PERMA FIX ENVIRONMENTAL SERVICES INC
Form 10-Q
August 08, 2013

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 June 30, 2013

Or

o TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from____________________to ____________________

Commission File No. 111596

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
(Exact name of registrant as specified in its charter)

Delaware	58-1954497
(State or other jurisdiction of incorporation or organization)	(IRS Employer Identification Number)
8302 Dunwoody Place, Suite 250, Atlanta, GA	30350
(Address of principal executive offices)	(Zip Code)

(770) 587-9898
(Registrant's telephone number)

N/A

(Former name, former address and former fiscal year, if changed since last report)

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 T No £

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the Registrant was required to submit and post such files). Yes T No £

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 definition of "large accelerated filer," "accelerated filer" and "smaller reporting company" in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £ Accelerated Filer T Non-accelerated Filer o Smaller reporting company £

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

Indicate the number of shares outstanding of each of the issuer's classes of Common Stock, as of the close of the latest practical date.

Class	Outstanding at August 1, 2013
Common Stock, $.001 Par Value	56,472,766 shares of registrant's Common Stock

PERMA-FIX ENVIRONMENTAL SERVICES, INC.

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PART I - FINANCIAL INFORMATION
ITEM 1. – Financial Statements

PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets
(Unaudited)

(Amounts in Thousands, Except for Share and per Share Amounts)	June 30, 2013	December 31, 2012
ASSETS		
Current assets:		
Cash	$95	$4,368
Restricted cash	35	35
Accounts receivable, net of allowance for doubtful accounts of $2,335 and $2,507, respectively	10,954	11,395
Unbilled receivables - current	7,103	8,530
Retainage receivable	649	312
Inventories	451	473
Prepaid and other assets	2,467	3,282
Deferred tax assets - current	3,178	1,553
Current assets related to discontinued operations	686	499
Total current assets	25,618	30,447
Property and equipment:		
Buildings and land	26,323	26,297
Equipment	34,728	34,657
Vehicles	661	661
Leasehold improvements	11,625	11,625
Office furniture and equipment	2,105	2,116
Construction-in-progress	399	334
	75,841	75,690
Less accumulated depreciation and amortization	(42,588)	(40,376)
Net property and equipment	33,253	35,314
Property and equipment related to discontinued operations	1,616	1,614
Intangibles and other long term assets:		
Permits	16,773	16,799
Goodwill	28,037	29,186
Other intangible assets – net	3,315	3,610
Unbilled receivables – non-current	82	137
Finite risk sinking fund	21,290	21,272
Deferred tax asset, net of liabilities	1,103	1,103
Other assets	1,475	1,549
Total assets	$132,562	$141,031

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Balance Sheets, Continued
(Unaudited)

(Amounts in Thousands, Except for Share and per Share Amounts)	June 30, 2013	December 31, 2012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$6,845	$8,657
Accrued expenses	5,008	6,254
Disposal/transportation accrual	1,233	2,294
Unearned revenue	2,825	3,695
Billings in excess of costs and estimated earnings	2,357	1,934
Current liabilities related to discontinued operations	1,725	1,512
Current portion of long-term debt	2,568	2,794
Total current liabilities	22,561	27,140
Accrued closure costs	11,425	11,349
Other long-term liabilities	707	674
Long-term liabilities related to discontinued operations	1,592	1,829
Long-term debt, less current portion	11,850	11,402
Total long-term liabilities	25,574	25,254
Total liabilities	48,135	52,394
Commitments and Contingencies		
Preferred Stock of subsidiary, $1.00 par value; 1,467,396 shares authorized, 1,284,730 shares issued and outstanding, liquidation value $1.00 per share plus accrued and unpaid dividends of $707 and $674, respectively	1,285	1,285
Stockholders' Equity:		
Preferred Stock, $.001 par value; 2,000,000 shares authorized, no shares issued and outstanding	¾	¾
Common Stock, $.001 par value; 75,000,000 shares authorized, 56,372,273 and 56,238,525 shares issued, respectively; 56,334,063 and 56,200,315 shares outstanding, respectively	56	56
Additional paid-in capital	102,972	102,819
Accumulated deficit	(19,794)	(16,005)
Accumulated other comprehensive loss	(4)	(2)
Less Common Stock in treasury, at cost; 38,210 shares	(88)	(88)
Total Perma-Fix Environmental Services, Inc. stockholders' equity	83,142	86,780
Non-controlling interest	¾	572
Total stockholders' equity	83,142	87,352
Total liabilities and stockholders' equity	$132,562	$141,031

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF OPERATIONS
(Unaudited)

(Amounts in Thousands, Except for Per Share Amounts)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Net revenues	$22,784	$33,698	$42,613	$71,634
Cost of goods sold	18,761	29,768	38,053	63,335
Gross profit	4,023	3,930	4,560	8,299
Selling, general and administrative expenses	3,370	4,589	7,556	9,627
Research and development	402	535	901	888
Impairment loss on goodwill	1,149	¾	1,149	¾
(Gain) loss on disposal of property and equipment	¾	(3)	2	(3)
Loss from operations	(898)	(1,191)	(5,048)	(2,213)
Other income (expense):				
Interest income	9	7	18	21
Interest expense	(200)	(199)	(344)	(420)
Interest expense-financing fees	(24)	(26)	(47)	(60)
Other	1	1	(7)	1
Loss from continuing operations before taxes	(1,112)	(1,408)	(5,428)	(2,671)
Income tax benefit	(132)	(399)	(1,560)	(855)
Loss from continuing operations, net of taxes	(980)	(1,009)	(3,868)	(1,816)
Income (loss) from discontinued operations, net of taxes	43	(60)	15	(198)
Net loss	(937)	(1,069)	(3,853)	(2,014)
Net (loss) income attributable to non-controlling interest	(61)	102	(64)	158
Net loss attributable to Perma-Fix Environmental Services, Inc. common stockholders	$(876)	$(1,171)	$(3,789)	$(2,172)
Net loss per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - basic:				
Continuing operations	$(.02)	$(.02)	$(.07)	$(.04)
Discontinued operations	$¾	$¾	$¾	$¾
Net loss per common share	$(.02)	$(.02)	$(.07)	$(.04)
Net loss per common share attributable to Perma-Fix Environmental Services, Inc. stockholders - diluted:				
Continuing operations	$(.02)	$(.02)	$(.07)	$(.04)
Discontinued operations	$¾	$¾	$¾	$¾
Net loss per common share	$(.02)	$(.02)	$(.07)	$(.04)
Number of common shares used in computing net loss per share:				

Basic	56,334	56,094	56,303	56,078
Diluted	56,334	56,094	56,303	56,078

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
Consolidated Statements of Comprehensive Loss
(Unaudited)

(Amounts in Thousands)	Three Months Ended June 30, 2013	2012	Six Months Ended June 30, 2013	2012
Net loss	$(937)	$(1,069)	$(3,853)	$(2,014)
Other comprehensive (loss) income:				
Foreign currency translation (loss) gain	¾	(9)	(2)	2
Total other comprehensive (loss) income	¾	(9)	(2)	2
Comprehensive loss	(937)	(1,078)	(3,855)	(2,012)
Comprehensive (loss) income attributable to non-controlling interest	(61)	102	(64)	158
Comprehensive loss attributable to Perma-Fix Environmental Services, Inc. stockholders	$(876)	$(1,180)	$(3,791)	$(2,170)

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENT OF STOCKHOLDERS' EQUITY
For the six months ended June 30, 2013
(Unaudited)

	Common Stock							
	Shares	Amount	Additional Paid-In Capital	Common Stock Held In Treasury	Accumulated Other Comprehensive Loss	Non-controlling Interest in Subsidiary	Accumulated Deficit	Total Stockholders' Equity
Balance at December 31, 2012	56,238,525	56	$ 102,819	$ (88)	$ (2)	$ 572	$ (16,005)	$ 87,352
Net loss	¾	¾	¾	¾	¾	(64)	(3,789)	(3,853)
Foreign currency translation adjustment	¾	¾	¾	¾	(2)	¾	¾	(2)
Distribution to non-controlling interest	¾	¾	¾	¾	¾	(490)	¾	(490)
Redemption of non-controlling interest	¾	¾	¾	¾	¾	(18)	¾	(18)
Issuance of common stock for services	133,748	¾	99	¾	¾	¾	¾	99
Stock-based compensation	¾	¾	54	¾	¾	¾	¾	54
Balance at June 30, 2013	56,372,273	$ 56	$ 102,972	$ (88)	$ (4)	$ ¾	$ (19,794)	$ 83,142

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Unaudited)

(Amounts in Thousands)	Six Months Ended June 30, 2013	2012
Cash flows from operating activities:		
Net loss	$(3,853)	$(2,014)
Less: income (loss) on discontinued operations	15	(198)
Loss from continuing operations	(3,868)	(1,816)
Adjustments to reconcile net income to cash provided by operations:		
Depreciation and amortization	2,576	2,753
Amortization of debt discount		12
Amortization of fair value of customer contracts	(1,043)	(1,943)
Deferred tax benefit	(1,636)	(852)
Provision for bad debt and other reserves	43	43
Impairment loss on goodwill	1,149	
Loss (gain) on disposal of plant, property and equipment	2	(3)
Foreign exchange (loss) gain	(2)	2
Issuance of common stock for services	99	102
Stock-based compensation	54	98
Changes in operating assets and liabilities of continuing operations, net of effect from business acquisitions:		
Accounts receivable	60	2,031
Unbilled receivables	1,482	(3,632)
Prepaid expenses, inventories and other assets	1,078	1,646
Accounts payable, accrued expenses and unearned revenue	(3,603)	(6,887)
Cash used in continuing operations	(3,609)	(8,446)
Cash used in discontinued operations	(167)	(372)
Cash used in operating activities	(3,776)	(8,818)
Cash flows from investing activities:		
Purchases of property and equipment	(175)	(387)
Change in restricted cash, net		1,500
Proceeds from sale of plant, property and equipment		3
Non-controlling distribution/redemption	(508)	
Payment to finite risk sinking fund	(18)	(1,899)
Cash used in investing activities	(701)	(783)
Cash flows from financing activities:		
Net borrowing of revolving credit	1,671	643
Principal repayments of long term debt	(1,449)	(2,134)
Proceeds from finite risk financing		565
Payment of finite risk financing		(251)
Cash provided by (used in) financing activities of continuing operations	222	(1,177)
Principal repayments of long term debt for discontinued operations	(18)	(17)
Cash provided by (used in) financing activities	204	(1,194)

Decrease in cash	(4,273)	(10,795)
Cash at beginning of period	4,368	12,055
Cash at end of period	$95	$1,260
Supplemental disclosure:		
Interest paid	$353	$479
Income taxes paid	104	470

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

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PERMA-FIX ENVIRONMENTAL SERVICES, INC.
NOTES TO CONSOLIDATED CONDENSED FINANCIAL STATEMENTS

June 30, 2013
(Unaudited)

Reference is made herein to the notes to consolidated financial statements included in our Annual Report on Form 10-K for the year ended December 31, 2012.

1. Basis of Presentation

The consolidated financial statements included herein have been prepared by the Company (which may be referred to as we, us or our), without an audit, pursuant to the rules and regulations of the Securities and Exchange Commission ("the Commission"). Certain information and note disclosures normally included in financial statements prepared in accordance with accounting principles generally accepted in the United States of America ("U.S. GAAP") have been condensed or omitted pursuant to such rules and regulations, although the Company believes the disclosures which are made are adequate to make the information presented not misleading. Further, the consolidated financial statements reflect, in the opinion of management, all adjustments (which include only normal recurring adjustments) necessary to present fairly the financial position and results of operations as of and for the periods indicated. The results of operations for the six months ended June 30, 2013 are not necessarily indicative of results to be expected for the fiscal year ending December 31, 2013.

We suggest that these consolidated condensed financial statements be read in conjunction with the consolidated financial statements and the notes thereto included in the Company's Annual Report on Form 10-K for the year ended December 31, 2012.

Current Financial Position and Liquidity
During the six months ended June 30, 2013 and for the year ended December 31, 2012, the Company incurred net losses of $3,853,000 and $6,092,000, respectively. In the first and second quarters of fiscal 2013, revenues were $19,829,000 and $22,784,000, respectively. Despite this increase, which is consistent with our historical revenue trends, the 2013 revenue and our fiscal 2012 revenue were below our expectations and internal forecasts as a result of government sequestration, ending of contracts and general adverse economic conditions. Our revenue to date in fiscal 2013 has been insufficient to attain profitable operations and has generated negative operating cash flow from operations; however, historically, the Company has generated positive operating cash in the third and fourth quarters due to the government fiscal year end of September 30th and upfront contractual billing terms.

The Company's cash flow requirements during 2013 have been financed by cash on hand, operations, and our credit facility (Note 7). Should the increased revenue consistent with prior trends not materialize, we are committed to further reducing operating costs to bring them in line with reduced revenue levels. If we are unable to improve our revenue and working capital during the remainder of 2013, such could result in a material adverse impact on our results and liquidity, including potential impact on our goodwill balances.

On August 2, 2013, the Company completed a lending transaction with Messrs. Robert Ferguson and William Lampson (collectively, the "Lenders"), whereby the Company borrowed from the Lenders the sum of $3,000,000 pursuant to the terms of a Loan and Security Purchase Agreement and promissory note (Note 13). These additional funds allowed us to pay down the current revolver balance, effectively increasing our borrowing availability to approximately $6,200,000 as of August 2, 2013 based on eligible collateral. The loan is a fixed rate loan with a favorable rate that is lower than our current variable rates and thus translates to lower interest expense.

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The Company continues to focus on expansion into both commercial and international markets to help offset the uncertainties of government spending. This includes new services, new customers and increased market share in our current markets. Although no assurances can be given, we believe we will be able to successfully implement this plan.

Reclassifications
Certain prior period amounts have been reclassified to conform with the current period presentation.

2. Summary of Significant Accounting Policies

Our accounting policies are as set forth in the notes to consolidated financial statements referred to above and below.

Revenue Recognition
The Company recognizes revenue, but not profit, for certain significant claims when it is determined that recovery of incurred costs is probable and the amounts can be reliably estimated. Under Accounting Standards Codification (“ASC”) 605-35-25 “Revenue Recognition–Construction-Type and Production-Type Contracts”, these requirements are satisfied when the contract or other evidence provides a legal basis for the claim, additional costs were caused by circumstances that were unforeseen at the contract date and not the result of deficiencies in the Company’s performance, claim-related costs are identifiable and considered reasonable in view of the work performed, and evidence supporting the claim is objective and verifiable. The Company periodically evaluates its position and the amounts recognized in revenue with respect to all its claims. Amounts ultimately realized from claims could differ materially from the balances included in the condensed consolidated financial statements.

Recently Adopted Accounting Standards
In February 2013, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2013-02 (“ASU 2013-02”), "Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income.” This ASU requires entities to disclose the effect of items reclassified out of accumulated other comprehensive income on each affected net income line item. For accumulated other comprehensive income reclassification items that are not reclassified in their entirety into net income, entities are required to cross-reference to other disclosures required under U.S. GAAP that provide additional detail on these amounts. This information may be provided either in the notes or parenthetically on the face of the financials. For public entities, the guidance is effective for annual reporting periods beginning after December 15, 2012 and interim periods within those years. The adoption of ASU 2013-02 did not have a material impact on the Company's financial condition or results of operations.

Recently Issued Accounting Standards
In February 2013, the FASB issued ASU 2013-04, “Obligations Resulting From Joint and Several Liability Arrangements for Which the Total Amount of the Obligation is Fixed at the Reporting Date,” an amendment to FASB ASC Topic 405, “Liabilities.” The update requires an entity to measure obligations resulting from joint and several liability arrangements for which the total amount of the obligation is fixed as of the reporting date as the sum of the obligation the entity agreed to pay among its co-obligors and any additional amount the entity expects to pay on behalf of its co-obligors. This ASU is effective for annual and interim periods beginning after December 15, 2013 and is required to be applied retrospectively to all prior periods presented for those obligations that existed upon adoption of the ASU. The Company is still assessing the potential impact of adopting this guidance.

In July 2013, the FASB issued ASU No. 2013-11 “Presentation of an Unrecognized Tax Benefit When a Net Operating Loss Carryforward, a Similar Tax Loss, or a Tax Credit Carryforward Exists.” ASU No. 2013-11 is a new accounting standard on the financial statement presentation of unrecognized tax benefits. The new guidance requires an entity to present an unrecognized tax benefit and an net operating loss carryforward, a similar tax loss, or a tax credit carryforward on a net basis as part of a deferred tax asset, unless the unrecognized tax benefit is not available to

reduce the deferred tax asset component or would not be utilized for that purpose, then a liability would be recognized. This ASU is effective for annual and interim periods beginning after December 15, 2013. We are still assessing the potential impact of adopting this guidance on our financial statements.

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3. Stock Based Compensation

We follow FASB ASC 718, "Compensation – Stock Compensation" ("ASC 718") to account for stock-based compensation. ASC 718 requires all stock-based payments to employees, including grants of employee stock options, to be recognized in the income statement based on their fair values.

The Company has certain stock option plans under which it awards incentive and non-qualified stock options to employees, officers, and outside directors. Stock options granted to employees have either a ten year contractual term with one-fifth yearly vesting over a five year period or a six year contractual term with one-third yearly vesting over a three year period. Stock options granted to outside directors have a ten year contractual term with vesting period of six months.

No stock options were granted during the first six months of 2013 or 2012.

As of June 30, 2013, we had an aggregate of 1,138,000 employee stock options outstanding (from the 2004 and 2010 Stock Option Plans), of which 938,000 are vested. The weighted average exercise price of the 938,000 outstanding and fully vested employee stock options is $2.05 with a remaining weighted contractual life of 1.5 years. Additionally, we had an aggregate of 816,000 outstanding director stock options (from the 2003 Outside Directors Stock Plans), all of which are vested. The weighted average exercise price of the 816,000 outstanding and fully vested director stock options is $2.04 with a remaining weighted contractual life of 4.5 years.

The Company estimates fair value of stock options using the Black-Scholes valuation model. Assumptions used to estimate the fair value of stock options granted include the exercise price of the award, the expected term, the expected volatility of the Company's stock over the option's expected term, the risk-free interest rate over the option's expected term, and the expected annual dividend yield.

The following table summarizes stock-based compensation recognized for the three and six months ended June 30, 2013 and 2012 for our employee and director stock options.

Stock Options	Three Months Ended June 30,		Six Months Ended June 30,	
	2013	2012	2013	2012
Employee Stock Options	$3,000	$34,000	$36,000	$72,000
Director Stock Options	¾	¾	18,000	26,000
Total	$3,000	$34,000	$54,000	$98,000

We recognized stock-based compensation expense using a straight-line amortization method over the requisite period, which is the vesting period of the stock option grant. ASC 718 requires that stock based compensation expense be based on options that are ultimately expected to vest. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. We have generally estimated forfeiture rates based on historical trends of actual forfeitures. When actual forfeitures vary from our estimates, we recognize the difference in stock-based compensation expense in the period the actual forfeitures occur or when options vest. Our stock-based compensation expense for the three months ended June 30, 2013 included a reduction of approximately $23,000 resulting from the forfeiture of a non-qualified stock option (the "Option") due to the voluntary termination of our Safety and Ecology Corporation ("SEC" or Safety and Ecology Holdings Corporation and its subsidiaries) President from the Company which became effective May 24, 2013 (see Note 12 – "Related Party Transaction" for further information regarding the SEC President's voluntary termination from the Company). The Option was granted on October 31, 2011, with a term of 10 years from grant date and provided for the purchase of up

to 250,000 shares of our Common Stock at $1.35 per share, with 25% yearly vesting over a four-year period (in accordance with a Non-Qualified Option Agreement). As of June 30, 2013, we have approximately $94,000 of total unrecognized compensation cost related to unvested options, of which $44,000 is expected to be recognized in 2013, with the remaining $50,000 in 2014.

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4. Stock Plans and Non-Qualified Option Agreement

The summary of the Company's total Stock Plans and a Non-Qualified Stock Option Agreement (which has been forfeited) as of June 30, 2013 as compared to June 30, 2012, and changes during the periods then ended, are presented below. The current year Company's Plans consist of the 2004 and 2010 Stock Option Plans, and the 2003 Outside Directors Stock Plans:

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2013	2,644,000	$ 1.96		
Granted				
Exercised				$
Forfeited	(690,000)	1.87		
Options outstanding End of Period (1)	1,954,000	2.00	3.0	$
Options Exercisable at June 30, 2013(1)	1,754,000	$ 2.05	2.9	$
Options Vested and expected to be vested at June 30, 2013	1,954,000	$ 2.00	3.0	$

	Shares	Weighted Average Exercise Price	Weighted Average Remaining Contractual Term	Aggregate Intrinsic Value
Options outstanding Janury 1, 2012	3,039,833	$ 1.98		
Granted				
Exercised				$
Forfeited	(425,333)	1.90		
Options outstanding End of Period (2)	2,614,500	1.99	3.8	$
Options Exercisable at June 30, 2012(2)	2,064,500	$ 2.13	3.0	$
Options Vested and expected to be vested at June 30, 2012	2,614,500	$ 1.99	3.8	$

(1) Options with exercise prices ranging from $1.10 to $2.95
(2) Options with exercise prices ranging from $1.41 to $2.95

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5. (Loss) Income Per Share

Basic (loss) income per share excludes any dilutive effects of stock options, warrants, and convertible preferred stock. In periods where they are anti-dilutive, such amounts are excluded from the calculations of dilutive earnings per share.

The following is a reconciliation of basic (loss) income per share to diluted net loss per share for the three and six months ended June 30, 2013 and 2012:

	Three Months Ended June 30, (Unaudited)		Six Months Ended June 30, (Unaudited)	
(Amounts in Thousands, Except for Per Share Amounts)	2013	2012	2013	2012
Loss per share from continuing operations attributable to Perma-Fix Environmental Services, Inc.common stockholders				
Loss from continuing operations	$(980)	$(1,009)	$(3,868)	$(1,816)
Basic loss per share	$(.02)	$(.02)	$(.07)	$(.04)
Diluted loss per share	$(.02)	$(.02)	$(.07)	$(.04)
Income (loss) per share from discontinued operations attributable to Perma-Fix Environemental Services, Inc. common stockholders				
Income (loss) from discontinued operations	$43	$(60)	$15	$(198)
Basic income (loss) per share	$¾	$¾	$¾	$¾
Diluted income (loss) per share	$¾	$¾	$¾	$¾
Weighted average common shares outstanding – basic	56,334	56,094	56,303	56,078
Potential shares exercisable under stock option plans	¾	¾	¾	¾
Weighted average shares outstanding – diluted	56,334	56,094	56,303	56,078
Potential shares excluded from above weighted average share calculations due to their anti-dilutive effect include:				
Upon exercise of stock options	1,954	2,614	1,954	2,124

6. Other Intangible Assets and Goodwill

Other Intangible Assets

The following table summarizes information relating to the Company's other intangible assets:

		June 30, 2013			December 31, 2012		
Intangibles (amount in thousands)	Useful Lives (Years)	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount	Gross Carrying Amount	Accumulated Amortization	Net Carrying Amount
Patent	8-18	$477	$ (131)	$ 346	$453	$ (105)	$ 348
Software	3	380	(210)	170	380	(145)	235
Non-compete agreement	1.2	265	(97)	168	265	(62)	203
Customer contracts	0.5	790	(790)	¾	790	(790)	¾

Customer relationships	12	3,370	(739)	2,631	3,370	(546)	2,824
Total		$5,282	$ (1,967)	$ 3,315	$5,258	$ (1,648)	$ 3,610

The intangible assets are amortized on a straight-line basis over their useful lives with the exception of customer relationships which are being amortized using an accelerated method.

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The following table summarizes the expected amortization over the next five years for our definite-lived intangible assets noted above and also includes the only definite-lived permit, which is at our Diversified Scientific Services, Inc. ("DSSI") subsidiary:

Year	Amount (In thousands)
2013 (remaining)	$ 503
2014	590
2015	488
2016	408
2017	355
	$ 2,344

Amortization expense relating to intangible assets noted above and our one definite-lived permit for the Company was $179,000 and $343,000 for the three and six months ended June 30, 2013, respectively, and $147,000 and $322,000 for the three and six months ended June 30, 2012, respectively.

Goodwill impairment

Our East Tennessee Materials & Energy Corporation ("M&EC") subsidiary was awarded the CH Plateau Remediation Company ("CHPRC") subcontract by CH2M Hill Plateau Remediation Company ("CH2M Hill"), effective June 19, 2008, in connection with CH2M Hill's prime contract with the Department of Energy ("DOE"), relating to waste management and facility operations at the DOE's Hanford, Washington site. The CHPRC subcontract provides for a base contract period from October 1, 2008 through September 30, 2013, with an option of renewal for an additional five years. During the second quarter of 2013, our M&EC subsidiary was notified by CH2M Hill that the subcontract will expire on September 30, 2013 and will not be renewed. As permitted by ASC Topic 350 "Intangibles – Goodwill and Other," when an impairment indicator arises toward the end of an interim reporting period, the Company may recognize its best estimate of that impairment loss. Based on the Company's preliminary analysis prepared as of June 30, 2013, we recorded a goodwill impairment charge of $1,149,000 during the three months ended June 30, 2013. This amount represented the total goodwill for our CHPRC reporting unit – our operations under the CHPRC subcontract. The goodwill impairment charge is noncash in nature and did not affect the Company's liquidity or cash flows from operating activities. Additionally, the goodwill impairment had no effect on the Company's borrowing availability or covenants under its credit facility agreement.

The preliminary assessment for the Treatment Segment, SYA and Safety & Ecology Corporation reporting units indicated that the fair values were greater than its net book value with no initial indication of goodwill impairment. Although the Company believes that the financial projections used in the assessment were reasonable and appropriate for its four reporting units at that time, there is uncertainty inherent in those projections.

We believe demand for our services will continue to be subject to fluctuations due to a variety of factors beyond our control, including the current economic conditions that drive both commercial and government clients to reduce spending. In addition, federal governmental clients have operated under reduced budgets due to Continuing Resolutions ("CR") and sequestration. We believe that this has negatively impacted the amount of waste shipped to our treatment facilities as well as jobs available in our Services Segment. Significant uncertainty exists regarding how sequestration cuts will be implemented and what challenges this may present for our industry. While members of Congress and the Administration continue to discuss various options to address sequestration and the U.S. Government's overall fiscal challenges, we cannot predict the outcome of these efforts. Currently, there is insufficient information to determine the full impact of sequestration and CR on our 2013 results of operations and cash flows,

including their potential impact on our goodwill balances.

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7. Long Term Debt

Long-term debt consists of the following at June 30, 2013 and December 31, 2012:

(Amounts in Thousands)	June 30, 2013	December 31, 2012
Revolving Credit facility dated October 31, 2011, borrowings based upon eligible accounts receivable, subject to monthly borrowing base calculation, variable interest paid monthly at our option of prime rate (3.25% at June 30, 2013) plus 2.0% or London Interbank Offer Rate ("LIBOR") plus 3.0%, balance due October 31, 2016. Effective interest rate for first six months of 2013 was 3.30%. (1)	$1,671	$ —
Term Loan dated October 31, 2011, payable in equal monthly installments of principal of $190, balance due in October 31, 2016, variable interest paid monthly at option of prime rate plus 2.5% or LIBOR plus 3.5%. Effective interest rate for first six months of 2013 was 4.06%. (1)	12,381	13,524
Promissory Note dated September 28, 2010, payable in 36 monthly equal installments of $40, which includes interest and principal, beginning October 15, 2010, interest accrues at annual rate of 6.0%. (2)	119	352
Promissory Note dated February 12, 2013, payable in monthly installments of $10, which includes interest and principal, starting February 28, 2013, interest accrues at annual rate of 6.0%, balance due January 31, 2015. (2)	184	—
Various capital lease and promissory note obligations, payable 2013 to 2014, interest at rates ranging from 5.2% to 8.0%.	116	391
	14,471	14,267
Less current portion of long-term debt	2,568	2,794
Less long-term debt related to assets held for sale	53	71
	$11,850	$ 11,402

(1) Our Revolving Credit facility is collateralized by our accounts receivable and our Term Loan is collateralized by our property, plant, and equipment.

(2) Uncollateralized note.

Revolving Credit and Term LoanAgreement
The Company entered into an Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 (“Amended Loan Agreement”), with PNC Bank, National Association (“PNC”), acting as agent and lender, replacing our previous Loan Agreement with PNC. The Amended Loan Agreement provides us with the following credit facilities:

- up to $25,000,000 revolving credit facility (“Revolving Credit”), subject to the amount of borrowings based on a percentage of eligible receivables. The revolving credit advances are subject to limitations of an amount up to the sum of (a) up to 85% of Commercial Receivables aged 90 days or less from invoice date, (b) up to 85% of Commercial Broker Receivables aged up to 120 days from invoice date, (c) up to 85% of acceptable Government Agency Receivables aged up to 150 days from invoice date, and (d) up to 50% of acceptable unbilled amounts aged up to 60 days, less (e) reserves the Agent reasonably deems proper and necessary;

- a term loan (“Term Loan”) of $16,000,000, which requires monthly installments of approximately $190,000 (based on a seven-year amortization); and

- equipment line of credit up to $2,500,000, subject to certain limitations.

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The Amended Loan Agreement terminates as of October 31, 2016, unless sooner terminated. We may terminate the Amended Loan Agreement upon 90 days' prior written notice and upon payment in full of our obligations under the Amended Loan Agreement. We agreed to pay PNC 0.5% of the total financing if we pay off our obligations after October 31, 2012, but prior to or on October 31, 2013. No early termination fee shall apply if we pay off our obligations under the Amended Loan Agreement after October 31, 2013.

We have the option of paying an annual rate of interest due on the revolving credit facility at prime plus 2% or LIBOR plus 3% and the term loan and equipment credit facilities at prime plus 2.5% or LIBOR plus 3.5%.

In connection with the Amended Loan Agreement, we paid PNC a fee of $217,500 and incurred other direct costs of approximately $298,000, all of which are being amortized over the term of the Amended Loan Agreement as interest expense – financing fees. As of June 30, 2013, the excess availability under our revolving credit was $7,281,000, based on our eligible receivables.

On May 9, 2013, we entered into an Amendment to our Amended Loan Agreement. This Amendment waived our fixed charge coverage ratio non-compliance for the first quarter of 2013. This Amendment also changed the methodology in calculating the fixed charge coverage ratio in each subsequent quarter of 2013. The minimum fixed charge coverage ratio requirement of 1:25 to 1:00 for each subsequent quarter of 2013 remains unchanged. As a condition of this Amendment, we paid PNC a fee of $20,000, which is being amortized over the term of the Amended Loan Agreement. All other terms of the Amended Loan Agreement remain principally unchanged. We met our fixed charge coverage ratio covenant for the second quarter of 2013.

Promissory Notes and Installment Agreements
On February 12, 2013, the Company entered into an unsecured promissory note ("New Note") with Timios National Corporation ("TNC" and formerly known as Homeland Capital Security Corporation) in the principal amount of approximately $230,000 as a result of a settlement with TNC in connection with certain claims that we asserted against TNC for breach of certain representations and covenant subsequent to our acquisition of Safety & Ecology Holdings Corporation and its subsidiaries (collectively known as "SEC") from TNC on October 31, 2011. In connection with the acquisition of SEC on October 31, 2011, as partial consideration of the purchase price, we entered into a $2,500,000 unsecured, non-negotiable promissory note (the "October Note"), bearing an annual rate of interest of 6%, payable in 36 monthly installments, with TNC. As part of the settlement with TNC regarding the aforementioned claims, the October Note, with balance of approximately $1,460,000, was cancelled and terminated and the New Note was issued in replacement of the October Note. The New Note bears an annual interest rate of 6%, payable in 24 monthly installments of principal and interest of approximately $10,000, with the first payment due February 28, 2013, as agreed by us and TNC after entering into the promissory note, with subsequent payments due on the last day of each month thereafter. The New Note provides us the right to prepay such at any time without interest or penalty.

The Note payable to TNC included an embedded conversion option ("Conversion Option") that can be exercised upon default, whereby TNC has the option to convert the unpaid portion of the Note into a number of whole shares of our restricted Common Stock. The number of shares of our restricted Common Stock to be issuable under the Conversion Option is determined by the principal amount owing under the Note at the time of default plus all accrued and unpaid interest and expenses (as defined) divided by the average of the closing price per share of our Common Stock as reported by the primary national securities exchange on which our Common Stock is traded during the 30 consecutive trading day period ending on the trading day immediately prior to receipt by us of TNC's written notice of its election to receive our restricted Common Stock as a result of the event of default by us, with the number of shares of our Common Stock issuable upon such default subject to certain limitations. We concluded that the Conversion Option had and continues to have nominal value as of June 30, 2013. We will continue to monitor the fair value of the Conversion Option on a regular basis.

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On September 28, 2010, the Company entered into a promissory note in the principal amount of $1,322,000, with the former shareholders of Nuvotec (now known as Perma-Fix Northwest, Inc. or "PFNW") in connection with an earn-out amount that we are required to pay upon meeting certain conditions for each earn-out measurement year ended June 30, 2008 to June 30, 2011, as a result of our acquisition of PFNW and Perma-Fix Northwest Richland, Inc. ("PFNWR") in June 2007. Interest is accrued at an annual interest rate of 6%. The promissory note provides for 36 equal monthly payments of approximately $40,000, consisting of interest and principal, starting October 15, 2010. The promissory note may be prepaid at any time without penalty. See further details of the earn-out amount in Note 8 – "Commitments and Contingencies - Earn-Out Amount."

8. Commitments and Contingencies

Hazardous Waste

In connection with our waste management services, we handle both hazardous and non-hazardous waste, which we transport to our own, or other, facilities for destruction or disposal. As a result of disposing of hazardous substances, in the event any cleanup is required, we could be a potentially responsible party for the costs of the cleanup notwithstanding any absence of fault on our part.

Legal Matters

On March 7, 2013, our PFNWR subsidiary received a Notice of Intent to File Administrative Complaint from the U.S. Environmental Protection Agency ("EPA"), alleging PFNWR had improperly stored certain mixed waste. If a settlement is not reached between the Company and EPA in connection with these alleged violations within 120 days of initiating negotiations, the EPA has advised it will initiate an action for civil penalties for these alleged violations. The EPA could seek penalties up to $37,500 per day per violation. The EPA has proposed a consent agreement and final order ("CAFO") and has proposed a total penalty in the CAFO in the amount of $215,500 to resolve these alleged violations. We recorded approximately $188,000 in accrued penalty (of which $4,000 was recorded in the second quarter of 2013) based on our best estimate to resolve these alleged violations. See Note 13 - "Subsequent Events – Notice of Intent to File Administrative Complaint – PFNWR" on settlement of this matter with the EPA on July 16, 2013.

Earn-Out Amount – Perma-Fix Northwest, Inc. ("PFNW") and Perma-Fix Northwest Richland, Inc. ("PFNWR")

In connection with the acquisition of PFNW and PFNWR in June 2007, we were required to pay to those former shareholders of Nuvotec an earn-out amount upon meeting certain conditions for each measurement year ended June 30, 2008 to June 30, 2011, with the aggregate of the full earn-out amount not to exceed $4,552,000, pursuant to the Merger Agreement, as amended ("Agreement"). As of June 30, 2013, an aggregate earn-out amount of $3,896,000 has been paid or is payable as follows: (i) $2,574,000 in cash; and (ii) we issued a promissory note, dated September 28, 2010, in the principal amount of $1,322,000, payable in thirty six equal monthly payments of approximately $40,000 consisting of interest and principal, starting October 15, 2010. The total $3,896,000 in earn-out amount paid to date or to be paid pursuant to the promissory note excludes approximately an aggregate $656,000 in Offset Amount, which represents an indemnification obligation (as defined by the Merger Agreement) which is payable or may be payable to the Company by the former shareholders of Nuvotec. Pursuant to the Merger Agreement, the aggregate amount of any Offset Amount may total up to $1,000,000, except an Offset Amount is unlimited as to indemnification relating to liabilities for taxes, misrepresentation or inaccuracies with respect to the capitalization of Nuvotec or PEcoS (now known as "PFNWR") or for willful or reckless misrepresentation of any representation, warranty or covenant. The $656,000 Offset Amount (which was recorded as part of the purchase price allocation of PFNWR) represents approximately $93,000 relating to an excise tax issue and a refund request from a PEcoS customer in connection with services for waste treatment prior to our acquisition of PFNWR and PFNW and an anticipated Offset Amount of $563,000 in connection with the receipt of nonconforming waste at the PFNWR facility prior to our acquisition of PFNWR and PFNW. We are currently involved in litigation with the party that delivered the nonconforming waste to the facility prior to our acquisition of PFNWR and PFNW.

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Insurance

The Company has a 25-year finite risk insurance policy entered into in June 2003 with Chartis, a subsidiary of American International Group, Inc. ("AIG"), which provides financial assurance to the applicable states for our permitted facilities in the event of unforeseen closure. The policy, as amended, provides for a maximum allowable coverage of $39,000,000 and has available capacity to allow for annual inflation and other performance and surety bond requirements. We have made all of the required payments totaling $18,305,000, for this finite risk insurance policy, as amended, of which $14,472,000 has been deposited into a sinking fund account which represents a restricted cash account; $2,883,000 represented full/terrorism premium; and $950,000 represented fee payable to Chartis. As of June 30, 2013, our financial assurance coverage amount under this policy totaled approximately $38,161,000. We have recorded $15,396,000 in our sinking fund related to the policy noted above in other long term assets on the accompanying balance sheets, which includes interest earned of $925,000 on the sinking fund as of June 30, 2013. Interest income for three and six months ended June 30, 2013, was approximately $7,000 and $13,000, respectively. On the fourth and subsequent anniversaries of the contract inception, we may elect to terminate this contract. If we so elect, Chartis is obligated to pay us an amount equal to 100% of the sinking fund account balance in return for complete releases of liability from both us and any applicable regulatory agency using this policy as an instrument to comply with financial assurance requirements.

In August 2007, we entered into a second finite risk insurance policy for our PFNWR facility with Chartis. The policy provided an initial $7,800,000 of financial assurance coverage with an annual growth rate of 1.5%, which at the end of the four year term policy, provides maximum coverage of $8,200,000. We have made all of the required payments on this policy, totaling $7,158,000, of which $5,700,000 has been deposited into a sinking fund account and $1,458,000 represented premium. As of June 30, 2013, we have recorded $5,894,000 in our sinking fund related to this policy in other long term assets on the accompanying balance sheets, which includes interest earned of $194,000 on the sinking fund as of June 30, 2013. Interest income for the three and six months ended June 30, 2013 totaled approximately $2,000 and $5,000, respectively. This policy is renewed annually at the end of the four year term with a nominal fee for the variance between the policy and coverage requirement. We renewed this policy in 2011 and 2012 with an annual fee of $46,000. All other terms of the policy remain substantially unchanged.

Recognition of Revenue from Contract Claims

The Company recognizes revenue, but not profit, for certain significant claims when it is determined that recovery of incurred costs is probable and the amount can be reliably estimated in accordance with ASC 605-35-25. The Company's revenue for quarter ended June 30, 2013, includes claim revenue related to this issue for costs incurred to date on a certain fixed price contract. The Company believes the ultimate recovery of incurred costs related to the claim is probable under ASC 605-35-25, and will continue periodically to evaluate its position and the amount recognized in revenue as to this claim. The project is substantially complete; resolution of the claim is projected to extend beyond the project completion date. The Company currently is conferring this claim revenue with the customer and will seek to recover, including litigation if necessary, all amounts owed as allowed under the contract or for other work performed. The customer can file a counterclaim against the Company seeking to recover costs associated with alleged defects. Relative success of the customer's counterclaim and the Company's claims for damages could result in a substantial change to earnings.

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9. Discontinued Operations and Divestitures

Our discontinued operations consist of our Perma-Fix of South Georgia, Inc. (“PFSG”) facility which met the held for sale criteria under ASC 360, “Property, Plant, and Equipment” on October 6, 2010. Our discontinued operations also encompass our Perma-Fix of Fort Lauderdale, Inc. (“PFFL”), Perma-Fix of Orlando, Inc. (“PFO”), Perma-Fix of Maryland, Inc. (“PFMD”), Perma-Fix of Dayton, Inc. (“PFD”), and Perma-Fix Treatment Services, Inc. (“PFTS”) facilities, which were divested on August 12, 2011, October 14, 2011, January 8, 2008, March 14, 2008, and May 30, 2008, respectively. Our discontinued operations also include two previously shut down locations, Perma-Fix of Michigan, Inc. (“PFMI”), and Perma-Fix of Memphis, Inc. (“PFM”).

We continue to market our PFSG facility for sale. As required by ASC 360, based on our internal financial valuations, we concluded that no tangible asset impairments existed for PFSG as of June 30, 2013. No intangible assets exist at PFSG.

The following table summarizes the results of discontinued operations for the three and six months ended June 30, 2013 and 2012. The operating results of discontinued operations are included in our Consolidated Statements of Operations as part of our “Income (loss) from discontinued operations, net of taxes.”

	Three Months Ended June 30,		Six Months Ended June 30,	
(Amounts in Thousands)	2013	2012	2013	2012
Net revenues	$809	$599	$1,472	$1,215
Interest expense	$(9)	$(9)	$(13)	$(17)
Operating income (loss) from discontinued operations	$67	$(86)	$26	$(294)
Income tax expense (benefit)	$24	$(26)	$11	$(96)
Income (loss) from discontinued operations	$43	$(60)	$15	$(198)

The following table presents the major classes of assets and liabilities of discontinued operations that are classified as held for sale as of June 30, 2013 and December 31, 2012. The held for sale assets and liabilities may differ at the closing of a sale transaction from the reported balances as of June 30, 2013:

(Amounts in Thousands)	June 30, 2013	December 31, 2012
Accounts receivable, net (1)	$578	$ 391
Inventories	37	32
Other assets	16	16
Property, plant and equipment, net (2)	1,616	1,614
Total assets held for sale	$2,247	$ 2,053
Accounts payable	$341	$ 229
Accrued expenses and other liabilities	544	528
Note payable	53	71
Environmental liabilities	1,373	1,373
Total liabilities held for sale	$2,311	$ 2,201

(1) net of allowance for doubtful accounts of $25,000 and $45,000 as of June 30, 2013 and December 31, 2012, respectively.

(2) net of accumulated depreciation of $60,000 for each period presented.

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The following table presents the major classes of assets and liabilities of discontinued operations that are not held for sale as of June 30, 2013 and December 31, 2012:

(Amounts in Thousands)	June 30, 2013	December 31, 2012
Other assets	$55	$ 60
Total assets of discontinued operations	$55	$ 60
Accrued expenses and other liabilities	$796	$ 884
Accounts payable	15	15
Environmental liabilities	195	241
Total liabilities of discontinued operations	$1,006	$ 1,140

10. Operating Segments

In accordance with ASC 280, "Segment Reporting", we define an operating segment as a business activity:

- from which we may earn revenue and incur expenses;
- whose operating results are regularly reviewed by the Chief Operating Officer to make decisions about resources to be allocated to the segment and assess its performance; and
- for which discrete financial information is available.

We currently have two reporting segments, which are based on a service offering approach. This, however, excludes corporate headquarters, which does not generate revenue, and our discontinued operations, which includes all facilities as discussed in Note 9 – "Discontinued Operations and Divestitures."

Our reporting segments are defined as follows:

TREATMENT SEGMENT, which includes:

- nuclear, low-level radioactive, mixed waste (containing both hazardous and low-level radioactive constituents), hazardous and non-hazardous waste treatment, processing and disposal services primarily through four uniquely licensed and permitted treatment and storage facilities; and,
- research and development activities to identify, develop and implement innovative waste processing techniques for problematic waste streams.

SERVICES SEGMENT, which includes:

- On-site waste management services to commercial and government customers;
- Technical services, which include:
  - o professional radiological measurement and site survey of large government and commercial installations using advance methods, technology and engineering;
  - o integrated Occupational Safety and Health services including industrial hygiene ("IH") assessments; hazardous materials surveys, e.g., exposure monitoring; lead and asbestosmanagement/abatement oversight; indoor air quality evaluations; health risk and exposure assessments; health & safety plan/program development, compliance auditing and training services; and Occupational Safety and Health Administration ("OSHA") citation assistance;
  - o global technical services providing consulting, engineering, project management, waste management, environmental, and decontamination and decommissioning field, technical, and management personnel and services to commercial and government customers; and,

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- o augmented engineering services (through our Schreiber, Yonley & Associates subsidiary – “SYA”) providing consulting environmental services to industrial and government customers:
  - § including air, water, and hazardous waste permitting, air, soil and water sampling, compliance reporting, emission reduction strategies, compliance auditing, and various compliance and training activities; and,
  - § engineering and compliance support to other segments;
- Nuclear services, which include:
  - o technology-based services including engineering, decontamination and decommissioning (“D&D”), specialty services and construction, logistics, transportation, processing and disposal;
  - o remediation of nuclear licensed and federal facilities and the remediation cleanup of nuclear legacy sites. Such services capability includes: project investigation; radiological engineering; partial and total plant D&D; facility decontamination, dismantling, demolition, and planning; site restoration; site construction; logistics; transportation; and emergency response; and
- A company owned equipment calibration and maintenance laboratory that services, maintains, calibrates, and sources (i.e., rental) of health physics, IH and customized nuclear, environmental, and occupational safety and health (“NEOSH”) instrumentation.

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The table below presents certain financial information of our operating segments as of and for the three and six months ended June 30, 2013 and 2012 (in thousands).

Segment Reporting for the Quarter Ended June 30, 2013

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total
Revenue from external customers	$ 10,108	$ 12,676	$ 22,784	(3)	$ ¾		$ 22,784
Intercompany revenues	407	16	423		¾		¾
Gross profit	2,312	1,711	4,023		¾		4,023
Interest income	¾	¾	¾		9		9
Interest expense	22	1	23		177		200
Interest expense-financing fees	¾	¾	¾		24		24
Depreciation and amortization	1,024	238	1,262		27		1,289
Segment profit (loss)	795	(619)	176		(1,156)		(980)
Segment assets(1)	72,422	31,810	104,232		28,330	(4)	132,562
Expenditures for segment assets	59	¾	59		¾		59
Total long-term debt, net of current portion	14	¾	14		11,836		11,850

Segment Reporting for the Quarter Ended June 30, 2012

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total
Revenue from external customers	$ 10,037	$ 23,661	$ 33,698	(3)	$ ¾		$ 33,698
Intercompany revenues	549	49	598		¾		¾
Gross profit	1,087	2,843	3,930		¾		3,930
Interest income	¾	¾	¾		7		7
Interest expense	3	¾	3		196		199
Interest expense-financing fees	¾	¾	¾		26		26
Depreciation and amortization	1,125	218	1,343		18		1,361
Segment profit (loss)	72	989	1,061		(2,070)		(1,009)
Segment assets(1)	78,982	43,568	122,550		31,231	(4)	153,781
Expenditures for segment assets	74	103	177		2		179
Total long-term debt, net of current portion	60	2	62		12,940		13,002

Segment Reporting for the Six Months Ended June 30, 2013

	Treatment	Services	Segments Total		Corporate (2)		Consolidated Total
Revenue from external customers	$ 17,450	$ 25,163	$ 42,613	(3)	$ ¾		$ 42,613
Intercompany revenues	1,075	55	1,130		¾		¾
Gross profit	2,167	2,393	4,560		¾		4,560
Interest income	¾	¾	¾		18		18
Interest expense	27	(4)	23		321		344
Interest expense-financing fees	¾	¾	¾		47		47
Depreciation and amortization	2,063	460	2,523		53		2,576
Segment loss	(93)	(819)	(912		(2,956)		(3,868)
Segment assets(1)	72,422	31,810	104,232		28,330	(4)	132,562
Expenditures for segment assets	175	¾	175		¾		175
Total long-term debt, net of current portion	14	¾	14		11,836		11,850

Segment Reporting for the Six Months Ended June 30, 2012

	Treatment	Services	Segments Total	Corporate (2)	Consolidated Total
Revenue from external customers	$ 22,879	$ 48,755	$ 71,634 (3)	$ ¾	$ 71,634
Intercompany revenues	1,158	117	1,275	¾	¾
Gross profit	3,808	4,491	8,299	¾	8,299
Interest income	¾	¾	¾	21	21
Interest expense	5	6	11	409	420
Interest expense-financing fees	¾	¾	¾	60	60
Depreciation and amortization	2,255	462	2,717	36	2,753
Segment profit (loss)	1,164	1,094	2,258	(4,074)	(1,816)
Segment assets(1)	78,982	43,568	122,550	31,231 (4)	153,781
Expenditures for segment assets	242	141	383	4	387
Total long-term debt, net of current portion	60	2	62	12,940	13,002

(1) Segment assets have been adjusted for intercompany accounts to reflect actual assets for each segment.

(2) Amounts reflect the activity for corporate headquarters not included in the segment information.

(3) Includes revenues generated from CH Plateau Remediation Company ("CHPRC") of $6,419,000 or 28.2% and $12,440,000 or 29.2% for the three and six months ended June 30, 2013, respectively and $6,323,000 or 18.8% and $12,633,000 or 17.6% for the corresponding period of 2012, respectively.

(4) Amount includes assets from discontinued operations of $2,302,000 and $2,381,000 as of June 30, 2013 and 2012, respectively.

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11. Income Taxes

The Company uses an estimated annual effective tax rate, which is based on expected annual income, statutory tax rates and tax planning opportunities available in the various jurisdictions in which the Company operates, to determine its quarterly provision for income taxes.

We had income tax benefits of $132,000 and $399,000 from continuing operations for the three months ended June 30, 2013 and the corresponding period of 2012, respectively, and income tax benefits of $1,560,000 and $855,000 for the six months ended June 30, 2013 and the corresponding period of 2012, respectively. The Company's effective tax rates were approximately 134.7% and 26.4% for the three months ended June 30, 2013 and 2012, respectively, and 37.0% and 30.2% for the six months ended June 30, 2013 and 2012, respectively. We have treated the goodwill impairment loss of approximately $1,149,000 recorded for our CHPRC reporting unit as a discrete item and have not included the impact of the impairment in our estimated effective tax rates for the three and six months ended June 30, 2013, in accordance with ASC 740-270-30-8 (see Note 6 – "Other Intangible Assets and Goodwill" for further information regarding this goodwill impairment).

The provision for income taxes is determined in accordance with ASC 740, "Income Taxes". Deferred income tax assets and liabilities are recognized for future tax consequences attributed to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax basis. Deferred income tax assets and liabilities are measured using enacted income tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Any effect on deferred income tax assets and liabilities of a change in tax rates is recognized in income in the period that includes the enactment date.

The Company regularly assesses the likelihood that the deferred tax asset will be recovered from future taxable income. The Company considers projected future taxable income and ongoing tax planning strategies, then records a valuation allowance to reduce the carrying value of the net deferred income tax assets to an amount that is more likely than not to be realized.

12. Related Party Transaction

On May 14, 2013, the Company entered into a Separation and Release Agreement ("Agreement") with Mr. Christopher Leichtweis ("Leichtweis"), the Company's SEC President. Pursuant to the Agreement:

(i) effective May 24, 2013 ("Separation Date"), Leichtweis voluntarily terminated and retired as an employee of the Company, Senior Vice President of the Company and President of SEC;

(ii) the Leichtweis Employment Agreement dated October 31, 2011 between the Company and Leichtweis was terminated and becomes null and void, except for the "Confidentiality of Trade Secrets and Business Information" ("Section 7") clause of the Leichtweis Employment Agreement. No severance and Special Bonus (as defined in the Leichtweis Employment Agreement) were payable to Leichtweis under the Leichtweis Employment Agreement. Leichtweis was paid all accrued salary, vacation and any benefit under the employee's benefit plan to Separation Date. Leichtweis voluntary termination of employment with the Company was for reasons other than for "Good Reason" (as defined by Leichtweis Employment Agreement) and is within the meaning of Treasury Regulation § 1.409A-1(h)(1) as of the Separation Date;

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(iii) the Management Incentive Plan ("MIP") effective as of November 1, 2011, as amended on July 12, 2012, for the benefit of Leichtweis was forfeited and cancelled. No payment was payable under the MIP as of the Separation Date;

(iv) A nonqualified stock option (the "Option") granted to Leichtweis on October 31, 2011, in accordance with a Non-Qualified Stock Option Agreement, which provided for the purchase of up to 250,000 shares of the Company's Common Stock at $1.35 per share pursuant to the Leichtweis Employment Agreement was forfeited. Within 30 days after Separation Date, Leichtweis had the option to exercise 62,500 options (amount vested) to purchase 62,500 shares of the Company's common stock, which he elected not to exercise;

(v) the Company generally released Leichtweis from and against all claims against Leichtweis under the Leichtweis Employment Agreement except for claims against Leichtweis under "Section 7" of the Employment Agreement; and

(vi) Leichtweis released the Company and its subsidiaries and all of their representatives, officers, directors, employees and affiliates from and against any and all Claims (as defined in the Agreement).

In connection with the Agreement, the Company also entered into a Consulting Services Agreement ("Consulting Agreement") with Leichtweis, dated May 24, 2013 which will terminate on July 23, 2014, unless sooner terminated by either party with prior 30 days written notice. The Consulting Agreement provides for compensation at an hourly rate of $135 and reasonable travel and other expenses. Pursuant to the Consulting Agreement, the Leichtweis will be subject to a fourteen months confidentiality and non-compete agreement (as defined) from date of execution of the Consulting Agreement. On June 1, 2013, Leichtweis provided the Company with written notice of termination of the Consulting Agreement. The Consulting Agreement terminated on June 30, 2013 except for the confidentiality and non-compete provisions of the Consulting Agreement.

13. Subsequent Events

Notice of Intent to File Administrative Complaint – PFNWR
On July 16, 2013, our PFNWR subsidiary entered into a consent agreement and final order ("CAFO") with the EPA in final settlement of certain alleged violations that our PFNWR subsidiary had improperly stored certain mixed waste. In settlement of these alleged violations, our PFNWR subsidiary has agreed to pay a penalty of approximately $188,000 within thirty days of July 16, 2013. See Note 9 – "Commitment and Contingencies – Legal Matters" for further information regarding this matter.

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Promissory Notes and Subordination Agreement

On August 2, 2013, the Company completed a lending transaction with Messrs. Robert Ferguson and William Lampson (“collectively, the “Lenders”), whereby the Company borrowed from the Lenders the sum of $3,000,000 pursuant to the terms of a Loan and Security Purchase Agreement and promissory note (the “Loan”). The Lenders were formerly shareholders of PFNW prior to our acquisition of PFNW and PFNWR and are also stockholders of the Company, having received shares of our Common Stock in connection with the acquisition of PFNW and PFNWR in June 2007. Mr. Ferguson also served as a Company Board member from August 2007 to February 2010 and from August 2011 to September 2012. The proceeds from the Loan will be used for general working capital purposes. The promissory note is unsecured, with a term of three years with interest payable at a fixed interest rate of 2.99% per annum. The promissory note provides for monthly payments of accrued interest only during the first year of the Loan with the first interest payment due September 1, 2013 and monthly payments of $125,000 in principal plus accrued interest for the second and third year of the Loan. In connection with the above Loan, the Lenders entered into a Subordination Agreement dated August 2, 2013, with the Company’s credit facility lender, whereby the Lenders agreed to subordinate payment under the Loan, and agreed that the Loan will be junior in right of payment to the credit facility in the event of default or bankruptcy or other insolvency proceeding by the Company. As consideration for the Company receiving the Loan, we issued a Warrant to each Lender to purchase up to 175,000 shares of the Company’s Common Stock at an exercise price based on the closing price of the Company’s Common Stock at the closing of the transaction which was determined to be $0.45. The Warrants are exercisable six months from August 2, 2013 and expire on August 2, 2016. As further consideration for the Loan, the Company also will issue an aggregate 450,000 shares of the Company’s Common Stock, with each Lender receiving 225,000 shares. The 450,000 shares of Common Stock and 350,000 Common Stock purchase warrants will be issued in a private placement and bear a restrictive legend against resale except in a transaction registered under the Securities Act or in a transaction exempt from registration thereunder. The Company is currently evaluating the accounting treatment of this transaction and the impact to our financial statements.

Amended and Restated Revolving Credit, Term Loan and Security Agreement

On August 2, 2013, the Company entered into an Amendment to our Amended and Restated Revolving Credit, Term Loan and Security Agreement, dated October 31, 2011 (“Amended Loan Agreement”) with PNC. This Amendment reduced our Revolving Credit facility from $25,000,000 to $18,000,000 and removed the equipment line credit of up to $2,500,000. All other terms of the Amended Loan Agreement remain principally unchanged.

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations

Forward-looking Statements

Certain statements contained within this report may be deemed "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended (collectively, the "Private Securities Litigation Reform Act of 1995"). All statements in this report other than a statement of historical fact are forward-looking statements that are subject to known and unknown risks, uncertainties and other factors, which could cause actual results and performance of the Company to differ materially from such statements. The words "believe," "expect," "anticipate," "intend," "will," and similar expressions identify forward-looking statements. Forward-looking statements contained herein relate to, among other things,

- demand for our services subject to fluctuations due to variety of factors;
- uncertainty with the federal budget and the availability of funding and sequestration;
- relative success of the customer’s counterclaim and Company’s claims for damages could result in a substantial change to earnings;
- the Company believes the ultimate recovery of incurred costs related to the claims is probable under ASC 605-35-25;
-

significant reduction in the level of governmental funding could have a material adverse impact to our business, financial position, results of operations and cash flows in the current year and in the future;

- expect to meet our financial covenants in remaining quarters of 2013;
- ability to improve operations and liquidity;
- ability to continue under existing contracts with the federal government (directly or indirectly as a subcontractor;
- potential large fluctuations in revenue in each of our quarters in the near future;
- ability to fund expenses to remediate sites from funds generated internally;
- collectability of our receivables;
- potential effect on our operations with the adoption of programs by federal or state government mandating a substantial reduction in greenhouse gas emissions;
- ability to fund budgeted capital expenditures during 2013 through our operations and lease financing;

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- our cash flows from operations and our available liquidity from our amended and restated line of credit are sufficient to service the Company's current obligations;
- continue to take steps to improve our operations and liquidity and to invest working capital into our facilities to fund capital additions to our segments;
- ability to obtain similar insurance in future years, or that the cost of such insurance will not increase materially;
- we could be subject to fines, penalties or other liabilities or could be adversely affected by existing or subsequently enacted laws or regulations;
- economic conditions and environmental clean-up budgets improve;
- plan to fund any repurchases of our common stock through our internal cash flow and/or borrowing under our line of credit;
- being potentially responsible party at a remedial action site, which could have a material adverse effect; and
- we could be deemed responsible for part for the cleanup of certain properties and be subject to fines and civil penalties in connection with violations of regulatory requirements.

While the Company believes the expectations reflected in such forward-looking statements are reasonable, it can give no assurance such expectations will prove to have been correct. There are a variety of factors, which could cause future outcomes to differ materially from those described in this report, including, but not limited to:

- general economic conditions;
- material reduction in revenues;
- ability to meet PNC covenant requirements;
- inability to collect in a timely manner a material amount of receivables;
- increased competitive pressures;
- the ability to maintain and obtain required permits and approvals to conduct operations;
- public not accepting our new technology;
- the ability to develop new and existing technologies in the conduct of operations;
- inability to maintain and obtain closure and operating insurance requirements;
- inability to retain or renew certain required permits;
- discovery of additional contamination or expanded contamination at any of the sites or facilities leased or owned by us or our subsidiaries which would result in a material increase in remediation expenditures;
- delays at our third party disposal site can extend collection of our receivables greater than twelve months;
- refusal of third party disposal sites to accept our waste;
- changes in federal, state and local laws and regulations, especially environmental laws and regulations, or in interpretation of such;
- potential increases in equipment, maintenance, operating or labor costs;
- management retention and development;
- financial valuation of intangible assets is substantially more/less than expected;
- the requirement to use internally generated funds for purposes not presently anticipated;
- inability to continue to be profitable on an annualized basis;
- inability of the Company to maintain the listing of its Common Stock on the NASDAQ;
- terminations of contracts with federal agencies or subcontracts involving federal agencies, or reduction in amount of waste delivered to the Company under the contracts or subcontracts;
- renegotiation of contracts involving the federal government;
- federal government's inability or failure to provide necessary funding to remediate contaminated federal sites;
- disposal expense accrual could prove to be inadequate in the event the waste requires re-treatment; and
- Factors set forth in "Special Note Regarding Forward-Looking Statements" contained in our 2012 Form 10-K.

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The Company undertakes no obligations to update publicly any forward-looking statement, whether as a result of new information, future events or otherwise.

Overview

Revenue decreased $10,914,000 or 32.4% to $22,784,000 for the three months ended June 30, 2013 from $33,698,000 for the corresponding period of 2012 primarily due to reduced revenue within our Services Segment of approximately $10,985,000 resulting from completion/near completion of certain large contracts with the U.S. Department of Energy ("DOE") within the nuclear services area and a large contract in the technical services area. Gross profit increased $93,000 or 2.4%, primarily due to the reduction in our fixed cost structure as we continue to improve and reduce certain costs in our operations. Selling, General, and Administrative (SG&A) expenses decreased $1,219,000 or 26.6% for the three months ended June 30, 2013 as compared to the corresponding period of 2012.

Business Environment and Outlook

During the six months ended June 30, 2013 and for the year ended December 31, 2012, the Company incurred net losses of $3,853,000 and $6,092,000, respectively. In the first and second quarters of fiscal 2013, revenues were $19,829,000 and $22,784,000, respectively. Despite this increase, which is consistent with our historical revenue trends, the 2013 revenue and our fiscal 2012 revenue were below our expectations and internal forecasts as a result of government sequestration, ending of contracts and general adverse economic conditions. Our revenue to date in fiscal 2013 has been insufficient to attain profitable operations and has generated negative operating cash flow from operations; however, historically, the Company has generated positive operating cash in the third and fourth quarters due to the government fiscal year end of September 30th and upfront contractual billing terms.

The Company's cash flow requirements during 2013 have been financed by cash on hand, operations, and our credit facility. Should the increased revenue consistent with prior trends not materialize, we are committed to further reducing operating costs to bring them in line with reduced revenue levels. If we are unable to improve our revenue and working capital during the remainder of 2013, such could result in a material adverse impact on our results and liquidity, including potential impact on our goodwill balances.

On August 2, 2013, the Company completed a lending transaction with Messrs. Robert Ferguson and William Lampson (collectively, the "Lenders"), whereby the Company borrowed from the Lenders the sum of $3,000,000 pursuant to the terms of a Loan and Security Purchase Agreement and promissory note. These additional funds allowed us to pay down the current revolver balance, effectively increasing our borrowing availability to approximately $6,200,000 as of August 2, 2013 based on eligible collateral. The loan is a fixed rate loan with a favorable rate that is lower than our current variable rates and thus translates to lower interest expense.

The Company continues to focus on expansion into both commercial and international markets to help offset the uncertainties of government spending. This includes new services, new customers and increased market share in our current markets. Although no assurances can be given, we believe we will be able to successfully implement this plan.

Results of Operations

The reporting of financial results and pertinent discussions are tailored to two reportable segments: The Treatment and Services Segments.

	Three Months Ended June 30,				Six Months Ended June 30,			
Consolidated (amounts in thousands)	2013	%	2012	%	2013	%	2012	%
Net revenues	$22,784	100.0	$33,698	100.0	$42,613	100.0	$71,634	100.0
Cost of goods sold	18,761	82.3	29,768	88.3	38,053	89.3	63,335	88.4
Gross profit	4,023	17.7	3,930	11.7	4,560	10.7	8,299	11.6
Selling, general and administrative	3,370	14.8	4,589	13.6	7,556	17.7	9,627	13.4
Impairment loss on intangible asset	1,149	5.0			1,149	2.7		
Research and development	402	1.8	535	1.6	901	2.1	888	1.3
(Gain) loss on disposal of property and equipment			(3)		2		(3)	
Loss from operations	(898)	(3.9)	(1,191)	(3.5)	(5,048)	(11.8)	(2,213)	(3.1)
Interest income	9		7		18		21	
Interest expense	(200)	(.9)	(199)	(.6)	(344)	(.8)	(420)	(.5)
Interest expense-financing fees	(24)	(.1)	(26)	(.1)	(47)	(.1)	(60)	(.1)
Other	1		1		(7)		1	
Loss from continuing operations before taxes	(1,112)	(4.9)	(1,408)	(4.2)	(5,428)	(12.7)	(2,671)	(3.7)
Income tax benefit	(132)	(0.6)	(399)	(1.2)	(1,560)	(3.6)	(855)	(1.2)
Loss from continuing operations	$(980)	(4.3)	$(1,009)	(3.0)	$(3,868)	(9.1)	$(1,816)	(2.5)

Summary – Three and Six Months Ended June 30, 2013 and 2012

Consolidated revenues decreased $10,914,000 for the three months ended June 30, 2013, compared to the three months ended June 30, 2012, as follows:

(In thousands)	2013	% Revenue	2012	% Revenue	Change	% Change
Treatment						
Government waste	$5,072	22.3	$6,885	20.4	$(1,813)	(26.3)
Hazardous/non-hazardous	1,691	7.4	729	2.2	962	132.0
Other nuclear waste	3,345	14.7	2,423	7.2	922	38.1
Total	10,108	44.4	10,037	29.8	71	0.7
Services						
Nuclear services	11,253	49.4	17,581	52.2	(6,328)	(36.0)
Technical services	1,423	6.2	6,080	18.0	(4,657)	(76.6)
Total	12,676	55.6	23,661	70.2	(10,985)	(46.4)
Total	$22,784	100.0	$33,698	100.0	$(10,914)	(32.4)

Net Revenue

Treatment Segment revenue increased $71,000 or 0.7% for the three months ended June 30, 2013 over the same period in 2012. The small increase was primarily due to higher averaged priced waste offset by lower waste volume. Revenue from hazardous and non-hazardous waste was up $962,000 or 132.0% primarily due to increased

remediation projects. Other nuclear waste revenue increased approximately $922,000 or 38.1% primarily due to receipt of a high priced and high margin waste shipment which did not occur in the corresponding period of 2012. Services Segment revenue decreased $10,985,000 or 46.4% in the three months ended June 30, 2013 from the corresponding period of 2012 primarily as a result of the completion/near completion of certain large contracts with the DOE within the nuclear services area and a large contract in the technical services area. The decrease in our revenue was impacted by a reduction in spending by our governmental and commercial clients in connection with the treatment of waste and new remediation projects as discussed above.

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Consolidated revenues decreased $29,021,000 for the six months ended June 30, 2013, as compared to the six months ended June 30, 2012, as follows:

(In thousands)	2013	% Revenue	2012	% Revenue	Change	% Change
Treatment						
Government waste	$9,301	21.8	$16,595	23.2	$(7,294)	(44.0)
Hazardous/non-hazardous	2,379	5.6	1,585	2.2	794	50.1
Other nuclear waste	5,770	13.5	4,699	6.5	1,071	22.8
Total	17,450	40.9	22,879	31.9	(5,429)	(23.7)
Services						
Nuclear services	21,442	50.3	36,242	50.6	(14,800)	(40.8)
Technical services	3,721	8.8	12,513	17.5	(8,792)	(70.3)
Total	25,163	59.1	48,755	68.1	(23,592)	(48.4)
Total	$42,613	100.0	$71,634	100.0	$(29,021)	(40.5)

Net Revenue
Treatment Segment revenue decreased $5,429,000 or 23.7% for the six months ended June 30, 2013 over the same period in 2012. The decrease was primarily due to lower revenue from government clients of approximately $7,294,000 or 44.0% resulting from lower waste volume. Revenue from hazardous and non-hazardous waste was up $794,000 or 50.1% primarily due to higher remediation projects. Other nuclear waste revenue increased approximately $1,071,000 or 22.8% primarily due to higher average priced waste. Services Segment revenue decreased $23,592,000 or 48.4% in the six months ended June 30, 2013 from the corresponding period of 2012 primarily as a result of the completion/near completion of certain large contracts with the DOE within the nuclear services area and a large contract in the technical services area. The decrease in our revenue was impacted by a reduction in spending by our governmental and commercial clients in connection with the treatment of waste and new remediation projects as discussed above.

Cost of Goods Sold
Cost of goods sold decreased $11,007,000 for the quarter ended June 30, 2013, as compared to the quarter ended June 30, 2012, as follows:

(In thousands)	2013	% Revenue	2012	% Revenue	Change
Treatment	$7,796	77.1	$8,950	89.2	$(1,154)
Services	10,965	86.5	20,818	88.0	(9,853)
Total	$18,761	82.3	$29,768	88.3	$(11,007)

Cost of goods sold for the Treatment Segment decreased $1,154,000 or 12.9% primarily due to our continued effort in reducing our cost structure. We saw significant reduction in salaries and payroll related costs ($680,000) resulting from reductions in workforce which occurred in February 2013, December 2012, and June 2012 as we continue to manage headcount and streamline our operations. We incurred lower maintenance costs, outside service costs, and general expenses throughout various categories. Services Segment cost of goods sold decreased $9,853,000 or 47.3% primarily due to reduced revenue as discussed above. We incurred lower costs throughout most categories within cost of goods sold. Salaries and payroll related expenses were significantly lower ($5,300,000) resulting from reduced revenue and a reduction in workforce which occurred in February 2013. In addition, we incurred significantly lower outside services/subcontract costs ($3,300,000). Included within cost of goods sold is depreciation and amortization

expense of $1,127,000 and $1,309,000 for the three months ended June 30, 2013, and 2012, respectively.

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Cost of goods sold decreased $25,282,000 for the six months ended June 30, 2013, as compared to the six months ended June 30, 2012, as follows:

(In thousands)	2013	% Revenue	2012	% Revenue	Change
Treatment	$15,283	87.6	$19,071	83.4	$(3,788)
Services	22,770	90.5	44,264	90.8	(21,494)
Total	$38,053	89.3	$63,335	88.4	$(25,282)

Cost of goods sold for the Treatment Segment decreased $3,788,000 or 19.9% primarily due to reduced revenue from lower waste volume and our continued effort in reducing our cost structure. We incurred lower costs throughout most categories within cost of goods sold. We incurred significant reduction in salaries and payroll related expenses ($1,600,000) resulting from reductions in workforce which occurred in February 2013, December 2012, and June 2012 as we continue to manage headcount and streamline our operations. The reduced costs mentioned above were partially offset by approximately $111,000 increase in severance expense in the six months ended June 30, 2013 as compared to the corresponding period of 2012. In addition, our costs for the six months ended June 30, 2013 included an estimated $188,000 of penalty recorded (of which approximately $184,000 was recorded in the first quarter of 2013) in connection with a Notice of Intent to File Administrative Complaint which we received on March 7, 2013, from the U.S. Environmental Protection Agency, alleging our PFNWR subsidiary had improperly stored certain mixed waste (see "Known Trends and Uncertainties – Legal Matters" in this section for further information regarding settlement of this matter). Services Segment cost of goods sold decreased $21,494,000 or 48.6% primarily due to reduced revenue as discussed above. We incurred lower costs throughout most categories within cost of goods sold. Salaries and payroll related expenses were significantly lower ($11,800,000) resulting from reduced revenue and a reduction in workforce which occurred in February 2013. In addition, we incurred significantly lower outside services/subcontract costs ($6,700,000). The reduced costs were partially offset by approximately $115,000 increase in severance expense. Included within cost of goods sold is depreciation and amortization expense of $2,268,000 and $2,632,000 for the six months ended June 30, 2013, and 2012, respectively.

Gross Profit

Gross profit for the quarter ended June 30, 2013, increased $93,000 over 2012, as follows:

(In thousands)	2013	% Revenue	2012	% Revenue	Change
Treatment	$2,312	22.9	$1,087	10.8	$1,225
Services	1,711	13.5	2,843	12.0	(1,132)
Total	$4,023	17.7	$3,930	11.7	

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

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

Law for the Encouragement of Industrial Research and Development, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984, research and development programs approved by the Research Committee of the Office of the Chief Scientist ("OCS") are eligible for grants, in

exchange for payment of royalties from revenues generated by the products developed in accordance with the programs. Once a project is approved, the OCS will award grants between 20-50% of the project's approved budget, in exchange for royalties at a rate of 2% to 6%, depending on the date of approval of the project, of the proceeds from the sales of the products that are developed from projects funded by the OCS. These royalties must be paid starting from commencement of sales of those products and ending when 100% of the dollar value of the grant was repaid or, for projects approved after January 1, 1999, the dollar amount of the grant plus interest at the rate LIBOR for dollar deposits in a twelve-month period.

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

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

In 2009 we submitted a research and development plan to the OCS with respect to Printar's research and development program, and received grants in the amount of $598,000 (as of the date of this Annual Report). We did not submit any additional R&D plans for 2010 and 2011. In addition, we participate in the programs which are based on the existing OCS approved projects of Printar and Sela, both acquired during 2009. Sela and Printar received government grants from the OCS for the financing of significant portion of their product development expenditures in previous years, before their acquisition by us. As of the date of this Annual Report, the amount of non repaid grants received by Sela and Printar amounted to $2.8 million and $5.4 million, respectively. Regarding the dispute with the OCS, see "Risks relating to our Operations in Israel" in item 3, above.

Net Operating Loss Carry forwards

As of December 31, 2011, the Company and its Israeli subsidiaries had a net operating loss, or NOL, of $40.3 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. Real Gains accrued after January 1, 2003 will be taxed at the rate of 20%. However, if the shareholder is a person who 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, such gain will be taxed at the rate of 25%. In addition, an individual claiming deduction of financing expenses in respect of capital gain recognized from the sale of our shares will be taxed at the rate of 25%. Generally, the capital gain recognized by a corporation will be subject to regular tax at a current rate of 25%. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income. In 2010, these regular tax rates are 25% for corporations and up to 45% for individuals.

At the end of 2011, the Israeli income tax ordinance was amended (amendment no. 187) and stated that real capital gain accrued commencing on 01.01.2012 by shareholders who hold less than 10% of the company rights, will be taxed at a 25% rate (instead of 20% in prior years). If the shareholder is a significant controlling shareholder, real capital gains will be taxed at a 30% rate (instead of 25% in prior years).

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

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

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

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

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

Taxation of Non-Residents on Receipt of Dividends

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

As of December 31, 2011, we had a credit facility with banks in Israel; see Item 5.B above – "Liquidity and Capital Resources".

Foreign Currency Rate Fluctuations

The currency of the primary economic environment in which our operations are conducted is the U.S. dollar, as most of our revenues are derived in dollars, and the prices of part of our materials and components are purchased in dollars or are linked to changes in the dollar/NIS exchange rate effective on the date of delivery of the goods to our factory. Also, most of our marketing expenses are denominated in dollars or are dollar linked, and our product prices in most countries, except in Europe, Japan and, as of 2011, part of our revenues from products in China, are denominated in dollars. However, most of our service income is denominated in local currency. In Europe, Japan and China, if there is a significant devaluation in the local currency as compared to the dollar, the prices of our products will decrease relative to that local currency and negatively affect our revenues and income. As most of our revenues are denominated in dollars, we believe that inflation and fluctuations in the NIS/dollar exchange rate have no material effect on our revenues. However, a major portion of the costs of our Israeli operations, such as personnel, subcontractors, materials and facility-related, are incurred in NIS. An increase in the NIS value relative to the dollar will increase our costs expressed in dollar, and a decrease in the NIS value relative to the dollar will decrease our costs expressed in dollar. In addition, most of the expenses and purchases in China are also denominated in local currency.

As our financial results are reported in dollars, fluctuations in the CNY/dollar exchange rate may affect our revenues and level of expenses. We may, from time to time, take various measures designed to reduce our exposure to these effects, but any such steps may be inadequate to protect us from currency rate fluctuations. During 2011, the value of the U.S. dollar strengthened against the NIS by 7.5%. In addition, during 2011, the value of the U.S. dollar devaluated against the CNY by 3.6%.

The open hedging transactions as of December 31, 2011, are displayed in the following table:

	Sum of notional amount in dollars	Sum of fair market value in dollars
Options		
Buy dollars and Sell NIS (Put options)	18,100	69
Sell dollars and Buy NIS (call options):	18,100	(603)

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

Our balance sheet exposure to fluctuations in the exchange rate between the U.S. dollar and other currencies are primarily from NIS denominated balances. As of December 31, 2011, we had net liabilities of approximately $8.2 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 $82,000 or income for the same amount in case of increase or decrease in rates, respectively.

Item 12. Description of Securities Other than Equity Securities.

Not applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

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.

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Our management, including our CEO and CFO, evaluated the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) of the Securities Exchange Act of 1934, as amended, or the Exchange Act) as of December 31, 2011, and have concluded that, as of such date, our disclosure controls and procedures were effective to ensure that information required to be disclosed by us in reports that we file or submit under the Exchange Act is accumulated and communicated to our management, including our CEO and CFO, to allow timely decisions regarding required disclosure and is recorded, processed, summarized and reported within the time periods specified by the SEC's rules and forms.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures. Based on the evaluation of the Company's disclosure controls and procedures as of December 31, 2011, our CFO and CEO concluded that, as of such date, the Company's disclosure controls and procedures were effective at the reasonable assurance level.

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

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

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

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

Based on this evaluation, management has assessed the effectiveness of our internal control over financial reporting, as at December 31, 2011, and concluded that such internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act) is effective.

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

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

Not Applicable.

(d) Changes in Internal Control over Financial Reporting.

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

Item 16A. Audit Committee Financial Expert

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

Item 16B. Code of Ethics

On May 3, 2004, 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 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 independant 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, 2011 and 2010:

Fee Category	For Services Rendered during 2011	For Services Rendered during 2010
Audit Fees	$ 235,000	$ 230,000

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

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

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

Not applicable.

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

Not applicable.

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

Not applicable.

Item 16G. Corporate Governance.

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

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

Further, the Company has opted out of the annual meeting requirement, as set forth in NASDAQ Rule 5620(a), which requires Camtek to hold its annual meetings of shareholders within twelve months of the end of a company's fiscal year end. Instead, Camtek is following home country practice and law in this respect. Israeli law requires that an annual meeting of the shareholders be held every year, and not later than 15 months following the last annual meeting (see in Item 10 B above "Additional Information" – "Voting, Shareholders' Meetings and Resolutions"). Our 2012 annual general meeting of shareholders should be held on or before December 31, 2012.

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, 2011 and 2010
and for each of the years
in the three year period
ended December 31, 2011

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Report of Independent Registered Public Accounting Firm

The Board of Directors and Shareholders
Camtek Ltd.

We have audited the accompanying consolidated balance sheets of Camtek Ltd. and subsidiaries ("the Company") as of December 31, 2011 and 2010, and the related consolidated statements of operations, shareholders' equity and cash flows for each of the years in the three-year period ended December 31, 2011. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

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

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Camtek Ltd. and subsidiaries as of December 31, 2011 and 2010, and the results of their operations and their cash flows for each of the years in the three-year period ended December 31, 2011 in conformity with U.S. generally accepted accounting principles.

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

Tel Aviv, Israel

April 6, 2012

CAMTEK LTD. and its subsidiaries

Consolidated Balance Sheets

	December 31,	
	2011	2010
	U.S. Dollars (In thousands)	
Assets		
Current assets		
Cash and cash equivalents (Note 4)	22,185	9,577
Short term deposits	4,100	-
Accounts receivable, net (Note 17B)	25,451	28,817
Inventories (Note 5)	24,355	24,034
Due from affiliates (Note 24)	388	384
Other current assets (Note 6)	3,357	2,414
Deferred tax asset (Note 23)	110	54
Total current assets	79,946	65,280
Non-current assets Fixed assets (Note 7)		
Cost	26,580	26,485
Less - Accumulated depreciation	12,003	11,408
Fixed assets, net	14,577	15,077
Restricted deposits (Note 8)	-	5,182
Long term inventory (Note 5)	1,954	2,304
Deferred tax asset (Note 23)	132	152
Other assets (Note 9)	304	460
Intangible assets, net (Note 10)	4,191	4,163
Goodwill (Note 10)	3,653	3,653
	10,234	15,914
Total assets	104,757	96,271
Liabilities and shareholder's equity		
Current liabilities		
Short term loan (Note 11)	3,000	1,409
Accounts payable –trade	6,773	9,761
Long term bank loans – current portion (Note 13)	1,700	433
Other current liabilities (Note 12)	21,568	21,408
Total current liabilities	33,041	33,011
Long term liabilities		
Long term bank loans (Note 13)	2,092	758

Liability for employee severance benefits (Note 15)	652	626
Other long term liabilities (Note 16)	9,039	7,884
	11,783	9,268
Total liabilities	44,824	42,279
Commitments and contingencies (Note 17)		
Shareholders' equity (Note 19)		
Ordinary shares NIS 0.01 par value, authorized 100,000,000 shares, issued 31,810,340 in 2011 and 31,370,359 in 2010, outstanding 29,717,964 in 2011 and 29,277,983 in 2010	133	132
Additional paid-in capital	61,014	60,452
Retained earnings (accumulated losses)	684	(4,694)
	61,831	55,890
Treasury stock, at cost (2,092,376 in 2011 and in 2010)	(1,898)	(1,898)
Total shareholders' equity	59,933	53,992
Total liabilities and shareholders' equity	104,757	96,271

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

CAMTEK LTD. and its subsidiaries

Consolidated Statements of Operations

	Year Ended December 31,		
	2011	2010	2009
	U.S. Dollars (In thousands, except per share data)		
Revenues:			
Sales of products	88,404	70,235	39,196
Service fees	18,624	17,545	14,325
Total revenues (Note 21, 22A)	107,028	87,780	53,521
Cost of revenues:			
Cost of products sold	48,039	38,464	25,069
Cost of services	11,549	10,897	10,970
Total cost of revenues	59,588	49,361	36,039
Gross profit	47,440	38,419	17,482
Research and development costs	14,077	12,906	10,319
Selling, general and administrative expenses (Note 22B)	24,341	20,662	17,667
Total operating expenses	38,418	33,568	27,986
Operating income (loss)	9,022	4,851	(10,504)
Financial expenses, net (Note 22C)	(2,900)	(1,478)	(952)
Income (loss) before income taxes	6,122	3,373	(11,456)
Income tax expense (Note 23)	(744)	(557)	(386)
Net income (loss)	5,378	2,816	(11,842)
Earnings (loss) per ordinary share (Note 20):			
Basic	0.18	0.10	(0.40)
Diluted	0.18	0.09	(0.40)
Weighted average number of ordinary shares outstanding:			
Basic	29,557	29,259	29,218
Diluted	30,009	30,360	29,218

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

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CAMTEK LTD. and its subsidiaries

Consolidated Statements of Shareholders' Equity

	Ordinary Shares NIS 0.01 par value		Number of Treasury Shares	Additional paid-in capital	Retained earnings (accumulated losses)	Treasury stock	Total shareholders' equity
	Shares	U.S. Dollars (In thousands)		U.S. Dollars (In thousands)			
Balances at December 31, 2008	31,227,484	132	(2,092,376)	60,149	4,332	(1,898)	62,715
Exercise of share options	100,635	*	-	-	-	-	*
Share based compensation expense	-	-	-	148	-	-	148
Net loss	-	-	-	-	(11,842)	-	(11,842)
Balances at December 31, 2009	31,328,119	132	(2,092,376)	60,297	(7,510)	(1,898)	51,021
Exercise of share options and RSU's	42,240	*	-	-	-	-	*
Share based compensation expense	-	-	-	155	-	-	155
Net income	-	-	-	-	2,816	-	2,816
Balances at December 31, 2010	31,370,359	132	(2,092,376)	60,452	(4,694)	(1,898)	53,992
Exercise of share options and RSU's	439,981	1	-	145	-	-	146
Share based compensation expense	-	-	-	417	-	-	417
Net income	-	-	-	-	5,378	-	5,378
Balances at December 31, 2011	31,810,340	133	(2,092,376)	61,014	684	(1,898)	59,933

* 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,		
	2011	2010	2009
	U.S. Dollars (In thousands)		
Cash flows from operating activities:			
Net income (loss)	5,378	2,816	(11,842)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:			
Depreciation and amortization	2,366	2,262	2,140
Loss on disposal of fixed assets	-	-	5
Accrued interest on restricted deposit	7	(7)	-
Deferred tax benefit	(36)	(40)	-
Share based compensation expense	417	155	148
Provision for bad debts, net	(2)	324	677
Revaluation of liabilities	1,997	1,345	586
Changes in operating assets and liabilities:			
Accounts receivable	3,451	(10,651)	(1,049)
Inventories	(318)	(7,360)	13,516
Due to / from affiliates	(4)	(40)	(224)
Other assets	(787)	(723)	293
Accounts payable – trade	(2,988)	5,267	(840)
Other current liabilities	290	6,474	81
Liability for employee severance benefits, net	26	139	88
Net cash provided by (used in) operating activities	9,797	(39)	3,579
Cash flows from investing activities:			
Restricted deposit	5,175	(5,175)	-
Investment in short term deposits	(4,100)	-	-
Purchase of fixed assets	(1,064)	(1,686)	(298)
Purchase of intangible assets	(483)	(207)	(116)
Acquisition of SELA, net cash acquired (1)	-	-	487
Acquisition of Printar assets, net (2)	-	-	(500)
Net cash provided by (used in) investing activities	(472)	(7,068)	(427)
Cash flows from financing activities:			
Increase (decrease) in bank loans	4,849	2,668	(1,980)
SELA earn-out payments	(421)	(220)	-
Payment to OCS	(609)	(228)	(21)
OCS grant received	-	215	383
Repayment of long-term loan	(599)	(109)	-
Share issuance, net	146	-	-
Repayment of long-term convertible loan	-	(1,666)	(1,667)

Net cash provided by (used in) financing activities	3,366	660	(3,285)
Effect of exchange rate changes on cash	(83)	222	(14)
Net decrease in cash and cash equivalents	12,608	(6,225)	(147)
Cash and cash equivalents at beginning of the year	9,577	15,802	15,949
Cash and cash equivalents at end of the year	22,185	9,577	15,802

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, 2009 $ in thousands
(1) Acquisition of SELA, net cash acquired:	
Working capital (excluding cash and cash equivalents)	(814)
Fixed assets, net	(69)
Intangible assets	(4,054)
Long-term liabilities	5,424
	487
(2) Acquisition of Printar assets, net:	
Working capital (excluding cash and cash equivalents)	(521)
Fixed assets, net	(50)
Intangible assets	(3,500)
Long-term liabilities	3,571
	(500)

	Year ended December 31, 2011	2010	2009
	U.S. Dollars (In thousands)		
Supplementary cash flows information:			
A. Cash paid during the year for:			
Interest	$157	$126	$160
Income taxes	$495	$411	$232
B. Non-cash transactions:			
Transfer of inventory to fixed assets	$1,197	$730	$1,238
Transfer of fixed assets to inventory	$850	$871	-

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

Note 1 - General

A. Camtek Ltd. (“Camtek”), an Israeli corporation, is a majority owned (59.64%) subsidiary of Priortech Ltd. (“Parent”), an Israeli corporation listed on the Tel-Aviv Stock Exchange. Camtek designs, develops manufactures and markets automatic optical inspection systems (“AOI systems”) and related products. Camtek’s AOI systems are used for yield enhancement for various applications in the electronic supply chain industry. The main applications along this supply chain are the production of microelectronics, printed circuit boards (PCB) and electronic packaging.

B. In June 2009, the Company completed a transaction to acquire certain assets and liabilities from Printar Ltd. (“Printar”), an Israeli company. Printar is engaged in the development, manufacture, sale and marketing of direct digital material deposition systems and inks for the PCB industry, with two major fields of activity: Solder Mask (“SM”), an epoxy layer selectively covering the PCB, while leaving the connecting pads uncovered (currently in beta stage) and Legend, applying the identification nomenclature on the PCB (“Legend”). Printar introduced its first Legend system eight years ago.

The Printar technology provides a higher performing, one-step, environment-friendly and relatively low-cost process, in comparison with traditional processes. See Note 3 – Acquisition of Businesses. The operations of Printar have been included in the consolidated financial statements of the Company from June 15, 2009.

C. In September 2009, the Company signed an agreement to acquire 100% of SELA- Semiconductor Engineering Laboratories Ltd. (“SELA”). The transaction was completed in November 2009. SELA is engaged in the development, manufacture and marketing of automated SEM (Scanning Electron Microscope) and TEM (Transmission Electron Microscope) sample preparation equipment, primarily for the semiconductor industry. SELA’s existing install-base customers include many world-leading semiconductor fabrication facilities. In 2008, SELA introduced the Xact, the first TEM/STEM (Scanning Transmission Electron Microscope) sample preparation system using Adaptive Ion Milling (AIM) technology.

The AIM technology brings numerous advantages to traditional FIB (Focused Ion Beam) technology by reducing the sample thickness to below 20nm over a large area with high precision and throughput and with superior image quality. See Note 3 – Acquisition of Businesses. The operations of SELA have been included in the consolidated financial statements of the Company from October 1, 2009.

D. The primary reason for the above two acquisitions was to develop new growth engines where the Company’s core competencies provide synergies and competitive advantages.

All of Camtek’s activities, including those associated with the above acquisitions, 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 accounting principles generally accepted in the United States of America (“US GAAP”). All material intercompany balances and transactions have been eliminated in consolidation.

B. Use of Estimates

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

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

C. Foreign currency transactions

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

D. Cash equivalents

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

Note 2 - Significant Accounting Policies (cont'd)

E. Accounts receivable and allowance for doubtful accounts

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

F. Inventories

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

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

Management periodically evaluates its inventory composition, giving consideration to factors such as the probability and timing of anticipated usage and the physical condition of the items, and then estimates a charge (reducing the inventory) to be provided for slow moving, technological obsolete or damaged inventory. These estimates could vary significantly, from actual requirements based upon future economic conditions, customer inventory levels or competitive factors that were not foreseen or did not exist when the inventory write-downs were established.

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

G. Fixed assets

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

Annual rates of depreciation are as follows:

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

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

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

Note 2 - Significant Accounting Policies (cont'd)

H. Intangible assets

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

Intangible assets purchased as part of the Printar and SELA acquisitions (See Note 3) 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.

I. Long-lived assets

The Company reviews its long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset to undiscounted future cash flows expected to be generated by the asset. If the carrying amount of the long lived asset exceeds its estimated undiscounted future cash flows, an impairment charge is recognized to the extent that the asset's carrying amount exceeds its fair value.

J. Goodwill

Goodwill is an asset representing the future economic benefits arising from other assets acquired in a business combination that are not individually identified and separately recognized. Goodwill is reviewed for impairment at least annually in accordance with the provisions of FASB ASC Topic 350, Intangibles - Goodwill and Other. The goodwill impairment test is a two –step test. Under the first step, the fair value of the reporting unit is compared with its carrying value (including goodwill). If the fair value of the reporting unit is less than its carrying value, an indication of goodwill impairment exists for the reporting unit and the entity must perform step two of the impairment test (measurement). Under step two, an impairment loss is recognized for any excess of the carrying amount of the reporting unit's goodwill over the implied fair value of that goodwill. The implied fair value of goodwill is determined by allocating the fair value of the reporting unit in a manner similar to an acquisition price allocation and the residual fair value after this allocation is the implied fair value of the reporting unit goodwill. Fair value of the reporting unit is determined using a discounted cash flow analysis. If the fair value of the reporting unit exceeds its carrying value, step two does not need to be performed.

The Company has set its annual impairment testing date at December 31. As of December 31, 2011 and 2010, based on the Company's annual impairment test, no impairment charge was recognized.

K. Fair values of financial instruments

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

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

The contingent consideration liabilities relating to the Printar and SELA acquisitions are measured at fair value at each balance sheet date.

Note 2 - Significant Accounting Policies (cont'd)

L. Revenue recognition

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

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

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

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

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

The Company routinely evaluates its products for inclusion of any embedded software that is more than incidental thereby requiring consideration of ASC Subtopic 985-605, "Software Revenue Recognition". Based on such evaluation, the Company has concluded that none of its products have such embedded software.

M. Warranty

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

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

N. Income taxes

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

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

Note 2 - Significant Accounting Policies (cont’d)

O. Research and development

Research and development costs are expensed as incurred.

P. Earnings / Loss Per Ordinary Share

Basic earnings/loss per ordinary share is calculated using only weighted average ordinary shares outstanding. Diluted earnings per share, if relevant, gives effect to dilutive potential ordinary shares outstanding during the year. Such dilutive shares consist of incremental shares, using the treasury stock method, from the assumed exercise of share options, warrants and convertible loan. (See Note 20)

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

For the year ended December 31, 2009, the effect of the exercise of all outstanding RSUs, warrants and conversion of convertible loan is anti-dilutive, and has not been included in computing dilutive loss per ordinary share.

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

For the years ended December 31, 2010 and 2009, the effect of the exercise of all outstanding share options is anti-dilutive and has not been included in computing dilutive loss per ordinary share.

Q. Share-Based Compensation

The Company accounts for its employee share-based compensation as a cost in the financial statements. All awards are equity classified and therefore such cost is measured at the grant date fair value of the award. The Company estimates share option grant date fair value using the Black-Scholes-Merton option-pricing model. (For details see Note 19)

R. Fair Value Measurements

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

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

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

Level 3 inputs are unobservable inputs for the asset or liability. (For details see Note 25).

Note 2 - Significant Accounting Policies (cont'd)

S. Derivative Instruments

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

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

The Company's foreign exchange derivative contracts are marked-to-market based on the determined fair value of open contracts at period end. See Note 18.

T. Business Acquisitions

On January 1, 2009, the Company adopted revised principles of ASC Topic 805, Business Combinations, related to business combinations and noncontrolling interests. The revised principles on business combinations apply to all transactions or other events in which an entity obtains control over one or more businesses. They require an acquirer to recognize the assets acquired, the liabilities assumed, and any noncontrolling interest in the acquiree at the acquisition date, measured at their fair values as of that date. Business combinations achieved in stages require recognition of the identifiable assets and liabilities, as well as the noncontrolling interest in the acquiree, at the full amounts of their fair values when control is obtained. This revision also changes the requirements for recognizing assets acquired and liabilities assumed arising from contingencies, and requires direct acquisition costs to be expensed. In addition, it provides certain changes to income tax accounting for business combinations which apply to both new and previously existing business combinations. Contingent considerations arising from business acquisitions are revalued at each balance sheet date with the revaluation difference being recorded to finance income, net in the consolidated statement of operations.

In April 2009, additional guidance was issued which revised certain business combination guidance related to accounting for contingent liabilities assumed in a business combination. The Company has adopted this guidance in conjunction with the adoption of the revised principles related to business combinations. The Company applied the revised principles to the acquisitions of Printar and of SELA (see Note 3).

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 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 16 and Note 17F)

Note 2 - Significant Accounting Policies (cont’d)

W. Recently Issued and Adopted Accounting Standards

1. In December 2010, the FASB issued ASU 2010-28, Intangibles—Goodwill and Other (Topic 350): When to Perform Step 2 of the Goodwill Impairment Test for Reporting Units with Zero or Negative Carrying Amounts, a consensus of the FASB Emerging Issues Task Force (Issue No. 10-A). ASU 2010-28 modifies Step 1 of the goodwill impairment test under ASC Topic 350 for reporting units with zero or negative carrying amounts to require an entity to perform Step 2 of the goodwill impairment test if it is more likely than not that a goodwill impairment exists. In determining whether it is more likely than not that a goodwill impairment exists, an entity should consider whether there are adverse qualitative factors in determining whether an interim goodwill impairment test between annual test dates is necessary. ASU 2010-28 is effective for fiscal years, and interim periods within those years, beginning after December 15, 2010. The adoption of ASU 2010-28 in 2011 did not have a material impact on the Company's consolidated financial statements.

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

X. New standards and interpretations not yet adopted

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

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

3. In May 2011, the FASB issued ASU 2011-04, Fair Value Measurement (Topic 820): Amendments to Achieve Common Fair Value Measurement and Disclosure Requirements in U.S. GAAP and IFRSs. The new standards do not extend the use of fair value but, rather, provide guidance about how fair value should be applied where it already is required or permitted under IFRS or U.S. GAAP. For U.S. GAAP, most of the changes are clarifications of existing guidance or wording changes to align with IFRS. A public entity is required to apply the ASU prospectively for annual and interim periods beginning after December 15, 2011. The Company expects that the adoption of ASU 2011-04 in 2012 will not have a material impact on its consolidated financial statements

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

Note 3 - Acquisition of Businesses

A. Printar - Acquisition of certain assets and liabilities

On June 15, 2009, the Company completed the acquisition of all Printar's assets, knowledge, technology and IP rights and liabilities to the Office of the Chief Scientist of Israel (OCS). The transaction is considered a business combination under ASC Topic 805 Business Combinations. (See also Note 1(B).)

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

	June 2009 U.S.$
Consideration	
Cash	500
Contingent consideration	1,830
Total consideration	2,330
Recognized amounts of identifiable assets acquired and liabilities assumed	
Inventories	521
Fixed assets	50
In process research and development (IPR&D)	1,002
Technology	368
Liability to Office of the Chief Scientist	(1,741)
Total identifiable net assets	200
Goodwill	2,130
Acquisition-related costs (included in selling, general, and administrative expenses in the income statement for the year ending December 31, 2009)	30

In consideration for the purchase, Camtek will pay Printar a total amount of up to $2,500; an initial payment of $500 was paid in July 2009 and with the additional consideration of $2,000 subject to certain agreed conditions and provided that such amount, if due, be paid by the later of May 2011 or upon the fulfillment of the conditions specified in the agreement. As of the balance sheet date the specified conditions had yet to be fulfilled.

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

The fair value of the contingent payment was based on the $2,500 transaction price, discounted from the estimated payment dates to the valuation date using a rate of 13%, which represents the average of the weighted average cost of

capital and the Company's effective interest on financial debt as of the acquisition date. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 (Statement 157) refers to as Level 3 inputs.

The amortization period for the technology acquired in the transaction is 5 years. The IPR&D will be amortized over a period of 10 years starting at the initial date of recording revenues from this technology. As of December 31, 2011, the IPR&D had not commenced amortization.

Note 3 - Acquisition of Businesses (cont'd)

A. Printar - Acquisition of certain assets and liabilities (cont'd)

The goodwill of $2,130 arising from the acquisition represents, inter alia, the synergies between the technology acquired and the Company's existing operational, R&D and sales and marketing infrastructure. See also Note 10 – Goodwill and intangible assets, net.

In 2009, the Company recorded revenues of $1,150 related to Printar's products and service fees.

The goodwill recognized is deductible for income tax purposes.

The liability to the OCS as of the acquisition date was based on the estimated timing of future payments, discounted using the weighted average cost of capital of 22%. (See also Note 17F).

The net values of the IPR&D, technology, liability to the OCS and contingent consideration at December 31, 2011 were $1,002, $185, $(2,643) and $(1,760) respectively. (December 31, 2010 - $1,002, $257, $(2,274) and $(1,741) respectively). See also Note 10 – Goodwill and Intangible assets, net, Note 12- Other current liabilities, Note 16 – Other Long-term Liabilities and Note 25 – Fair value measurements.

B. SELA Acquisition

In September 2009, the Company signed an agreement to acquire the entire share capital of SELA. The transaction was completed in November 2009. (See also Note 1(C).)

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

	September 2009 U.S.$
Consideration	
Contingent consideration	3,739
Total consideration	3,739
Recognized amounts of identifiable assets acquired and liabilities assumed	
Inventories and Working capital	1,301
Fixed assets	69
Technology	2,486
Customer relationships	45
Liability to Office of the Chief Scientist	(1,685)

Total identifiable net assets	2,216
Goodwill	1,523
Acquisition-related costs (included in selling, general, and administrative expenses in the income statement for the year ending December 31, 2009)	66

Note 3 - Acquisition of Businesses (cont'd)

B. SELA Acquisition (cont'd)

According to the agreement, in consideration for the shares Camtek will pay to SELA's shareholders future payments in the aggregate amount of up to $9,500 by way of earn-out payments, contingent upon SELA's future revenues. The fair value of the contingent consideration arrangement of $3,739 was estimated based on future earn-out payments discounted to the valuation date using the weighted average cost of capital of 19% as of the acquisition date. 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. See also Note 25 – Fair value measurements.

The liability to the OCS as of the acquisition date was based on the estimated timing of future payments, discounted using the Company's weighted average cost of capital of 19%.

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

The net values of the technology, customer relationships, liability to the OCS and contingent consideration at December 31, 2011 were $1,989, $25, $(1,871) and $(5,127) respectively. (December 31, 2010 - $2,220, $34, $(1,856) and $(4,505) respectively).

The goodwill of $1,523 arising from the acquisition represents, inter alia, the synergies between the technology acquired and the Company's existing operational, R&D and sales and marketing infrastructure.

None of the goodwill recognized is expected to be deductible for income tax purposes.

In the fourth quarter of 2009 the Company recorded revenues of $600 related to Sela's products and service fees.

C. Pro-forma financial statements for the Printar and SELA acquisitions have not been furnished as they are immaterial to the understanding of future operations.

D. As part of the Printar and SELA acquisitions, the Company approved a plan (the Plan) to integrate and streamline the acquired operations within the existing Camtek structure. The Plan included mainly the abandonment of certain rented properties. The Plan resulted in restructuring costs of $220 in 2009.

All costs associated with the plan are included in general and administrative expenses in the accompanying consolidated statement of operation for the year ended December 31, 2009.

The Company's unpaid restructuring liabilities as of December 31, 2011 and 2010 are presented within other current liabilities in the consolidated balance sheet.

Note 4 - Cash and Cash Equivalents

	Interest Rate as of December 31, 2011	December 31,	
		2011	2010
	%	U.S. Dollars	
Cash in hand and in banking institutions		9,339	9,061
Deposits	1.23 – 2.15	12,529	105
Restricted		317	411
		22,185	9,577

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

As of December 31, 2010, approximately $200 were restricted against the Company's foreign exchange derivatives, $190 were restricted against credit lines to banking institutions in Hong Kong (of which $90 denominated in Hong Kong Dollars), and $21 in Belgium (denominated in Euro).

The Company's cash and cash equivalent balance at December 31, 2011 and 2010 is denominated in the following currencies:

	December 31,	
	2011	2010
	U.S. Dollars	
US Dollars	17,449	3,837
New Israeli Shekels	2,077	1,725
Chinese RMB	1,243	1,802
Other currencies	1,416	2,213
	22,185	9,577

Note 5 - Inventories

	December 31, 2011	2010
	U.S. Dollars	
Components	13,323	14,382
Systems partially completed	6,654	4,334
Completed systems, including systems at customer locations not yet sold	6,332	7,622
	26,309	26,338

Inventories are presented in:

	December 31, 2011	December 31, 2010
	U.S. Dollars	
Current assets	24,355	24,034
Long term assets	1,954	2,304
	26,309	26,338

Long term Inventory:

At December 31, 2011, $1,954 of the Company's inventory is in excess of requirements for the year 2012 based on Management's estimate and the recent level of sales (At December 31, 2010, $2,304). This long term inventory is mainly comprised of spare parts. The Company's policy is to keep components to provide support and service to systems sold by it to its customers over the past years (usually the support is over a period of seven to ten years) until the Company announces it will not continue to support certain systems. Therefore, this inventory is usually consumed over longer periods than inventory held for sale, and as such the respective amount that is not expected to be consumed in the next year is classified as non-current. Management believes that this amount will be utilized according to its forecasted sales. Management believes no loss will be incurred on its disposition.

Note 6 - Other Current Assets

	December 31, 2011	2010
	U.S. Dollars	
Due from Government institutions	1,537	964
Income tax receivables	132	55
Due from employees	73	93
Prepaid expenses	472	431
Advances to suppliers	31	81

Deposits for operating leases	339	197
Other	773	593
	3,357	2,414

Note 7 - Fixed Assets

	December 31,	
	2011	2010
	U.S. Dollars	
Land	863	863
Building	10,224	10,102
Machinery and equipment	8,930	8,690
Office furniture and equipment	5,267	5,127
Automobiles	151	176
Leasehold improvements	1,145	1,527
	26,580	26,485
Less accumulated depreciation	12,003	11,408
	14,577	15,077

Depreciation expenses for the years ended December 31, 2011, 2010 and 2009 amounted to $1,911, $1,862 and $1,904, respectively.

In accordance with agreements signed in August 2010 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 17(D).

Note 8 - Restricted Deposits

In August 2010, the Company made interest-bearing restricted deposits in connection with the issuance of an appeal bond guaranteed by Bank Leumi L'Israel in the total amount of $5,175. The deposits were for periods of six months, renewing automatically, and accrued annual interest of 0.65%. (Balance as of December 31, 2010, including interest - $5,182) See Note 17(D).

Following the Company's successful appeal in the infringement dispute with Rudolph, the appeal bond was officially released in September 2011.

Note 9 - Other Assets

	December	
	2011	2010
	U.S. Dollars	
Deposits for operating leases	304	460

Note 10 - Goodwill and Intangible Assets, net

A. Goodwill

	December 31, 2011	December 31, 2010
	U.S. Dollars	
Balance as of December 31	3,653	3,653

As of December 31, 2011 and 2010, based on the Company's annual impairment test, no impairment charge was recognized.

B. Intangible assets, net

	December 31, 2011	December 31, 2010
	U.S. Dollars	
Patent registration costs	1,441	958
IPR&D	1,002	1,002
Technology	2,854	2,854
Customer relationships	45	45
Intangible assets at cost	5,342	4,859
Accumulated amortization	(1,151)	(696)
Total intangible asset, net	4,191	4,163

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

Amortization expense for the years ended December 31, 2011, 2010 and 2009 amounted to $455, $400 and $236, respectively. The amortization expense for 2011 includes the write-off of patents with a net value of $24 which were abandoned (in 2010 and 2009 - $0 and $102, respectively).

As of December 31, 2011, the estimated amortization expenses of intangible assets for the years 2012 to 2016 is as follows:

Year ending December 31,	U.S. Dollars
2012	530
2013	530

2014	489
2015	447
2016	447
	2,443

As of December 31, 2011 and 2010, based on the Company's annual impairment test with respect to the acquired IPR&D, no impairment charge was recognized.

Note 11 - Short Term Loan

In August and December 2011 the Company received short term loans of $1,500 each from Bank Mizrahi and Bank Leumi L'Israel. The loans are for periods of nine months and twelve months, respectively and accrue interest at a rate of Libor + 3.70% and Libor + 3.8%, respectively.

In September and October 2010 the Company received short term loans from Bank Leumi L'Israel of approximately $677 and $691, respectively, denominated in New Israeli Shekels (NIS 2,500 each). The loans were each for a period of six months and accrued interest at a rate of 4.36% and prime + 1.05%, respectively. These loans were repaid in accordance with the original agreements. (Rate as of December 31, 2010 – 4.55%). See Note 17(D).

Note 12 - Other Current Liabilities

	December 31,	
	2011	2010
	U.S. Dollars	
Accrued compensation and related benefits	6,235	5,741
Government institutions	691	418
Income tax payables	400	536
Current maturities of OCS liability (1)	485	536
Current maturities of contingent consideration	2,475	2,554
Accrued warranty costs	1,637	1,494
Commissions	2,358	2,470
Advances from customers and deferred revenues	2,186	1,837
Accrued expenses	5,101	5,822
	21,568	21,408

Changes in the product warranty obligation are as follows:

	December 31,		
	2011	2010	2009
	U.S. Dollars		
Beginning of year	1,494	595	783
New warranties	3,179	2,404	1,009
Reductions	(3,036)	(1,505)	(1,197)
Balance at end of year	1,637	1,494	595

(1) See also Note 16 – Other long-term liabilities

Note 13 - Long-term loans

In August 2010, the Company received a long-term loan from Bank Leumi L'Israel in the amount of $1,300. The long-term loan is subject to certain financial covenants. See also Note 17(D).

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

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

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

In August 2011, the Company received a long-term loan from Bank Mizrahi in the amount of $2,000. The long-term loan is subject to certain financial covenants. See also Note 17(E).

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

Principal repayments of the Company's long-term loans subsequent to December 31, 2011 are as follows:

	U.S. Dollars
2012	1,700
2013	1,592
2014	500
	3,792

Note 14 - Convertible Loan

On August 23, 2005 (the "closing date") the Company raised $5,000 as a convertible loan from FIMI Opportunity Fund L.P and FIMI Israel Opportunity Fund, Limited Partnership (“FIMI”). The loan was payable in three equal annual payments starting at the third anniversary of the closing date.
The third and final portion of the loan was repaid in August 2010, as per the original agreement.

Note 15 - Liability for Employee Severance Benefits

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 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 $652 and $626 as of December 31, 2011 and 2010, respectively.

3. Severance pay expenses were $1,073, $895 and $712 in 2011, 2010 and 2009, respectively.

Note 16 - Other Long-Term Liabilities

	December 31,	
	2011	2010
	U.S. Dollars	
Liability for contingent consideration in respect of business combinations (1)	4,412	3,692
Liability to OCS, mainly in respect of business combinations (2)	4,627	4,192
	9,039	7,884

(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 3 and Note 25) are measured at fair value using Level 3 inputs.

(2) Of the total long-term liability to OCS, $4,029 is in respect of the acquisitions of Printar and SELA. As of December 31, 2011 and 2010, only the accretion of time value had affected the remaining liabilities to the OCS resulting from the acquisitions, net of royalty repayments made to the OCS. The effective interest rate used in the capitalization of the liabilities to the OCS as of December 31, 2011 and 2010, was approximately 20%.

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

See Note 12 for current maturities of liability for contingent consideration and liability to OCS.

Note 17 - Commitments and Contingencies

A. Operating leases

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

As of December 31, 2011, minimum future rental payments under such non-cancelable operating leases are as follows:

Year Ending December 31,	U.S. Dollars
2012	1,909
2013	1,060
2014	314
Thereafter	90
	3,373

Aggregate office rent expenses amounted to $968, $1,043 and $1,132 in 2011, 2010 and 2009, 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			
2009	3,753	677	-	(404)	4,026
2010	4,026	324	-	(496)	3,854
2011	3,854	357	(359)	(1,625)	2,227

C. Litigation

1. On May 10, 2004, a lawsuit was filed against the Company in the District Court in Nazareth, Israel, by the Company's competitor, Orbotech Ltd., alleging that the Dragon and Falcon systems infringe upon a patent held by Orbotech Ltd. and requesting injunctive relief and damages. The patent upon which the claim was asserted expired in February 2008. The court advised the parties to turn to mediation. The parties participated in one mediation meeting, after which they decided to end the mediation and to hold direct negotiations between them. Despite the unsuccessful direct negotiations, the court ordered another mediation meeting which was scheduled for July 2011.

In the meantime, court sessions have been postponed for as long as the mediation process was supposed to continue.

On February 23, 2005, a lawsuit was filed against the Company in the District Court in Jerusalem by Orbotech Ltd., alleging infringement of a patent held by Orbotech Ltd. regarding a specific illumination block (an apparatus for illuminating and controlling the illumination of scanned objects), seeking injunctive relief and damages. The court ruled, based on a court’s scientific advisor's opinion and prime facie evidence only, that Camtek infringed the patent, and granted Orbotech a provisional remedy, i.e. interim relief, which prevented Camtek from manufacturing the allegedly infringing illumination block in suit. The patent upon which the claim was asserted expired in February 2007. At the court's recommendation, the parties held one mediation meeting, after which they have decided to conduct direct negotiations between them, without the mediator.

Note 17 - Commitments and Contingencies (Cont'd)

C. Litigation (cont'd)

In July 2005, the Company, together with its parent company, Priortech Ltd., filed a lawsuit in the District Court in Tel Aviv against Orbotech Ltd., in respect of damages in the amount of $4.1 million incurred by it due to a claim and a motion for injunction filed against the Company by Orbotech in May 2004, in the District Court in Nazareth. The Company believes that Orbotech's claim and motion against it were not filed in good faith, but in order to thwart Camtek's secondary public offering that was scheduled few days after the submission of Orbotech's claim and motion, and was supposed to raise approximately $40 million for the Company and Priortech Ltd.

On May 31, 2011, Camtek and Orbotech, together with other third parties involved, signed an agreement for the dismissal of all three lawsuits conducted between the parties, as mentioned above, and the dismissal was approved by the District Courts in Nazareth and Tel Aviv on June 20, 2011, and by the District Court in Jerusalem on June 22, 2011.

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

On March 9, 2011, Rudolph filed a motion seeking enhanced damages in the amount of $322,973 for the Company's allegedly willful post-verdict sales of the Falcon system. Rudolph also sought $1.2 million and unspecified attorneys' fees for alleged contempt of the Court's Injunction.

The Company appealed the Court's judgment to the United States Court of Appeals for the Federal Circuit on August 10, 2010, and posted a bond with the Court to stay collection of the judgment pending resolution of the appeal. On August 22, 2011, the Court of Appeals for the Federal Circuit found that the Minnesota trial court had erred in its instructions to the jury regarding the construction/meaning of a material claim term in the asserted '298 Patent and vacated the finding of infringement, the damages award and the Injunction. The Court of Appeals remanded the case to the Court for a limited trial based on a corrected claim construction. The Company now seeks dismissal of Rudolph's infringement claims under the '298 Patent in the remanded proceedings. Although it is difficult to predict the outcome of a patent infringement case, the Company believes that the probability of a negative outcome in this litigation after the limited trial is less than 50% and, accordingly, no provision has been recorded by the Company. Based on Rudolph's preliminary documentation filed with the Court in connection with the limited trial, the Company currently estimates the possible range of loss in this case, if any, to be $0 to $12 million (excluding interest).

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Note 17 - Commitments and Contingencies (Cont'd)

C. Litigation (cont'd)

On March 26, 2012, in conjunction with the 298' patent infringement case, the Court issued an Order adopting the Magistrate Judge's Report and Recommendation on contempt and damages in a sum of $1,291,892. A separate proceeding before the Magistrate Judge was ordered to determine attorneys' fees to be awarded in connection with the contempt charges. The Court held that some of Camtek'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). The Company intends to appeal this ruling. Although it is difficult to predict the outcome of this litigation, the Company believes that the probability of a negative outcome in this litigation is less than 50% and, accordingly, no provision has been recorded by the Company. Based on the awarded damages, the Company currently estimates the possible range of loss in this litigation, if any, to be $0 to $1.3 million (excluding attorneys' fees).

On December 28, 2011, Rudolph filed a complaint in the Court charging the Company with infringement of Rudolph's U.S. Patent 7,779,528 relating to semiconductor wafer inspection technology similar to that described in the '298 Patent. The Company has not yet been served with a complaint in this lawsuit and therefore, at this preliminary stage, is unable to estimate the possible range of loss in this case and the effect on the Company's activities and results of operation, if any.

3. On March 7, 2008, a purported Class Action Complaint ("CAC"), Yuval Lapiner v. Camtek, Ltd. et al., was filed in the United States District Court for the Northern District of California on behalf of purchasers of the Company's common stock between November 22, 2005 and December 20, 2006. Mr. Lapiner filed a Consolidated Amended Class Action Complaint on January 2, 2009, naming the Company and certain of its directors and officers as defendants. It alleged that the defendants violated Sections 10(b) and 20(a) of the Exchange Act, and Rule 10b-5 promulgated there under, and breached fiduciary duties by making false and misleading statements in the Company's SEC filings and press releases. The plaintiff seeked unspecified compensatory damages against the defendants, as well as attorneys' fees and costs. We filed a motion to dismiss the CAC, as amended, on February 17, 2009, and the Court granted this motion on June 2, 2009. However, the Court gave plaintiff leave to amend his complaint, which he did when he filed a Second Consolidated Amended Class Action Complaint ("SAC") on July 10, 2009. We filed a motion to dismiss the SAC and the court granted this motion on February 2, 2011. The Court, however, gave plaintiff leave to amend his complaint which he did when he filed a Third Amended Complaint ("TAC") on April 1, 2011. Defendants moved to dismiss the TAC and on August 31, 2011, the Court granted Camtek its third motion to dismiss and done so this time without giving the plaintiff leave to amend. Plaintiff did not appeal the court's judgment.

4. On November 1, 2010, a lawsuit has been filed by Fish & Richardson P.C. ("F&R") in the United States District Court for the District of Minnesota (Civil Action No. 10-4436) against the Company. The suit arises from F&R's representation of the Company in the 298 patent action against it by Rudolph Technologies Inc., referred to above. F&R alleges that the Company owes it approximately $2.25 million in unpaid attorney's fees arising from F&R's representation of the Company at this trial level proceeding. The Company disputes this claim, asserting that F&R inflated its fees by defending the matter inefficiently, and that F&R charged fees which were substantially beyond the estimated legal costs provided to the Camtek periodically in advance of incurring such fees. The Company also

has potential malpractice counterclaims against F&R and is in the process of evaluating whether or not to bring such claims. F&R has obtained a default judgment against the Company, after asserting that service of the Summons and Complaint was properly effected upon the Company, and the Company failed to timely answer or otherwise appear in the action. The Company only learned of F&R's alleged service after F&R's motion for default and has retained local counsel in Minnesota to seek to vacate the default judgment, as the Company's position was that service has in fact, never been made upon the Company. On July 14, 2011, the District Court vacated the default judgment, after which the Company has filed a motion for stay until termination of all proceedings in the above-mentioned 298 patent claim, as well as a motion for transfer of this lawsuit to the competent court in the state of New York. The Company currently awaits the District Court's decisions on these motions. The Company believes that it has good defenses and intends to aggressively defend itself from the allegations in this claim. However, it is probable that the Company could realize a loss in this matter for which the Company has estimated its potential liability to be approximately $2.25 million, which the Company accrued as of December 31, 2011.

Note 17 - Commitments and Contingencies (Cont’d)

D. Agreement with Bank Leumi L’Israel

In connection with the issuance of the appeal bond (See also Note 17(c)(2) above), in August 2010 the Company signed an agreement with Bank Leumi L’Israel, according to which the bank provided a bank guarantee in the amount of $8,925 in order to support the appeal bond, which was issued by a surety company in the United States, together with a long-term loan of approximately $1,300 (see Note 13 – Long-term loan). In addition, the Company received short-term loans in the amount of approximately $1,400 (see Note 11 – Short-term loan) and factoring facilities of additional $1,300. As of December 31, 2011 these factoring facilities have not been utilized. The Company’s obligations to the bank are secured by a lien on its facility in Israel, restricted deposits in the amount of approximately $5,200 (see Note 8 – Restricted deposits) and a floating charge on its assets.

Following the Company's successful appeal in the infringement dispute with Rudolph, the appeal bond was officially released in September 2011. As such, the bank ceased to provide the guarantee and the restrictions were removed from the deposits. See Note 17 (c)(2).

In addition, the Company signed a covenant agreement with the bank which requires it to comply with the following financial covenants:

- On December 31 each year, the following covenants will be met:

1) Adjusted shareholders’ equity will be not less than 50% of the total balance sheet.(1)

2) Adjusted shareholders’ equity will be not less than $40,000. (1)

3) Total annual sales will be not less than $60,000.

4) From the date of the agreement, operating profits (EBITDA) will be positive.

(1) Adjusted shareholders’ equity is defined in the agreement as shareholders’ equity as presented in the financial statements, minus deferred expenses, intangible assets, and balances due from affiliates.

- At the end of each quarter, the Company’s cash balance will be not less than $11,500, including deposits and liens to Bank Leumi.

- Any cash balance over $1,000 situated in any of the Company’s foreign subsidiaries must be transferred to Camtek Ltd (Israel) within 14 days.

- If the Company does not maintain positive operating profits or the required quarter-end cash balance, it will be required to deposit at Bank Leumi a restricted sum of not less than NIS 5,000.

- Total foreign assets of the Company at the end of each quarter will be greater than their total debts and liabilities.

- The ratio of debt to banks to open receivables should be not greater than 70% at the end of each quarter.

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

Note 17 - Commitments and Contingencies (Cont’d)

D. Agreement with Bank Leumi L’Israel (cont’d)

As of December 31, 2010, the Company did not comply with the financial covenants relating to the ratio of adjusted shareholders’ equity to the total balance sheet (“shareholder’s equity ratio”); and to the maintenance of cash balances of not more than $1,000 in the bank accounts of one of the foreign subsidiaries (“maximum cash balance”).

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

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

Accordingly, the Company was in full compliance with the amended financial covenants as of the date that the 2010 annual financial statements were signed.

In December 2011, the Company signed an amended agreement with the Bank, subject to which the covenants regarding the foreign subsidiaries and the restricted deposit in the event of non-compliance no longer apply. In addition, the Company agreed that no lien would be placed on any of its subsidiaries' assets without prior written approval from the Bank.

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

E. Agreement with Bank Mizrahi

In July 2011 the Company signed an agreement with Bank Mizrahi for a credit facility (see Notes 11, 13). The Company’s obligations to the bank are secured by a lien on its facility in Israel and a floating charge on its assets. In addition, the Company signed a covenant agreement with the bank which requires it to comply with the following financial covenants:

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

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

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

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

Note 17 - Commitments and Contingencies (Cont'd)

F. Chief Scientist

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

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

As of December 31, 2011 the amount of non-repaid grants received including interest accrued, in respect of Printar and SELA, amounted to $5,450 and $2,750, respectively (December 31, 2010 - $5,400 and $3,000 , 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, 2011 amounted to $2,643 and $1,871 , respectively (December 31, 2010 - $2,274 and $1,856 , respectively). (See Note 16 – Other long-term liabilities).

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

G. Dispute with Chief Scientist

A dispute has arisen between the Company and the OCS in Israel in the amount of approximately $690 regarding the royalty rate to be paid in respect of certain of the Company's supported products, the production 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, 2011, the Company has purchase orders of $13,256 (2010 -$8,050) which mainly represent outstanding purchase commitments for inventory components ordered by the Company in the normal course of business.

Note 18 - Concentration of Risk and Financial Instruments

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

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

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

Liquidity:

The Company anticipates that its existing resources and cash flows from operations will be adequate to satisfy its liquidity requirements through calendar year 2012. If available liquidity will not be sufficient to meet the Company’s operating and loan obligations as they come due, Management’s plans include pursuing alternative financing arrangements or reducing expenditures as necessary to meet the Company’s cash requirements throughout 2012. See also Note 17 (D) and Note 17 (E).

Derivative Instruments

The Company enters into foreign exchange instruments to manage its U.S. Dollar to NIS currency exchange risks. The terms of all of these currency instruments are less than one year. The notional amounts and fair value of derivatives as of December 31, 2011 are:

	Notional amount	Fair value
	U.S. Dollars	
Options		
Buy put options (Buy dollars and Sell NIS)	18,100	69
Sell call options (Sell dollars and Buy NIS)	18,100	(603)

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 $(819) and gain of $277 for the years ended December 31, 2011 and 2010, 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 19- 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. Private Placement

In April 2006, the Company raised $14,500, 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. The warrants expired in April 2010.

C. 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.

D. Stock Option Plan

As of December 31, 2011, the Company has five stock option plans for employees and directors. Future options will be granted only pursuant to the 2003 Share Option Plan described below.

In October 2003, the Company adopted a stock option plan (the Plan) pursuant to which the Company's Board of Directors may grant stock options to officers and key employees. The total number of options which may be granted to directors, officers, employees and consultants under this plan, is limited to 1,598,800 options. Stock options can be granted with an exercise price equal to or less than the stock's fair market value at the date of grant. All stock options have 10-year terms and vest and become fully exercisable after 4 years from the date of grant with 30% to vest at the end of each of the first three years and the remaining 10% to vest at the end of the fourth year following the grant date.

As of December 31, 2011, there are 68,927 additional options available for grant under the Plan. The fair value of each option award is estimated on the date of grant using the Black-Scholes-Merton option-pricing model that used the weighted average assumptions in the following table. The risk-free rate for the expected term of the option is based on the U.S. Treasury yield curve in effect at the time of grant.

2011 Grant

Dividend yield	0
Expected volatility	63%-65%
Risk-free interest rate	1.6%-2.8%
Expected life (years)	6

In the year ending December 31, 2011, 846,804 options were granted. No options were granted during the years ended December 31, 2010, and 2009. The total intrinsic value of options exercised during the years ended December 31, 2011, 2010 and 2009 was $0.00, $0.00 and $40,307 respectively. The total intrinsic value of options vested at December 31, 2011 was $18,330.

The total stock option compensation expense amounted to $297, $26 and $26 in 2011, 2010 and 2009, respectively.

As of December 31, 2011, there was $1,275 of total unrecognized compensation cost related to nonvested share-based compensation arrangements. That cost is expected to be recognized over a weighted-average period of 3.14 years.

Note 19 - Shareholders' Equity (cont'd)

D. Stock Option Plan (cont'd)

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

	Year Ended December 31,					
	2011		2010		2009	
	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	489,701	3.21	537,301	3.15	685,491	3.12
Granted	846,804	3.35	-	-	-	-
Forfeited	(53,400)	3.35	(47,600)	2.99	(116,200)	3.68
Exercised	(48,906)	2.98	-	-	(31,990)	0.00
Outstanding at year end	1,234,199	3.31	489,701	3.21	537,301	3.18
Vested at year end	412,395	3.26	480,701	3.19	517,301	3.15

	Number of shares outstanding	Weighted average exercise price US$	Weighted Average Remaining Contractual term (years)	Aggregate intrinsic Value (in US$ thousands)
Outstanding as of December 31, 2011	1,234,199	3.31	7.04	19,500
Vested and expected to vest at December 31, 2011	1,184,891	3.31	7.04	18,330
Exercisable at December 31, 2011	412,395	3.26	2.49	19,500

The following table summarizes information about share options at December 31, 2011:

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$

2.98-3.29	281,395	1.98	2.98	281,395	2.98
3	66,000	3.74	3	66,000	3
5	10,000	4.37	5	10,000	5
6.15	10,000	4.58	6.15	10,000	6.15
4.5	30,000	5.06	4.5	30,000	4.5
3.95	15,000	5.23	3.95	15,000	3.95
3.76	670,000	9.08	3.76	-	-
2.86	40,000	9.50	2.86	-	-
2.01	55,000	9.75	2.01	-	-
0.00	56,804	9.99	0.00	-	-
	1,234,199	7.04	3.31	412,395	3.26

The following table summarizes information about nonvested options at December 31, 2011:

	Options	Weighted average grant- date fair value
Balance at January 1, 2011	9,000	6.89
Granted	846,804	2.04
Vested	(9,000)	6.89
Forfeited	(25,000)	2.28
Balance at December 31, 2011	821,804	2.03

Note 19 - Shareholders' Equity (cont'd)

E. Restricted Share Unit Plan

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

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

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

a. Upon the completion of a full 12 (twelve) months of continuous service – 25%.

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

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

a. Upon the completion of a full 24 (twenty four) months of continuous service – 50%.

b. Upon the completion of a full 12 (twelve) months of continuous service – 25%.

c. Upon the completion of a full 12 (twelve) months of continuous service – 25%.

Forfeited units are returned to the pool.

Total share based awards expense amounted to $120, $129 and $122 in 2011, 2010 and 2009, respectively.

The total unrecognized compensation cost amounted to $89, which is being amortized over the vesting period.

As of the balance sheet date the number of RSU's available for grant was 638,130.

Activity under the Restricted Share Unit Plan was as follows:

	Awards available for grant	Number of awards outstanding	Weighted-average fair value US$
Balance as of December 31, 2010	583,229	805,886	0.44
Awards granted	-	-	-
Exercised	-	(391,075)	0.48
Forfeited	54,901	(54,901)	0.40
Balance as of December 31, 2011	638,130	359,910	0.42

Note 20 - Earnings (Loss) Per Ordinary Share

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

	Year ended December 31,		
	2011	2010	2009
	U.S. Dollars (In thousands, except per share data)		
Net income (loss) attributable to Ordinary Shares	$5,378	$2,816	$(11,842)
Weighted average number of Ordinary Shares outstanding used in basic earnings per Ordinary Share calculation	29,557	29,259	29,218
Add assumed exercise of outstanding dilutive potential Ordinary Shares	452	1,101	-
Weighted average number of Ordinary Shares outstanding used in diluted earnings per Ordinary Share calculation	30,009	30,360	29,918
Basic income (losses) per Ordinary Share	$0.18	$0.10	$(0.40)
Diluted income (losses) per Ordinary Share	$0.18	$0.09	$(0.40)

Note 21 - 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,		
	2011	2010	2009
	U.S. Dollars		
China and Hong Kong	34,113	33,614	19,512
Korea	23,233	16,621	8,391
Asia- Other	7,487	11,089	9,403
United States	11,699	10,075	5,531
Taiwan	16,458	7,862	4,763
Western Europe	6,956	4,033	3,335
Japan	4,618	3,270	1,984
Rest of the world	2,464	1,216	602
	107,028	87,780	53,521

Note 22 - Selected Income Statement Data

A. Revenues

	Year Ended December 31,		
	2011	2010	2009
	U.S. Dollars		
Printed Circuit Boards and IC substrates (1)	30,708	26,378	19,988
Microelectronics (2)	57,696	43,857	19,208
Service fees	18,624	17,545	14,325
Total Revenues	107,028	87,780	53,521

(1) Includes sales of Printar's products (see Note 3A).
(2) Includes sales of SELA's products (See Note 3B).

B. Selling, general and administrative expenses

	Year Ended December 31,		
	2011	2010	2009
	U.S. Dollars		
Selling (a1)	15,614	12,370	8,530
General and administrative	8,727	8,292	9,137
	24,341	20,662	17,667
(a1) Including shipping and handling costs	1,469	1,491	965

C. Financial income (expenses), net

	Year Ended December 31,		
	2011	2010	2009
	U.S. Dollars		
Interest expense	(100)	(112)	(160)
Interest income	32	14	17
Re-evaluation of other long-term liabilities	(2,055)	(1,362)	(586)
Other, net	(777)	(18)	(223)
	(2,900)	(1,478)	(952)

Other, net includes foreign currency income (expense) resulting from transactions not denominated in U.S. Dollars amounting to $(308), $(3) and $(124) in 2011, 2010 and 2009, respectively.

Note 23 - Income Taxes

A. Tax under various laws

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

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

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

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

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

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

Out of Camtek's retained earnings as of December 31, 2011 approximately $20,800 are tax-exempt earnings attributable to its Approved Enterprise and approximately $5,300 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).

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Note 23 - Income Taxes (cont'd)

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

As of December 31, 2011, if the income attributed to the Approved Enterprise were distributed as dividend, Camtek would incur a tax liability of approximately $5,200. If income attributed to the Beneficiating Enterprise were distributed as dividend, or upon liquidation, Camtek would incur a tax liability in the amount of approximately $1,250. These amounts will be recorded as an income tax expense in the period in which the Company declares the dividend.

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

The entitlement to the above benefits is conditional upon the Company's fulfilling the conditions stipulated by the law and the regulations published thereunder as well as the criteria set forth in the approval for the specific investments in the Approved Enterprises. In the event of failure to meet such requirements in the future, income attributable to its Programs could be subject to the statutory Israeli corporate tax rates and the Company could be required to refund a portion of the tax benefits already received, with respect to such Programs. As of December 31, 2011 and 2010, the Company's management believes that the Company has met the aforementioned conditions.

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

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

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

Note 23 - Income Taxes (cont'd)

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

The Amendment to the Law also provides that no tax will apply to a dividend distributed out of preferred income to a shareholder that is a company, for both the distributing company and the shareholder. A tax rate of 15% shall continue to apply to a dividend distributed out of preferred income to an individual shareholder or foreign resident, subject to double taxation prevention treaties, which means that there is no change from the existing law. Furthermore, the Amendment to the Law provides relief (hereinafter – "the relief") with respect to tax paid on a dividend received by an Israeli company from profits of an approved / alternative / beneficiary enterprise that accrued in the benefits period according to the version of the law before its amendment, if the company distributing the dividend notifies the tax authorities by June 30, 2015 that it is applying the provisions of the Amendment to the Law and the dividend is distributed after the date of the notice.
As of the December 31, 2011, the Company has not chosen the election of the Amendment to the law.

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

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

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

	Year Ended December 31,		
	2011	2010	2009
		U.S. Dollars	
Income (loss) before income taxes:			
Israel	677	(645)	(13,860)
Non-Israeli	5,445	4,018	2,404
	6,122	3,373	(11,456)
Income tax expense (benefit):			
Current:			
Israel	45	35	52
Non-Israeli	735	562	334
	780	597	386
Deferred:			
Israel	-	-	-
Non-Israeli	(36)	(40)	-
	(36)	(40)	-
	744	557	386

Note 23 - Income Taxes (cont'd)

E. Income taxes included in the statements of operations:

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

	Year Ended December 31,		
	2011	2010	2009
		U.S. Dollars	
Income (loss) before income taxes	6,122	3,373	(11,456)
Statutory tax rate	24 %	25 %	26 %
Theoretical income tax expense (benefit)	1,469	843	(2,979)
Increase (decrease) in income tax expense resulting from:			
Tax benefits arising from "Approved and Beneficiating Enterprises" and preferential tax rate in China	(1,071)	(317)	(389)
Tax benefits resulting from tax loss carryforwards and deductible temporary differences for which deferred tax benefits were not recognized in previous years	(1,270)	(190)	-
Change in valuation allowance from tax losses and deductible temporary differences for which deferred tax benefits are not recorded in the current year	265	1,087	2,915
Permanent differences and nondeductible expenses, including differences between Israeli currency and dollar-adjusted financial statements-net	723	(760)	347
Nondeductible stock-based compensation	102	44	24
Other *	526	(150)	468
Actual income tax expense	744	557	386
Per share effect of the tax benefits arising from			

“Approved and Beneficiating Enterprises” and preferential tax rate in China:		
Basic	$ 0.04	$ 0.01	$ 0.01
Diluted	$ 0.04	$ 0.01	$ 0.01

* Mainly due to foreign tax rate differential.

Note 23 - Income Taxes (cont'd)

F. Income taxes included in the balance sheets

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

	December 31	
	2011	2010
	U.S. Dollars	
Current:		
Allowance for doubtful accounts	136	348
Accrued warranty	90	63
Unearned revenue	150	5
Accrued expenses	471	158
NOL and other temporary differences *	971	784
Total gross current deferred tax assets	1,818	1,358
Valuation allowance	(1,708)	(1,304)
Current deferred tax asset, net of valuation allowance	110	54
Long-term:		
Net operating losses (NOL) carryforwards	6,506	10,621
Severance pay	21	10
Fixed assets	(110)	(63)
Other Assets	(246)	(318)
Other temporary differences *	269	145
Total gross long-term deferred tax assets	6,440	10,395
Valuation allowance	(6,308)	(10,243)
Long-term deferred tax asset, net of valuation allowance	132	152
Net deferred tax assets	242	206

* Other temporary differences mainly relate to research and development expenses

Under FASB ASC Subtopic 740-10, deferred tax assets are to be recognized for the anticipated tax benefits associated with net operating loss carryforwards and deductible temporary differences, unless it is more likely than not that some or all of the deferred tax assets will not be realized. The adjustment is made by a valuation allowance. Since the future realization of the net operating loss carryforwards and deductible temporary differences is uncertain and not considered more likely than not, a valuation allowance has been established to reduce the deferred tax assets to their estimated realizable value. The net change in the total valuation allowance was a decrease of $3,531 for the year

ended December 31, 2011 and an increase of $1,941 and $3,257 for the years ended December 31, 2010 and 2009, respectively.

As of December 31, 2011, Camtek has not provided for income taxes on the undistributed earnings of approximately $11,790 of two of its major foreign subsidiaries since these earnings are intended to be indefinitely reinvested. A deferred tax liability will be recognized when the Company no longer demonstrates that it plans to indefinitely reinvest these undistributed earnings. It is not practicable to estimate the amount of additional taxes that might be payable on such undistributed earnings.

As of December 31, 2011, the Company and its subsidiaries in Israel have regular NOL carryforwards aggregating approximately $40,320 that do not expire.

As of December 31, 2011, the major foreign subsidiaries have NOL carryforwards aggregating approximately $4,979, of which approximately $3,447 will expire from 2012 to 2028 and approximately $1,532 can be carried forward indefinitely.

Note 23 - Income Taxes (cont'd)

G. Reduction in corporate income tax rate in Israel

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

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

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

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

I. On September 17, 2009 Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) (Amendment) – 2010 were published following which there was an extensive change in Income Tax Regulations (Determination of Interest Rate with respect to Section 3(j)) – 1986. The Amendment applies to loans granted as from October 1, 2009, and also includes transitional provisions regarding loans granted before the effective date of the Amendment.

The annual interest rate for purposes of Section 3(j) of the Ordinance, with respect to in scope taxpayers granting a loan in NIS is 3.8%, 3% and 3.3% (unlinked) , for tax years 2011and 2010 respectively. The interest rate effective for the period from October 1, 2009 to December 31, 2009 is 3.3% (unlinked).

Conversely, when the loan is in foreign currency (as defined in the regulations) the interest rate with respect to Section 3(j) is according to the rate of change in the exchange rate of the relevant foreign currency plus 3%.

In addition, a special provision was included with respect to determination of the interest rate on a loan in NIS or in foreign currency that was granted in the 14 days before or after a loan with the same terms was received from a non-related party.

J. The Company's Chinese subsidiaries are subject to income tax based upon the taxable income as reported in the statutory financial statements prepared under Chinese accounting regulations. The subsidiaries in China were

entitled to zero tax for the first two years following the earlier of either reaching profitability or 2008, and a 50% tax reduction from the standard tax rate of 25% for the following three years. The tax rate for both Chinese subsidiaries in 2011 was 12%-12.5%. The tax holidays will end in 2012 and 2013 for Camtek Electronic Technology ("CET") and Camtek Imaging Technology ("CIT"), respectively.

CAMTEK LTD. and its subsidiaries

Notes to the Financial Statements

Note 23 - Income Taxes (cont'd)

K. Accounting for uncertainty in income taxes

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

For the years ended December 31, 2011, 2010 and 2009, the Company did not have any unrecognized tax benefits. In addition, the Company does not expect that the amount of unrecognized tax benefits will change significantly within the next twelve months.

The Company accounts for interest and penalties related to unrecognized tax benefits as a component of income tax expense. For the years ended December 31, 2011, 2010 and 2009, no interest and penalties related to unrecognized tax benefits have been accrued.

The Company and its subsidiaries in Israel file their income tax returns in Israel while its principle foreign subsidiaries file their income tax returns in Belgium, Hong Kong, United States of America and China. The Israeli tax returns of Camtek are open to examination by the Israeli Tax Authorities for the tax years beginning in 2008, in addition, the Israeli tax returns of SELA are open to examination by the Israeli Tax Authorities for the tax years beginning in 2007, while the tax returns of its principal foreign subsidiaries remain subject to examination for the tax years beginning in 1997 in Belgium, 2003 in Hong Kong and 2006 in the United States of America.

Note 24 - Balances and Transactions with Related Parties

A. Balances with related parties:

	December 31, 2011	December 31, 2010
	U.S. Dollars	
Accounts receivable	407	17
Due from affiliates	388	384

B. Transactions with related parties:

	Year Ended December 31,		
	2011	2010	2009
	U.S. Dollars		
Purchases from Parent and affiliates	1,555	1,955	684
Interest income from Parent	31	- *	- *

Sales to Parent and affiliates	2,397	83	843

* Less than $1 thousand

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

Note 24 - Balances and Transactions with Related Parties (cont'd)

B. 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 and the EVP

Effective January 1, 1998, the Company entered into an employment agreement with its now Executive Vice President, Business & Strategy ("EVP"). Pursuant to changes made to this agreement in 2005, the EVP dedicates 40% of his time to work for Parent. The EVP receives from the Company 60% of a full time salary and is compensated directly by the Parent for the remaining 40% of his time. In October, 2011 the EVP's terms of employment were re-approved by the General Meeting of Shareholders for a consecutive three years period.

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

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

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

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Note 25 - Fair Value Measurements

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

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

The following table presents the Company's assets and liabilities measured at fair value on a recurring basis as of December 31, 2011 and December 31, 2010, aggregated by the level in the fair-value hierarchy within which those measurements fall:

Description	December 31, 2011	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	534	-	534	-
Contingent consideration	6,887	-	-	6,887
Total Liabilities	7,421		534	6,887

Description	December 31, 2010	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	285	-	285	-
Total Assets	285	-	285	-
Liabilities				
Contingent consideration	6,246	-	-	6,246
Total Liabilities	6,246	-	-	6,246

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 significant transfers into or out of level 1,

level 2, or level 3 for the year ended December 31, 2011.

Note 25 - Fair Value Measurements (cont'd)

The following tables present a roll-forward of the fair value of Level 3 (significant unobservable inputs) liabilities for the year ended December 31, 2011 and 2010:

	Level 3 U.S. Dollars Contingent consideration
December 31, 2010	6,246
Settlement of liabilities	(623)
Revaluation of fair value included in statement of operations	1,264
December 31, 2011	6,887

	Level 3 U.S. Dollars Contingent consideration
December 31, 2009	5,880
Settlement of liabilities	(263)
Revaluation of fair value included in statement of operations	629
December 31, 2010	6,246

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

The fair value of the contingent payment for Printar as of December 31, 2011, was based on the $2,500 transaction price, discounted from the estimated payment dates to the valuation date using the weighted average cost of capital of 20.4%. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 (Statement 157) refers to as Level 3 inputs. Key assumptions include management's estimation about future sales. (See also Note 3(A)).

The fair value of the contingent consideration arrangement for SELA as of December 31, 2011, was estimated based on future earn-out payments discounted to the valuation date using the weighted average cost of capital of 18.5%. That measure is based on significant inputs that are not observable in the market, which ASC Section 820-10-35 (Statement 157) refers to as Level 3 inputs. Key assumptions include management's estimation about future sales. (See also Note 3(B)).

Note 26 - Subsequent Events

A. On March 26, 2012, in conjunction with the 298' patent infringement case, the Court issued an Order adopting the Magistrate Judge's Report and Recommendation on contempt and damages in a sum of $1,291,892. See Note 17(c)(2).

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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	2007 Restricted Share Unit Plan (incorporated herein by reference to Exhibit 4.8 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 30, 2008).
4.9	Form of Indemnification Agreement (incorporated herein by reference to Exhibit 10.10 to Amendment No. 1 to the Registrant's Registration Statement on

	Form F-1, File No. 333-12292, filed with the Securities and Exchange Commission on July 21, 2000).
4.10	Registration Rights Amended and Restated Agreement by and between the Registrant and Priortech Ltd., dated December 30, 2004. (incorporated herein by reference to Exhibit 4.10 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 30, 2005).
8.1	Subsidiaries of the Registrant (incorporated herein by reference to Exhibit 8.1 to the Registrant's Registration Statement on Form 20-F File No.000-30664 filed with the Securities and Exchange Commission on June 7, 2010).
12.1	Certification of Chief Executive Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
12.2	Certification of Chief Financial Officer required by Rules 13a-14(a) and Rule 15d-14(a) under the Securities Exchange Act of 1934, as amended.*
13.1	Certification of the Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
15.1	Consent of Somekh Chaikin, a member firm of KPMG International.*
101	The following financial information from Camtek Ltd.'s Annual Report on Form 20-F for the year ended December 31, 2011, formatted in XBRL (eXtensible Business Reporting Language): (i) Consolidated Statements of Operations for the years ended December 31, 2011, 2010 and 2009; (ii) Consolidated Balance Sheets at December 31, 2011 and 2010; (iii) Consolidated Statements of Changes in Shareholders' Equity for the years ended December 31, 2011, 2010 and 2009; (iv) Consolidated Statements of Cash Flows for the years ended December 31, 2011, 2010 and 2009; and (v) Notes to Consolidated Financial Statements, tagged as blocks of text. Users of this data are advised, in accordance with Rule 406T of Regulation S-T promulgated by the SEC, that this Interactive Data File is deemed not filed or part of a registration statement or prospectus for purposes of Sections 11 or 12 of the Securities Act of 1933, is deemed not filed for purposes of Section 18 of the Exchange Act, and otherwise is not subject to liability under these sections.*

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‡ English translations from Hebrew original.

* Filed herewith.

SIGNATURES

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

CAMTEK LTD.

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

Date: April 6, 2012

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