CAMTEK LTD
Form 424B5
May 14, 2015

Prospectus Supplement
(to Prospectus dated April 14, 2014)

Filed Pursuant to Rule 424(b)(5)
Registration Statement No. 333-194303

4,300,000 Shares

Ordinary Shares

This is a public offering of ordinary shares of Camtek Ltd. We are offering 4,300,000 ordinary shares in this offering.

Our ordinary shares are listed on the Nasdaq Global Market and on the Tel Aviv Stock Exchange in Israel under the symbol “CAMT.” On May 12, 2015, the last reported sale price of our ordinary shares on the Nasdaq Global Market was $ 3.38 per share and on May 12, 2015, the last reported sale price of our ordinary shares on the Tel Aviv Stock Exchange was NIS 13.03 (approximately $3.37) per share.

You should carefully read this prospectus supplement and the accompanying prospectus (including all of the information incorporated by reference therein) before you invest. Investing in our ordinary shares involves a high degree of risk. Before buying any ordinary shares, you should read the discussion of material risks of investing in our ordinary shares in the section entitled “Risk Factors” beginning on page S-7 of this prospectus supplement, on page 3 of the accompanying prospectus and in the documents incorporated by reference.

None of the U.S. Securities and Exchange Commission, the Israeli Securities Authority or any state securities commission have approved or disapproved of these securities or passed upon the adequacy or accuracy of this prospectus supplement or the accompanying prospectus. Any representation to the contrary is a criminal offense under the laws of the United States and the laws of the State of Israel.

	Per Ordinary Share	Total
Public offering price	$ 2.8500	$ 12,255,000
Underwriting discounts and commissions	$ 0.1924	$ 827,212
Proceeds to us (before expenses)	$ 2.6576	$ 11,427,787

We estimate the total expenses of this offering, excluding the underwriting discounts and commissions, will be approximately $ 470,000. We have also granted the underwriters an option for a period of 30 days from the date of this prospectus supplement to purchase up to 450,000 ordinary shares at the public offering price per share, less the underwriting discounts and commissions, to cover over-allotments, if any.

Under the registration statement to which this prospectus supplement forms a part, we may not sell our securities in a primary offering with a value exceeding one-third of our public float in any 12-month period (unless our public float rises to $75.0 million or more). As of April 22, 2015, the aggregate market value of our outstanding ordinary shares held by non-affiliates, or public float, was approximately $49,332,224 based on 30,494,522 outstanding ordinary shares, of which approximately 13,422,023 shares were held by non-affiliates, and a price of $3.67 per share, which was the last reported sale price of our ordinary shares on the Nasdaq Global Market on April 22, 2015. We have not offered any securities pursuant to General Instruction I.B.5. of Form F-3 in the prior 12-month period that ends on and includes the date of this prospectus supplement.

Delivery of the shares is expected to be made on or about May 19, 2015, by electronic delivery via the Depository Trust Company, subject to customary closing conditions. The underwriters are offering the ordinary shares as set forth under "Underwriting."

Sole Book-Running Manager

Needham & Company

Co-Managers

B. Riley & Co.   Chardan Capital Markets

The date of this prospectus supplement is May 14, 2015.

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PROSPECTUS SUPPLEMENT

PROSPECTUS

ABOUT THIS PROSPECTUS SUPPLEMENT

This prospectus supplement is part of a registration statement (No. 333-194303) that we filed with the Securities and Exchange Commission, or the SEC, using a “shelf” registration process. Under the registration statement, we registered the offering by us of up to $50,000,000 of ordinary shares, rights, warrants and units for sale from time to time in one or more offerings, and the offering by Priortech Ltd. of up to 6,000,000 ordinary shares for sale from time to time in one or more offerings. This prospectus supplement provides specific information about the offering by us of our ordinary shares under the shelf registration statement, in addition to information concerning the over-allotment option granted by us.

This document comprises two parts. The first part is this prospectus supplement, which describes the specific terms of this offering and also adds to and updates information contained in the accompanying prospectus. The second part, the accompanying prospectus, gives more general information, some of which may not apply to this offering. If the description of the offering varies between this prospectus supplement and the accompanying prospectus or the documents incorporated herein by reference, you should rely on the information contained in this prospectus supplement. However, if any statement in one of these documents is inconsistent with a statement in another document having a later date — for example, a document incorporated by reference in the accompanying prospectus — the statement in the document having the later date modifies or supersedes the earlier statement.

You should rely only on the information contained in or incorporated by reference in this prospectus supplement and the accompanying prospectus, or contained in any free writing prospectus prepared by us or on our behalf. We have not authorized anyone to provide you with different information. If anyone provides you with different or inconsistent information, you should not rely on it. This prospectus supplement and the accompanying prospectus do not constitute an offer to sell, or a solicitation of an offer to purchase, the securities offered by this prospectus supplement and the accompanying prospectus in any jurisdiction where it is unlawful to make such offer or solicitation. You should not assume that the information contained in this prospectus supplement or the accompanying prospectus, or any document incorporated by reference in this prospectus supplement or the accompanying prospectus, is accurate as of any date other than the date on the front cover of the applicable document. Neither the delivery of this prospectus supplement nor any distribution of securities pursuant to this prospectus supplement shall, under any circumstances, create any implication that there has been no change in the information set forth or incorporated by reference into this prospectus supplement or in our affairs since the date of this prospectus supplement. Our business, financial condition, results of operations and prospects may have changed since that date.

Before purchasing any securities, you should carefully read both this prospectus supplement and the accompanying prospectus, together with the additional information described under the heading, “Where You Can Find More Information; Incorporation of Certain Documents by Reference,” in this prospectus supplement.

Unless the context requires otherwise, when used in this prospectus supplement, references to the terms “Camtek,” “the Company,” “we,” “us,” “our” and similar terms, refer to Camtek Ltd. and its wholly owned subsidiaries on a consolidated basis, unless we state or the context implies otherwise.

Unless otherwise indicated, all references to “dollars” and “$” in this prospectus supplement are to, and amounts are presented in, U.S. Dollars. Except where we or the context otherwise indicate, the information presented in this prospectus supplement assumes that the underwriters will not exercise their over-allotment option.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

This prospectus supplement, the accompanying prospectus, and the information incorporated by reference herein and therein contain forward-looking statements which involve known and unknown risks and uncertainties. We include this notice for the express purpose of permitting us to obtain the protections of the safe harbor provided by the Private Securities Litigation Reform Act of 1995 with respect to all such forward-looking statements. Examples of forward-looking statements include: projections of capital expenditures and liquidity, competitive pressures, revenues, growth prospects, product development, financial resources, intellectual property rights litigation, cost savings and other financial matters. You can identify these and other forward-looking statements by the use of words such as “may,” “plans,” “anticipates,” “believes,” “estimates,” “predicts,” “intends,” “potential” or the negative of such terms, or other compar terminology.

Our ability to predict our operating results or the effects of various events on our operating results is inherently uncertain. As such, forward-looking statements should not be read as a guarantee of future performance or results, and will not necessarily be accurate indications of the times at, or by, which such performance or results will be achieved. Forward-looking statements are based on information available at the time those statements are made and/or management's good faith belief as of that time with respect to future events, and are subject to risks and uncertainties that could cause actual performance or results to differ materially from those expressed in or suggested by the forward-looking statements. Important factors that could cause such differences include, but are not limited to:

- the highly competitive nature of the markets we serve;
- claims that our products infringe on the intellectual property rights of others and our ability to protect our proprietary technologies;
- challenges in the process of commercialization and market penetration of the Gryphon SL System;
- the variability of our operating results;
- our dependence upon the worldwide electronics industry;
- our incurrence of major losses in the past and our ability to sustain profitable operations in the future;
- fluctuations in currency exchange rates;
- the concentration of our sales to the Asia Pacific region;
- our ability to manage the expansion of our operating activities and acquisitions; and
- other risk factors included under “Risk Factors” in this prospectus supplement, the accompanying prospectus and any document incorporated by reference in this prospectus supplement or the accompanying prospectus.

Therefore, we caution you to consider carefully the matters described under the caption “Risk Factors” on page S-7 of this prospectus supplement, page 3 of the accompanying prospectus, and in the documents incorporated by reference. Such factors and many other factors beyond the control of our management could cause our actual results, performance or achievements to be materially different from any future results, performance or achievements that may be expressed or implied by the forward-looking statements.

You should keep in mind that any forward-looking statement made by us in this prospectus supplement, the accompanying prospectus and any documents incorporated by reference herein or therein speaks only as of the date on which we make it. New risks and uncertainties come up from time to time, and it is impossible for us to predict these events or how they may affect us. We have no obligation to update any forward-looking statements herein or therein after the date hereof or thereof, except as required by federal securities laws.

PROSPECTUS SUPPLEMENT SUMMARY

This section summarizes material information that appears later or is incorporated by reference in this prospectus supplement and is qualified in its entirety by the more detailed information and financial statements included elsewhere or incorporated by reference in this prospectus supplement. This summary may not contain all of the information that you should consider before investing in our securities. You should read this summary together with the entire prospectus supplement and the accompanying prospectus, including our financial statements, the notes to those financial statements and the other documents that are incorporated by reference in this prospectus supplement and the accompanying prospectus, before making an investment decision. See "Risk Factors" beginning on page S-7of this prospectus supplement, on page 3 of the accompanying prospectus and in the documents incorporated by reference, for a discussion of the risks involved in investing in our securities.

Overview

We provide automated and technologically advanced solutions dedicated to enhancing production processes, increasing products yield and reliability, enabling and supporting customers' latest technologies in the semiconductor fabrication and printed circuit boards ("PCB") industries. We address the specific needs of these interconnected industries with dedicated solutions based on a wide and advanced platform of technologies including intelligent imaging, image processing and functional 3D inkjet printing.

We design, develop, manufacture and market products mainly based on two core technologies: automated optical inspection ("AOI") and functional ink technology ("FIT").

AOI systems are computerized systems that optically inspect various types of electronic product components for defects caused during the manufacturing process. Our AOI systems are used to enhance both production processes and yields for manufacturers in the semiconductor fabrication industry as well as the PCB industry. Our systems provide our customers with a high level of defect detection ability, are easy to operate and offer high productivity. Our AOI products incorporate proprietary advanced image processing software and algorithms, as well as advanced electro-optics and precision mechanics. They are designed for easy operation and maintenance. In addition, our AOI systems use technology that enables our customers to handle a wide range of inspection and verification needs.

Our main FIT product is the Gryphon System, which is designed to provide through functional 3D inkjet printing technology a high performance one-step, environment-friendly and relatively low-cost process to apply solder mask and legend applications to PCBs in comparison with traditional methods. The Gryphon System incorporates state of the art printing technology, using a specially developed hybrid ink which was tailored to the demanding requirements of the PCB industry. In addition, our recently launched Gryphon SL System features two-color printing capabilities enabling direct deposition of both solder mask and legend tiles in a one stop manufacturing station. The Gryphon System has been commercialized following the completion of final testing at two select customers' sites, and we believe that the technology can also be applicable in the future to various other applications in the field of electronic manufacturing. The Gryphon System (and the Gryphon System SL) and its proprietary technology enable us to offer to our customers in the PCB industry a broader range of products, while relying on our existing operational, research and development, customer support and sales and marketing infrastructure.

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

Corporate Information

Camtek was incorporated under the laws of the State of Israel in 1987. Camtek's registered office is located at Ramat Gavriel Industrial Zone, P.O. Box 544, Migdal Ha'Emek, Israel and the telephone number is +972 (4) 6048100. Camtek's U.S. subsidiary and North American headquarters, Camtek USA Inc., is located at 2000 Wyatt Drive, Suite #4, Santa Clara, California 95054 and the telephone number is +1-800-986-9540. Camtek's Internet address is http://www.camtek.co.il/. The information available on or accessible through our website does not constitute a part of this prospectus supplement or the accompanying prospectus.

The Offering

Ordinary Shares offered by us in the offering	4,300,000 ordinary shares, par value NIS 0.01 per share (4,750,000 ordinary shares if the underwriters exercise their over-allotment option in full).
Total ordinary shares outstanding immediately after this offering	34,794,522 ordinary shares (35,244,522 ordinary shares if the underwriters exercise their over-allotment option in full).
Dividend policy	Our board of directors is authorized to declare dividends, although we anticipate that, for the foreseeable future, we will retain any earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends for at least the next several years.
Over-allotment option	450,000 ordinary shares.
Timing and settlement of ordinary shares	The ordinary shares are expected to be delivered against payment on or about May 19, 2015.
The Nasdaq Global Market and Tel Aviv Stock Exchange symbol	"CAMT"
Use of proceeds	We intend to use the net proceeds we receive from this offering for general corporate purposes. See "Use of Proceeds" for additional information.
Lock-up	Subject to certain exceptions, we and the members of our board of directors, our executive officers and Priortech Ltd. have agreed with the underwriters not to sell, transfer or dispose of any ordinary shares for a period of 180 days (subject to certain exceptions) after the date of this prospectus supplement. In addition, certain sales of our ordinary shares may be made following the 120th day after the date of this prospectus supplement. See "Underwriting."
Risk factors	Investing in our ordinary shares involves a high degree of risk. See "Risk Factors" beginning on page S-7 of this prospectus supplement and on page 3 of the

accompanying prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.

In this prospectus supplement, unless otherwise indicated, the number of ordinary shares to be outstanding immediately after this offering as shown above is based on 30,494,522 ordinary shares outstanding, as of March 31, 2015 and excludes:

· 871,299 ordinary shares issuable upon the exercise of outstanding options to purchase 871,299 ordinary shares at a weighted average exercise price of $3.34 per share;

· 2,960,000 ordinary shares available for grant under our 2014 Share Option Plan and 670,129 ordinary shares available for grant under our 2007 RSU Plan; and

· 2,092,376 treasury shares held by us.

Except as otherwise indicated, all information in this prospectus supplement assumes no exercise by the underwriters of their option to purchase an additional 450,000 ordinary shares to cover over-allotments.

Summary Consolidated
Financial Data

The following summary consolidated financial data summarize our historical financial and other information as of and for the years ended December 31, 2012, 2013 and 2014, which is derived from our audited consolidated financial statements included in our Annual Report on Form 20-F for the year ended December 31, 2014, and as of and for the three months ended March 31, 2014 and 2015, which is derived from our unaudited consolidated financial information included in our Report on Form 6-K furnished to the SEC on April 30, 2015. This information should be read in conjunction with other information presented in or incorporated by reference into this prospectus supplement and the accompanying prospectus, including in conjunction with "ITEM 3: Key Information — Selected Consolidated Financial Data," "ITEM 5: Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes found in our Annual Report on Form 20-F for the year ended December 31, 2014, and the other financial information incorporated by reference in this prospectus supplement and the accompanying prospectus.

	Year ended December 31,			Three months ended March 31,	
Summary Consolidated Statement of Income Data:	2012	2013	2014	2014	2015
	(U.S. Dollars (in thousands, except per share data))				
Revenues:					
Sales of products	66,929	67,864	71,371	18,238	18,020
Service fees	17,618	17,541	16,942	3,871	3,730
Total revenues	84,547	85,405	88,313	22,109	21,750
Cost of revenues:					
Costs of products sold	35,908	38,692	35,870	9,098	9,176
Cost of services	11,574	12,311	11,424	2,881	2,755
Total cost of revenues	47,482	51,003	47,294	11,979	11,931
Gross profit	37,065	34,402	41,019	10,130	9,819
Research and development costs	12,916	14,370	14,406	3,434	3,400
Selling, general and administrative expenses	21,138	22,362	21,417	5,526	5,281
Reorganization and impairment	3,031	(3,466)	60	--	--
Total operating expenses	37,085	33,266	35,883	8,960	8,681
Operating income (loss)	(20)	1,136	5,136	1,170	1,138
Financial income (expenses), net	233	(1,738)	(1,220)	(365)	(847)

Income (loss) before income taxes	213	(602)	3,916	805	291
Income tax (expense) benefit	(210)	609	(579)	(166)	(239)
Net income	3	7	3,337	639	52
Earnings per ordinary share:					
Basic	0.00	0.00	0.11	0.02	0.00
Diluted	0.00	0.00	0.11	0.02	0.00
Weighted average number of ordinary shares outstanding (in thousands):					
Basic	29,849	30,040	30,464	30,427	30,494
Diluted	30,013	30,094	30,545	30,534	30,555

Summary Consolidated Balance Sheet Data:	As of December 31, 2012	2013	2014	As of March 31, 2015 Actual	As Adjusted
	(U.S. Dollars (in thousands, except share data))				
Cash and cash equivalents	18,867	16,495	18,220	14,013	24,971
Short-term deposits	7,160	6,000	8,607	729	729
Long-term restricted deposits	729	729	729	7,875	7,875
Total assets	99,008	91,850	96,511	97,198	108,155
Short and long term bank loans	6,252	--	--	--	--
Total liabilities	38,671	29,954	30,779	31,351	31,351
Additional paid in capital	61,415	62,966	63,465	63,528	74,475
Total shareholders' equity	60,337	61,896	65,732	65,847	76,805
Ordinary issued and outstanding shares	29,896,933	30,405,526	30,494,522	30,494,522	34,794,522

The as adjusted balance sheet data above reflects the application of the net proceeds from the sale of 4,300,000 ordinary shares offered by us, after deducting estimated underwriting discounts and commissions and estimated offering expenses.

RISK FACTORS

Investing in our ordinary shares involves a high degree of risk. You should consider carefully the following risk factors in addition to all of the other information included in this prospectus supplement, the accompanying prospectus, the documents incorporated by reference in this prospectus supplement and the accompanying prospectus, including our Annual Report on Form 20-F for the year ended December 31, 2014, and any free writing prospectus that we have authorized for use in connection with this offering, before investing in our ordinary shares. Each of these risk factors could harm our business, financial condition or operating results, as well as decrease the value of an investment in our ordinary shares.

Risk Factors Related to Our Business and Our Markets

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

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

In the semiconductor manufacturing industry, our principal competitor and a significant participant for AOI systems is Rudolph, with additional competitors including KLA-Tencor Corporation, Topcon Corporation, Toray Industries, Inc. and ATI Electronics Pty Ltd.

In the PCB industry, our principal competitor and the dominant market participant is Orbotech Ltd., with additional competitors including Dainippon Screen Manufacturing Company, Lloyd-Doyle Limited, Gigavis Co. Ltd., Shirai Electronics Industrial Co. Ltd., ATI Electronics Pty Ltd. and local AOI vendors in China and Taiwan such as Machvision Inc., Optima Ltd., Ovitech and Jointpower Technology Co,. Ltd. In addition, there is a market for used AOI systems for printed circuit board manufacturers, which may reduce the demand for our products and force us to lower our prices in certain cases.

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

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

Third parties, including our competitor August Technology Corporation’s (which currently operates as Rudolph Technologies Inc.) (“Rudolph”), have asserted claims, and may assert additional claims in the future, that we have violated their patents or that we have infringed upon their intellectual property rights. We are currently a defendant in several litigations brought by Rudolph against us, and our U.S. subsidiary recently commenced a litigation against

Rudolph. (See “Legal Proceedings” in this prospectus supplement for details). Any intellectual property claims against us, even if without merit, could lead to protracted litigation, could be costly to defend and could divert management’s attention from our business. Successful claims against us could limit our ability to sell products in certain jurisdictions.

Also, we cannot guarantee that we will ultimately prevail against Rudolph's patent infringement claims. A significant jury verdict against us is currently subject to appeal. The current amount of damages awarded in this case, including interest, is approximately $14.5 million; additional interest may accrue on this amount, and Rudolph has submitted a claim for approximately $1.3 million of attorneys' fees. Although we believe that we will ultimately prevail in these litigations, if Rudolph were to succeed with its infringement actions, it would have a negative impact on our business and could result in substantial monetary damages being assessed against us, which will affect our profitability and liquidity and we could become subject to injunctive relief in favor of Rudolph. Most recently, on March 12, 2015, Rudolph filed a new lawsuit against the Company in the Minnesota District Court alleging that the Eagle violates Rudolph's patent in the United States. The lawsuit does not demand a specific dollar amount but rather asks for an accounting for damages and for a preliminary and permanent injunction against infringing activity. Moreover, in connection with this lawsuit, Rudolph has filed a motion asking for a preliminary injunction to prohibit future sales and marketing of the Eagle product in the United States, which motion is scheduled to be head on June 4, 2015. Rudolph's actions have already subjected us, and may continue to subject us, to significant legal and other defense costs, which would impact our cash resources and profitability. Although we have expensed our litigation costs on a current basis, we have not made any reserves in our financial statements for any damages arising from such infringement actions. In the event that we do not prevail against these claims, we may also be liable for court costs and attorneys' fees incurred by the claimants in these litigations.

We may face challenges in the process of commercialization and market penetration of our Gryphon SL System, which could have a material adverse effect on our operating results and plans to further expand our business.

We have completed the development of the next generation of our 3D functional inkjet system, the Gryphon SL System, which is expected to be one of our future growth engines, and have started to produce a number of systems in anticipation of future evaluations which may lead to future sales. However, we cannot assure you that acceptance in the market of this new technology will be successful or will result in profitable sales or that this product will be free from material defects. In addition, market penetration of this new technology may require more time and resources than expected. Challenges we may face in the penetration process include, among others, the education of customers and the marketplace of the value of incorporating this new technology into the production process. Meeting these challenges may not happen or take longer than anticipated. There is the potential that we may also face competition, if additional or superior methods for the processes performed by our Gryphon SL System are presented by our competitors.

In light of our increased investments in inventory, human resources and marketing, and the resources which were made and are expected to be made in this commercialization process, failure, delays or challenges in our ability to successfully commercialize this new technology could result in inventory write-offs and loss. In addition, a failure to achieve successful market penetration may adversely affect our plans to further expand our business.

Also, the revenues generated may not represent a fair return on our investment, as a result of, for example, pricing and market conditions, post-commercialization system failures or subsequent slow demand and corresponding inventory write offs.

For more details regarding the general challenges faced in connection with the our sales process, see also "Risk Factors - A longer sales process for new products may increase our costs and delay time to market of our products, both of which may negatively impact our revenues, results of operations, cash flow and may result in inventory write-offs".

Our operating results have varied, and will likely continue to vary significantly from quarter to quarter, making it difficult to predict future results.

Our quarterly operating results have varied in the past and will likely continue to vary significantly from quarter to quarter in the future. This complicates our planning processes, reduces the predictability of our earnings and subjects our stock to price and volume fluctuations. Period-to-period comparisons of our results of operations may be meaningless, and you should not rely on them as indications of our future performance.

Some of the factors that may influence our operating results include:

- change in customer demand for our systems and installation schedules;
- product introductions and the penetration period of new products;
- rapid shifts in industry capacity;
- the size, timing and shipment of substantial orders;
- timing of evaluation and qualification of our products by new customers;

- lack of visibility/low levels of backlog from the preceding quarter;
- product mixes;
- pricing of our products;
- timing of new product upgrades or enhancements;
- interest and exchange rates;
- possible impairment of goodwill and other assets; and
- legal expenses and the impact of legal actions.

In light of these factors and the cyclical nature of the markets we target, we expect to continue to experience significant fluctuations in our quarterly and annual operating results.

We are dependent upon the worldwide electronics industry; unfavorable economic conditions and low capital expenditures may negatively impact our operating results.

Our revenue is dependent upon the strength of the worldwide electronics industry. In particular, we depend upon the need by manufacturers in the semiconductor fabrication industry, as well as in the printed circuit board industry, to make continuing capital investments in our products for use in their manufacturing processes.

The capital equipment procurement practices of these manufactures have been, and continue to be, cyclical in nature, and have experienced both periodic and sustained downturns. These spending levels are impacted by the actual and expected worldwide level of demand for consumer end-products that utilize our solutions in their production processes. Demand for consumer end-products is normally a function of prevailing global or regional economic conditions and is negatively affected by a general economic slow-down and/or periods of economic uncertainty as consumers reduce discretionary spending on electronics. The occurrences of cyclical downturns in our industries are very difficult to predict. Although we have in the past implemented cost reduction and business realignment measures in response to prevailing economic conditions which had led to decreased demand, we are limited in our ability to reduce expenses due to the ongoing need to invest in research and development and the need to maintain short lead times for delivery and our worldwide customer service and support operations. In circumstances of significantly reduced overall demand, or delays in capital investment due to uncertain economic and/or industry conditions, or if orders received differ from our expectations with respect to the product, volume, price or other items, our fixed cost structure could have a material adverse effect on our business and results of operations. Our inability to respond to industry cycles could have a material adverse effect on our business and results of operations. Demand for our products is also created, in part, by technological developments that affect product functionality or give rise to new, enhanced or more complex electronic devices. These developments generate an ongoing need on the part of electronics component manufacturers for the type of improved yield-enhancing and production solutions we provide. If changes in these technologies do not continue to occur, or if other technologies were to emerge that lessened or obviated the need for the use of our solutions in electronic devices, the overall demand for our products could be reduced.

We have incurred major losses in the past and may not sustain profitable operations in the future. Moreover, if our business deteriorates, we could face liquidity problems.

Although we recorded net income in recent years, we have incurred significant losses in earlier periods. We may use cash in our operations during 2015 for working capital and investment activities and may continue to incur significant additional legal expenses and other defense costs associated with certain patent infringement actions all of which may reduce our available cash resources and harm our operations.

We may not be able to achieve or increase profitability on a quarterly or annual basis. The failure to generate consistent profitability could have a material adverse effect on the market price of our shares. Our ability to sustain profitability in the future depends in part on the global economy, the rate of growth of, and changes in technology trends in, the industries in which we currently or may in the future operate, our ability to develop and manufacture new products and technologies in a timely manner, the competitive position of our products, the continued acceptance of our products by our customers and in the industries that we serve and our ability to manage expenses.

We have from time to time in the past undertaken cost cutting initiatives in response to economic conditions, including reducing our worldwide workforce. In the future, we may again have to undertake cost reduction initiatives, which could lead to a deterioration of our competitive position, and any difficulty in reducing our cost structure could negatively impact our results of operations and cash flow in the future. If available liquidity is not sufficient to meet our operating and other obligations as they come due, our plans include pursuing additional financing arrangements from banks or others, the availability and terms of which are not assured, or further reducing expenditures as necessary to meet our cash requirements.

We cannot assure you that we will continue to remain profitable or that we will not report losses in future periods.

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

Fluctuations in currency exchange rates may result in the prices of our products becoming less competitive or in additional expenses being recorded, and thus may have negative impact on our profitability.

Currency exchange rate fluctuations may affect the prices of our products. Our products' prices in most countries are denominated in U.S. Dollars, except for in Europe, in Japan and part of our revenues from products in China. In recent months, foreign currency exchange rates have been subject to considerable fluctuations. If there is a significant devaluation in the relevant local currencies in which we operate compared to the dollar, the prices of our products will increase relative to that local currency and may be less competitive. In addition, much of our service income is denominated in local currencies. If a larger number of our sales were to be denominated in currencies other than U.S. Dollars, our reported revenue and earnings would be subject to a greater degree of foreign exchange fluctuations. Further, we generate most of our revenues from products in U.S. Dollars but incur a significant portion of our salary and operating expenses in New Israeli Shekel ("NIS"). As most of our revenues are denominated in U.S. Dollars and as our financial results are reported in U.S. Dollars, we believe that inflation and fluctuations in the NIS/ U.S. Dollar exchange rate have no material effect on our revenues. However, a major portion of the costs of our Israeli operations, such as personnel, subcontractors, materials and facility-related costs, are incurred in NIS. Therefore an increase in the NIS value relative to the U.S. Dollar will increase our costs expressed in U.S. Dollars, and a decrease in the NIS value relative to the U.S. Dollar will decrease our costs expressed in U.S. Dollars (as it did in 2014). In addition, part of our revenues from products in China is denominated in local currency. Most of the expenses and purchases in China are also denominated in local currency. As our financial results are reported in U.S. Dollars, fluctuations in the Chinese Renminbi ("CNY") to U.S. Dollar exchange rate may affect our revenues and level of expenses. We may, from time to time, take various measures designed to reduce our exposure to these effects, but any such steps may be inadequate to protect us from currency rate fluctuations. Failure to protect adequately against currency rate fluctuations could have a material adverse effect on our financial condition and results of operations.

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

The majority of our sales is in the Asia Pacific region. In 2014, our sales in the Asia Pacific region accounted for approximately 79% of our total revenues, of which approximately 32% of our total revenues were from sales in China, 20% of sales in Taiwan and 10% of sales in Korea. In addition, parts of the manufacturing and assembly of our AOI systems for the PCB industry are made in our manufacturing facility in Suzhou, China. A number of Asian countries have experienced or could experience political and economic instability. For example, Taiwan and China have had a number of disputes, as have North and South Korea. Changes in local legislation, changes in governmental controls and regulations, changes in tariffs and taxes, trade restrictions, a downturn in economic or financial conditions, political instability, an outbreak of hostilities or other political upheaval, as well as any further extraordinary events having an adverse effect on the economy or business environment in this region, would likely harm the operations of our customers in these countries, may cause a significant decline in our future revenues and may have an adverse effect on our results of operations and cash flow. These general risks are heightened in China, where the nature of the economy and the legal parameters are rapidly evolving and where foreign companies may face cultural obstacles.

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

We rely on a combination of patents, copyrights, trade secrets, trademarks, confidentiality and non-disclosure agreements to protect our proprietary know-how and intellectual property. These measures may not be adequate to protect our proprietary technologies and it may be possible for a third party, including a competitor, to copy or otherwise obtain and use our products or technologies without authorization or to develop similar technologies independently. Additionally, our products may be sold in countries, particularly in the Asia Pacific region, that provide less protection to intellectual property than that provided under U.S., European or Israeli laws. We also have a manufacturing facility in China, in which we manufacture certain components and assemble most of our AOI systems for the printed circuit board industry, where the intellectual property laws may not be strictly enforced. Therefore, potential risk may be associated with the protection of our intellectual property, which in turn may affect our competitive advantage.

We cannot assure you that our means of protecting our proprietary technologies will be adequate or that our competitors will not independently develop similar technology. If we fail to meaningfully protect our intellectual property, our business, brand, operating results and financial condition could be materially harmed.

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

We have in the past expanded our activity through merger and acquisitions, including the acquisition of assets and certain liabilities of Printar Ltd. (“Printar”) and the entire share capital of SELA – Semiconductor Engineering Laboratories Ltd. (“Sela”), (see Item 4.B - Business Overview – “Our Business” in our Annual Report on Form 20-F for the year ended December 31, 2014 for further details).

We may, in the future, continue to acquire businesses and assets. Our existing operations, as well as any future acquired businesses or assets, could involve numerous risks, including: post-merger integration difficulties; diversion of management's attention from our core business and operations; failure to estimate the acquired businesses’ future performance and failure to execute on such expectations; failure to launch new products to our existing or new markets; inaccurate evaluation of expected competition and/or the fair value of certain assets acquired, liabilities assumed and contingent liabilities; and the loss of key employees of the acquired operations.

In addition, principally as a result of acquisition activity, our future results of operations may be influenced by the possibility of our incurring impairment charges as a result of decline in value of goodwill and other intangible assets, ongoing amortization of intangible assets acquired and financing expenses due to re-evaluation of contingent liabilities and other liabilities assumed presented at fair value (see also in Item 5 – “Critical Accounting Policies” in our Annual Report on Form 20-F for the year ended December 31, 2014). In 2014, the Company’s annual impairment tests did not lead to an impairment charge for goodwill or intangible assets. In 2013 and 2012 we recorded an impairment of intangible assets of $1.65 million and $3 million, respectively, related to the Sela and Printar acquisitions (see Note 9– “Goodwill and Intangible Assets, Net”, of the consolidated financial statements included in our Annual Report on Form 20-F for the year ended December 31, 2014). Future acquisitions could also result in potentially dilutive issuances of equity securities, a decrease in our cash resources, incurrence of debt, contingent liabilities or impairment charges related to goodwill and other intangible assets, any of which could harm our business. Furthermore, we compete for acquisition and investment opportunities with other well-established and well-capitalized entities. There can be no assurance that we will be able to locate acquisition or investment opportunities upon favorable terms.

A longer sales process for new products may increase our costs and delay time to market of our products, both of which may negatively impact our revenues, results of operations, cash flow and may result in inventory write-offs.

Our sales process to new and existing customers usually involves: demonstrations and testing against industry benchmarks in our sales centers; sales and technical presentations and presentations regarding our products' competitive advantages; and installation of the systems at the customer's site for side-by-side competitive evaluations for a period of approximately six months. More evaluation time is devoted during the initial penetration period for several new products such as our Eagle and Gryphon systems, and for new customers in new markets, since these circumstances usually require qualification of the systems by the customers and engineering efforts to fix errors, customize tasks and add new features. Considering the above factors, the length of time until we recognize revenue can vary and affect our revenues, cash flow and results of operations.

The long sales process may cause an increase in inventory levels and a risk for inventory write downs and write-offs; for more details regarding recent inventory write downs and write-offs see Item 5.A – Operating Results – Critical Accounting Policies– Valuation of Inventory in our Annual Report on Form 20-F for the year ended December 31, 2014.

For more details regarding the specific challenges faced in connection with the commercialization of the Gryphon SL system, see also "Risk Factors - We may face challenges in the process of commercialization and market penetration of our Gryphon SL System, which could have a material adverse effect on our operating results and plans to further expand our business."

Technology in the markets in which we operate is rapidly evolving, and we may not be able to keep pace with these changes or with emerging industry standards and may incur substantial costs as a result thereof. This could result in a loss of revenues or adversely affect our profits.

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

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

We seek to expand our activity into unsaturated markets adjacent to our existing served markets, such as the inspection of silicon wafers at various steps during their manufacturing process inside the wafer fabrication facility. Technological developments in production processes and in process control may reduce the growth we anticipate in demand for inspection systems. If this happens, we may not be able to cover our investments in penetrating these markets, or will have to increase our research and development ("R&D") and marketing expense to adapt our products to such changes. Adopting new technologies may also result in material inventory write-offs which will adversely affect our results of operations.

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

While a portion of our manufacturing is performed in our production facilities in Israel and in China, we outsource some of our manufacturing processes to contract manufacturers, including one significant contract manufacturer that is located in Israel. From time to time, we have experienced and may in the future experience delays in shipments from our Contract Manufacturers. In addition we rely on single source and limited source suppliers and subcontractors for a number of essential components and subsystems of our products. We do not have agreements with all of these suppliers and subcontractors for the continued supply of the components or subsystems they provide.

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

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

In the current highly competitive business environment, our customers require us to fill orders within a very short period of time. Our products are complex and require essential components and subsystems that are produced by a number of suppliers and subcontractors. In order to meet our customers' needs in the timeframe they require, we usually need to pre-order components and subsystems based on our forecasts of future orders, rather than on actual orders. While we believe that we have sufficient inventory to fill our customers' orders our predictions may not correspond to our actual future needs and our suppliers and subcontractors cannot always supply such components and subsystems within a shorter than anticipated time frame. Our inability to anticipate rapid market changes may cause an increase of inventory which could result in material inventory write-offs, which we have incurred in the past, or may alternately limit our ability to satisfy customer orders which could result in the loss of sales and could cause customers to seek products from our competitors.

We may face risks of interruptions in our production capabilities.

Our corporate headquarters is located in Migdal Ha'Emek, in the northern part of Israel. Any event affecting this site, including a natural disaster, labor stoppages or armed conflict, may disrupt or indefinitely discontinue our ability to fulfill manufacturing demands and generate revenues, thus negatively impacting our business (see also "We depend on a limited number of suppliers, and in some cases a sole supplier and/or subcontractor" above and "Conducting business in Israel entails special risks" below).

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

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

Priortech beneficially holds 55.48% (or 48.6% assuming completion of this offering) of our issued and outstanding ordinary shares. As a result, Priortech has the power to control the outcome of certain matters submitted to a vote of our shareholders, including the election of members of our board and the approval of significant corporate transactions. This concentration of ownership may also have the effect of making it more difficult to obtain approval for a change in control of the Company. Messrs. Rafi Amit, Yotam Stern, David Kishon, Itzhak Krell (deceased)¸ Haim Langmas (deceased), Zehava Wineberg and Hanoch Feldstien (the "Founding Members") are parties to a voting agreement dated March 26, 1992, governing inter-alia joint voting at Priortech's general meeting of the shareholders and the right of first refusal among themselves. As of February 28, 2015 the Founding Members or their heirs aggregately hold 35.76% of the voting power at Priortech's general meeting of the shareholders and as such may be deemed to control Priortech.

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

We purchase products from, or sell products to companies controlled by Priortech Ltd., our principal shareholder, directly or indirectly, or in which Priortech has substantial holdings, and act jointly with such companies with respect to governmental and administrative matters and the purchase from third parties of various products and services, which may create conflicts of interest. Despite our efforts to conduct ourselves by Israeli law procedural requirements, including regarding audit or compensation committee, board of directors and in certain cases shareholder approvals (including special majority requirement in certain cases) for interested party transactions, we cannot be certain that the possible conflict of interests in any of these transactions and activities is fully eliminated. In addition, Mr. Rafi Amit acts as the Chief Executive Officer and Chairman of the Board of Directors of the Company, on a 75% of a full time position basis, as well as acting as Priortech's Chairman of the Board of Directors and providing consulting and management services to Priortech on a 25% of a full time position basis. Mr. Yotam Stern who acts as one of our Directors, holds several other positions in the Priortech group including the position of Chief Executive Officer at Priortech and at P.C.B Technologies Ltd., an Israeli public company controlled by Priortech. For more details regarding our senior management arrangements, see Item 6 B below – "Compensation – Employment Agreements" in our Annual Report on Form 20-F for the year ended December 31, 2014.

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

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

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

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

Based on an analysis of our assets and income, we believe that in 2014 we were not a PFIC. We currently expect that we will not be a PFIC in 2015. However, PFIC status is determined as of the end of the taxable year and is dependent on a number of factors, including the relative value of our passive assets and our non-passive assets, our market capitalization and the amount and type of our gross income. Therefore, there can be no assurance that we will not become a PFIC for the year ending December 31, 2015 or in any future taxable year. For a discussion of how we might be characterized as a PFIC and the related tax consequences, please see “U.S. Federal Income Tax Considerations– Tax Consequences if We Are a Passive Foreign Investment Company.”

Our share price and trading volumes have demonstrated significant volatility in the past and may continue to fluctuate in the future. Such share price volatility may cause additional exposure for securities class action litigation.

During the period from January 1, 2014 through March 31, 2015, the closing price of our ordinary shares ranged from $2.90 to $5.40 (See Item 9 A – “Price History of Ordinary Shares” in our Annual Report on Form 20-F for the year ended December 31, 2014 and “Additional Price History of Ordinary Shares” in this prospectus supplement). Our ordinary shares may experience significant market price and volume fluctuations in response to numerous factors, many of which are beyond our control, such as the following:

- global economic conditions, which generally influence stock market prices and volume fluctuations;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors
- quarterly variations in our operating results;
- market conditions relating to our customers’ industries;
- announcements of technological innovations or new products by us or our competitors, in particular, speculation concerning the potential of our Gryphon System;
- operating results that vary from the expectations of securities analysts and investors;
- announcements of significant claims or proceedings against us and developments in such proceedings or adverse decisions in pending litigation matters;
- large block transactions in our ordinary shares;