

CAMTEK LTD
Form 20-F/A
November 09, 2009

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, DC 20549

FORM 20-F/A

(Amendment No. 1)

(Mark One)

Registration statement pursuant to Section 12(b) or (g) of the Securities Exchange Act of 1934

or

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

For the fiscal year ended December 31, 2006

or

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

or

Shell Company pursuant to Section 13 or 15(d) of the Securities Exchange Act of 1934 \ Date of event requiring this shall Company report

For the transition period from _____ to _____

Commission file number 000-30664

Camtek Ltd.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

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

(Address of principal executive offices)

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

Ordinary Shares, nominal value 0.01 New Israeli Shekel per share (Title of each Class)

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Nasdaq Global Market
(Name of each Exchange on which registered)

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

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

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

30,040,855 Ordinary Shares, par value NIS 0.01

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

Yes No

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

Yes No

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

Yes No

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

Large Accelerated Filer Accelerated Filer Non-Accelerated Filer

Indicate by check mark which financial statements the registrant has elected to follow.

Item 17 Item 18

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

Yes No

EXPLANATORY NOTE

This Amendment No. 1 to the Annual Report on Form 20-F for the fiscal year ended December 31, 2006 (the "Annual Report") is being filed by Camtek Ltd. (the "Registrant") with the Securities and Exchange Commission for the sole purpose of filing the audit report of Brightman Almagor & Co. and Goldstein Sabo Tevet in Item 18 of the Annual Report.

This Amendment No. 1 consists of a cover page, this explanatory note, the financial statements, as amended, required by Item 18, the exhibit index, the signature page and the required certifications of the principal executive officer and principal financial officer of the Registrant.

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Other than expressly set forth herein, this Amendment No. 1 does not, and does not purport to, amend or restate any other information contained in the Annual Report nor does this Amendment No. 1 reflect any events that have occurred after the Annual Report was filed.

Item 18. Consolidated Financial Statements.**CAMTEK LTD.****Consolidated Financial Statements
December 31, 2006 and 2005**

CAMTEK LTD.

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**Report of Independent Registered Public Accounting Firm
To the Board of Directors and Shareholders of
Camtek Ltd.**

We have audited the accompanying consolidated balance sheet of Camtek Ltd. and subsidiaries (the Company) as of December 31, 2006 and the related consolidated statements of operations, comprehensive income, shareholders' equity and comprehensive income and cash flows for the year then ended. 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 audit.

We conducted our audit 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 audit provides a reasonable basis for our opinion.

In our opinion, the 2006 consolidated financial statements referred to above present fairly, in all material respects, the financial position of Camtek Ltd. and subsidiaries as of December 31, 2006 and the results of their operations and their cash flows for the year then ended in conformity with U.S. generally accepted accounting principles.

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As discussed in Note 2Q to the consolidated financial statements, effective January 1, 2006, the Company adopted the fair value method of accounting for stock-based compensation as required by Statement of Financial Accounting Standard No. 123R Share Based Payment .

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

Tel Aviv, June 28, 2007

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRMS

To the Shareholders of
Camtek Ltd.

We have audited the accompanying consolidated balance sheets of Camtek Ltd. (the Company) and its subsidiaries as of December 31, 2005 and 2004, and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the three years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these 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. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, 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 present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2005 and 2004 and the consolidated results of their operations, and their cash flows for each of the three years then ended, in conformity with U.S. generally accepted accounting principles.

Brightman Almagor & Co.

Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Goldstein Sabo Tevet

Certified Public Accountants

Tel Aviv, Israel
March 12, 2006.

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CAMTEK LTD.

Consolidated Balance Sheets

(In thousands)

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	December 31,	
	2006	2005
	U.S. Dollars	
ASSETS		
CURRENT ASSETS		
Cash and cash equivalents	23,358	8,714
Marketable securities (Note 3)	2,099	2,101
Accounts receivable, net (Note 11b,c)	29,434	26,412
Inventories (Note 4)	41,414	24,942
Due from affiliates	180	290
Other current assets (Note 5)	2,372	2,817
Deferred tax (Note 17)	65	-
	<u>98,922</u>	<u>65,276</u>
Total current assets		
FIXED ASSETS (Note 6)		
Cost	15,927	14,405
Less - Accumulated depreciation	5,198	4,442
	<u>10,729</u>	<u>9,963</u>
Fixed assets, net		
Deferred tax (Note 17)	369	-
	<u>786</u>	<u>-</u>
Other assets, net (Note 7)		
Total assets	<u>110,806</u>	<u>75,239</u>
LIABILITIES		
CURRENT LIABILITIES		
Accounts payable - trade	11,801	8,678
Due to affiliates	814	-
Other current liabilities (Note 8)	12,831	8,721
	<u>25,446</u>	<u>17,399</u>
Total current liabilities		
Convertible loan (Note 9)	5,000	5,000
Liability for employee severance benefits (Note 10)	222	222
	<u>30,668</u>	<u>22,621</u>
Total liabilities		
SHAREHOLDERS' EQUITY (Note 13)		
Ordinary shares NIS 0.01 par value, authorized 100,000,000 shares, issued 31,052,474 in 2006 and 28,095,516 in 2005, outstanding 30,040,855 in 2006 and 27,083,897 in 2005	132	125
Additional paid-in capital	59,420	43,732
Deferred stock-based compensation	-	(221)
Accumulated other comprehensive loss Unrealized loss on marketable securities	(1)	(2)
Retained earnings	21,580	9,977
	<u>81,131</u>	<u>53,611</u>
Treasury stock, at cost (1,011,619 shares in 2006 and 2005)	(993)	(993)
Total shareholders' equity	<u>80,138</u>	<u>52,618</u>

COMMITMENTS AND CONTINGENT LIABILITIES (Note 11)

Total liabilities and shareholders equity	110,806	75,239
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See accompanying notes to consolidated financial statements

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CAMTEK LTD.

Consolidated Statements of Operations

(In thousands)

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars		
Revenues:			
Sales of products	92,470	56,987	63,353
Service fees	7,585	6,045	4,066
Total revenues (Note 15)	100,055	63,032	67,419
Cost of revenues:			
Cost of products sold	42,600	28,262	28,193
Cost of services	5,842	4,519	3,168
Total cost of revenues	48,442	32,781	31,361
Gross profit	51,613	30,251	36,058
Research and development costs	11,831	8,469	7,328
Selling, general and administrative expenses (Note 16a)	27,850	18,760	15,953
Aborted share issuance expenses (Note 16c)	-	-	1,122
Total operating expenses	39,681	27,229	24,403
Operating income	11,932	3,022	11,655
Financial expenses, net (Note 16b)	(288)	(320)	(359)

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Income before income taxes	11,644	2,702	11,296
Income taxes (Note 17)	(41)	-	(499)
	<u>11,603</u>	<u>2,702</u>	<u>10,797</u>
Net income			
Net income per ordinary share:			
Basic	0.40	0.10	0.40
Diluted	0.39	0.10	0.39
Weighted average number of ordinary shares outstanding:			
Basic	29,176	27,253	27,114
Diluted	29,553	27,586	27,800
See accompanying notes to consolidated financial statements			

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CAMTEK LTD.

Consolidated Statements of Comprehensive Income

(In thousands)

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars		
Net income	11,603	2,702	10,797
Other comprehensive income:			
Realization of loss on available for sale securities, net of taxes (nil)	2	-	-
Unrealized holding loss on available for sale securities arising during the year, net of taxes (nil)	(1)	(2)	-
Comprehensive income	<u>11,604</u>	<u>2,700</u>	<u>10,797</u>

See accompanying notes to consolidated financial statements

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CAMTEK LTD.

Consolidated Statements of Shareholders Equity And Comprehensive Income (Loss)**(In thousands, except share data)**

	Ordinary Shares NIS 0.01 par value		Number of treasury shares	Additional paid-in capital	Deferred stock based compensation	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Treasury stock	Total shareholders equity
	Shares	U.S. Dollars							
Balances at January 1, 2004	28,065,038	125	(1,011,619)	43,801	(560)	-	(3,522)	(993)	38,851
Exercise of share options	20,728	-	-	-	-	-	-	-	-
Cancellation of share options	-	-	-	(69)	69	-	-	-	-
Amortization of share options	-	-	-	-	128	-	-	-	128
Net income	-	-	-	-	-	-	10,797	-	10,797
Balances at December 31, 2004	28,085,766	125	(1,011,619)	43,732	(363)	-	7,275	(993)	49,776
Exercise of share options	9,750	-	-	15	-	-	-	-	15
Cancellation of share options	-	-	-	(15)	15	-	-	-	-
Amortization of share options	-	-	-	-	127	-	-	-	127
Unrealized loss on marketable Securities	-	-	-	-	-	(2)	-	-	(2)
Net income	-	-	-	-	-	-	2,702	-	2,702
Balances at December 31, 2005	28,095,516	125	(1,011,619)	43,732	(221)	(2)	9,977	(993)	52,618
Application of new accounting Standard 123R	-	-	-	(221)	221	-	-	-	-
Share issuance, net of issuance expenses*	2,525,252	6	-	14,442	-	-	-	-	14,448
Exercise of share options	431,706	1	-	701	-	-	-	-	702
Share based compensation expense	-	-	-	766	-	-	-	-	766
Realization of loss on marketable securities	-	-	-	-	-	2	-	-	2
Unrealized loss on marketable securities	-	-	-	-	-	(1)	-	-	(1)
Net income	-	-	-	-	-	-	11,603	-	11,603
	31,052,474	132	(1,011,619)	59,420	-	(1)	21,580	(993)	80,138

Balances at
December 31, 2006

* Net of issuance expenses at the amount of \$560 thousand.
See accompanying notes to consolidated financial statements

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CAMTEK LTD.

Consolidated Statements of Cash Flows

(In thousands)

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars		
Cash flows from operating activities:			
Net income	11,603	2,702	10,797
Adjustments to reconcile net income to net cash provided by (used in) operating activities:			
Depreciation and amortization	794	658	747
Loss (gain) on disposal of fixed assets	24	(6)	(4)
Gain from marketable securities, net	(6)	-	-
Amortization of unearned compensation	766	127	128
Provision for bad debts, net	647	(30)	146
Accrued severance pay	-	-	(190)
Changes in operating assets and liabilities:			
Accounts receivable	(4,099)	(4,154)	(8,958)
Inventories	(16,472)	(50)	(11,205)
Deferred tax	(434)	-	-
Due to affiliates, net	924	189	2,173
Other current assets and deferred expenses	(229)	(724)	823
Accounts payable - trade	3,123	463	1,230
Other current liabilities	4,110	626	2,457
Net cash provided by (used in) operating activities	751	(199)	(1,856)
Cash flows from investing activities:			
Purchase of marketable securities	(3,891)	(2,103)	-
Proceeds from sale of marketable securities available for sale	3,900	-	-
Purchase of fixed assets	(1,582)	(673)	(829)
Purchase of intangible assets	(114)	-	-
Proceeds from disposal of fixed assets	-	18	25
Net cash used in investing activities	(1,687)	(2,758)	(804)
Cash flows from financing activities:			

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(Decrease) increase in short-term bank credit	-	(2,335)	35
Net proceeds from issuance of ordinary shares	14,448	-	-
Exercise of share options	702	15	-
Long-term convertible loan	-	5,000	-
Aborted share issuance expenses	-	-	(1,122)
	<u>15,150</u>	<u>2,680</u>	<u>(1,087)</u>
Effect of exchange rate changes on cash	430	(150)	51
	<u>14,644</u>	<u>(427)</u>	<u>(3,696)</u>
Net increase (decrease) in cash and cash equivalents	14,644	(427)	(3,696)
Cash and cash equivalents at beginning of the year	8,714	9,141	12,837
	<u>23,358</u>	<u>8,714</u>	<u>9,141</u>
Supplemental disclosure of cash flow information:			
Cash paid during the year for:			
Interest	422	405	450
Income taxes	27	216	479
See accompanying notes to consolidated financial statements			

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 1 BUSINESS

Camtek Ltd. (Camtek), an Israeli corporation, is a majority owned (61.9%) subsidiary of Priortech Ltd., an Israeli corporation listed on the Tel-Aviv Stock Exchange. Camtek designs, develops manufactures and markets automatic optical inspection systems (AOI systems) and related products. Camtek s AOI systems are used for yield enhancement for various applications in the electronic supply chain industry. The main applications along this supply chain are the production of Microelectronics, Printed Circuit Boards (PCB) and Electronic packaging. Camtek s activities are conducted in one reportable business segment.

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES

A. Principles of Consolidation

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

B. Use of Estimates

The preparation of the consolidated financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates.

C. Foreign currency transactions:

The functional currency of the Company is the U.S. Dollar. Most of the revenue generated by the Company is from outside of Israel and a majority thereof are received in U.S. Dollars. In addition, materials and components purchased and marketing expenses incurred are either paid for in U.S. Dollars or in New Israeli Shekels (NIS) linked to changes in the U.S. Dollar/NIS exchange rate. A significant

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portion of the Company's expenses are incurred in Israel and paid for in NIS. Transactions not denominated in U.S. Dollar 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 or expense. Foreign currency income (expenses) included in financial income (expenses), net, resulting from transactions not denominated in U.S. Dollars amounted to \$(435), \$(238) and \$89 thousand in 2006, 2005 and 2004, respectively.

D. Cash equivalents

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

E. Marketable securities

The Company accounts for its investments in marketable securities in accordance with Statement of Financial Accounting Standard (SFAS) No. 115 Accounting for Certain Investments in Debt and Equity Securities.

As of December 31, 2006 all marketable securities are designated as available-for-sale and accordingly are recorded at fair value. Unrealized holding gains and losses, net of the related tax effect, on available-for-sale securities are excluded from earnings and are reported as a separate component of other comprehensive income until realized.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

F. Allowance for doubtful accounts

The allowance for doubtful accounts is Management's best estimate of the probable loss inherent to existing accounts receivable. In the appropriate allowance, Management bases its estimate on information at hand 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 credit worthiness of the customers.

G. Inventories

Inventories consist of completed AOI systems, AOI systems partially completed and components, and are recorded at the lower of cost, determined by the moving-average basis, or market.

H. Fixed assets

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

Annual rates of depreciation are as follows:

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

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

I. Other assets

Other assets, comprised of intellectual property, are capitalized at cost and amortized, beginning with the first year of utilization, over its expected life of ten years.

J. Long-lived assets

The Company applies SFAS No. 144, Accounting for the Impairment or Disposal of Long-Lived Assets. This Statement requires that long-lived assets be reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset or used in its disposal. If the carrying amount of the long lived asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized as computed by subtracting the fair market value of the asset from its carrying value.

K. Fair values of financial instruments

The carrying amounts for cash and cash equivalents, accounts receivable, accounts payable, accrued expenses and amounts due from affiliates approximate fair value because of the short-term duration of those items. Marketable securities are carried at quoted market prices, which represent fair value. The carrying amounts of short-term bank credit, convertible loan and amounts due to or from Priortech Ltd. approximate fair value because the interest rates on such debt approximate the market rate.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Cont d)****L. Revenue recognition**

The Company recognizes revenue from sales in accordance with Securities and Exchange Commission Staff Accounting Bulletin No. 104 SAB 104 and Financial Accounting Standard Board's Emerging Issues Task Force (EITF) Issue No. 00-21, Revenue Arrangements with Multiple Deliverables. Accordingly, 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.

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

Non-standard warranty is deferred as unearned revenue and is recognized ratably as revenue when the applicable warranty term period commences.

M. Warranty

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

Changes in the product warranty obligations are as follows:

	December 31,	
	2006	2005
	U.S. Dollars (In thousands)	
Beginning of year	1,162	1,703
Change in estimates	(442)	-
New warranties	2,020	2,003
Reductions	(1,683)	(2,544)

End of year	<u>1,057</u>	<u>1,162</u>
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N. Income taxes

The Company accounts for income taxes in accordance with SFAS No. 109, *Accounting for Income Taxes* (SFAS No. 109). This Statement prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. The Company provides a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

O. Research and development

Research and development costs are expensed as incurred.

P. Earnings per ordinary share

Basic earnings 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.

In the years ended December 31, 2006 ,2005 and 2004, the effect of the exercise of outstanding share options is dilutive, and was included in computing diluted earning per ordinary share.

In the year ended December 31, 2006 and 2005, the effect of warrants and conversion of convertible loan is anti-dilutive, and has not been included in computing dilutive earning per ordinary share.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Cont d)****Q. Stock Option Plan**

Prior to fiscal 2006, the Company applied the intrinsic value method as prescribed in Accounting Principles Board Opinion No. 25, *Accounting for Stock Issued to Employees* (APB No. 25), and related interpretations, in accounting for stock options granted under the stock option plan. Under the intrinsic value method, compensation cost is recognized if the exercise price of the Company's employee stock options was less than the market price of the underlying stock on the date of the grant.

Effective January 1, 2006, the Company adopted FASB Statement No. 123(R), *Share-Based Payment* (Statement 123(R)). This statement replaces FASB Statement No. 123, *Accounting for Stock-Based Compensation* (Statement 123) and supersedes APB No. 25. Statement 123(R) requires that all stock-based compensation be recognized as an expense in the financial statements and that such cost be measured at the fair value of the award. This statement was adopted using the modified prospective method of application, which requires the Company to recognize compensation cost on a prospective basis. Therefore, prior years' financial statements have not been restated. Under this method, the Company recorded stock-based compensation expense for awards granted prior to, but not yet vested as of January 1, 2006, using the fair value amounts determined for pro forma disclosures under Statement 123. For stock-based awards granted after January 1, 2006, the Company recognizes compensation expense based on estimated grant date fair value using the Black-Scholes option-pricing model.

The following table illustrates the effect on net income for the years ended December 31, 2005 and 2004 as if the Company had applied the fair value recognition provisions of Statement 123(R) to options granted under the Company's stock plans prior to adoption of Statement 123(R) on January 1, 2006. No pro forma disclosure has been made for periods subsequent to January 1, 2006 as all stock-based compensation has been recognized in net income. For purposes of this pro forma disclosure, the value of the options is estimated using a Black-Scholes option-pricing model and amortized to expense over the options' service periods with forfeitures recognized as they occurred.

	2005	2004
	U.S. Dollars (In thousands)	
Net income, as reported	2,702	10,797
Stock-based employee compensation expense included in reported net income	127	128
Stock-based employee compensation determined under the fair value based method	(560)	(688)
Pro forma net income	2,269	10,237
Income per share:		
Basic - as reported	0.10	0.40
Basic - pro forma	0.08	0.38
Diluted - as reported	0.10	0.39
Diluted - pro forma	0.08	0.37

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Cont d)**R. Reclassification**

Certain prior years amounts have been reclassified in conformity with the current year's financial statements presentation.

S. Recently Issued Accounting Standards

- In June 2006, the FASB issued Interpretation No. 48, Accounting for Uncertainty in Income Taxes-an Interpretation of FASB Statement No. 109 (FIN 48). FIN 48 clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements in accordance with SFAS No. 109, Accounting for Income Taxes. FIN 48 prescribes a recognition threshold and measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken in a tax return. FIN 48 is effective for fiscal years beginning after December 15, 2006. The Company is currently reviewing this new standard to determine its effects, if any, on its results of operations or financial position.
- In September 2006, the SEC issued Staff Accounting Bulletin No. 108 (SAB No. 108). SAB No. 108 addresses the process and diversity in practice of quantifying financial statement misstatements resulting in the potential build up of improper amounts on the balance sheet. The Company will be required to adopt the provisions of SAB No.108 in fiscal year 2007. The adoption of SAB No. 108 did not have an impact on its consolidated financial statements.
- In September 2006, the FASB issued SFAS No. 157, Fair Value Measurements, (SFAS No. 157). SFAS No. 157 defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. The changes to current practice resulting from the application of this Statement relate to the definition of fair value, the methods used to measure fair value, and the expanded disclosures about fair value measurements. The Statement is effective for fiscal years beginning after

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November 15, 2007 and interim periods within those fiscal years. The Company does not anticipate that the adoption of the provisions of SFAS No. 157 will materially impact its financial position and results of operations.

4. In February 2007, the FASB issued FASB Statement No. 159, The Fair Value Option for Financial Assets and Financial Liabilities Including an amendment of FASB Statement No. 115, which permits entities to choose to measure many financial instruments at fair value. The Statement allows entities to achieve an offset accounting effect for certain changes in fair value of certain related assets and liabilities without having to apply complex hedge accounting provisions, and is expected to expand the use of fair value measurement consistent with the Board's long-term objectives for financial instruments. This Statement is effective as of the beginning of an entity's first fiscal year that begins after November 15, 2007. The Company is currently reviewing this new standard to determine its effects, if any, on its results of operations or financial position.

T. Recently Adopted Accounting Standards

1. Effective January 1, 2006, the Company adopted the fair value recognition provisions of Statement 123(R) using the modified-prospective-transition method (refer to note 2Q).
2. Effective January 1, 2006, the Company adopted FASB Statement No. 151, Inventory Costs an Amendment of ARB No. 43, Chapter 4 (Statement 151). Statement 151 clarifies the accounting for abnormal amounts of idle facility expense, freight, handling costs, and wasted material (spoilage) requiring that those items be recognized as current-period charges. In addition, Statement 151 requires that allocation of fixed production overheads be based on the normal capacity of the production facilities. The Company's current procedures follow these guidelines and therefore the adoption of Statement 151 had no impact on the valuation of inventory or charges to cost of sales.

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 2 SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

T. Recently Adopted Accounting Standards (cont'd)

3. Effective January 1, 2006, the Company adopted the disclosure requirements of EITF Issue No. 06-3, How Taxes Collected from Customers and Remitted to Governmental Authorities Should be Presented in the Income Statement (that is, gross versus net presentation) for tax receipts on the face of their income statements. The scope of this guidance includes any tax assessed by a governmental authority that is directly imposed on a revenue-producing transaction between a seller and a customer and may include, but is not limited to, sales, use, value added, and some excise taxes (gross receipts taxes are excluded). The Company has historically presented such taxes on a net basis.
4. In September 2006, the FASB issued SFAS No. 158, Employers Accounting for Defined Benefit Pension and Other Postretirement Plans an amendment of FASB Statements No. 87, 88, 106, and 132(R), (SFAS No. 158). SFAS No. 158 requires an employer to recognize the over-funded or under-funded status of a defined benefit postretirement plan (other than a multiemployer plan) as an asset or liability in its statement of financial position. To recognize changes in that funded status in the year in which the changes occur through comprehensive income of a business entity or changes in unrestricted net assets of a not-for-profit organization. The provisions of this Statement are effective for an employer with publicly traded equity securities are required to recognize the funded status of a defined benefit postretirement plan and to provide the required disclosures as of the end of the fiscal year ending after December 15, 2006. The adoption of Statement 158 had no impact on the valuation of inventory or charges to cost of sales.

NOTE 3 MARKETABLE SECURITIES

	2006	2005
	U.S. Dollars (In thousands)	
Available for sale:		
Corporate debt securities	599	601

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Auction rate securities	1,500	1,500
	2,099	2,101

The carrying amount, gross unrealized holding losses, and fair value of available-for-sale debt securities by major security type and class of security at December 31, 2006 and 2005 were as follows:

	Carrying amount	Gross unrealized Holding (losses)	Fair value
U.S. Dollars (In thousands)			
At December 31, 2006:			
Available for sale:			
Corporate debt securities	600	(1)	599
Auction rate securities	1,500	-	1,500
	2,100	(1)	2,099
At December 31, 2005:			
Available for sale:			
Corporate debt securities	603	(2)	601
Auction rate securities	1,500	-	1,500
	2,103	(2)	2,101

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 3 MARKETABLE SECURITIES (Cont d)

Maturities of debt securities classified as available-for-sale were as follows at December 31, 2006:

	Carrying amount	Fair value
U.S. Dollars (In thousands)		
Available for sale:		
First year	600	599
Due after five years through ten years	1,500	1,500
	2,100	2,099

Proceeds from the sale of investment securities available for sale were \$3,900 and nil in 2006 and 2005, respectively; gross realized gains included in other finance income in 2006 and 2005 were \$6 and nil, respectively.

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Gross unrealized losses on investment securities and the fair value of the related securities, aggregated by investment category have been in a continuous unrealized loss position for less than 12 months, at December 31, 2006 were as follow:

	Unrealized losses	Fair value
	U.S. Dollars (In thousands)	
Corporate debt securities	(1)	599
Action rate securities	-	1,500
	(1)	2,099

NOTE 4 INVENTORIES

	December 31,	
	2006	2005
	U.S. Dollars (In thousands)	
Components	17,702	9,020
Systems partially completed	5,340	4,392
Completed systems, including systems not yet purchased, at customer locations	18,372	11,530
	41,414	24,942

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 5 OTHER CURRENT ASSETS

	December 31,	
	2006	2005
	U.S. Dollars (In thousands)	
Due from Government institution	743	846
Due from employees	196	184
Prepaid expenses	480	482
Advances to suppliers	519	461
Deposits to leaseholders	110	562
Other	324	282
	2,372	2,817

NOTE 6 FIXED ASSETS

	December 31,	
	2006	2005
U.S. Dollars (In thousands)		
Land	815	815
Building	7,998	7,636
Machinery and equipment	4,048	3,170
Office furniture and equipment	2,385	2,223
Automobiles	295	222
Leasehold improvements	386	339
	15,927	14,405
Less accumulated depreciation	5,198	4,442
	10,729	9,963

Depreciation expenses for the years ended December 31, 2006, 2005 and 2004 are summarized to \$792, \$658 and \$747 thousand, respectively.

NOTE 7 OTHER ASSETS

	December 31,	
	2006	2005
U.S. Dollars (In thousands)		
Deferred expenses	215	-
Deposits to lease holders	459	-
Intangible assets (A)	112	-
	786	-

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 7 OTHER ASSETS (Cont d)****A. Patents registration costs**

	December 31, 2006			Amortization period
	Gross carrying amount	Accumulated amortization	Intangible Assets, net	
	U.S. Dollars (In thousands)			
Patents registration costs	114	2	112	10

Amortization expense for the years ended December 31, 2006, 2005 and 2004 are summarized to \$2, nil and nil thousand, respectively.

NOTE 8 OTHER CURRENT LIABILITIES

	December 31,	
	2006	2005
	U.S. Dollars (In thousands)	
Accrued compensation and related benefits	4,825	3,786
Government institutions	843	156
Accrued warranty costs	1,057	1,162
Commissions	2,077	794
Advances from customers and deferred revenues	3,125	2,195
Other	904	628
	12,831	8,721

NOTE 9 CONVERTIBLE LOAN

	December 31,	
	2006	2005
	U.S. Dollars (In thousands)	
U.S. Dollar denominated loan, bearing annual interest of Libor+2.1%	5,000	5,000

On August 23, 2005 (the closing date) the Company raised \$5 million as a convertible loan from FIMI Opportunity Fund L.P and FIMI Israel Opportunity Fund, Limited Partnership (Fimi). The loan is payable in three equal annual payments starting at the third anniversary of the closing date. The lenders have the right to postpone the repayments to the end of the fifth anniversary from the closing date. The loan bears annual interest of Libor + 2.1%. The interest is payable every three months. Conversion of the loan, in a whole or in part, is optional at any given business day after the closing date. Conversion price per one ordinary share is \$5.50, however, in the event that the average closing price of the Company's shares as reported on Nasdaq for the sixty consecutive trading days immediately preceding the first and second anniversary of the loan agreement closing date, is lower than the conversion price in effect on such date, the conversion price in effect on such date shall be reduced to equal the higher of the average closing price and \$2.00. As of December 31, 2006 the conversion price per one ordinary share is \$5.50.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 9 CONVERTIBLE LOAN (Cont d)

The Company is subject to the main following covenants in connection to the loan:

1. The shareholders' equity should not decrease to below \$45 million, or, \$40 million as a result of dividend distributions. Shareholders' equity may not decrease by more than 10%, unless such deviation is cured within three consecutive financial quarters immediately following the financial quarter in which such decrease had occurred.
2. The shareholders' equity shall represent at least 55% of the total assets of the Company.
3. The net loss shall not exceed an aggregate of \$10 million in any single financial quarter or any year.
4. Not to take any further loans which exceeds the aggregate amount of \$15 million (other than the loans and credit lines which were in effect at the closing date) and not to enter into new transactions with its affiliates.

As of December 31, 2006 the Company was in compliance with the aforementioned terms.

NOTE 10 SEVERANCE PAY

Under Israeli law and labor agreements, the Israeli companies are required to make severance and pension payments to their retired or dismissed employees and to employees leaving employment in certain other circumstances.

1. The liability in respect of most of its employees is discharged by participating in a defined contribution pension plan and making regular deposits with a pension fund. 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. In respect of the liability to other employees, individual insurance policies are purchased and deposits are made with recognized severance pay funds.

The liability for severance pay is calculated on the basis of the latest salary paid to each employee multiplied by the number of years of employment. The liability is covered by the amounts deposited including accumulated income thereon as well as by the unfunded provision, which amounted to \$222 thousand as of December 31, 2006 and 2005.

3. Severance pay expenses were \$750, \$544 and \$529 thousand in 2006, 2005 and 2004, respectively.

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES

A. Operating leases

The Company's subsidiaries have entered into various noncancelable operating lease agreements, principally for office space. As of December 31, 2006, minimum future rental payments under these leases amounted to \$1,438 thousand. In May 2004, the Company

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entered into a noncancelable operating lease for vehicles for a period of 36 months. As of December 31, 2006, the minimum future rental payments were approximately \$1,367 thousand.

As of December 31, 2006, minimum future rental payments under such noncancelable operating leases are as follows:

Year Ending December 31,	U.S. Dollars (In thousands)
2007	1,524
2008	792
2009	364
2010	63
Thereafter	62
	2,805

Aggregate office rent expenses amounted to \$572, \$546 and \$529 thousand in 2006, 2005 and 2004, respectively.

B. Valuation and qualifying accounts

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	Recovery	Balance at end of period
U.S. Dollars (In thousands)				
2004	2,090	1,229	(1,083)	2,236
2005	2,236	680	(710)	2,206
2006	2,206	778	(131)	2,853

C. Factoring of financial assets

The Company entered into accounts receivable factoring agreements with two financial institutions (the banks). Under the terms of the agreements, the Company has the option to factor receivables, with the banks on a non-recourse basis, provided that the banks approve the receivables in advance. In some cases, the Company continues to be obligated in the event of commercial disputes, (such as product defects) which are not covered under the credit insurance policy, unrelated to the credit worthiness of the customer. The Company accounts for the factoring of its financial assets in accordance with the provisions of *SFAS 140*. The Company does not expect any reimbursements to take place in the foreseeable future.

The factoring fees of the above mentioned agreements sums to \$ 51 thousands in 2006.

As of December 31, 2006 trade receivables amounting to approximately \$2.5 million, were factored.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 11 COMMITMENTS AND CONTINGENT LIABILITIES (Cont d)

D. Litigations

1. On May 10, 2004, a lawsuit was filed against the Company in the District Court in Nazareth, Israel, by a competitor, Orbotech Ltd., alleging that an optional component in the Dragon and Falcon systems infringe upon a patent held by Orbotech Ltd. and requesting an injunctive relief and damages. Currently, the issue dealt with by the court is the validity of the asserted patent. The Company believes that it has substantial defenses against the validity of Orbotech's patent and substantial defenses against Orbotech's claims. Therefore no provision was recorded by the Company.
2. On February 23, 2005, a lawsuit was filed against the Company in the District Court in Jerusalem by Orbotech Ltd., alleging infringement of patent held by Orbotech Ltd. regarding a specific illumination block, seeking injunctive relief and damages. The court ruled, based on a court's expert opinion, that the Company allegedly infringed the patent, and granted Orbotech a provisional remedy. Following the grant of the provisional remedy by the District Court, the Company filed a motion for leave to appeal. The Supreme Court rejected the Company's request since the provisional remedy was granted on the basis of prime facie evidence only. The claim is currently in the preliminary stage of discovery and only after evidence is presented and cross examinations are conducted will a final judgment be rendered by the District Court, subject to the right to appeal. The particular illumination block was at the time of the preliminary ruling still in a development stage. The Company's temporary inability to manufacture and sell the specific illumination block, does not affect its ability to manufacture and sell products incorporating other illumination blocks; the Company manufactures its products with several other illumination blocks. In February 2007 the patent referring to the specific illumination block expired. The Company has filed two requests for the lawsuit to be dismissed. . The Company believes that it has good defenses in the infringement aspect of the claim. The Company further believes that it has claims with respect to the validity of the asserted patent, as well as other defenses such as estoppel and lack of good faith on the part of Orbotech. Therefore no provision was recorded by the Company.
3. On July 14, 2005, a lawsuit was filed against the Company in the United States District Court for the District of Minnesota by one of the Company's competitors in the field of semiconductor manufacturing and packaging, August Technology Corporation (today Rudolph Technologies Inc. together with August Technology Corporation), alleging infringement of a patent and seeking injunctive relief and damages. The Company has filed an answer and counterclaims alleging, inter-alia, non-infringement, invalidity and unenforceability of the patent. The case is currently approaching the end of the discovery phase and is expected to be trial ready by October 2007. The Company believes that it has substantial defenses to August's allegations. Therefore no provision was recorded by the Company.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 12 CONCENTRATION OF RISK

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash equivalents, short-term bank deposits, marketable securities and trade receivables. The Company's cash equivalents and marketable securities are maintained with high-quality institutions and the composition and maturities of investments are regularly monitored by management. Generally, these securities and deposits are traded in a highly liquid market, may be redeemed upon demand and bear minimal risk.

The Company's marketable securities include auction rate securities and highly rated corporate bonds. The trade receivables of the Company are derived from sales to a large number of customers, mainly 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 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.

NOTE 13 SHAREHOLDERS EQUITY

A. Initial Public Offering

The Company shares are traded on the NASDAQ National Market under the symbol of CAMT.

In December 2005 the Company registered its shares to be listed and traded in the Tel-Aviv stock exchange.

B. Private Placement

In April 2006, the Company raised \$14.5 million, net of issuance expenses, by issuing 2,525,252 ordinary shares at a price of \$5.94 per share in a private placement to Israeli institutional investors. The private placement also included warrants that are exercisable into 1,262,626 ordinary shares at a price of \$6.83 per share during a period of four years. The warrants issued in April 2006 have been classified in equity.

C. Stock Option Plan

As of December 31, 2006, the Company has five share option plans for employees and directors. Future options will be granted only pursuant to the 2003 Share Option Plan described below.

In October 2003, the Company adopted a stock option plan (the Plan) pursuant to which the Company's board of directors may grant stock options to officers and key employees. The total number of options, which may be granted to directors, officers, employees and consultants under this plan, is limited to 998,800 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 with 30% to vest at the end of each of the first three years and remaining 10% to vest at the end of the fourth year following the grant day.

As of December 31, 2006, there were 38,000 additional shares available for the Company grant under the Plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes 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.

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 13 SHAREHOLDERS EQUITY (Cont d)****C. Stock Option Plan (Cont d)**

	<u>2006 Grant</u>	<u>2005 Grant</u>
Dividend yield	0	0
Expected volatility *	86%-87%	90%
Risk-free interest rate	5%	4.2%
Expected life (years) **	6	6

* Historical volatility

** The company used the simplified method to estimate the expected life.

The weighted average grant date fair value of options granted during the years ended 2006 and 2005 was \$5.38 and \$2.30 respectively. The total intrinsic value of options exercised during the years ended December 31, 2006, 2005 and 2004 was \$246,756, \$5,859 and \$23,058 respectively. The total intrinsic value of options vested at December 31, 2006 is \$236,589.

As of December 31, 2006, there was \$679,354 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 1.6 years.

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

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Year Ended December 31,

	2006		2005		2004	
	Number of shares	Weighted average exercise price US\$	Number of shares	Weighted average exercise price US\$	Number of shares	Weighted average exercise price US\$
Outstanding at January 1	1,315,650	2.06	1,250,000	1.98	1,353,056	1.90
Granted	60,000	5.19	144,000	3.00	-	-
Forfeited	(13,980)	2.37	(68,600)	2.59	(82,328)	1.16
Exercised	(431,706)	1.63	(9,750)	1.56	(20,728)	0.00
Outstanding at year end	929,964	2.46	1,315,650	2.06	1,250,000	1.98
Vested at year end	665,729	2.22	702,990	1.95	375,300	1.98

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 13 SHAREHOLDERS EQUITY (Cont d)

The following table summarizes information about share options at December 31, 2006:

Range of exercise price US\$	Number outstanding	Weighted average remaining contractual life in years	Weighted average exercise price US\$	Number exercisable	Weighted average exercise price US\$
0.00	208,632	6.56	0.00	169,877	0.00
2.98-3.29	520,832	6.98	2.98	453,952	2.98
3.00	140,500	8.74	3.00	41,900	3.00
5.00	50,000	9.38	5.00	-	5.00
6.15	10,000	9.58	6.15	-	6.15
	929,964	7.31	2.46	665,729	2.22

The following table summarizes information about nonvested options at December 31, 2006:

Options	Weighted average grant-date fair value
---------	--

Balance at January 1, 2006	612,660	2.07
Granted	60,000	5.38
Vested	(394,445)	2.04
Forfeited	(13,980)	2.16
Balance at December 31, 2006	264,235	2.87

NOTE 14 EARNINGS PER ORDINARY SHARE

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

	Year ended December 31,		
	2006	2005	2004
	(In thousands)		
Net income attributable to Ordinary Shares	\$ 11,603	\$ 2,702	\$ 10,797
Weighted average number of Ordinary Shares outstanding used in basic profit per Ordinary Share calculation	29,176	27,253	27,114
Add assumed exercise of outstanding dilutive potential Ordinary Shares	377	333	686
Weighted average number of Ordinary Shares outstanding used in diluted profit per Ordinary Share calculation	29,553	27,586	27,800
Basic earnings per Ordinary Share	\$ 0.40	\$ 0.10	\$ 0.40
Diluted earnings per Ordinary Share	\$ 0.39	\$ 0.10	\$ 0.39

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 15 GEOGRAPHIC INFORMATION**

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

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars (In thousands)		
China and Hong Kong	33,713	24,665	29,576
Other Asia	20,413	5,036	5,341

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United States	15,622	11,484	8,116
Taiwan	12,895	12,258	14,574
Western Europe	9,170	6,597	4,780
Japan	6,716	2,065	3,533
Rest of the world	1,526	927	1,499
	<u>100,055</u>	<u>63,032</u>	<u>67,419</u>

NOTE 16 SELECTED INCOME STATEMENT DATA

A. Selling, general and administrative expenses

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars (In thousands)		
Selling (a1)	21,000	14,559	12,819
General and administrative	6,850	4,201	3,134
	<u>27,850</u>	<u>18,760</u>	<u>15,953</u>
(a1) Including shipping and handling costs	<u>2,626</u>	<u>1,890</u>	<u>2,066</u>

B. Financial expenses, net

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars (In thousands)		
Interest expense	422	405	450
Interest income	(795)	(336)	(142)
Other, net	661	251	51
	<u>288</u>	<u>320</u>	<u>359</u>

C. Aborted share issuance expenses

During 2004, the Company decided to abandon its plan for a secondary share offering to the public. The total accrued expenses related to this offering were \$1,122 thousand which were expensed in 2004.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 17 INCOME TAXES****A. Tax under various laws**

The Company and its subsidiaries are assessed for tax purposes on an unconsolidated basis. The Company is assessed under the provisions of the Income Tax Law (Inflationary Adjustments), 1985, pursuant to which the results for tax purposes are measured in Israeli currency in real terms in accordance with changes in the Israeli Consumer Price Index (CPI). Each of the subsidiaries is subject to the tax rules prevailing in the country of incorporation.

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

The Company's production facilities have been granted Approved Enterprise status under the Investment Law. The Company participates in the Alternative Benefits Program and, accordingly, income from its approved enterprises will be tax exempt for a period of 10 years, commencing in the first year in which the approved enterprise first generates taxable income due to the fact that the Company operates in Zone A in Israel.

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

In addition, the Investment Law 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 new law, as part of a new Beneficiating enterprise, will subject the Company to taxes upon distribution or liquidation.

The Company has been granted the status of Approved Enterprises, under the Law, for an investments programs for the periods ending in 2007 and 2010, and the status of Beneficiating Enterprise according to the Amendment to the Law, for the period ending in 2015 (Programs).

Out of the Company's retained earnings as of December 31, 2006 approximately \$17 million are tax-exempt earnings attributable to its Approved Enterprise programs and approximately \$2 million are tax-exempt earnings attributable to its Beneficiating Enterprise program. The tax-exempt income attributable to the Approved and Beneficiating Enterprise 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% According to the implementation of the Law; effectively 33%). According to the Amendment, tax-exempt income generated under the Beneficiating 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 (and not upon complete liquidation, where the tax liability will be incurred by the shareholders). As of December 31, 2006, if the income attributed to the Approved Enterprise were distributed as dividend, the Company would incur a tax liability of approximately \$4 million. If income attributed to the Beneficiating Enterprise were distributed as dividend, including upon liquidation, the Company would incur a tax liability in the amount of approximately \$ 0.5 million.

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

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 17 INCOME TAXES (Cont d)**

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

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 Beneficiating Enterprise programs as the undistributed tax exempt income is essentially permanent in duration.

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the Law, regulations published there under and the certificates of approval for the specific investments in approved enterprises.

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

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

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

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005**NOTE 17 INCOME TAXES (Cont d)****D. Composition of income tax provision**

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars (In thousands)		
Income (loss) before income taxes:			
Israel	10,256	2,399	12,710
Non-Israeli	1,388	303	(1,414)
	<u>11,644</u>	<u>2,702</u>	<u>11,296</u>
Income tax (benefit) provision:			
Current:			
Israel	-	-	-
Non-Israeli	414	-	-
	<u>414</u>	<u>-</u>	<u>-</u>
Deferred:			
Israel	(160)	-	-
Non-Israeli	(274)	-	-
	<u>(434)</u>	<u>-</u>	<u>-</u>

Previous years:

Israel (d1)	-	-	533
Non Israeli	61	-	(34)
	<u>61</u>	<u>-</u>	<u>499</u>
	<u>41</u>	<u>-</u>	<u>499</u>

- (d1) On March 31, 2004, a settlement was reached between the Company and the Israeli tax authorities over disputed assessments for the 1999, 2000 and 2001 tax years. Under the settlement reached, the Company paid a total of \$695 thousand to settle approximately \$6.7 million in assessments previously demanded by the Israeli tax authorities with respect to the 1999-2001 tax years. In addition, the Company will continue to calculate its applicable tax benefits for the subsequent years of the Israeli tax benefits program in which it currently participates (2002-2007) at the rates previously disputed by the Israeli tax authorities. The settlement amount resulted in a one-time provision for income taxes of \$460 thousand in the first quarter of 2004, in addition to the \$225 thousand that was reserved for this purpose in the fourth quarter of 2003.

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CAMTEK LTD.

Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 17 INCOME TAXES (Cont d)

E. Income taxes included in the income statements:

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

	Year Ended December 31,		
	2006	2005	2004
	U.S. Dollars (In thousands)		
Income before income taxes	11,644	2,702	11,296
Statutory tax rate	31%	34%	35%
Theoretical tax on the above amount	3,610	918	3,954
Increase (decrease) in taxes resulting from:			
Tax benefits arising from Approved and Beneficiating Enterprises	(1,641)	(281)	(238)
Decrease in taxes resulting from utilization of carryforward tax losses and deductible temporary differences for which deferred tax benefits were not	(1,337)	(2,066)	(4,790)

provided in previous years

Tax losses and deductible temporary differences for which no tax benefit has been recorded	351	371	1,029
Permanent differences and nondeductible expenses, including difference between Israeli CPI-adjusted tax returns and dollar-adjusted financial statements-net	(1,318)	970	(34)
Nondeductible stock based compensation	237	43	45
Tax expenses due to previous years	61	-	499
Other	78	45	34
	<u>41</u>	<u>-</u>	<u>499</u>
Actual income tax expense			
Per share effect of the benefits arising from Approved and Beneficiating Enterprise :			
Basic	\$ 0.06	\$ 0.01	\$ 0.01
Diluted	\$ 0.06	\$ 0.01	\$ 0.01

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 17 INCOME TAXES (Cont d)

F. Income taxes included in the balance sheet

Deferred tax assets consist of the following at December 31:

	December 31	
	2006	2005
U.S. Dollars (In thousands)		
Current:		
Provision for doubtful accounts	194	198
Accrued warranty	97	80
Unearned revenue	185	-
Net operating losses carryforwards	91	-
Accrued expenses	134	50
Other	-	24
	<u>701</u>	<u>352</u>
Valuation allowance	(636)	(352)

Current deferred tax asset, net of allowance	65	-
Long-term:		
Net operating losses carryforwards	1,759	2,334
Severance pay	14	-
Fixed assets	(53)	-
Other	198	-
	1,918	2,334
Valuation allowance	(1,549)	(2,334)
Long-term deferred tax asset, net of allowance	369	-
Net deferred tax assets	434	-

Under SFAS No. 109, deferred tax assets are to be recognized for the anticipated tax benefits associated with net operating loss carryforwards and deductible temporary differences, unless it is more likely than not that some or all of the deferred tax assets will not be realized. The adjustment is made by a valuation allowance.

Since the realization of the net operating loss carryforwards and deductible temporary differences is uncertain and not considered more likely than not, a valuation allowance has been established to reduce deferred tax assets to their estimated realizable value. The net change in the total valuation allowance was a decrease of \$ 501 thousand, \$ 1,548 thousand and \$ 2,232 thousand for the years ended December 31, 2006, 2005 and 2004, respectively.

As of December 31, 2006, major foreign subsidiaries have NOL carryforwards aggregating approximately \$5,863 thousand, of which approximately \$3,049 thousand expires from 2009 to 2023 and approximately \$2,814 thousand has no expiration date.

G. Reduction in corporate income tax rate in Israel

On July 25, 2005 an amendment to the Israeli tax law was approved by the Israeli parliament, which reduces the tax rates imposed on Israeli companies to 31% for 2006. This amendment states that the corporate tax rate will be further reduced in subsequent tax years as follows: in 2007 29%, in 2008 27%, in 2009 26% and thereafter 25%. This change does not have a material effect on the Company's financial statements.

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Notes to Consolidated Financial Statements as of December 31, 2006 and 2005

NOTE 18 TRANSACTIONS WITH RELATED PARTIES

	Year Ended December 31,		
	2006	2005	2004
U.S. Dollars (In thousands)			
Purchases from Priortech Ltd. (including affiliates)	3,244	597	1,122
Interest income from Priortech Ltd.	16	19	30
Sales to Priortech Ltd. (including affiliates)	240	1	230

NOTE 19 SUBSEQUENT EVENTS

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- A. Subsequent to balance sheet date, the Company's liabilities to banks were secured by negative pledge. Pursuant to the terms of the negative pledge the Company committed to comply with certain financial and other covenants which include, inter alia, a minimum amount of shareholders' equity, a minimum ratio of shareholders' equity to total balance sheet, as such are defined in the agreement, a minimum amount of sales and annual earnings. In addition, certain restrictions have been imposed on the Company regarding creating floating liens, execute a change in control over the Company and execute a merger.

If the Company will not comply with all or part of the financial covenants, or if certain events specified in the agreement should occur, the bank will have the right to demand the immediate repayment of the credit. In Management's opinion, the Company will comply with those covenants over the credit period.

- B. Subsequent to balance sheet date the company granted 45,000 share options at an exercise price of \$4.50 per share and 8,000 share options were exercised at a weighted average exercise price of \$2.86.

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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 (incorporated herein by reference to Exhibit 3.2 to Amendment No. 1 to the Registrant's Registration Statement on Form F-1, File No. 333-113208, filed with the Securities and Exchange Commission on April 5, 2004).
- 4.1 Amended and Restated Employee Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8, File No. 333-84476, filed with the Securities and Exchange Commission on March 18, 2002).
- 4.2 Amended and Restated Subsidiary Employee Option Plan (incorporated herein by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, File No. 333-84476, filed with the Securities and Exchange Commission on March 18, 2002).
- 4.3 Employee Share Option Plan - Europe (incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, File No. 333-49982, filed with the Securities and Exchange Commission on November 15, 2000).
- 4.4 Executive Share Option Plan (incorporated herein by reference to Exhibit 10.4 to the Registrant's Registration Statement on Form S-8, File No. 333-60704, filed with the Securities and Exchange Commission on May 11, 2001).
- 4.5 2003 Share Option Plan (incorporated herein by reference to Exhibit 10.1 to the Registrant's Registration Statement on Form S-8, File No. 333-113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.6 Sub-Plan for Grantees Subject to United States Taxation (incorporated herein by reference to Exhibit 10.2 to the Registrant's Registration Statement on Form S-8, File No. 333-113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.7 Sub-Plan for Grantees Subject to Israeli Taxation (incorporated herein by reference to Exhibit 10.3 to the Registrant's Registration Statement on Form S-8, File No. 333-113139, filed with the Securities and Exchange Commission on February 27, 2004).
- 4.8 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).
- 4.9 Registration Rights Agreement, by and between the Registrant and Priortech Ltd., dated March 1, 2004 (incorporated herein by reference to Exhibit 10.9 to Amendment No. 1 to the Registrant's Registration Statement on Form F-1, File No. 333-113208,

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filed with the Securities and Exchange Commission on April 5, 2004).

- 4.10 Registration Rights Amended and Restated Agreement by and between the Registrant and Priortech Ltd., dated December 30, 2004. (incorporated herein by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 30, 2005).
- 4.11 Convertible Loan Agreement, by and between the Registrant and FIMI Opportunity Fund, L.P., and FIMI Israel Opportunity Fund, dated August 8, 2005 (incorporated herein by reference to Exhibit 4.11 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 29, 2006).
- 4.12 Press Release announcing the Company's completion of \$15,000,000 Private Placement dated April 28, 2006; Press Release announcing Priortech Ltd. Sale of Camtek shares to Israeli Institutional Investors dated June 21, 2006 (incorporated herein by reference to Exhibit 4.12 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 29, 2006).

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- 8.1 Subsidiaries of the Registrant (incorporated herein by reference to Exhibit 21.1 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).
- 12.1 Certification of Chief Executive Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
- 12.2 Certification of Chief Financial Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
- 13.1 Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
- 15.1 Consent of Somekh Chaikin, a member firm of KPMG International (attached to the original filing).
- 15.2 Consent of Brightman Almagor & Co., a member firm of Deloitte, Touche Tohmatsu, and Goldstein Sabo Tevet (attached to the original filing).

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/A and that it has duly caused and authorized the undersigned to sign this Annual Report on its behalf.

CAMTEK LTD.

By: /s/ Rafi Amit

Rafi Amit
Chief Executive Officer

Date: November 9, 2009
