CAMTEK LTD
Form F-1/A
May 12, 2004

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As filed with the Securities and Exchange Commission on May 12, 2004

Registration No. 333-113208

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

AMENDMENT NO. 3 TO
FORM F-1
REGISTRATION STATEMENT
UNDER
THE SECURITIES ACT OF 1933

CAMTEK LTD.
(Exact name of Registrant as specified in its charter)

ISRAEL	**3827**	**NOT APPLICABLE**
(State or other jurisdiction of incorporation or organization)	(Primary Standard Industrial Classification Code Number)	(I.R.S. Employer Identification Number)

Ramat Gavriel Industrial Zone
P.O. Box 544
Migdal Ha'Emek 23150, Israel
(972) 4-604-8100
(Address, including zip code, and telephone number, including area code, of Registrant's principal executive offices)

CAMTEK USA, INC.
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(Name, address, including zip code and telephone number, including area code, of agent for service)

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Approximate date of commencement of proposed sale to the public:
As soon as practicable after the effective date of this Registration Statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, as amended, check the following box: o

If this form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If this form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. o

If delivery of the prospectus is expected to be made pursuant to Rule 434, please check the following box: o

The registrant hereby amends this registration statement on such date or dates as may be necessary to delay its effective date until the registrant shall file a further amendment which specifically states that this registration statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the registration statement shall become effective on such date as the Commission acting pursuant to said Section 8(a), may determine.

Subject to Completion, Dated May 12, 2004

The information contained in this prospectus is not complete and may be changed. These securities may not be sold until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities, and it is not soliciting an offer to buy these securities in any state where the offer or sale is not permitted.

8,500,000 Ordinary Shares

$ per share

Camtek Ltd. is selling 5,000,000 ordinary shares, and Priortech Ltd., our principal shareholder, is selling 3,500,000 ordinary shares. We will not receive any of the proceeds from the sale of ordinary shares by the selling shareholder. The ordinary shares are listed on the Nasdaq National Market under the symbol "CAMT." On May 11, 2004, the last reported sale price of the ordinary shares was $4.56 per share.

Investing in the ordinary shares involves risks. See "Risk Factors" beginning on page 11.

	Per Ordinary Share	Total
Price to the public	$	$
Underwriting discount	$	$
Proceeds to Camtek (before expenses)	$	$
Proceeds to the selling shareholder	$	$

Camtek and the selling shareholder have granted an over-allotment option to the underwriters. Under this option, the underwriters may elect to purchase a maximum of 1,275,000 additional ordinary shares of which up to 750,000 ordinary shares may be purchased from Camtek and up to 525,000 ordinary shares may be purchased from the selling shareholder, on a *pro rata* basis, within 30 days following the date of this prospectus to cover over-allotments.

Neither the Securities and Exchange Commission nor any state securities commission has approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

CIBC World Markets **HSBC**

RBC Capital Markets

The date of this prospectus is , 2004

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Prospectus Summary

This summary highlights information contained in other parts of this prospectus. Because it is a summary, it does not contain all of the information that you should consider before investing in the ordinary shares. You should read the entire prospectus carefully, including the section entitled "Risk Factors." The terms "we," "us" and "Camtek" mean Camtek Ltd. and its consolidated subsidiaries. Unless otherwise stated, all information contained in this prospectus assumes no exercise of the over-allotment option granted to the underwriters.

Camtek

We design, develop, manufacture and market automatic optical inspection, or AOI, systems and related products. AOI systems are computerized systems which 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 three industries: the printed circuit board industry, the high density interconnect substrate industry and the semiconductor manufacturing and packaging industry. Our AOI systems provide our customers a high level of defect detection, are highly reliable and offer high throughput.

We have sold, in over 30 countries around the world, more than 1,000 of our AOI systems, predominantly to the printed circuit board industry. We believe over 850 of these systems are still in use. Our customer base includes a majority of the largest 100 printed circuit board manufacturers worldwide. Our global, direct customer support network provides responsive, localized support for our installed base, which we believe gives us a competitive advantage.

The recent recovery of the global electronics industry is driving manufacturers in the industries we serve to increase their investment in capital equipment. This increase has led to an increase in demand for our AOI systems for expansion, as well as for the replacement of existing systems. As a result, although we experienced operating and net losses during the last three years, we have enjoyed increasing revenues in each of our four most recent quarters.

Target Markets

Historically, we have derived most of our revenues, and we expect to continue to derive a majority of our revenues, from the sales of our AOI systems to the printed circuit board industry. Printed circuit boards are the foundation of virtually every electronic product. The printed circuit board consists of traces, or lines, of conductive material, such as copper, laminated on either a rigid or flexible insulated base, on which is mounted a broad range of electronic components, interconnected by the conductive lines. We are a leader in providing AOI systems to this industry segment.

Leveraging our technology base and position in the printed circuit board industry, in 2002, we expanded our AOI product line to address the high density interconnect substrate industry. High density interconnect substrates are complex intermediate carriers between the printed circuit board and the silicon-based integrated circuit, commonly known as a chip. The conductive lines and the spaces between those lines are much thinner on a high density interconnect substrate than on an ordinary printed circuit board. Although high density interconnect substrates are produced using technologies derived from those used for the production of traditional printed circuit boards, the complexity of these substrates requires separate, specialized manufacturing facilities. Because of their complexity, using AOI throughout the production line becomes more essential in the high density interconnect substrate industry than in the traditional printed circuit board industry.

Recently, we entered into the rapidly growing semiconductor manufacturing and packaging industry. This industry is focused on two processes: the manufacturing of silicon wafers, which, when finished, are diced, or separated, into individual integrated circuits; and the subsequent packaging of these individual integrated circuits, a process in which they are mounted onto substrates, interconnected and encapsulated to produce semiconductor packages. The semiconductor packages are then mounted on a printed circuit board by an electronic device manufacturer to eventually create a finished electronic device.

Currently, our systems provide AOI at the final stage of silicon wafer manufacturing. The use of AOI at this stage is a relatively new practice, and the semiconductor industry is just beginning to recognize the importance of AOI in improving production processes and yields. Therefore, we believe that this market represents a significant opportunity for us.

Market Opportunity

We believe that the key factors that are currently driving the increased need for AOI systems include:

- the printed circuit board industry's move toward more complex and expensive multi-layer board products, utilizing higher density and higher layer count printed circuit boards, which increases the time required to inspect a given printed circuit board, and, in turn, leads to the need for more AOI equipment;

- the significant growth in the number of printed circuit board manufacturing facilities in China and the tendency of these manufacturers to use more AOI equipment than in historical printed circuit board markets;

- the insistence by customers of printed circuit board manufacturers on AOI during the manufacturing process for quality assurance;

- the increasing density and complexity of high density interconnect substrates and of integrated circuits, which can adversely affect manufacturing yield, thus driving demand for AOI; and

- the proliferation of larger, twelve inch silicon wafers and their high cost, which requires optical inspection to be fully automated.

The Camtek Solution

We believe that our AOI systems have been successful in the industries we serve by providing manufacturers with the following benefits:

- *Detection, Throughput and Reliability*. Our AOI systems yield a high level of defect detection, with a minimum of false alarms, and provide high throughput and reliability, thereby addressing customers' critical needs.

- *Leveraging Our Printed Circuit Board and High Density Interconnect Substrate Inspection Technologies in New Markets.* We leveraged our expertise in image processing software and algorithms in the printed circuit board and high density interconnect substrate industries to introduce a new product line to serve the semiconductor manufacturing and packaging market.

- *Versatility and Flexibility.* We design our products with a wide range of performance capabilities to support a broad spectrum of detection levels. This design enables our customers to continue to use our AOI systems as the complexity of the products they manufacture increases and to easily add new features or functionality.

- *User Friendly.* Our AOI systems are designed to shorten the time from installation to use on the production line and are also easy to operate and maintain, thereby improving efficiency, increasing throughput and reducing costs.

Strategy

The key elements of our strategy include:

- *Strengthening Our Position in the Printed Circuit Board and High Density Interconnect Substrate Industries.* We are leveraging our cutting-edge inspection products, installed base and industry reputation to target large-scale printed circuit board and high density interconnect substrate manufacturers. In 2003, we introduced the first of our Dragon family of products and our Orion Fine Line system, which are AOI systems targeting these customers.

Building a Strong Position in the Semiconductor Manufacturing and Packaging Industry. In the fourth quarter of 2003, we shipped the first of our new Falcon systems aimed at final inspection of silicon wafers in the semiconductor industry. We are devoting, and will continue to devote, significant resources to building a strong position in this market.

Expanding Our Presence in the Asia Pacific Region. We are investing in the further development and expansion of our regional teams in the Asia Pacific region in general, and specifically in China, consistent with the migration of printed circuit board manufacturing to this region. During 2003, we increased the size of these regional organizations, and we expect to continue to build these teams as growth in the region warrants.

Enhancing Technology Leadership. We have substantial expertise in image processing software and algorithms, electronic hardware, electro-optics, physics, mechanics and systems design for AOI products. We will continue to devote our research and development and marketing resources to maintaining and extending our technology leadership position.

Increasing Focus on Responsive Customer Service. We believe that an essential factor in our customers' decision to purchase our products is our ability to provide quality and responsive customer support. We primarily utilize our own employees to provide quality customer support services. We maintain customer service and support centers in various locations around the world in close proximity to our customers. We believe that this service and support network provides us with an advantage over some of our competitors.

Recent Developments

On April 14, 2004, we announced that, based on a preliminary review, we expected to report revenues of between $12.4 to $12.8 million for the first quarter of 2004, representing an increase of approximately 19% to 23%, respectively, over the fourth quarter of 2003, and an increase of 114% to 121%, respectively, over the first quarter of 2003.

As a result of the Nasdaq Stock Market's approval of our application to list our ordinary shares on the Nasdaq National Market, our ordinary shares began trading on the Nasdaq National Market on April 22, 2004.

On April 27, 2004, we announced that we received an order for our Falcon system from Cypress Semiconductor Corporation, an American manufacturer of high-performance semiconductors for a broad range of markets, including the communications, computation, consumer, automotive and industrial markets. The Falcon is our new AOI system for the semiconductor manufacturing and packaging industries. Valued at approximately $1.2 million, this is the first Falcon order we have received from a customer in the United States. Delivery of the order is scheduled for the second quarter of 2004.

On May 10, 2004, a lawsuit was filed against us in the District Court in Nazareth, Israel, by our competitor, Orbotech Ltd., alleging that our Dragon and Falcon systems infringe upon a patent held by Orbotech, and requesting both provisional and permanent injunctions against the manufacture and sale by us of our Dragon and Falcon systems, as well as pecuniary damages. No date has been set by the court for a hearing. Based on our initial review of the claims, we believe that our Dragon and Falcon systems do not infringe upon Orbotech's patent; in any event, the features which are alleged in the claims to infringe upon the patent are not an integral part of those systems, but rather are sold as optional components of those systems. We believe that we have good defenses against Orbotech's claims, which we will be vigorously asserting.

Other Information

Priortech Ltd., our principal shareholder and the selling shareholder in this offering, through its affiliated companies, engages in various aspects of electronic packaging, including the production and assembly of printed circuit boards and the development and sale of advanced substrates. PCB Technologies, a subsidiary of Priortech, is also one of the largest manufacturers of printed circuit boards in Israel. Priortech currently holds 77.8% of our outstanding ordinary shares and after this offering will hold 54.7% of our outstanding ordinary shares (or 51.9% if the over-allotment option is exercised in full). Priortech is publicly traded on the Tel Aviv Stock Exchange.

Our principal executive offices are located at Ramat Gavriel Industrial Zone, P.O. Box 544, Migdal Ha'Emek 23150, Israel, and our telephone number is (972) 4-604-8100. Our website is located at www.camtek.co.il. The information on our website is not incorporated by reference into this prospectus.

All references to "dollars" or "$" in this prospectus are to U.S. dollars, and all references to "NIS" are to New Israeli Shekels.

The Offering

Ordinary shares offered by Camtek	5,000,000 shares
Ordinary shares offered by the selling shareholder	3,500,000 shares
Ordinary shares to be outstanding after the offering	32,055,847 shares
Use of proceeds	We plan to use the proceeds of this offering for working capital and general corporate purposes. In addition, we intend to use $2.3 million of the net proceeds to repay short-term indebtedness. We will not receive any proceeds from the sale of ordinary shares by the selling shareholder. See "Use of Proceeds."
Risk factors	See "Risk Factors" and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.
Nasdaq National Market symbol	CAMT

Ordinary shares to be outstanding after the offering excludes 1,353,056 shares subject to outstanding options as of December 31, 2003 under our employee share option plans, at a weighted average exercise price of $1.90 per ordinary share.

Summary Consolidated Financial Data

You should read the data set forth below in conjunction with our consolidated financial statements and related notes, "Management's Discussion and Analysis of Financial Condition and Results of Operations" and other information appearing elsewhere in this prospectus. For all fiscal periods for which consolidated financial data are set forth below, our audited consolidated financial statements were prepared in accordance with generally accepted accounting principles in the United States, or US GAAP.

We derived the statement of operations data for the years ended December 31, 2001, 2002 and 2003 and balance sheet data as of December 31, 2003 from the audited consolidated financial statements contained in this prospectus. Those statements were jointly audited by Goldstein Sabo Tevet and Eisner LLP, an independent member of Baker Tilly International, regarding the years ended December 31, 2001 and 2002, and by Goldstein Sabo Tevet and Brightman Almagor & Co., a member firm of Deloitte Touche Tohmatsu, regarding the year ended December 31, 2003, all of whom are independent auditors, and whose reports with respect to these financial statements are included elsewhere in this prospectus. We derived the statement of operations data for the years ended December 31, 1999 and 2000 from audited financial statements that are not included in this prospectus.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share data)				
Summary Statement of Operations Data:					
Revenues	$ 23,892	$ 53,125	$ 44,068	$22,593	$ 31,141
Cost of products and services sold	12,159	24,156	21,651	13,641	16,674
Royalties to the Government of Israel	1,075	2,391	1,000	1,000	150
Write-off of inventory				1,805	
Total cost of revenues	13,234	26,547	22,651	16,446	16,824
Gross profit	10,658	26,578	21,417	6,147	14,317
Research and development costs, net	2,419	4,951	12,651	7,194	5,855
Selling, general and administrative expenses	6,752	9,919	13,178	10,057	10,041
Restructuring expenses			547		
Operating income (loss)	1,487	11,708	(4,959)	(11,104)	(1,579)
Financial and other income (expenses), net	(862)	31	1,400	331	235
Income (loss) before income taxes	625	11,739	(3,559)	(10,773)	(1,344)
Provision for income taxes		848	152	519	225
Net income (loss)	$ 625	$ 10,891	$ (3,711)	$ (11,292)	$ (1,569)
Earnings (loss) per ordinary share outstanding:					
Basic	$ 0.04	$ 0.58	$ (0.17)	$ (0.47)	$ (0.06)
Diluted	$ 0.04	$ 0.57	$ (0.17)	$ (0.47)	$ (0.06)
Weighted average number of ordinary shares outstanding:					
Basic	15,226	18,692	22,043	24,166	27,053
Diluted	16,422	19,202	22,043	24,166	27,053

The as adjusted information in the following balance sheet data gives effect to the sale of 5,000,000 ordinary shares by us in this offering, assuming an offering price of $4.56, after deducting the underwriting discount and estimated offering expenses, and the application of the estimated net proceeds from the offering.

	As of December 31, 2003	
	Actual	As Adjusted
	(in thousands)	
Summary Balance Sheet Data:		
Cash and cash equivalents	$ 12,837	$ 30,908
Working capital	29,364	49,735
Total assets	54,186	72,257
Short-term debt	2,300	0
Shareholders' equity	38,851	59,222

Risk Factors

You should carefully consider the following factors and other information in this prospectus before deciding to invest in the ordinary shares.

Risk Factors Related to Our Business and Our Markets

The main markets we target, the printed circuit board, high density interconnect substrate, and semiconductor manufacturing and packaging industries, are highly cyclical and are currently expanding after experiencing a prolonged and severe downturn; it is difficult to predict the length and strength of this period of expansion or when the next downturn will occur.

The printed circuit board, high density interconnect substrate and semiconductor manufacturing and packaging industries are highly cyclical and are currently expanding after experiencing a prolonged and severe downturn, during which the overall rate of capital spending by printed circuit board and high density interconnect substrate manufacturers had been sharply cut and sales of our products had declined. As a result of this recovery, we are beginning to see an increase in capital spending in the printed circuit board and high density interconnect substrate industries, and sales of our automated optical inspection, or AOI, systems to these manufacturers have increased. However, we cannot predict the length and strength of this recovery. Should another downturn occur, we have only a limited ability to reduce expenses because of the need for significant ongoing expenditures related to engineering, research and development and worldwide customer service and support operations. Accordingly, we may incur losses during future downturns.

We are in the process of entering a new market with our new Falcon system, which targets the semiconductor manufacturing and packaging industry. If this system and related products are not accepted, or if this market fails to grow, our results of operations will be adversely affected.

At the end of 2003, we shipped our first Falcon system, designed for the final inspection of silicon wafers to serve the semiconductor manufacturing and packaging industry, a market which we have only recently entered.

Our future success in the semiconductor manufacturing and packaging industry depends on the acceptance rate of AOI technology in the applications for which we offer our equipment and upon the acceptance of our AOI systems by manufacturers. If the market for our AOI systems in the semiconductor manufacturing and packaging industry does not develop at the rate we expect, whether as a result of an economic downturn, competition, alternative technologies, changes in technology, changes in product standards, inability to gain customer acceptance or otherwise, our results will be adversely affected.

Longer sales cycles may increase our costs and delay time to market of our products, which may increase our inventory and negatively impact our results of operations.

We are expanding our product lines and customer base. Compared to our sales cycles for repeat orders from existing customers, we have longer sales cycles for new customers who are likely to order multiple systems, for new products and for new customers in new markets. The sales process in these cases generally 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 one to four months. The longest evaluation period is for new customers who are likely to order multiple systems. More evaluation time is devoted during the initial penetration period for new products and for new customers in new markets, since these circumstances usually require intensive engineering efforts to fix errors, customize tasks and add new features. As a result of all of the above factors, our finished goods inventory has increased, and our costs may increase disproportionately to our revenues as our product lines and customer base expand.

We operate an international sales organization. Recently, the majority of our sales has been to manufacturers in the Asia Pacific region. The concentration of our sales and other resources within a particular geographical region subjects us to additional risks.

We have sold our systems in over 30 countries around the world. In 2003, our total sales increased on an absolute basis in almost all geographic markets. However, the majority of our growth in sales was due to the increase in sales to our customers in the Asia Pacific region. In 2003, our sales in the Asia Pacific region accounted for approximately 71.9% of our total revenues, including approximately 33.8% of our total revenues from sales in China and Hong Kong and 34.4% from sales in Taiwan. We also increased our presence in the region during 2003. Changes in local legislation, changes in governmental controls and regulations, changes in tariffs and taxes, political instability, trade restrictions, a downturn in economic or financial conditions, as well as any extraordinary events having an adverse effect on the economy or business environment in this region, such as the spread of the SARS epidemic or other such health issues, may cause a significant decline in our future revenues and may have an adverse effect on our results of operations. These general risks are heightened in China, where the nature of the economy and the legal parameters are rapidly evolving and where foreign companies may face cultural obstacles. Our results from operations may be adversely affected by changes in the economic or legal environment in China.

If the current economic recovery continues, we may encounter difficulties in purchasing key components and subsystems to meet increased customer demand.

If the current economic recovery continues, our operations may have to expand in order to meet increasing customer demand. In the current highly-competitive business environment, our customers require us to fill orders within a very short period of time. Our products are complex and require essential components and subsystems that are produced by a number of suppliers and subcontractors. These suppliers and subcontractors cannot always supply such components and subsystems within the time frame demanded by our customers, and we are therefore required to predict, with less reliable indications of future demand, our future needs over a longer time horizon than in the past. If we do not order adequate components and subsystems, or if our suppliers and subcontractors are unable to timely meet our increased demand, we might not be able to adequately meet our customers' demands. Our inability to satisfy any increase in customer orders could result in the loss of sales and could cause customers to seek products from our competitors.

We may also overestimate our future needs, which could result in our carrying excess inventory of certain components and subsystems.

We may encounter difficulties in managing the expansion of our operations in connection with the rise in customer demand.

Our growth will depend in large part on our ability to manage our expanding operations and may place significant strain on our engineering, technical, administrative, operational, financial and marketing resources, as well as increased demands on our systems and controls. If we continue expanding our operations, we believe that we will need to promote and hire qualified engineering, administrative, operational, financial and marketing personnel. During periods of economic growth, competition for qualified engineering and technical personnel is intense.

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. This could result in a loss of revenues.

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 AOI of printed circuit boards, high density interconnect substrates and silicon wafers. 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.

The markets we serve are highly competitive. There is a dominant market participant for AOI systems both for the printed circuit board industry and for the final inspection of silicon wafers in the semiconductor industry, and some of our competitors have greater resources, all of which may make it difficult for us to maintain profitability.

Competition in the markets we serve is intense. During 2001, 2002 and early 2003, competition intensified due to the low demand for the type of products that we manufacture, resulting from the general economic downturn during that time. Demand has been increasing since the latter part of 2003, but if the trend of increasingly intense competition continues, it could mean lower prices for our products and a corresponding reduction in our gross margin. 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.

Competitors currently sell systems that provide functionality similar to our products. In the printed circuit board industry, our principal competitor and the dominant market participant is Orbotech, with additional competitors including Dainippon Screen and ManiaBarco. 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. Our competitors in the high density interconnect substrate industry include Dainippon Screen, Orbotech and Utechzone. In the semiconductor manufacturing and packaging industry, our principal competitor and the dominant market participant is August Technology, with additional competitors including Robotic Vision Systems, Topcon and Toray Industries.

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.

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.

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. An interruption in supply from these sources or an unexpected termination of the manufacture of key components or subsystems would disrupt production and adversely affect our ability to deliver products to our customers. An unexpected termination of supply would require an investment in capital and manpower resources in order to shift to other suppliers and might cause a significant delay in introducing replacement products.

We had a recent history of losses, and we cannot assure you that we will not incur additional losses in the future.

We incurred net losses of $3.7 million, $11.3 million and $1.6 million for the years ended December 31, 2001, 2002 and 2003, respectively. We had net income of $0.2 million in the third quarter of 2003 and $0.6 million in the fourth quarter of 2003. Although we have achieved profitability, we may not be able to sustain or increase profitability on a quarterly or annual basis.

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

We differentiate our products and technologies from those of our competitors by using our proprietary software, our image processing algorithms and the integration of our advanced hardware components. We rely on a combination of copyrights, trade secrets, patents, trademarks, confidentiality and non-disclosure agreements to protect our proprietary know-how and intellectual property, including hardware and software components of our products. 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. or Israeli laws.

Our products may infringe on the intellectual property rights of others, which could result in claims against us.

Third parties may assert claims that we have violated their patents or that we have infringed upon their intellectual property rights. Intellectual property claims have been asserted against us in the past and may be asserted against us in the future. Any intellectual property claims against us, even if without merit, could lead to protracted litigation, could cost us a significant amount of money to defend and could divert management's attention from our business.

On May 10, 2004, a lawsuit was filed against us in the District Court in Nazareth, Israel, by our competitor, Orbotech Ltd., alleging that our Dragon and Falcon systems infringe upon a patent held by Orbotech, and requesting both provisional and permanent injunctions against the manufacture and sale by us of our Dragon and Falcon systems, as well as pecuniary damages. We believe that we have good defenses against Orbotech's current claims, which we will be vigorously asserting; however, we cannot assure you that we will be successful in our defense against Orbotech's claims. If these claims are successful, they could have a negative impact on our business by impairing our ability to sell the Dragon and Falcon systems, and they could result in pecuniary damages against us.

Orbotech has made patent infringement allegations against us in the past. On July 21, 1998, we received a letter from Orbotech alleging, among other things, infringement of an Israeli patent and unjust enrichment due to misappropriation of confidential information by us with respect to certain technologies used in the manufacture and design of certain of our products. To date, Orbotech has not pursued the allegations made in that letter.

Fluctuations in currency exchange rates may result in the prices of our products becoming less competitive or in additional expenses.

Currency exchange rate fluctuations may affect the prices of our products. Our prices in most countries outside of Europe and Japan are denominated in dollars. In those countries, if there is a significant devaluation in the local currency compared to the dollar, the prices of our products will increase relative to that local currency and may be less competitive. In addition, much of our service income is denominated in local currencies. If a larger number of our sales were to be denominated in currencies other than dollars, our reported revenue and earnings would be subject to a greater degree to foreign exchange fluctuations.

We generate most of our revenues in dollars but incur a significant portion of our salary and operating expenses in NIS, and some of these expenses are linked to Israel's Consumer Price Index. In addition, we have an outstanding loan denominated in NIS. As a result, we bear the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the dollar, which would increase our costs expressed in dollars.

We incur a significant portion of our expenses in China in the yuan, and these expenses may rise with our increasing activities there. The yuan is currently linked to the dollar. While the value of the yuan has generally been stable in recent years and has been controlled by China's central government, it may fluctuate according to substantial changes in the political and economic conditions in China. The Chinese government is under continued international pressure to permit the yuan to enter a full or limited free float. The appreciation of the yuan against the dollar may adversely affect our results of operations in dollar terms.

Our dependence on a single manufacturing facility magnifies the risk of an interruption in our production capabilities.

We have only one manufacturing facility, which is located in Migdal Ha'Emek, Israel. Any event affecting this site, including natural disaster, labor stoppages or armed conflict, may disrupt or indefinitely discontinue our manufacturing capabilities and could significantly impair our ability to fulfill orders and generate revenues, thus negatively impacting our business.

We may experience fluctuations in our future operating results, making it difficult to predict future results.

Our revenues and net income, if any, in any particular period may be lower than revenues and net income, if any, in a preceding or comparable period. This complicates our planning processes and reduces the predictability of our earnings. Period-to-period comparisons of our results of operations may not be meaningful, and you should not rely on them as indications of our future performance.

Our quarterly results of operations may be subject to significant fluctuations due to the following factors:

- the size, timing and shipment of substantial orders;
- customer budget cycles and installation schedules;
- product introductions;
- the pricing of our products;
- the timing of new product upgrades or enhancements;
- the timing of installation or, in some cases, of acceptance of our products by our customers; and
- interest and exchange rates.

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

Our continued growth and success largely depends on the managerial and technical skills of the members of our senior management and key employees. If we continue expanding our operations, 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 our Chairman and Chief Executive Officer, Mr. Rafi Amit, other members of our senior management or any of our key employees are unable or unwilling to continue in our employ, our business would suffer. We do not have a key man life insurance policy for Mr. Amit.

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

From time to time, we purchase products of, or sell products to, other companies owned or controlled by Priortech, our principal shareholder, and act jointly with respect to governmental and administrative matters and the purchase from third parties of various products and services, which may create conflicts of interest. Although Israeli law imposes procedural requirements, including obtaining special shareholder approvals for interested party transactions, we cannot be certain that those procedures will eliminate the possible detrimental effects of any of these transactions and activities. In addition, pursuant to their employment agreements with us, Mr. Rafi Amit, our Chairman and Chief Executive Officer, and Mr. Yotam Stern, our Executive Vice President, Business & Strategy, may each spend up to 20% and 25% of their time, respectively, working for Priortech and other entities in the Priortech group.

We may be classified as a passive foreign investment company, and, as a result, our U.S. shareholders may suffer adverse tax consequences.

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets 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. Our passive income would not include income derived from the sale of our products but would include amounts derived by reason of the temporary investment of any cash amounts. This characterization could result in adverse U.S. tax consequences to our shareholders, including gain realized on the sale of our ordinary shares being treated as ordinary income rather than capital gain income and could result in punitive interest charges being applied to such sales proceeds. 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 2003 we were not a PFIC. We currently expect that we will not be a PFIC in 2004. 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 (including the amount of cash we retain after the offering) and our non-passive assets, our market capitalization and the amount and type of its gross income. Therefore, there can be no assurance that we will not become a PFIC for the year ending December 31, 2004 or in a future year. For a discussion of how we might be characterized as a PFIC and related tax consequences, please see "U.S. Federal Income Tax Considerations Tax Consequences if we are a Passive Foreign Investment Company."

Risks Relating to this Offering and Our Ordinary Shares

Our share price has been volatile in the past and may continue to fluctuate in the future.

Our ordinary shares have experienced significant market price and volume fluctuations in the past. During the period from January 1, 2003 through March 31, 2004, the price of our ordinary shares ranged from $0.28 to $7.87. Our ordinary shares may experience significant market price and volume fluctuations in response to factors, some of which are beyond our control, such as the following:

- quarterly variations in our operating results;
- market conditions relating to our customers' industries;
- operating results that vary from the expectations of securities analysts and investors;
- changes in expectations as to our future financial performance, including financial estimates or recommendations by securities analysts and investors;
- large block transactions in our ordinary shares;
- announcements of technological innovations or new products by us or our competitors;
- announcements by us or our competitors of significant contracts, acquisitions, strategic partnerships, joint ventures or capital commitments;
- changes in the status of our intellectual property rights;
- announcements by third parties of significant claims or proceedings against us;
- additions or departures of our key personnel;
- future sales of our ordinary shares; and

general stock market price and volume fluctuations.

Stock markets often experience extreme price and volume fluctuations. Market fluctuations, as well as general economic conditions, such as a recession, interest rate or currency rate fluctuations or political events or hostilities in Israel or the surrounding region could adversely affect the market price of our ordinary shares.

In the past, securities class action litigation has often been brought against companies following periods of volatility in the market price of their securities. In the future, we could be the target of similar litigation. Securities litigation could be protracted, result in substantial costs and divert management's attention and resources.

Our principal shareholder, Priortech, holds a controlling interest in us and will be able to

exercise its control in ways that may be adverse to your interests.

Priortech, following this offering, will beneficially hold 54.7% of our issued and outstanding ordinary shares. As a result, Priortech has the power to control the outcome of most matters submitted to a vote of our shareholders, including the election of members of our board and the approval of significant corporate transactions. This concentration of ownership may also have the effect of making it more difficult to obtain approval for a change in control of us. The equity interest that Priortech has in us will make it impossible to obtain shareholder approval without Priortech's consent on matters requiring shareholder approval. Messrs. Rafi Amit, Yotam Stern and Itzhak Krell control Priortech and may be deemed to control us.

Risks Relating to Our Operations in Israel

Conducting business in Israel entails special risks.

Our principal offices and sole research and development and manufacturing facilities are located in the State of Israel. We depend on components imported from outside of Israel and almost all of our sales occur outside of Israel. Accordingly, we are directly influenced by the political, economic and military conditions affecting Israel. Specifically, we could be adversely affected by:

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

Since the establishment of the State of Israel in 1948, a number of armed conflicts have taken place between Israel and its Arab neighbors, and a state of hostility, varying from time to time in intensity and degree, has led to security and economic problems for Israel. Since September 2000, there has been a marked increase in violence, civil unrest and hostility, including armed clashes, between the State of Israel and the Palestinians, and acts of terror have been committed inside Israel and against Israeli targets in the West Bank and Gaza. There is no indication as to how long the current hostilities will last or whether there will be any further escalation. Any further escalation in these hostilities or any future armed conflict, political instability or violence in the region may have a negative effect on our business condition, harm our results of operations and adversely affect our share price. Furthermore, there are a number of countries, primarily in the Middle East, as well as Malaysia and Indonesia, that restrict business with Israel or Israeli companies, and we are precluded from marketing our products to these countries. Restrictive laws or policies of those countries directed towards Israel or Israeli businesses may have an adverse impact on our operations, our financial results or the expansion of our business.

Our operations could be disrupted as a result of the obligation of our key personnel in Israel to perform military service.

Many of our officers and employees in Israel, including certain key employees, are obligated to perform annual reserve duty in the Israeli army and are subject to being called up for reserve duty at any time. The absence of one or more of our officers and key employees for significant periods of time due to military service could be disruptive to our operations.

The Israeli government programs and tax benefits in which we have participated in the past and in which we currently participate or from which we receive benefits require us to meet several conditions. These programs or benefits may be terminated or reduced in the future, which could increase our costs.

We benefit from certain Israeli government programs and tax benefits, particularly from tax exemptions and reductions resulting from the Approved Enterprise status of our manufacturing facilities in Israel. To be eligible for these programs and tax benefits, we must continue to meet conditions, including making specified investments in fixed assets and equipment and financing a percentage of those investments with our share capital. If we fail to meet such conditions in the future, these tax benefits could be cancelled, and we could be required to refund those tax benefits already received. These programs and tax benefits may not be continued in the future at their current levels or at all, and our requests for future participation in these programs for any future expansion of our manufacturing facilities may not be approved. In recent years, the Israeli government has reduced the benefits available under certain of its programs in which we do not participate, and Israeli governmental authorities have indicated that the government may in the future reduce or eliminate the benefits of those programs in which we do participate. The termination or reduction of these programs and tax benefits could increase our tax rates, thereby reducing our net profits or increasing our net losses.

The government grants we received in the past for research and development expenditures restrict our ability to manufacture products or to transfer technologies outside of Israel.

From our inception through 2000, we received government grants from the Office of the Chief Scientist of the Ministry of Industry and Trade, or OCS, for the financing of a significant portion of our product development expenditures. In March 2001, we commenced repayment of many of these grants pursuant to an understanding reached with the OCS. As of December 31, 2003, we had outstanding amounts due for the repayment of these grants totaling approximately $1.1 million. The terms of these grants prohibit us from selling or transferring rights in the technology developed with the grants to parties outside of Israel and allow sale or transfer of rights within Israel only with special governmental approvals, even after full repayment of the grants. Elements of our technologies, including in the areas of electronic hardware, image processing, electro-optics, physics and mechanics, were developed with OCS grants. In addition, we may only manufacture products developed with these grants outside of Israel pursuant to the approval of a special governmental committee, and any approval of this nature may also require us to pay significantly higher royalties than the terms of the grants would otherwise require. The restrictions regarding the sale or transfer of technology or manufacturing rights out of Israel could have a material adverse effect on our ability to enter into strategic alliances or enter into merger or acquisition transactions in the future that provide for the sale or transfer of our technology or manufacturing rights.

It may be difficult to enforce a U.S. judgment against us, our officers and directors and some of the experts named in this prospectus or to assert U.S. securities law claims in Israel.

We are incorporated in Israel. Substantially all of our executive officers and directors and our Israeli accountants and attorneys are nonresidents of the United States, and a substantial portion of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult to enforce a judgment obtained in the United States against us or any of these persons, including one based on the civil liability provisions of the U.S. federal securities laws. Additionally, it may be difficult for you to assert U.S. federal securities laws claims or to enforce civil liabilities under U.S. federal securities laws in actions originally instituted in Israel. For more information regarding the enforceability of civil liabilities against us, our directors and our executive officers, please see the section entitled "Enforcement of Civil Liabilities."

Some provisions of Israeli law could inhibit the acquisition of us by others.

Some provisions of Israeli corporate law may have the effect of delaying, preventing or making more difficult a merger with, or acquisition of, us. The Israeli Companies Law generally provides that a merger be approved by the board of directors and by a majority of the shares present and voting on the proposed merger at a shareholders' meeting called upon at least 21 days' notice. A merger may not be completed until at least 70 days have passed since the filing of the merger proposal with the Israeli Registrar of Companies. The Israeli Companies Law also provides that an acquisition of shares in a public company must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 25% or greater shareholder of the company, unless there is already another 25% or greater shareholder of the company. Similarly, an acquisition of shares must be made by way of a tender offer if, as a result of the acquisition, the purchaser would become a 45% or greater shareholder of the company, unless there is already a majority shareholder of the company. In any event, if, as a result of an acquisition of shares, the acquirer will hold more than 90% of a company's shares, the acquisition must be made by means of a tender offer for all of the shares. Finally, Israeli tax law treats some acquisitions, such as stock-for-stock exchanges between an Israeli company and a foreign company, less favorably than U.S. tax laws. For example, Israeli tax law may, under certain circumstances, subject a shareholder who exchanges his ordinary shares for shares in another corporation to taxation prior to the sale of the shares received in such stock-for-stock swap. For more information on the provisions of Israeli law in these contexts, please see "Description of Ordinary Shares" and "Israeli Taxation."

Forward-Looking Statements

The statements contained in this prospectus discuss our future expectations, contain projections of our results of operations or financial condition and include other forward-looking information within the meaning of Section 27A of the Securities Act of 1933, as amended. These statements may be found under, among other sections, "Prospectus Summary," "Risk Factors," "Use of Proceeds," "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources" and "Business." Forward-looking statements that express our beliefs, plans, objectives, assumptions or future events or performance may involve estimates, assumptions, risks and uncertainties. Therefore, our actual results and performance may differ materially from those expressed in the forward-looking statements. Forward-looking statements often, although not always, include words or phrases such as the following: "will likely result," "are expected to," "will continue," "is anticipated," "estimate," "intends," "plans," "projection" and "outlook."

You should not unduly rely on forward-looking statements contained in this prospectus. Various factors discussed in this prospectus, including, but not limited to, all the risks discussed in "Risk Factors" may cause actual results or outcomes to differ materially from those expressed in forward-looking statements. You should read and interpret any forward-looking statements together with these documents.

Any forward-looking statement speaks only as of the date on which that statement is made. We will not update any forward-looking statement to reflect events or circumstances that occur after the date on which such statement is made.

Ordinary Shares Market Data

Since April 22, 2004, the primary trading market for our ordinary shares has been the Nasdaq National Market, where our ordinary shares are listed and traded under the symbol "CAMT." From February 5, 2003 through April 21, 2004, our ordinary shares were listed and traded on the Nasdaq SmallCap Market, and from July 28, 2000 through February 4, 2003, our ordinary shares were listed and traded on the Nasdaq National Market. The following table sets forth, for the periods indicated, the high and low reported sales prices of the ordinary shares:

	High	Low
Annual and Quarterly Market Prices		
Fiscal Year Ended December 31, 2000:		
Third Quarter (from July 28)	$ 11.50	$ 4.50
Fourth Quarter	9.69	5.75
Fiscal Year Ended December 31, 2001:		
First Quarter	8.88	4.00
Second Quarter	7.25	4.00
Third Quarter	5.60	1.75
Fourth Quarter	3.95	1.50
Fiscal Year Ended December 31, 2002:		
First Quarter	3.90	1.92
Second Quarter	2.15	0.99
Third Quarter	1.05	0.47
Fourth Quarter	0.61	0.24
Fiscal Year Ended December 31, 2003:		
First Quarter	0.42	0.28
Second Quarter	1.30	0.33
Third Quarter	2.20	0.89
Fourth Quarter	3.80	1.72
Monthly Market Prices for the Most Recent Six Months		
November 2003	3.80	2.30
December 2003	3.70	2.60
January 2004	6.29	2.96
February 2004	7.87	5.10
March 2004	6.00	4.32
April 2004	6.53	4.47
May 2004 (through May 11)	5.74	4.20

For the period between November 26, 2001 and October 21, 2003, our ordinary shares were also listed on the Tel Aviv Stock Exchange, or TASE. During such period, the trading activity on the TASE in our ordinary shares was insignificant. At our request, our ordinary shares were de-listed from the TASE.

Use of Proceeds

We estimate that the net proceeds from the sale of the ordinary shares we are offering will be approximately $20.4 million. If the underwriters fully exercise the over-allotment option, the net proceeds to us would be approximately $23.6 million. "Net proceeds" are what we expect to receive after paying the underwriting discount and expenses of the offering. For the purpose of estimating net proceeds, we are assuming that the public offering price will be $4.56 per ordinary share. We will not receive any proceeds from the sale of ordinary shares by the selling shareholder.

The purposes of this offering are to raise capital to support the expansion of our business and to expand our shareholder base. We intend to use the net proceeds from this offering for working capital and general corporate purposes. In addition, we intend to use $2.3 million of the net proceeds to repay short-term indebtedness owed under our revolving line of credit with Bank Leumi. As of December 31, 2003, the interest rate on this indebtedness was 3.5% per annum. As of the date of this prospectus, other than the repayment of indebtedness, we have not made any specific expenditure plans with respect to the net proceeds. Therefore, we cannot specify with certainty the particular uses for the net proceeds to be received upon completion of this offering. Accordingly, our management will have significant flexibility in applying the net proceeds of this offering.

Until we use the net proceeds of the offering, we will invest the funds in short-term, investment grade, interest-bearing investments, with interest and principal linked to the dollar, hedged to the dollar or linked to the Israeli Consumer Price Index or deposit the funds in dollar-linked or dollar-hedged bank accounts in Israel, Europe or the United States.

Dividend Policy

We have never declared or paid any cash dividends on our share capital. We anticipate that we will retain earnings to support operations and to finance the growth and development of our business. Therefore, we do not expect to pay cash dividends in the foreseeable future.

We participate in the "alternative benefits program" under the Law for the Encouragement of Capital Investments, 1959, under which we realize tax exemptions. If we distribute a cash dividend from income which is tax exempt, we would have to pay corporate tax at the rate of up to 25% on the amount equal to the amount distributed and on the amount of corporate tax which would have been due in the absence of the tax exemption, in addition to withholding tax on such dividends paid. See "Israeli Taxation."

The distribution of dividends may also be limited by the Israeli Companies Law, which permits the distribution of dividends only out of retained earnings or earnings derived over the two most recent fiscal years, whichever is higher, provided that there is no reasonable concern that payment of a dividend will prevent a company from satisfying its existing and foreseeable obligations as they become due. Our Articles provide that dividends will be paid at the discretion of, and upon resolution by, our Board of Directors. See "Description of Ordinary Shares Dividend and Liquidation Rights."

Capitalization

The following table shows:

Our capitalization and indebtedness on December 31, 2003

Our capitalization and indebtedness on December 31, 2003, assuming the completion of the offering at a public offering price of $4.56 per ordinary share and the use of the net proceeds as described under "Use of Proceeds."

	December 31, 2003	
	Actual	**As Adjusted**
	(in thousands)	
Short-term debt	$ 2,300	$
Shareholders' equity:		
Ordinary shares, NIS 0.01 par value, authorized 100,000,000 shares, issued 28,065,038, outstanding 27,053,419 in 2002 and 2003	$ 125	$ 136
Additional paid-in capital	43,801	64,161
Unearned portion of compensatory stock options	(560)	(560)
Retained earnings	(3,522)	(3,522)
Treasury stock (1,011,619 ordinary shares)	(993)	(993)
Total shareholders' equity	38,851	59,222
Total capitalization	$ 38,851	$ 59,222

Selected Consolidated Financial Data

This section presents our selected historical consolidated financial data. You should read carefully the consolidated financial statements included in this prospectus, including the notes to the consolidated financial statements. The selected consolidated financial data in this section are not intended to replace the financial statements.

We derived the statement of operations data for the years ended December 31, 2001, 2002 and 2003 and balance sheet data as of December 31, 2002 and 2003 from the audited consolidated financial statements in this prospectus. Those statements were jointly audited by Goldstein Sabo Tevet and Eisner LLP, an independent member of Baker Tilly International, regarding the years ended December 31, 2001 and 2002, and by Goldstein Sabo Tevet and Brightman Almagor & Co., a member firm of Deloitte Touche Tohmatsu, regarding the year ended December 31, 2003, all of whom are independent auditors, and whose reports with respect to these financial statements are included elsewhere in this prospectus. We derived the statement of operations data for the years ended December 31, 1999 and 2000 and the balance sheet data as of December 31, 1999, 2000 and 2001 from audited financial statements that are not included in this prospectus. Historical results are not necessarily indicative of results to be expected in the future.

For all fiscal periods for which consolidated financial data are set forth below, our audited consolidated financial statements were prepared in accordance with US GAAP.

	Year Ended December 31,				
	1999	2000	2001	2002	2003
	(in thousands, except per share data)				
Selected Statement of Operations Data:					
Revenues:					
Sales of products	$ 21,981	$ 50,534	$ 41,180	$ 19,103	$ 26,567
Service fees	1,911	2,591	2,888	3,490	4,574
Total revenues	23,892	53,125	44,068	22,593	31,141
Cost of revenues:					
Cost of products sold	10,303	21,670	18,930	10,421	13,214
Cost of services	1,856	2,486	2,721	3,220	3,460
Royalties to the Government of Israel	1,075	2,391	1,000	1,000	150
Write-off of inventory				1,805	
Total cost of revenues	13,234	26,547	22,651	16,446	16,824
Gross profit	10,658	26,578	21,417	6,147	14,317
Research and development costs:					
Expenses	4,307	7,037	9,017	7,194	5,855
Acquired in process research and development			3,634		
Less royalty-bearing participation from the Government of Israel	1,888	2,086			
Research and development costs, net	2,419	4,951	12,651	7,194	5,855
Selling, general and administrative expenses	6,752	9,919	13,178	10,057	10,041
Restructuring expenses			547		
Operating income (loss)	1,487	11,708	(4,959)	(11,104)	(1,579)
Financial and other income (expenses), net	(862)	31	1,400	331	235
Income (loss) before income taxes	625	11,739	(3,559)	(10,773)	(1,344)
Provision for income taxes		848	152	519	225
Net income (loss)	$ 625	$ 10,891	$ (3,711)	$ (11,292)	$ (1,569)

	Year Ended December 31,				
Earnings (loss) per ordinary shares outstanding:					
Basic	$ 0.04	$ 0.58	$ (0.17)	$ (0.47)	$ (0.06)
Diluted	$ 0.04	$ 0.57	$ (0.17)	$ (0.47)	$ (0.06)
Weighted average number of ordinary shares outstanding:					
Basic	15,226	18,692	22,043	24,166	27,053
Diluted	16,422	19,202	22,043	24,166	27,053

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	As of December 31,				
	1999	2000	2001	2002	2003
	(in thousands)				
Selected Balance Sheet Data:					
Cash and cash equivalents	$ 538	$ 9,793	$ 7,029	$ 2,898	$ 12,837
Working capital (deficiency)	(304)	45,492	34,852	30,197	29,364
Total assets	18,613	65,727	61,254	48,948	54,186
Total debt	8,479	931	4,871	51	2,300
Shareholders' equity	3,389	49,770	46,021	40,316	38,851

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Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and the notes to those statements included herein, which have been prepared in accordance with US GAAP.

Overview

We design, develop, manufacture and market automatic optical inspection, or AOI, systems and related products. Our AOI systems are used to enhance both production processes and yields for manufacturers in the printed circuit board, or PCB, industry, the high density interconnect substrate, or HDI-S, industry and the semiconductor manufacturing and packaging industry.

We were incorporated in 1987. In our first years of operation, we provided manual optical inspection equipment to address the needs of the PCB manufacturing industry. In 1994, we introduced our first AOI system for the inspection of PCBs. In late 1998, we introduced our Orion system, which gained wide acceptance in the high-end PCB market and represented a breakthrough for us. Applying our core technologies, we developed our Pegasus system, which was introduced in the third quarter of 2002, for the inspection of HDI-S. In September 2001, we acquired a developer and producer of AOI systems for the semiconductor manufacturing and packaging industry. This acquisition allowed us to enter the semiconductor inspection market. After a period of intense internal research and development, we shipped our first new Falcon system for the semiconductor manufacturing and packaging industry in the fourth quarter of 2003.

We sell our AOI systems internationally. The majority of sales of our AOI systems in 2003 was to PCB manufacturers in the Asia Pacific region, particularly in China and Taiwan. This trend is due, among other factors, to the migration of PCB manufacturers into this region due to significant labor cost advantages available there. In 2003, our sales to customers in the Asia Pacific region accounted for approximately 71.9% of our total revenues, including approximately 33.8% of our total revenues from sales in China and Hong Kong and 34.4% from sales in Taiwan. We expect that this trend of increased production of PCBs and other electronic components in the Asia Pacific region will continue for the foreseeable future.

In addition to revenues derived from the sale of AOI systems and related products, we generate revenues from providing maintenance and support services for our products. We expect our service revenues to increase as our installed base increases. We generally provide a one year warranty with our systems. Accordingly, service revenues are not earned during the warranty period. Our service revenues, and gross profit derived from these revenues, increased significantly in 2003 as the warranties expired on systems sold prior to the industry downturn, and out-of-warranty services provided in the Asia Pacific region increased. We do not expect service revenues to grow at the same rate in 2004 due to the lower rate of sales of systems during the industry downturn.

Our customers are increasingly requiring that we deliver our products with short lead times. In order to meet our customers' needs in the timeframe they require, we need to pre-order components and subsystems based on our forecasts of future orders, rather than on actual orders. This need to pre-stock our component and subsystem inventory is compounded by the fact that, in times of increasing demand in our industry, our suppliers and subcontractors tend to extend their delivery schedules or fail to meet their delivery deadlines. In order to compensate for these unexpected delays, we have had to predict our needs further into the future, which increases the risk that our predictions may not correspond to our actual future needs. The uncertainties involved in these longer term estimates during times of business expansion tend to increase the level of component and subsystem inventories.

Compared to our sales cycles for repeat orders from existing customers, we have longer sales cycles for new customers who are likely to order multiple systems, for new products and for new customers in new markets. The sales process generally 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 a customer's site for side-by-side competitive evaluations for a period of one to four months. During the initial penetration period for new products and for new customers in new markets, the evaluation period is typically extended, since there are usually more intensive engineering efforts to fix errors, customize tasks and add new features. As a result of all of the above factors, our finished goods inventory has increased. A significant portion of our finished goods inventory consists of systems under evaluation and demonstration systems. We expect that this inventory will continue to increase as our business, product lines and customer base expand.

We have recently begun to sell value-added third-party products, such as photo plotters, that are complementary to our AOI systems targeting the PCB market. The revenues we derive from these third-party products sales are likely to result in lower gross margins than sales of our own products. To date, third-party sales have not been significant; however, we expect that sales of third-party products will likely rise in 2004.

In 2001, we sold some of our AOI systems and related products for the PCB industry to affiliates of Priortech. Total revenues from sales to affiliates of Priortech in 2001 were $521,000, which represented 1.2% of our revenues in that year. We did not sell any AOI systems to Priortech in 2002 and 2003, but sold a photo plotter to a subsidiary of Priortech for $190,000 in 2003, representing 0.6% of our revenues in that year. In addition to these sales of products, we act jointly with Priortech with regard to various governmental, administrative and commercial matters, which we believe is to the mutual advantage of both parties. Unpaid balances between Priortech and us bear interest at LIBOR plus 1%.

During the industry downturn in 2001, 2002 and early 2003, we implemented several cost cutting and adjustment programs and measures. These measures included reductions in salaries, bonuses and professional service fees, selective layoffs on a worldwide basis and restructuring of production, research and development and sales and marketing resources. Our cost reduction programs and measures resulted in a reduction in the level of our expenses during 2002 and 2003. If our business continues to expand, we expect to increase salaries and restore bonus arrangements, which will affect our operating margins.

Critical Accounting Policies

The Securities and Exchange Commission defines critical accounting policies as those that are, in management's view, most important to the portrayal of a company's financial condition and results of operations and most demanding on their calls on judgment, often as a result of the need to make estimates about the effect of matters that are inherently uncertain and may change in subsequent periods. We believe our most critical accounting policies relate to:

Revenue Recognition of Product Sales. We recognize revenues from the sales of our products when the products are installed at the customer's premises and are operating in accordance with the products' specifications, signed documentation of the arrangement, such as a signed contract or purchase order, has been received and the price is fixed or determinable and collectability is reasonably assured.

Our products are only installed by our qualified technicians. Thus, before we recognize the revenue from the sale of a product and consider the sales cycle completed, our technicians must install our product at the customer's premises, activate the product according to its specifications and then certify completion of such installation and activation.

Our revenue recognition policy requires that we make a judgment as to whether collectability is reasonably assured. Our judgment is made for each customer on a case-by-case basis, and, among other factors, we take into consideration the individual customer's payment history and its financial strength, as demonstrated by its financial reports or through a third-party credit check. In some cases, we secure payments by a letter of credit or other instrument.

Valuation of Accounts Receivable. We review accounts receivable to determine which are doubtful of collection. In making this determination of the appropriate allowance for doubtful accounts, we consider our history of write-offs, relationships with our customers and the overall credit worthiness of our customers. Changes in the credit worthiness of our customers, the general economic environment and other factors may impact the level of our future write-offs. The following table is a summary of the allowance for doubtful accounts related to accounts receivable for the years ended December 31, 2001, 2002 and 2003:

	As of December 31,		
	2001	**2002**	**2003**
		(in thousands)	
Balance at beginning of period	$ (655)	$ (1,135)	$ (2,387)
Provisions	(716)	(1,568)	(628)
Deductions	236	316	925
Balance at end of period	$ (1,135)	$ (2,387)	$ (2,090)

In establishing these allowances for doubtful accounts, we took into account the industry downturn and global economic recession in 2001 and 2002.

Valuation of Inventory. We review inventory for obsolescence and excess quantities to determine that items deemed obsolete or excess inventory are appropriately reserved. In making the determination, we consider future sales of related products and the quantity of inventory at the balance sheet date, assessed against each inventory item's past usage rates and future expected usage rates. Changes in factors such as technology, customer demand, competing products and other matters could affect the level of our obsolete and excess inventory in the future. For example, in the third quarter of 2002, we took a one-time inventory write-off charge of $1.8 million to account for obsolete inventory. Most of this write-off was a result of major engineering enhancements to components of our Orion product line that improved its performance while significantly reducing the costs of goods sold. We wrote off the inventory items that would not be used in future sales due to these enhancements.

Use of Estimates. In accordance with US GAAP, our management is required to make estimates and assumptions that offset the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but not limited to: recognition of revenue; allowances for doubtful accounts; inventory valuation; useful lives of depreciable and intangible assets; warranty provisions; and various tax matters, including tax assessments. In connection with certain tax assessments we received from the Israeli Tax Authorities in a total amount of approximately $6.7 million with respect to the 1999, 2000 and 2001 tax years, we reserved $225,000 at December 31, 2003, reflecting our estimate of the probable costs of settlement. Actual results may differ from these estimates. For example, due to our March 31, 2004 settlement with the Israeli Tax Authorities regarding the tax assessments, we will make a provision for income taxes of approximately $460,000 in the first quarter of 2004, in addition to the $225,000 previously reserved. For more information on the settlement of the tax assessment, please see "Management's Discussion and Analysis of Financial Condition and Results of Operations Liquidity and Capital Resources."

Recent Accounting Pronouncements

In January 2003, the Financial Accounting Standards Board, or FASB, issued Interpretation No. 46, or FIN 46, "Consolidation of Variable Interest Entities, an interpretation of ARB 51." The primary objectives of this interpretation are to provide guidance on the identification of entities for which control is achieved through means other than through voting rights, or variable interest entities, and how to determine when and which business enterprise, or primary beneficiary, should consolidate the variable interest entity. This new model for consolidation applies to an entity in which either (i) the equity investors (if any) do not have a controlling financial interest or (ii) the equity investment at risk is insufficient to finance that entity's activities without receiving additional subordinated financial support from other parties. In addition, FIN 46 requires that the primary beneficiary, as well as all other enterprises with a significant variable interest in a variable interest entity, make additional disclosures. Certain disclosure requirements of FIN 46 were effective for financial statements issued after January 31, 2003. In December 2003, the FASB issued FIN 46 (revised December 2003), "Consolidation of Variable Interest Entities," or FIN 46-R, to address certain FIN 46 implementation issues. The effective dates and impact of FIN 46 and FIN 46-R are as follows: (i) special-purpose entities, or SPEs, created prior to February 1, 2003 (a company must apply either the provisions of FIN 46 or adopt early the provisions of FIN 46-R at the end of the first interim or annual reporting period ending after December 15, 2003); (ii) non-SPEs created prior to February 1, 2003 (a company is required to adopt FIN 46-R at the end of the first interim or annual reporting period ending after March 15, 2004); and (iii) all entities, regardless of whether an SPE, that were created subsequent to January 31, 2003 (the provisions of FIN 46 were applicable for variable interests in entities obtained after January 31, 2003). The adoption of FIN 46-R is not expected to have a material impact on our consolidated financial position, consolidated results of operations or liquidity.

In April 2003, the FASB issued SFAS No. 149, "Amendment of SFAS No. 133 on Derivative Instruments and Hedging Activities." SFAS No. 149 amends and clarifies accounting for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities under SFAS No. 133. In particular, SFAS No. 149 clarifies under what circumstances a contract with an initial net investment meets the characteristics of a derivative. It also clarifies when a derivative contains a financing component that warrants special reporting in the statement of cash flows. SFAS No. 149 is generally effective for contracts entered into or modified after June 30, 2003 and is not expected to have a material impact on our financial statements.

In May 2003, the FASB issued SFAS No. 150, "Accounting for Certain Financial Instruments with Characteristics of both Liabilities and Equity." SFAS No. 150 establishes standards for how a company classifies and measures certain financial instruments with characteristics of both liabilities and equity. It requires that an issuer classify certain financial instruments as a liability (or as an asset in some circumstances). SFAS No. 150 is effective for financial instruments entered into or modified after May 31, 2003 and otherwise is effective at the beginning of the first interim period beginning after June 15, 2003. The adoption of SFAS No. 150 did not have an impact on our financial statements.

In September 2002, the Emerging Issues Task Force, or EITF, issued EITF 00-21, "Accounting for Revenue Arrangements with Multiple Deliverables." EITF 00-21 was effective for revenue arrangements beginning in the third fiscal quarter of 2003. The scope of EITF 00-21 deals with how a company should recognize revenue when it sells multiple products or services to a customer as part of an overall solution. For example, a company may sell its customer hardware, installation services, training and support as part of an overall solution. EITF 00-21 provides a framework for determining whether various elements in these types of arrangements involving multiple deliverables should be recognized as each element is delivered or whether amounts should be combined with other undelivered elements and recognized as a single unit. In general, EITF 00-21 provides the following broad criteria for recognizing revenue in multiple element arrangements: (i) revenue should be recognized separately for separate units of accounting; (ii) revenue for a separate unit of accounting should be recognized only when the arrangement consideration is reliably measurable and the earnings process is complete; and (iii) consideration should be allocated among separate units of measure of accounting in an arrangement based on their relative fair values. The adoption of EITF 00-21 did not have a material effect on our financial position and results of operations.

Results of Operations

Year Ended December 31, 2003 Compared to Year Ended December 31, 2002

Revenues. Revenues increased 37.8% to $31.1 million in the year ended December 31, 2003 from $22.6 million in the year ended December 31, 2002, primarily as a result of the upturn in the second half of 2003 in the global electronics industry, which resulted in our customers' increasing capital equipment spending. Sales of products increased 39.1% to $26.6 million in the year ended December 31, 2003 from $19.1 million in the year ended December 31, 2002. Our mix of products sold and their configuration varieties make it very difficult to estimate average selling prices and pricing trends. However, we estimate that the average selling prices of our AOI systems increased by approximately 6% during 2003 compared to 2002. The introduction of new products and the increased quantity of AOI systems sold during 2003 were the main factors contributing to our revenue increase.

In 2003, our total sales increased on an absolute basis in almost all geographic markets; in addition, the relative significance of certain geographic markets as a percentage of our total sales has continued to shift from Europe and the United States to the Asia Pacific region. Sales also increased due to the launch of our Dragon system, continuing penetration of our Pegasus system and the introduction of our Orion Fine Line system. Sales in the semiconductor manufacturing and packaging market were insignificant. We expect to begin to recognize revenues from the sale of our Falcon product line targeting this market in the first half of 2004.

Service fees increased 31.1% to $4.6 million in the year ended December 31, 2003 from $3.5 million for the year ended December 31, 2002. This increase reflected the expiration of warranties on systems installed mostly in 2001. We expect service fees to increase at a lower rate in 2004, as sales of systems fell sharply in 2002.

Gross Profit. Gross profit consists of revenues less cost of revenues, which includes the cost of components, production materials, labor, depreciation, factory and service center overhead, provisions for warranties and royalty payments to the Government of Israel. These expenditures are only partially affected by sales volume. In 2003, we experienced an increase in gross profit and gross margins, primarily due to increased sales, lower costs of goods sold due to the resulting economies of scale and our continued efforts at cost cutting in all areas. Our revenues increased in 2003 by $8.5 million, while our cost of revenues remained at almost the same aggregate level as in 2002, some non-recurring charges and fixed expenses were reduced and our variable costs were increased. The main fixed costs and non-recurring factors that were decreased in 2003 compared to 2002 were a decrease in royalties to the Government of Israel by $850,000, an inventory write-off in 2002 of $1.8 million, which did not recur in 2003, and a decrease in factory overhead expenses of $384,000. Our gross profit on product sales increased by $7.3 million to $13.2 million in 2003, compared to $5.9 million in 2002. Our gross profit on service revenue increased by $844,000 to $1.1 million in 2003, compared to $270,000 in 2002. Our total gross profit increased by $8.2 million to $14.3 million in 2003 from $6.1 million in 2002, representing an increase of 132.9%. Our gross margin improved to 46.0% in 2003, compared to a gross margin of 27.2% in 2002.

Research and Development Costs. Research and development expenses consist primarily of salaries, materials consumption and costs associated with subcontracting certain development efforts. Total research and development expenses for 2003 were $5.9 million, compared to $7.2 million in 2002. In 2003, we reduced our total research and development costs through an internal consolidation of our research and development personnel and a shift of research efforts from subcontractors to internal employees. Thus, we managed to decrease our expenses related to subcontractors and materials consumption by $1.1 million in 2003. We expect that the absolute amount of research and development expenses will increase in 2004, due in part to an increase in headcount and an expected increase in salaries and bonuses that had been reduced in the past two years.

Selling, General and Administrative Expenses. Selling, general and administrative expenses consist primarily of expenses associated with salaries, commissions, promotion and travel, doubtful debt, professional services and rent costs. Our selling, general and administrative expenses were $10.0 million in 2003 and $10.1 million in 2002. Selling, general and administrative expenses as a percentage of revenues decreased in 2003 to 32.2% from 44.5% in 2002 due to economies of scale. We restructured our selling, general and administrative organization by shifting a significant portion of our sales efforts from the United States to the Asia Pacific region, where employee costs are lower, by focusing more on direct sales and less on sales that require payments of commissions to external sales representatives, by implementing general cost cutting measures in professional services and by reducing the number of our executive management positions.

Financial and Other (Expenses) Income, Net. We had net financial income of $235,000 in 2003, as compared to net financial income of $331,000 in 2002. These changes related primarily to decreasing interest rates and deposit balances. Changes in currency rates resulted in income of $396,000 in 2003 and $112,000 in 2002. In 2003, this income was offset by interest expenses in 2003 of $169,000, while in 2002, we had interest income of $189,000.

Provision for Income Taxes. We had a provision for income tax of $225,000 in 2003 in connection with certain tax assessments we received from the Israeli Income Tax Authorities, compared to a provision of $519,000 in 2002. The 2003 provision reflected our estimate of the probable cost of settlement of these tax assessments. The assessment from the Israeli Income Tax Authorities has now been settled, and an additional provision of $460,000 will be made in the first quarter of 2004. The principal reason for the provision in 2002 was a write-off of $539,000 of deferred tax assets, due to the unlikelihood of recovery in light of our continuing losses at the time.

Net Loss. Our net loss decreased to $1.6 million in 2003 from $11.3 million in 2002. This decrease in net loss was primarily due to an increase in our revenues, coupled with a smaller increase in expenses.

Year Ended December 31, 2002 Compared to Year Ended December 31, 2001

Revenues. Revenues decreased 48.7% to $22.6 million in the year ended December 31, 2002 from $44.1 million in the year ended December 31, 2001, primarily as a result of the downturn in the global electronics industry, which resulted in our customers having excess capacity of capital equipment. During 2002, we experienced two negative factors resulting from such downturn: we estimate that our average selling price decreased by approximately 4.5% during 2002 and the number of our AOI systems sold decreased. Revenues from sales of products decreased 53.6% to $19.1 million in the year ended December 31, 2002 from $41.2 million in the year ended December 31, 2001.

In 2002, our total sales declined on an absolute basis in almost all geographic markets; however, the relative significance of the geographic markets as a percentage of our total sales has continued to shift from Europe and the United States to the Asia Pacific region, principally to China and Taiwan.

Service fees increased 20.8% to $3.5 million in the year ended December 31, 2002 from $2.9 million in the year ended December 31, 2001, reflecting an increase in the installed base of our systems in 2000 and early 2001.

Gross Profit. In 2002, we experienced a decrease in gross profit and gross margin primarily due to a decrease in our revenues of $21.5 million. On the other hand, we decreased our variable costs, such as materials consumption, and fixed costs, such as salaries and factory overhead, but they decreased at a lesser rate compared with our revenue decrease. Our gross profit on product sales was $5.9 million in 2002, compared with $21.2 million in 2001, and our gross profit from services improved slightly to $270,000 in 2002, compared to $167,000 in 2001. Total gross profit decreased 71.3% to $6.1 million in 2002 from $21.4 million in 2001. Gross margin decreased to 27.2% in 2002, including a one-time inventory write-off of $1.8 million due mainly to engineering enhancements, compared to 48.6% in 2001.

Research and Development Costs. Total research and development expenses for 2002 were $7.2 million, compared to $12.7 million in 2001. In 2002, we reduced our research and development costs, due to an expense cutting program, which consisted of a decrease in use of subcontractors and materials consumption of $1.7 million. Our research and development expenses for 2001 included a one-time charge of $3.6 million related to in-process research and development, which was written off in connection with the acquisition of Inspectech Ltd. In 2002, our research and development expenses were reduced by 43.3%, including the one-time charge related to the acquisition of Inspectech Ltd.

Selling, General and Administrative Expenses. Our selling, general and administrative expenses decreased by 23.7% to $10.1 million in 2002 from $13.2 million in 2001. Selling, general and administrative expenses as a percentage of revenues increased to 44.5% in 2002 from 29.9% in 2001. The main factors that reduced these expenses in 2002 were a $600,000 reduction in labor costs and a $2.0 million reduction in agent commissions. A major portion of our selling, general and administrative expenses consisted of fixed expenses incurred as a result of maintaining a global sales infrastructure. Therefore, the decrease in the absolute cost did not have the same impact as a percentage of total revenue.

Financial and Other (Expenses) Income, Net. We had a net financial income of $331,000 in 2002, as compared to $1.4 million in 2001. Our cash balances, which generate financial income, decreased by $4.1 million resulting in lower interest income. Additionally, we experienced a lower devaluation rate of the NIS against the dollar that resulted in lower income from exchange rate fluctuations in 2002, compared with 2001.

Provision for Income Taxes. We had a provision for income tax of $519,000 in 2002, compared to $152,000 in 2001. The principal reason for the provision in 2002 was a write-off of $539,000 of deferred tax assets, due to the unlikelihood of recovery in light of our continuing losses at the time.

Net Loss. Our net loss increased to $11.3 million in 2002 from $3.7 million in 2001. This increase was primarily due to a substantial decrease in our revenues, coupled with a smaller decrease in expenses.

Quarterly Results of Operations

The following tables show our unaudited quarterly statements of income and as a percentage of revenues for the periods indicated. We have prepared this quarterly information on a basis consistent with our audited consolidated financial statements, and we believe it includes all adjustments, consisting of normal recurring adjustments necessary for a fair presentation of the information show. Operating results for any quarter are not necessarily indicative of results for a full year. You should read this information together with the consolidated financial statements and the related notes appearing elsewhere in this prospectus.

	Three Months Ended							
	March 31, 2002	**June 30, 2002**	**Sep. 30, 2002**	**Dec. 31, 2002**	**March 31, 2003**	**June 30, 2003**	**Sep. 30, 2003**	**Dec. 31, 2003**
	(in thousands, except per share data)							
Selected Statement of Operations Data:								
Revenues	$ 4,654	$ 6,104	$ 7,156	$ 4,679	$ 5,804	$ 6,418	$ 8,479	$ 10,440
Cost of products and services sold	2,927	3,697	3,925	3,092	3,497	3,655	4,460	5,062
Royalties to the Government of Israel	250	250	250	250	150			
Write-off of inventory			1,805					
Total cost of revenues	3,177	3,947	5,980	3,342	3,647	3,655	4,460	5,062
Gross profit	1,477	2,157	1,176	1,337	2,157	2,763	4,019	5,378
Research and development costs, net	1,971	1,830	1,738	1,655	1,581	1,457	1,417	1,400
Selling, general and administrative expenses	2,703	2,188	2,681	2,485	1,841	2,460	2,555	3,185
Operating income (loss)	(3,197)	(1,861)	(3,243)	(2,803)	(1,265)	(1,154)	47	793
Financial and other (expenses) income, net	108	128	172	(77)	(72)	108	144	55
Income (loss) before income taxes	(3,089)	(1,733)	(3,071)	(2,880)	(1,337)	(1,046)	191	848
Provision (benefit) for income taxes	(20)			539				225
Net income (loss)	$ (3,069)	$ (1,733)	$ (3,071)	$ (3,419)	$ (1,337)	$ (1,046)	$ 191	$ 623
Earnings (loss) per ordinary share outstanding								
Basic	$ (0.14)	$ (0.08)	$ (0.12)	$ (0.13)	$ (0.05)	$ (0.04)	$ 0.01	$ 0.02

	Three Months Ended							
Diluted	$ (0.14)	$ (0.08)	$ (0.12)	$ (0.13)	$ (0.05)	$ (0.04)	$ 0.01	$ 0.02
Weighted average number of ordinary shares outstanding:								
Basic	21,883	21,888	25,700	27,053	27,053	27,053	27,053	27,053
Diluted	21,883	21,888	25,700	27,053	27,053	27,053	27,388	27,566

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	Three Months Ended							
	March 31, 2002	June 30, 2002	Sep. 30, 2002	Dec. 31, 2002	March 31, 2003	June 30, 2003	Sep. 30, 2003	Dec. 31, 2003
As of Percentage of Revenues:								
Revenues	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%
Cost of products and services sold	62.9%	60.6%	54.8%	66.1%	60.3%	56.9%	52.6%	48.5%
Royalties to the Government of Israel	5.3%	4.1%	3.5%	5.3%	2.6%			
Write-off of inventory			25.2%					
Total cost of revenues	68.2%	64.7%	83.5%	71.4%	62.9%	56.9%	52.6%	48.5%
Gross margin	31.8							