	1,038	(151)	53
Increase (decrease) in income tax expense resulting from:			
Tax expense (benefits) arising from "Approved and Beneficiating Enterprises" and preferential tax rate in China	(1,215)	711	492
Change in valuation allowance(*)	(40)	586	(983)
Non-deductible expenses(**)	55	218	650
Differences between Israeli currency and dollar-adjusted financial statements-net	952	(1,133)	160
Purchase price adjustment for contingent liabilities	-	(580)	-
Foreign tax rate differential	(13)	(101)	29
Other	(198)	(159)	(191)
Actual income tax expense (benefit)	579	(609)	210
Per share effect of the tax benefits arising from "Approved and Beneficiating Enterprises" and preferential tax rate in China:			
Basic	$(0.04)	$ 0.00	$ 0.02
Diluted	$(0.04)	$ 0.00	$ 0.02

(*)

In 2014 an amount of $616 is a decrease in valuation allowance in respect to expiration of tax losses and revaluation of the valuation allowance. In addition, Included within the change in valuation allowance are realized benefits of operating loss carryforwards of $42, $68 and $635, for the years ended December 31, 2014, 2013 and 2012, respectively.

(**) Including non-deductible share based compensation.

Note 19 - Income Taxes (cont'd)

F. Deferred tax assets and liabilities

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

	December 31,	
	2014	2013
	U.S. Dollars	
Deferred tax assets:		
Allowance for doubtful accounts	136	96
Accrued warranty	114	109
Unearned revenue	125	151
Accrued expenses	448	303
Net operating losses (NOL) and tax credit carryforwards	3,761	4,398
Other temporary differences*	334	663
Total gross deferred tax assets	4,918	5,720
Valuation allowance	(2,953)	(3,609)
Deferred tax asset, net of valuation allowance	1,965	2,111
Deferred tax liability:		
Property, plant and equipment	(216)	(198)
Net deferred tax assets	1,749	1,913

* Other temporary differences primarily relate to research and development expenses

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.

In assessing the realizability of deferred tax assets, management considers 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.

At December 31, 2014 and 2013 the Company had valuation allowance of $2,953 and $3,609 on certain of deferred tax assets. The net change in the total valuation allowance was a decrease of $656, $1,532 and $983 for the years ended December 31, 2014, 2013 and 2012, respectively. The amount of the deferred tax asset considered realizable, however, could be reduced in the near term if estimates of future taxable income during the carryforward period are reduced.

As of December 31, 2014, the Company and its subsidiaries in Israel have regular NOL carryforwards aggregating approximately $58,894 that will not expire.

Note 19 - Income Taxes (cont'd)

F. Deferred taxes (cont'd)

As of December 31, 2014, the major foreign subsidiaries have NOL carryforwards aggregating approximately $1,569, of which approximately $550 can be utilized up to 20 years from the year it was established and approximately $1,009 can be carried forward indefinitely.

G. Accounting for uncertainty in income taxes

For the years ended December 31, 2014, 2013 and 2012, 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 an underpayment of income taxes as a component of income tax expense. For the years ended December 31, 2014, 2013 and 2012, no interest and penalties related to income taxes have been accrued.

H. Tax assessments

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 2009, in addition, the Israeli tax returns of SELA are open to examination by the Israeli Tax Authorities for the tax years beginning in 2009, while the tax returns of its principal foreign subsidiaries remain subject to examination for the tax years beginning in 1999 in Belgium, 2007 in Hong Kong and 2010 in the United States of America.

Note 20 - Balances and Transactions with Related Parties

A. Balances with related parties:

	December 31, 2014	December 31, 2013
	U.S. Dollars	
Accounts receivable	101	43
Accounts payable	-	6
Due from affiliated companies	501	233

B. Transactions with related parties:

	Year Ended December 31,		
	2014	2013	2012
	U.S. Dollars		

Purchases from Parent and affiliates	93	57	-
Interest income from Parent	24	4	15
Sales to Parent and affiliated companies	297	347	142

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

Note 20 - Balances and Transactions with Related Parties (cont'd)

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

Pursuant to employment agreement with the Active Chairman of the Board of Directors and Chief Executive Officer ("Active 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 does not receive any additional compensation for his service as the Company's Active Chairman.

Note 21 - 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.

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Note 21 - Fair Value Measurements (cont'd)

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2014 and December 31, 2013, aggregated by the level in the fair-value hierarchy within which those measurements fall:

Description	December 31, 2014	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	U.S. Dollars			
Liabilities				
Foreign currency derivative contracts	89	-	89	-
Contingent consideration	1,900	-	-	1,900
Total Liabilities	1,989	-	89	1,900

Description	December 31, 2013	Quoted Prices in Active Markets for Identical Assets (Level 1)	Significant Other Observable Inputs (Level 2)	Significant Unobservable Inputs (Level 3)
	U.S. Dollars			
Assets				
Foreign currency derivative contracts	7	-	7	-
Total Assets	7	-	7	-
Liabilities				
Contingent consideration	2,030	-	-	2,030
Total Liabilities	2,030	-	-	2,030

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 years ended December 31, 2014 and 2013.

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) liabilities for the year ended December 31, 2014 and 2013:

Level 3
U.S. Dollars

	Contingent consideration
December 31, 2013	2,030
Settlement of liabilities	(268)
Revaluation of fair value included in statement of operations	138
December 31, 2014	1,900

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Note 21 - Fair Value Measurements (cont'd)

	Level 3 U.S. Dollars Contingent consideration
December 31, 2012	5,303
Settlement of liabilities	(639)
Revaluation of fair value included in statement of operations	(2,634)
December 31, 2013	2,030

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, 2014, 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, 2014, 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.

Note 22 - Subsequent Events

A. See Note 13C (1) regarding the court's ruling subsequent to balance sheet date and its expected effect on the Company's resources and expected cash flows.

B. In connection with the issuance of the appeal bond, in March 2015 the Company signed an agreement with Bank Mizrahi, according to which the bank provided a bank guarantee in the amount of $15,750 in order to support the appeal bond, which was issued by a surety company in the United States. The Company's obligations to the bank are secured by a lien on its facility in Israel, restricted deposits in the amount of approximately $7,875 and a floating charge on its assets. In addition, the Company signed a covenant agreement with the bank which requires it to comply with certain financial covenants.

C. On March 12, 2015, Rudolph filed a new lawsuit against the Company. See Note 13C (3).

Item 19. Exhibits.

Exhibit No.	Exhibit
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	2003 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	2003 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	2014 Share Option Plan (incorporated herein by reference to Exhibit A to the Registrant's Registration Statement on Form 6-K, File No. 000-30664, filed with the Securities and Exchange Commission on October 6, 2014).
4.10	2014 Sub-Plan for Grantees Subject to United States Taxation (incorporated herein by reference to Exhibit A to the Registrant's Registration Statement on Form 6-K, File No. 000-30664, filed with the Securities and Exchange Commission on October 6, 2014).
4.11	2014 Sub-Plan for Grantees Subject to Israeli Taxation (incorporated herein by reference to Exhibit A to the Registrant's Registration Statement on Form 6-K, File No. 000-30664, filed with the Securities and Exchange Commission on October 6, 2014).

4.12	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).
4.13	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, Independent Registered Public Accounting Firm, 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, 2014, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2014, 2013 and 2012; (ii) Consolidated Balance Sheets at December 31, 2013 and 2012; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2014, 2013 and 2012; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2014, 2013 and 2012; 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/ Rafi Amit
Name:	Rafi Amit
Title:	Active Chairman

Date: March 18, 2015

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