
**UNITED STATES
SECURITIES AND EXCHANGE COMMISSION**
WASHINGTON, D.C. 20549

FORM 20-F

REGISTRATION STATEMENT PURSUANT TO SECTION 12(b) OR (g) OF THE SECURITIES EXCHANGE ACT OF 1934

OR

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 FOR THE FISCAL YEAR ENDED DECEMBER 31, 2011

OR

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

OR

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

Date of event requiring this shell company report.....

For the transition period from _____ to _____

Commission file number 000-27974



CIMATRON LTD.

(Exact name of Registrant as specified in its charter)

Israel

(Jurisdiction of incorporation or organization)

**11 Gush Etzion St.,
Givat Shmuel 54030, Israel**

(Address of principal executive offices)

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(Name, Telephone, E-mail and/or Facsimile number and Address of Company Contact Person)

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

Title of each class
Ordinary Shares, par value
NIS 0.10 per share

Name of each exchange on which registered
NASDAQ Capital Market

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

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

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

9,299,992 Ordinary Shares, par value NIS 0.10 per share

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

Yes No

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

Yes No

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

Yes No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes No

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer.

Large accelerated filer:

Accelerated filer:

Non-accelerated filer:

Indicate by check mark which basis of accounting the registrant has used to prepare the financial statements included in this filing:

U.S. GAAP

International Financial Reporting Standards as issued
by the International Accounting Standards Board

Other

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

Yes No

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PART I

Item 1. Identity of Directors, Senior Management and Advisers.

Not Applicable.

Item 2. Offer Statistics and Expected Timetable.

Not Applicable.

Item 3. Key Information.

Selected Financial Data

Our historical consolidated financial statements are prepared in accordance with generally accepted accounting principles in the United States (“GAAP”) and are presented in U.S. dollars. The selected historical consolidated financial information as of December 31, 2010 and 2011 and for each of the three years ended December 31, 2009, 2010 and 2011 have been derived from, and should be read in conjunction with, our consolidated financial statements and the notes thereto appearing elsewhere in this annual report. The selected financial data as of December 31, 2007, 2008 and 2009 and for each of the years ended December 31, 2007 and 2008 have been derived from our audited financial statements not included in this annual report.

The information presented below is qualified by the more detailed historical consolidated financial statements set forth in this annual report, and should be read in conjunction with those consolidated financial statements, the notes thereto and the discussion under “Item 5 - Operating and Financial Review and Prospects” included elsewhere in this annual report.

	Year Ended December 31,				
	2011	2010	2009	2008	2007
	(In thousands of US\$, except per share data)				
Consolidated Statement of Income Data:					
Revenue:					
Products	18,177	15,994	13,191	20,066	14,331
Services	22,537	20,080	19,766	20,909	14,309
Total	40,714	36,074	32,957	40,975	28,640
Cost of revenue:					
Products	3,769	4,320	4,567	5,725	3,867
Services	1,614	1,556	1,619	2,044	1,573
Total	5,383	5,876	6,186	7,769	5,440
Gross profit	35,331	30,198	26,771	33,206	23,200
Research and development costs, net	6,739	6,014	5,736	6,930	4,281
Selling, general and administrative expenses	24,453	22,053	21,992	25,750	17,243
Operating profit (loss)	4,139	2,131	(957)	526	1,676
Financial income (expenses), net	(195)	97	19	(80)	353
Company's equity in results of affiliated company	-	-	-	-	(52)
Other income (expenses)	(6)	(6)	(41)	-	(3)
Income (loss) before taxes	3,938	2,222	(979)	446	1,974
Taxes on income	(1,327)	(657)	949	237	-
Income (loss) after income taxes	2,611	1,565	(30)	683	1,974
Less: Net loss (gain) attributable to the noncontrolling interest	57	26	44	41	(51)
Net income attributable to Cimatron's shareholders	2,668	1,591	14	724	1,923
Net income (loss) per share	0.29	0.18	0.00	0.08	0.24
Weighted average number of shares outstanding	9,252	9,000	9,156	9,341	7,866

	2011	2010	As of December 31, 2009	2008	2007
	(In thousands of US\$)				
Consolidated Balance Sheet Data:					
Cash and cash equivalents	11,787	10,221	6,684	5,727	9,026
Working capital	6,469	5,885	4,506	3,816	6,121
Total assets	34,522	34,901	32,680	33,870	27,327
Total liabilities	17,390	17,716	16,581	17,671	16,294
Shareholders' equity	17,132	17,185	16,099	16,199	11,033

Risk Factors

This annual report and statements that we may make from time to time may contain forward-looking information. There can be no assurance that actual results will not differ materially from our expectations, statements or projections. Factors that could cause actual results to differ from our expectations, statements or projections include the risks and uncertainties relating to our business described below. The risks described below are not the only ones we face. Additional risks that we currently do not know about or that we currently believe to be immaterial may also impair our business operations.

Risks Related to our Business

We face intensive competition in our industry.

The CAD/CAM software industry, characterized by rapid advances in technology and changing customer requirements, is highly competitive. We design, develop, manufacture, market and support a family of modular, high performance, fully integrated, computer-aided design/computer aided manufacturing, or CAD/CAM, software products. Traditionally, our competitors in the CAD/CAM market are at both the high and low end of the market. The lower end of the market consists of dedicated Numerical Control, or NC, programming systems offerings, which have limited or no modeling capability, while the high end of the market, including our CimatronE and GibbsCAM product families, consists of integrated CAD/CAM systems, Mill/Turn and Multi Task Machining software. Many high-end market products are roughly similar to our CimatronE and GibbsCAM product lines.

As the CAD/CAM software industry is highly fragmented and characterized by many relatively small and privately owned companies, we face competition from numerous companies in relation to all of our products. In addition, some of our competitors are more established, benefit from greater market recognition and have greater financial, production and marketing resources than us. We believe that, due to the large number of companies that operate in this market, we do not have a single major competitor or a group of competitors. The principal factors permitting our products to compete successfully against our competitors' products are:

- the compatibility of our products with other software applications and existing and emerging industry standards;
- our ongoing product and feature development;
- the offering of unique innovative products to the tooling and manufacturing industries;
- the level of our product breadth and integration;
- the technical expertise and support that we provide;
- the flexibility of our products;
- the reputation we maintain among certain independent distributors of our products, to which we refer as Resellers; and
- the relatively low overall price and total cost of ownership of our products combined with the high-end capabilities of our products.

Although we believe that the attributes of our products provide us with a competitive advantage over our competitors, there can be no assurance that the marketplace will consider CimatronE and/or GibbsCAM to be superior to existing competing products. In addition, new competitors may arise in each of the markets in which we currently operate. Furthermore, as we enter new geographic markets, we may encounter significant competition from companies that are more established in such markets. Accordingly, there can be no assurance that our existing or future products will successfully compete against our competitors' products.

We are heavily reliant on the sale of two families of products.

Sales and services related to the CimatronE product family historically accounted for substantially all of our revenue, and we introduced the GibbsCAM product family following our merger with Gibbs System, Inc., or Gibbs System, in January 2008. Because we rely exclusively on revenues generated via these two product families, if sales of products from either such family were to decline, or fail to grow, or the profit margin on those products were to decrease significantly, our business, financial condition and results of operations would be materially and adversely affected.

Our business depends significantly upon sales by our customers of products in the consumer market. This market is extremely competitive and is highly susceptible to fluctuations in demand.

Our products are designed for use by manufacturers of consumer products or consumer product components. The consumer products market is intensely competitive and price sensitive. Sales of consumer products have historically been dependent upon discretionary spending by consumers. Consumers may defer or alter purchasing decisions based on economic conditions or other factors, which, accordingly, could cause a reduction in demand for products manufactured by our customers. Softened consumer demand for consumer products has been causing a decline in the demand for our products. Global economic conditions, tight credit conditions and high unemployment, may cause a decrease in demand for our products. Softening in demand for consumer products has caused, and may continue to cause, uncertainty with respect to our expected revenues and has adversely affected, and may continue to adversely affect, our revenues and operating results.

Unfavorable economic and market conditions and reduced consumer spending in previous years caused, and may cause again, decreased demand for our products and services and harmed, and may harm again, our business, financial condition and results of operations.

We are subject to the effects of global, economic and market conditions. Many of the world's largest economies and financial institutions are still experiencing sluggish economic activity, depressed asset prices, liquidity problems and limited availability of credit. Prevailing global and European macroeconomic conditions such as inflation and the weakening of the Euro in relation to many world currencies which make it more expensive to import consumer products into European countries, as well as microeconomic conditions such as ongoing, tight local credit markets which have been negatively impacting the ability of manufacturers to grow and obtain working capital from local lenders, have been negatively impacting, and may continue to negatively impact, our enterprise business. To the extent that our business continues to be adversely affected as a result of such unfavorable economic and market conditions, our operating results may be materially adversely affected.

The crisis in world credit markets has had a particularly severe impact on financing in the manufacturing sector in which many of our customers operate and thereby threatens a continued reduction in our primary source of revenues.

The primary consumers for our products and services are typically small to medium-sized companies involved in the mechanical engineering and manufacturing industry, subcontractors that supply major corporations within the core mechanical engineering and manufacturing industry, and departments or divisions within these major corporations. The manufacturing industry was particularly hard-hit by the global credit crisis in 2008 and 2009, as manufacturers found it very difficult to obtain the financing that they needed in order to make capital expenditures for new hardware to be used in their operations. Because of the lack of financing for new hardware, manufacturers had lesser demand for our software products and services, which are compatible with, and dependent upon, such hardware. This rippling effect had a material adverse effect on our primary source of revenues towards the end of 2008 and through 2009, thereby impacting our operating results and overall financial condition in a material, negative manner. Although in 2010 and 2011 we saw a recovery from the crisis, we cannot assure you that such a crisis will not return, and if so, to what extent it would affect our revenues and profitability.

Integration of any future acquisitions of companies or technologies may distract our management and disrupt our business. In addition, the issuance by us of securities as consideration payable in such acquisitions could be dilutive to our existing shareholders.

One of our strategies is to acquire or make investments in complementary businesses, technologies, services or products if appropriate opportunities arise. For instance, over the course of the period from July 2005 through July 2008, we initiated and completed the acquisition of all of the outstanding stock of our Italian distributor. In January 2008 we completed the merger of Gibbs System into a wholly owned subsidiary – Cimatron Gibbs LLC. As consideration in the merger with Gibbs System, we paid cash in the amount of approximately \$5 million and we issued 1,500,000 of our Ordinary Shares. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details. We may in the future engage in discussions and negotiations with companies about our acquiring or investing in those companies' businesses, products, services or technologies. We cannot give assurances that we will be able to identify future suitable acquisition or investment candidates, or, if we do identify suitable candidates, that we will be able to make the acquisitions or investments on commercially acceptable terms or at all. In addition, in the context of any future acquisition or investment in another company, we could experience difficulties assimilating that company's personnel, operations, technology or products and service offerings into our own or in retaining and motivating key personnel from these businesses. Any such difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations. Furthermore we cannot provide assurance that we will realize the benefits and/or synergies of any business combination with another company. In addition, we may incur indebtedness or dilute our existing shareholders by issuing equity securities to pay for any future acquisitions.

We are subject to several risks as a result of our international sales.

To date, our products have been sold primarily in Europe, the Far East, North America and Israel. We expect that international sales will continue to represent a substantial portion of our business. Companies that engage in international sales are subject to a number of risks, such as:

- agreements may be difficult to enforce through a foreign company's legal system;
- foreign countries could impose additional withholding or other taxes on our income;
- foreign countries could impose tariffs or adopt other restrictions on foreign trade;
- fluctuations in exchange rates;
- changes in general economic conditions in one or more countries could affect product demand;
- the protection of intellectual property rights in foreign countries may be limited or more difficult to enforce (such as in certain countries in the Far East and China, in particular, as described below); and
- difficulties in managing overseas subsidiaries and international operations, including difficulty in retaining or replacing local management.

There can be no assurance that these and similar factors will not have a material adverse effect on our future international sales and, consequently, on our business, future prospects and results of operations.

Many customers of the CAD/CAM industry have migrated their operations to the Far East. In order to remain competitive in the industry, we need to penetrate the Far East markets; operation in these markets subjects us to specific risks.

Many mold, tool, die and fixture makers have migrated or intend to migrate their operations to markets in the Far East, such as China, in order to take advantage of the relatively lower cost of labor available in those markets for their manufacturing activities. We anticipate that this migration will continue. In order to continue to compete in the CAD/CAM software industry, we will need to increase our penetration of these markets. Many of those markets, including China, are characterized by lower prices and by higher usage of pirated copies of software products. While those markets are also often much larger than a number of our traditional markets in Europe, to the extent that we cannot offset the effects of lower prices and higher incidents of pirated software usage, our revenues and profitability may be materially adversely affected.

We are reliant upon independent distributors to market and support our products.

We rely on independent distributors, to whom we refer as Resellers, to market, sell, service and support our CimatronE and GibbsCAM families of products, worldwide. Generally, our relationships with our Resellers are based on agreements with two-year terms (subject to rolling two-year extensions) and one year terms (subject to rolling one-year extensions) that enable Resellers of our CimatronE and GibbsCAM products, respectively, to purchase our products at discounted prices. While we have exclusive relationships with certain of the Resellers of our CimatronE products, and while certain Resellers of our GibbsCAM products function as our only "sales agent" in a single country or region (although without an exclusivity agreement), there can be no assurance that any of these Resellers will give high priority to the marketing and support of our products. The results of our operations could be adversely affected by changes in the financial condition of a Reseller, which could occur rapidly, or to other changes in our current Resellers' business or marketing strategies. There can be no assurance that we will retain our current Resellers, nor can there be any assurance that, in the event that we lose any of our Resellers, we will be successful in recruiting other highly professional and technically competent Resellers to represent us. Any such changes in our distribution channels, could materially adversely affect our business, operating results and financial condition. Given that approximately 90% of Gibbs System's total revenues in 2007 resulted from sales made by Resellers, the merger with Gibbs System has increased our reliance on independent distributors, as approximately 35% of our consolidated revenues in each of 2008, 2009, 2010 and 2011 has been generated via our Resellers, in the aggregate. See "Item 4 - Information on the Company - Business Overview."

Volatility in oil prices may significantly impact our customers' costs of operations, which could cause unpredictable sales patterns for us by affecting demand for our products.

Many of our customers use oil-based products as an integral part of their manufacturing processes, including as components of their products. Volatility in the cost of crude oil, which is subject to many economic and political factors that are beyond our customers' control, has resulted in substantial global fluctuations in the price of oil-based products in the last couple of years. These fluctuations have caused and may continue to cause periodic increases or decreases in the operating expenses of our customers. To the extent that these customers accordingly increase or decrease their prices, demand for their products may fall or rise, thereby causing a great deal of variability in their ability and readiness to purchase our products. In addition, in the case of a rise in oil prices and an accompanying rise in our customers' expenses, as has been the case for most of the first half of 2011, they may respond by exerting downward pressure on the prices that they are willing to pay for our products. That, in turn, could have an adverse effect on our business and results of operations.

We are exposed to shifts in the Euro-dollar exchange rate that may have a material adverse impact on our results of operations.

Primarily due to the activities of MicroSystem Srl, or Microsystem, our wholly-owned Italian Reseller, and Cimatron GmbH, our wholly-owned German reseller, the revenues and expenses of which are almost entirely Euro-denominated, changes in the Euro - dollar exchange rate impact (and may materially impact) our revenues and expenses. Such impact could be adverse at times, especially given the recent turmoil in European markets that has negatively affected the value of the Euro, and could cause fluctuations in our operating results that are beyond our ability to control.

Because of our international operations, changes in exchange rates against the U.S. dollar have and could continue to have a significant effect on our results of operations. In addition, local economic conditions or currency fluctuations could cause customers to decrease or cancel orders or default on payment.

Although part of our revenues are denominated and paid in U.S. dollars, the majority are not so denominated and paid. Therefore, inflation and fluctuations in the U.S. dollar exchange rate have and may continue to have a material effect on our revenue. In addition, a significant portion of our international sales is denominated in Euros, and in the future additional sales may be denominated in currencies other than U.S. dollars, thereby exposing us to gains and losses on non-U.S. currency transactions. In particular, if the Euro depreciates relative to the U.S. dollar (as was the case in 2010 and 2011 due to the financial crises in several European Union countries, during which the Euro depreciated by approximately 7.4% and 3.2%, respectively, relative to the U.S. dollar (which reflects the change in the Euro-U.S. dollar exchange rate from the start to the conclusion of each such year)), that would reduce our U.S. dollar recorded revenues and profitability from our Euro denominated sales. We may choose to limit this exposure by entering into hedging transactions. However, hedging transactions may not prevent exchange-related losses, and our business may be harmed by exchange rate fluctuations. Furthermore, as we seek to expand our sales to regions throughout the world, we might be exposed to risks of customers located in countries suffering from uncertain economic environments such as high inflation and solvency problems. Those issues and devaluation in local currencies of our customers relative to the U.S. dollar where our sales are denominated in U.S. dollars could cause customers to decrease or cancel orders or default on payment.

As applied to our Israeli operations, where we incur a portion of our operating expenses, to the extent that the value of the New Israeli Shekel (or NIS) appreciates relative to the U.S. dollar, our expenses on a U.S. dollar cost basis increase. We cannot predict any future trends in the rate of devaluation or appreciation of the NIS against the U.S. dollar. If the U.S. dollar cost of our operations in Israel continues to increase, our U.S. dollar-measured results of operations will be adversely affected. The NIS appreciation (devaluation) in relation to the U.S. dollar (calculated based on the average representative exchange rate for each such year relative to the previous year, as published by the Bank of Israel, rather than the mere change in exchange rate from the start to the end of each such year) amounted to (9.4)%, 4.9% and 4.1% for the years ended December 31, 2009, 2010 and 2011. We are also exposed to the risk that even if the NIS devaluates relative to the U.S. dollar (as occurred during 2009), the rate of inflation in Israel may exceed the rate of this devaluation or that the timing of this devaluation will lag behind inflation in Israel. The Israeli rate of inflation amounted to 3.9%, 2.7% and 2.2% for the years ended December 31, 2009, 2010 and 2011, respectively, thereby compounding the impact of the appreciation of the NIS relative to the U.S. dollar in 2010 and 2011, and mitigating the impact of the devaluation of the NIS relative to the U.S. dollar in 2009, and adversely affecting our U.S. dollar measured results of operations.

While during the last two years, we experienced a continuous increase in our revenues from products, which was part of a continuous overall growth in our revenues during those years, in 2009, our product revenues and overall revenues had declined. If that negative trend returns, it would likely adversely affect our gross margins and profitability.

In 2010 and again in 2011, our revenues from the sale of products increased significantly relative to their levels in the previous year, going from \$13.2 million in 2009 to \$16.0 million in 2010 to \$18.2 million in 2011, as part of a positive trend in our overall revenues, which rose from \$33.0 million in 2009 to \$36.1 million in 2010 to \$40.7 million in 2011. However, before this two-year upswing, the previous year had seen an opposite trend, with our product revenues and overall revenues having dropped by 34.3% and 19.6% in 2009, from \$20.1 million and \$41 million, respectively, during 2008. During 2007 and 2008, our revenues from the sales of products had increased, from approximately \$9.6 million in 2006 to \$14.3 million in 2007 and \$20.1 million in 2008. Our revenues from maintenance and services also increased during 2010 and 2011, going from approximately \$19.8 million in 2009, to \$20.1 million in 2010, to \$22.5 million in 2011, after having fallen in 2009 from \$20.9 million in 2008. Previously, our maintenance and services revenues had increased in 2008 from approximately \$14.3 million in 2007, after having risen in 2007 from approximately \$11.8 million in 2006. If our revenues from the sale of products decreases once again, as was the case in 2009, such decrease could adversely affect our future maintenance and service revenues, as it could result in a smaller user base to purchase maintenance and service contracts from us.

Furthermore, if we are unable to sustain the positive trend of the last two years and our overall revenues fall once again in future periods, as they did in 2009, that will very likely have an adverse effect on our ability to remain profitable.

If we are unable to accurately predict and respond to market developments or demands, or if our products are not accepted in the marketplace, our business will be adversely affected.

It is difficult to predict demand and CAD/CAM market acceptance for our solutions and products. We cannot guarantee that the market for our solutions and products will grow or that they will become widely accepted. If the market for our solutions and products, such as the new versions of CimatronE and GibbsCAM (CimatronE 10 and GibbsCAM 2011, respectively) that we released in 2011, does not develop as quickly as we expect, our future revenues and profitability will be adversely affected. Changes in technologies, industry standards, client requirements and new product introductions by existing or future competitors could render our existing offerings obsolete and unmarketable, or require us to develop new products. If our solutions and products do not achieve or maintain market acceptance or if our competitors release new products that achieve quicker market acceptance, have more advanced features, offer better performance or are more price competitive, our revenues may not grow and may even decline. In addition, if a product that we develop and introduce does not achieve market acceptance, we may not be able to recover the costs associated with developing the product, which would have a negative effect on our profitability.

If we are unable to attract, train and retain qualified personnel, we may not be able to achieve our objectives and our business could be harmed.

Our future success depends on our ability to absorb and retain senior employees and to attract, motivate and retain highly qualified professional employees. Competition for these employees can be intense, especially in a number of our key markets and locations. The process of locating, training and successfully integrating qualified personnel into our operations can be lengthy and expensive. The market for the qualified personnel that we require is very competitive because of the limited number of people available with the necessary technical and sales skills and understanding of our products and technology. This is particularly true for the markets in which the majority of our research and development personnel are located, namely Israel and the State of California, as competition for qualified personnel is intense in those markets. We may not be able to compete effectively for the personnel that we need. Any loss of members of senior management or key technical personnel, or any failure to attract or retain highly qualified employees as needed, could materially adversely affect our ability to achieve our research and development and sales objectives.

Under current Israeli and California law, we may not be able to enforce covenants not to compete and therefore may be unable to prevent our competitors from benefiting from the expertise of some of our former employees.

We have entered into non-competition agreements with substantially all of our employees in Israel and California. These agreements prohibit our employees, during the term of their employment with us and after they cease working for us, from competing directly with us or working for our competitors for a limited period. However, under current Israeli and California law, we may be unable to enforce these agreements and it may be difficult for us to restrict our competitors from gaining the expertise that our former employees gained while working for us.

Risks Related to an Investment in Our Ordinary Shares

One of our shareholders beneficially owns a substantial amount of our Ordinary Shares and may therefore influence our affairs.

As of March 31, 2012, DBSI Investments Ltd., or DBSI, beneficially owns approximately 45.86% of our share capital. Accordingly, DBSI effectively has the ability to control the outcome of most matters submitted to a vote of our shareholders, including the election of members of our board of directors and approval of significant corporate transactions. The concentration of ownership of our Ordinary Shares by DBSI could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of our Ordinary Shares that might otherwise give you the opportunity to realize a premium over the then-prevailing market price of our Ordinary Shares. This concentration of ownership may also adversely affect our share price, especially if this shareholder (or other significant shareholders of ours, whose shares are also registered for resale) sells substantial amounts of our Ordinary Shares under our currently effective resale registration statement on Form F-3. See “Item 7—Major Shareholders and Related Party Transactions” for additional details.

We cannot assure you that we will continue to remain profitable on an annual or quarterly basis in the future. Our inability to sustain our profitability would have an adverse impact on our share price following the period in which we would sustain a loss.

We had net income of approximately \$2.7 million in 2011, an increase relative to net income of approximately \$1.6 million in 2010 and \$14,000 in 2009. We furthermore had net income of \$0.7 million in 2008, \$1.9 million in 2007 and \$0.5 million in 2006. Although our improved results in 2011 and 2010 relative to 2009 primarily reflect a combination of the positive effects of cost-cutting measures implemented due to the global economic downturn, which we initiated in 2009, and a growth in sales of new licenses and overall revenue growth in 2010 and again in 2011, we cannot be certain that such trends will continue, or will enable us to achieve positive results, in the future. In 2009, for example, despite cost-cutting measures, we incurred net losses of approximately \$0.6 million, \$0.1 million and \$0.7 million in the first three quarters of the fiscal year, and in the first quarter of 2010, we similarly experienced a net loss of approximately \$0.1 million. We cannot assure you that we will remain profitable on an annual basis or avoid losses on a quarterly basis proceeding forward. If we incur losses in any given period, that will likely have an adverse impact on the market price of our Ordinary Shares.

We may experience significant fluctuations in our quarterly results, which makes it difficult for investors to make reliable period-to-period comparisons and may contribute to volatility in the market price for our Ordinary Shares.

Our quarterly revenues, gross profits and results of operations have fluctuated significantly in the past and may be subject to continued fluctuation in the future. The following events may cause such fluctuations:

- changes in timing of orders, especially large orders, for our products and services;
- changes in the prices for our products and services;
- adverse economic conditions and international exchange rate and currency fluctuations;
- delays in the implementation of our solutions by customers;
- changes in the proportion of service and license revenues;
- timing of product releases;
- changes in the economic conditions of the various industries in which our customers operate;
- price and product competition;
- increases in selling and marketing expenses, as well as other operating expenses;
- technological changes; and
- political instability in the Middle East.

A substantial portion of our expenses, including most product development, selling and marketing expenses, must be incurred in advance of when revenue is generated. If our projected revenue does not meet our expectations, we are likely to experience a shortfall in our operating profit relative to our expectations, or, even an operating loss (as was the case in the first three quarters of 2009, the first quarter of 2010 and in the year 2009 as a whole). As a result, we believe that period-to-period comparisons of our historical results of operations are not necessarily meaningful and that you should not rely on them as an indication for future performance. Also, our quarterly results of operations have, on separate occasions, been below the expectations of public market analysts and investors and the price of our Ordinary Shares subsequently decreased. If that would happen again in the future, the price of our Ordinary Shares would likely decrease again.

We are affected by volatility in the securities markets.

Securities markets have in recent years experienced volatility that has particularly affected the securities of many high-technology companies. The volatility has often been unrelated to the operating performance of these companies, including our company. As a result, we may experience difficulties in securing the additional financing required to effectively operate and grow our business due to the volatility in the price of our shares, resulting in a material adverse affect on our business and results of operations.

Risks Related to Licenses and Intellectual Property

We rely, to a certain extent, on third parties' software. If we lose the ability to continue to license that software, our business could be materially adversely affected.

To date, most of the software relating to the CimatronE family of products has been developed internally by our research and development staff. However, to accelerate our product development and improve our time to market, we also review opportunities to acquire or license products or technologies from third parties. Mainly, we utilize software tools and engines that we acquire from Spatial Corp., a subsidiary of Dassault Systems, and D-Cubed, for the representation and processing of three dimensional objects and surfaces in order to expedite the continued development of our CimatronE product family. In addition, we use software from ModuleWorks GmbH, a German company, for advanced 5-Axis NC calculations, and advanced metal forming software from Forming Technologies Incorporated (FTI), a Canadian company. We rely, to a certain extent, upon such third parties' abilities to enhance their current products and develop new products on a timely and cost-effective basis that will meet changing customer requirements and emerging industry standards or other technological changes. Our business would be disrupted if functional versions of the third party software that we rely on were either no longer available to us or no longer offered to us on commercially reasonable terms, and we may, as a result, suffer a material adverse effect on our business and operations. Most of the software relating to GibbsCAM has also been developed internally; however, our Cimatron Gibbs LLC subsidiary, like Cimatron, also relies on certain third party software and tools embedded in the GibbsCAM product.

We may not be successful in protecting our proprietary technology and related intellectual property, and this could result in the loss of revenue.

We primarily rely on a combination of trade secret, copyright and trademark laws, together with non-disclosure agreements and trademark measures (such as software protection "locks"), to establish and protect proprietary rights in our products. The measures afford only limited protection and, accordingly, there can be no assurance that the steps that we take to protect these proprietary rights will be adequate to provide misappropriation of the technology or independent development of similar technology by others. This is particularly a problem in foreign countries where the laws may not protect our proprietary rights as fully as the laws of the United States do. For instance, we have encountered significant piracy problems in certain jurisdictions, including in Brazil, Taiwan, Israel and China, where we face significant competition from pirated copies of our products. These problems may increase as many of our customers and their competitors migrate their businesses to lower cost labor markets in the Far East. Despite our best efforts to protect proprietary rights, unauthorized parties may attempt to copy aspects of our products or to obtain and use information that we regard as proprietary.

We may be subject to litigation to determine the scope of proprietary rights of others.

Significant and protracted litigation may be necessary to protect our intellectual property rights, to determine the scope of the proprietary rights of others or to defend against claims of infringement. We believe that our systems do not infringe upon any existing third-party proprietary rights, and to our knowledge there have been no claims of infringement by us of third-party proprietary rights to date; however, there can be no assurance that any such claims will not be asserted against us in the future. If infringement is alleged, we could be required to discontinue the use of certain software codes or processes, to cease the manufacture, use and sale of infringing products, to incur significant litigation damages, costs and expenses and to develop non-infringing technology or to obtain licenses to the alleged infringing technology. There can be no assurance that we would be able to develop alternative technologies or to obtain such licenses on terms commercially acceptable to us, if at all.

Security breaches could compromise sensitive information belonging to us or our customers and could harm our business (including our intellectual property) and reputation.

The safeguarding of our information technology infrastructure is important to our business. A cyber-attack that bypasses our information technology (IT) security systems causing an IT security breach may lead to a material disruption of our IT business systems and/or the loss of business information, resulting in adverse business impact. Adverse effects could include:

- adversely affected future results of operations due to the theft, destruction, loss, misappropriation or release of our confidential data or our intellectual property;
- operational or business delays resulting from the disruption of IT systems and subsequent clean-up and mitigation activities; and
- negative publicity resulting in reputation or brand damage with our customers, partners or industry peers.

Risks Related to our Operations in Israel

We may be adversely affected if the rate of inflation in Israel exceeds the rate of devaluation (if any) of the New Israeli Shekel against the U.S. dollar.

Our functional currency is the U.S. dollar, while a portion of our expenses, principally salaries and related personnel expenses, are in NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation (if any) of the NIS in relation to the U.S. dollar or that the timing of any such devaluation will lag behind inflation in Israel. We cannot predict any future trends in the rate of inflation/ deflation in Israel. If the U.S. dollar cost of our operations in Israel increases, our U.S. dollar-measured results of operations will be adversely affected. The Israeli rate of inflation amounted to 3.9%, 2.7% and 2.2% for the years ended December 31, 2009, 2010 and 2011, respectively.

Security, political and economic instability in Israel may impede our ability to operate and harm our financial results.

Our principal executive offices and research and development facilities are located in Israel. In addition, a portion of our sales is made to customers in Israel. Accordingly, security, political and economic conditions in Israel may directly affect our business. Over the past several decades, a number of armed conflicts have occurred between Israel and its Arab neighbors. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners could affect adversely our operations. From October 2000 until recently, terrorist violence in Israel increased significantly and negotiations between Israel and Palestinian representatives effectively ceased. In February 2006, Hamas, a radical Islamic organization, won the Palestinian Parliament elections. In July and August 2006, significant fighting took place between Israel and Hezbollah in Lebanon, resulting in rockets being fired from Lebanon into northern Israel. In December 2008 and January 2009, there was an escalation in violence between Israel and Hamas, and significant hostilities along Israel's border with the Gaza Strip. Despite the cessation of such escalation, there can be no assurance that the relative calm that has been achieved will continue. Increased hostilities, future armed conflicts, political developments in other states in the region, or continued or increased terrorism could make it more difficult for us to conduct our operations in Israel, which could increase our costs and adversely affect our financial results. Furthermore, several countries still restrict business with Israel and Israeli companies. These restrictive laws and policies may limit our ability to sell our products in those countries.

Our operations may be disrupted by the obligation of our personnel to perform military service.

Many of our officers and employees in Israel are obligated to perform annual military reserve duty and may be called to active duty under emergency circumstances. At various times over the last five years, there have been significant call-ups of military reservists, and it is possible that there will be additional call-ups in the future. While we have operated effectively despite these conditions in the past, we cannot assess what impact these conditions may have in the future, particularly if emergency circumstances arise. Our operations could be disrupted by the absence for a significant period of one or more of our executive officers or key employees or a significant number of our other employees due to military service. Any disruption in our operations would harm our business.

The government programs and tax benefits that we currently receive and previously received require us to meet several conditions and may be terminated or reduced in the future, which would increase our costs and taxes.

We benefit from certain government programs and tax benefits, particularly as a result of 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 certain conditions. If we fail to meet such conditions in the future, the tax benefits would be canceled and we could be required to refund the tax benefits already received, together with an adjustment based on the Israeli consumer price index and an interest factor. These programs and tax benefits may not be continued in the future at their current levels or at any level. From time to time, the Israeli Government has discussed reducing or eliminating the availability of these grants, programs and benefits, and changed the conditions we had to meet in order to benefit from the programs, and there can be no assurance that the Israeli Government's support of grants, programs and benefits will continue. If grants, programs and benefits available to us or the laws, rules and regulations under which they were granted are eliminated or their scope is further reduced, or if we fail to meet the conditions of existing grants, programs or benefits and are required to refund grants or tax benefits already received (together with interest and certain inflation adjustments) or fail to meet the criteria for future "Approved or Privileged Enterprises," our business, financial condition and results of operations could be materially adversely affected including an increase in our provision for income taxes.

In connection with research and development grants received from the Office of the Chief Scientist of the Ministry of Industry, Trade and Labor of Israel, or the OCS, we must pay royalties to the OCS on the revenue derived from the sale of products, technologies and services developed with the grant from the OCS. The terms of the OCS grants and the law pursuant to which grants are made may impair our ability to manufacture products or transfer technologies developed using OCS grants outside of Israel. The transfer to a non-Israeli entity of technology developed with OCS funding, including pursuant to a merger or similar transaction, and the transfer of rights related to the manufacture of more than ten percent of a product developed with OCS funding are subject to approval by an OCS committee and to various conditions, including payment by us to the OCS of a percentage of the consideration paid to us or our shareholders in the transaction in which the technology is transferred. In connection with a merger or similar transaction, the amount payable would be a fraction of the consideration equal to the relative amount invested by the OCS in the development of the relevant technology compared to the total investment in our company, net of financial assets that we have at the time of the transaction, but in no event less than the amount of the grant. In addition, in the event that the committee believes that the consideration to be paid in a transaction requiring payment to the OCS pursuant to the provisions of the law described above does not reflect the true value of the technology or the company being acquired, it may determine an alternate value to be used as the basis for calculating the requisite payments. These restrictions may impair our ability to enter into agreements for those products or technologies, without OCS approval. We cannot be certain that any approval of the OCS will be obtained on terms that are acceptable to us, or at all. Furthermore, in the event that we undertake a transaction involving the transfer to a non-Israeli entity of technology developed with OCS funding pursuant to a merger or similar transaction, the consideration available to our shareholders may be reduced by the amounts we are required to pay to the OCS.

In connection with our grant applications, we have made certain representations, including information provided in periodical performance reports, and we have committed to certain performance-based covenants. The funding from the OCS is subject to the accuracy of these representations and covenants and to our compliance with the conditions and restrictions imposed by the OCS. If we fail to comply with any of these conditions or restrictions, we could be required to repay any grants previously received, together with an adjustment based on the Israeli consumer price index and an interest factor in addition to certain other penalties. In addition, if we fail to comply with any of these conditions or restrictions, we would likely be ineligible to receive OCS grants in the future.

We may be required to pay royalties to the OCS in respect of sales since January 1, 2005.

We believe that the majority of products that we have sold since January 1, 2005 are not based on technology developed with funds provided by the OCS and that, accordingly, such sales should not be subject to the payment of royalties to the OCS. Therefore, the royalty reports that we submitted to the OCS for the period starting January 1, 2005 and thereafter have reflected significantly reduced royalty obligations in comparison to our royalty reports for the years prior to 2005. In addition, during the second half of 2005 we initiated a process with the OCS in an attempt to obtain the agreement of the OCS with our position and to the cessation of our obligation to pay future royalties. This process has not been concluded as of the date of this annual report. Although we believe we have strong arguments to support our position, we accrued royalty expenses in our financial reports for the periods from January 1st, 2005 through March 31st, 2010 in the amount of approximately \$3.0 million, but we have not paid any royalties associated with the products mentioned above to the OCS. In light of the above-mentioned facts, we decided, effective as of April 1, 2010, to no longer accrue further royalty expenses with respect to these potential obligations. A determination that we are in fact obligated to pay royalties in respect of sales after January 1, 2005 could negatively impact our liquidity, and if the amount that we become obligated to pay exceeds the amounts that we have accrued in our financial statements up to the current time, such payment would furthermore negatively impact our earnings.

It may be difficult to effect service of process and enforce judgments against directors or officers in Israel.

We are incorporated in Israel. The majority of our executive officers and directors are located outside the United States, and a majority of our assets and the assets of these persons are located outside the United States. Therefore, a judgment obtained against us or any of them in the United States, including one based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the United States and may not be enforced by an Israeli court. Further, if a foreign judgment is enforced by an Israeli court, it generally will be payable in Israeli currency. It also may be difficult for you to assert U.S. securities law claims in original actions instituted in Israel since Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court agreed to hear such a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proved as a fact, which can be a time-consuming and costly process. Certain matters of procedure will also be governed by Israeli law.

Item 4. Information on the Company.

History and Development of the Company

We design, develop, manufacture, market and support a family of modular, high-performance, CAD/CAM software products. Our products provide an integrated design through manufacturing solution for small-to-medium-sized companies and manufacturing divisions of large corporations, and interface easily with other CAD/CAM systems. They offer high-end functionality, especially in the areas of design for manufacturing and manufacturing, at an attractive price/performance ratio. These attributes have made our CAD/CAM products especially popular in the design and manufacturing segments of the CAD/CAM market, particularly among mold, tool, die and fixture makers, as well as discrete part manufacturers. We focus our research and development efforts on providing complete design through manufacturing solutions to the specific needs of this market segment. We are committed to providing mold, tool, die and fixture makers and discrete part manufacturers with comprehensive, cost-effective CAD/CAM solutions that streamline manufacturing cycles, enable collaboration with outside vendors and shorten delivery time. Following our merger with Gibbs System, we have enhanced our product offering for discrete part manufacturers.

During January 2008, we merged Gibbs System, also known as Gibbs & Associates, with and into a newly established US subsidiary (Cimatron Gibbs LLC) of Cimatron Technologies Inc, our US subsidiary. As consideration in the transaction, we paid to Mr. William F. Gibbs, founder, Chairman and CEO of Gibbs System, and its sole shareholder, cash of approximately \$5 million, as well as 1,500,000 of our newly issued Ordinary Shares.

In July 2008, we completed the acquisition of 100% of the shares of Microsystem Srl, or Microsystem, our Italian distributor, a process that had begun in July 2005, when we had acquired an initial 27.5% interest in Microsystem for 575,000 Euros, and pursuant to which we had exercised two options to increase our holdings in Microsystem, first to 51% and then to 100%, for \$599,250 and \$1.25 million, respectively. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details regarding the transactions with Microsystem. The transactions were designed to significantly enhance Microsystem's financial position and balance sheet, and to strengthen our leading position in Italy, one of our key markets in Western Europe. Under the terms of the initial agreement, Microsystem's marketing, sales, and support groups remained in their current offices throughout Italy. Nevertheless, in the three years between our acquisition of an initial interest in Microsystem and our consummation of the acquisition of all of the outstanding equity of Microsystem, it went through a comprehensive restructuring and turnaround.

In March 1996, we completed our initial public offering and our Ordinary Shares began trading on the NASDAQ National Market (now known as the NASDAQ Global Market). On April 17, 2001, our Ordinary Shares were transferred to the NASDAQ Capital Market (formerly the NASDAQ SmallCap Market), where they have been traded since such time. On March 2, 2011, our Ordinary Shares began trading on the Tel-Aviv Stock Exchange in Israel, and we became a dual listed company.

Our full, legal name is Cimatron Ltd. and we were incorporated under Israeli law in 1982. Our corporate headquarters are located at 11 Gush Etzion Street, Givat Shmuel 54030, Israel. Our telephone number is 972-73-237-0237 and our web site is located at www.cimatron.com. Our U.S. agent is Cimatron Technologies, Inc., with an address at 26800 Meadowbrook Road, Suite 113, Novi, Michigan 48377.

Industry Background

Manufacturers worldwide face ever-increasing pressures to produce high-quality and increasingly complex products in the shortest time possible and at minimum cost. To meet these demands and keep pace with market changes, production commitments and the need for product differentiation, companies are increasing their reliance on CAD/CAM software tools to automate the designing, drafting and manufacturing of their products.

The development process for the mechanical design and manufacturing of products generally includes the following steps:

- conceptual design of the product and its components;
- tool design and detailed design for manufacturing;
- creating the toolpath data in the form of numerical control, or NC, codes that provide the instructions for a machine to cut a part according to specifications received; and
- manufacturing the product.

The earliest users of CAD/CAM systems were dedicated design and engineering departments of large organizations that could afford the cost and complexity of “high-end” CAD/CAM systems. These systems were used by highly trained designers and engineers, who were responsible for a particular portion of the manufacturing process. The systems also generally operated on mainframe computers or high-end workstations which often required many months to master. To improve efficiency, large corporations that operate with high-cost, highly complex CAD/CAM systems have increasingly outsourced a portion of the design and manufacturing process to subcontractors.

This created a large market need for easier-to-use, less programming-intensive CAD/CAM solutions that operate on different hardware and operating systems and interface with a variety of software systems. In addition, as a result of continuing market pressure and technological changes, including personal computers offering improved price and performance, divisions of large companies also shifted towards CAD/CAM software providing more cost-effective solutions and shorter learning curves which could co-exist in the corporate design and manufacturing environment. However, while many of these systems were designed to provide advanced conceptual design capabilities, they were more limited in their detailed design for manufacturing and toolpath creation capabilities. As a result, they did not meet the needs of users involved in the manufacturing process, such as mold, tool, die and fixture makers.

At the other end of the market were low-cost, dedicated toolpath creation software products, which were limited in their design capabilities. These limitations caused the process of taking data regarding the conceptual design of the product and creating a detailed design for manufacturing to remain largely manual. As a result, subcontractors and manufacturing divisions of large corporations were hampered in their ability to take complex conceptual designs received from the design departments of the manufacturer and produce appropriate molds, tools, dies or fixtures in a timely manner. As a result, an increasing number of these subcontractors and manufacturing divisions have begun or are continuing to seek comprehensive design through manufacturing automation solutions to compete more effectively.

These trends have created a market for an integrated CAD/CAM system which is geared towards small-to medium-sized subcontractors or divisions of large corporations involved in the manufacturing process, particularly mold, tool, die and fixture makers. These users have a unique set of needs that have generally not been met by traditional CAD/CAM systems.

The CAD/CAM software industry that developed in response to these needs is highly fragmented and characterized by many relatively small and privately owned companies. We believe that, due to the large number of companies that operate in this market, we do not have a single major competitor or a group of competitors. The principal factors permitting our products to compete successfully against our competitors' products are:

- the compatibility of our products with other software applications and existing and emerging industry standards;
- our ongoing product and feature development;
- the offering of unique innovative products to the tooling and manufacturing industries;
- the level of our product breadth and integration;
- the technical expertise and support that we provide;
- the flexibility of our products;
- the reputation we maintain among certain independent distributors of our products, to which we refer as Resellers; and
- the relatively low overall price and total cost of ownership of our products combined with the high-end capabilities of our products.

Business Overview

Principal Operations, Products and Developments

Following our merger with Gibbs System, we currently have two main product lines— CimatronE and GibbsCAM:

CimatronE

CimatronE, our CAD/CAM solution for the tooling and production industries, was initially released in September 2001. We released our newest major version of CimatronE (Version 10.0) in July 2011. CimatronE provides comprehensive tools, applications and process-automation solutions for the tooling and manufacturing industries.

With Version 10.0 of CimatronE, Cimatron helps toolmakers and manufacturers of complex discrete parts step up to new levels of productivity, introducing breakthrough improvements such as:

- A new built-in motion simulator, which specializes in tooling and provides an advanced, event-based analysis of kinematics
- A revolutionary springback functionality, which saves die makers from hours of surfacing work by completing a springback deformation in seconds
- A more powerful ECO analysis and implementation that assists mold designers in handling changes
- CAM enhancements that dramatically increase programming productivity, with background calculations of NC procedures and enhanced multi-core processing
- Significant upgrades to rough and cleanup strategies that reduce machining times
- The patent pending CimatronE SuperBox, which is a toolpath off-loading and processing acceleration device that dramatically shortens NC programming and is reported to have saved users 85% off programming time

CimatronE encompasses a set of powerful and easy-to-use 3D design tools. The unified solid-surface-wireframe environment allows the user to manipulate important data or create conceptual part designs with equal ease. In the design process, CimatronE integrates tools to split part geometry, find and implement changes, create electrodes and inserts, and detail tooling components. During manufacturing, CimatronE implements 2.5 to 5 axis toolpaths using high-speed machining, knowledge of stock remaining and templates to reduce programming and machining time. The mission critical tasks of splitting the model, applying engineering changes, and extracting electrodes and inserts are all handled by Cimatron's "Quick Tooling" wizard-based applications.

CimatronE communicates with most other CAD/CAM systems, runs on personal computers, as well as engineering workstations employing Windows based operating systems (which are the primary operating systems used for the personal computer and workstation platforms on which our products are used) and transfers data easily and reliably among different hardware and software environments.

CimatronE is built around a set of compatible "modules" using a unified database, which can be accessed and modified for all applications. Users can move easily among wireframe, surface and solid models choosing the application most appropriate for a specific job. CimatronE enables the user to work top-down (*i.e.*, beginning at the conceptual level and moving down to subassemblies and individual parts) or bottom-up (*i.e.*, modeling elements first and then grouping them into assemblies), and permits the user to combine the two approaches. CimatronE stores product data hierarchically to ensure overall structural integrity of the product and the ability to interface with engineering data management systems. CimatronE's CAM applications operate directly on the design model to generate intelligent toolpaths for NC manufacturing processes and enable fast and accurate graphic simulation of NC operations. In addition, CimatronE includes advanced data exchange interfaces, which enable the transfer of CAD/CAM data between ourselves and other CAD/CAM systems through industry standard interfaces, as well as several dedicated interfaces. CimatronE offers an intuitive and consistent user interface throughout all applications (*e.g.*, design, drafting and NC). Since all applications have the same look and feel, there is no need for the user to relearn the operation of the system with each module. CimatronE's architecture is based upon a software kernel, which includes database utilities, the graphic subsystem and the user interface, which provide the operating environment for all applications. Applications are separate from the software kernel, which facilitates enhancement of the applications, reduces development and maintenance costs and enables efficient technological updates to the system's components, without affecting the application base.

The CimatronE product family includes the following basic modules:

Designer Solution

Designer Solution is a CAD-only solution. It provides users with full 3D design and modeling capabilities, as well as fully associative 2D drawing and sketching functions. Designer Solution includes a hybrid 3D wireframe, surfaces and solid modeler, with full assembly support. Designer Solution includes SAT, STL, PFM and one DI optional module (DWG, DXF or VDA).

NC Solution

NC Solution is a manufacturing-only solution. This base solution offers comprehensive milling, drilling, simulation and verification capabilities up to 2.5 axes + 2X Positioning. NC Solution provides access to a wide range of CAD capabilities necessary to undertake any NC job. The system includes tool libraries and a post processor. NC Solution includes SAT, STL, PFM and one DI optional module (DWG, DXF or VDA).

Master Solution

Master Solution includes all features of the Designer Solution and the NC Solution integrated into an end-to-end system, providing the tools and capabilities users need for designing and manufacturing complex CAD/CAM projects. Master Solution includes SAT, STL, PFM and one DI optional module (DWG, DXF or VDA)

Electrode Solution

Electrode Solution includes all the tools necessary to create and design EDM electrodes out of a given part model, including the industry leading QuickElectrode application. Electrode Solution comes complete with a choice of one DI optional module (IGES, STEP or VDA). The Electrode Solution is competitively priced in comparison with a similar general purpose configuration.

Electrode Pro Solution

Electrode Pro Solution includes the tools necessary to create, design and manufacture EDM electrodes, including the industry leading QuickElectrode application and full 3X milling tools. Electrode Pro Solution comes complete with a choice of one DI module (IGES, STEP or VDA). The Electrode Pro Solution is competitively priced in comparison with a similar general purpose configuration.

Student Package

The Cimatron Student Package is a limited Cimatron package for students' home use. The package covers most of CimatronE's capabilities, and enables execution of small non-commercial projects. CAD modules include the following: Wire-frame, Surfacing and Solid part Modeling; Assembly; Drafting; Sketcher; Catalog Tools; QuickSplit; QuickCompare; QuickElectrode; and MoldDesign. CAM modules include 2.5X - 3X milling and 3X simulator. The system includes read-only Data Interface for IGES, VDA, STEP, DXF, and DWG. The package is protected via software mechanism and does not require a hardware protection plug.

View Only System

View Only System provides tools to view and check CAD/CAM projects. The system includes powerful 3D modeling and drafting capabilities, as well as key Cimatron modules, such as QuickSplit, QuickElectrode and viewing of 2.5X - 3X milling, including the 3X simulator. No "save" is possible with a View Only system. The system includes read-only translators to all leading standard formats: DXF, DWG, IGES, STEP, VDA, SAT, STL, and PFM.

In addition, the CimatronE product family includes the following optional vertical applications, optimized for manufacturing:

Mold Design

A complete Mold Design vertical application based on hybrid 2D/3D technology. Mold Design automates the mold base and component design process, and offers an innovative parametric and fully associative approach to the mold housing design process. Optimized applicative tools support the various mold design sub-systems, such as Cooling, Ejection, Sliders and Lifters and Inserts.

Die Design

The Die Design application allows the user to create complex strips for progressive dies, as well as transfer dies. It offers analysis tools, nesting and strip layout tools, and many advanced forming tools (bend, unbend, twist, unfold and more) that allow the creation of intermediary shapes that form the strip. In addition it includes a set of tools that help the user create and locate a complex array of trimming punches on the strip.

Following Strip Design, the application allows the user to build the die tool around the strip. It includes tools for creation of die sets as well as trimming and forming punches and other die components.

Quick Electrode

Quick Electrode is an EDM electrode design package used to automate the whole electrode process. Quick Electrode is used for burn area selection, electrode design, management, documentation and manufacturing. It also includes the generic EDM Setup utility, which exports burning parameters from Quick Electrode.

ECO Manager

This is a complete Change Management application. It contains interactive tools that automatically compare between two geometry sets to identify engineering changes. It marks and displays the differences and changes, and saves the results in different file levels, supporting multiple ECO handling.

5 Axes Production

Complete package for 5X milling and drilling, including 5X Rough, finish and local operations. Ideal for complex tasks, such as milling inlets and impellers, 5X Production is mainly used for discrete part manufacturing in demanding industries, such as Aerospace.

Micro-Milling

Dedicated NC application for milling miniature high precision parts, with sub-micron tolerances. Micro Milling allows the use of all Cimatron NC procedures with very small tools and for very fine geometry. Micro milling is supported in 3X and 5X configurations.

Die Quote Generator

A stand-alone database-driven application for assessing the cost of designing and building a die and for creating professional quotations, complete with blanking information, images and price breakdown, and customized to the user's needs. The Die Quote Generator is integrated with the CimatronE Die Design application, retrieving relevant design information, such as the blank shape and size and the list of punches.

GibbsCAM®

GibbsCAM, our CAD/CAM solution for discrete part production manufacturing, was first released in 1993. The current shipping version, GibbsCAM 2011, was released in November 2011. GibbsCAM provides a comprehensive suite of tools, applications and process-automation/standardization solutions for industrial manufacturers.

GibbsCAM is a modular product family of PC-based, computer-aided manufacturing software, which allows customers to configure a seat of software specific to their current functionality needs, while protecting their investment by allowing the system to be seamlessly expanded over time to meet their ongoing needs. GibbsCAM focuses on ease-of-use through an advanced graphical user interface (GUI) design, interactive graphics, full data associativity between part geometry, process and toolpath, and machining efficiency. GibbsCAM provides manufacturing-focused wireframe, surface and solid modeling (CAD) as well as a comprehensive range of CAM functionality for CNC toolpath creation. It provides post processing and machine simulation for a wide variety of CNC machines, including 3- through 5-axis mills, lathes, mill-turns, Swiss machine, wire-EDM, and multi-task machines (MTM). Since original part design is usually performed by a different user and different CAD software, GibbsCAM provides a variety of CAD data import options covering virtually all brands of CAD software in use today. GibbsCAM is certified under Autodesk's AICAP program, is a Solid Edge Voyager Select Product and is a SolidWorks Certified CAM Product. GibbsCAM is certified for use on Windows XP, Windows Vista and Windows 7, Microsoft's currently supported Windows operating systems.

The GibbsCAM product family includes the following module options:

Mill

GibbsCAM Production Milling supports 2- through simple 3 -axis wireframe machining with full functionality for contouring, pocketing with unlimited bosses/islands, thread milling, face milling, 2D/3D spiral creation, drilling with support for many drill cycles, tapping, and boring. Simple 4th-axis positioning is also supported. Automatic cycles for face milling, such as spiral, zig-zag, back and forth and one direction, allow material to be cleaned off the top of a part. GibbsCAM Production Milling provides easy to use, powerful programming capability for milling machine tools.

Lathe

GibbsCAM Production Turning supports full 2-axis wireframe machining with full functionality for contouring, automatic roughing, multiple hills and valleys, plunge roughing, threading, repetitive shape roughing, drilling, tapping and boring. Advanced functionalities, such as maintaining an awareness of the current stock condition, make programming lathes not only easy but also extremely efficient. GibbsCAM Production Turning provides easy to use, powerful capability for programming turning centers.

Solid Import

GibbsCAM Solids Import provides entry-level support for machining solid models. Solid models can be read, viewed and manipulated. Geometry can be selected and extracted for machining. Using this option users can import a solid model, view it, extract geometry from selected edges, which can then be machined. This option is ideal for users who have been machining wireframe geometry who want to expand their capabilities to support rudimentary machining of solids.

2.5D Solids

GibbsCAM 2.5D Solids provides significant surface and solid modeling capabilities. Functionality to directly machine surfaces and solids is also included. With this module, users have the ability to create, import and modify solid models and then generate programs to machine them. Specialized tools are also provided to import, repair and automatically solidify surface data. Using GibbsCAM 2.5D Solids, CNC programs can be created faster and easier, making users more efficient and productive.

SolidSurfacer®

GibbsCAM SolidSurfacer provides higher-level surface and solid modeling capabilities. Advanced functionality to machine surfaces and solids is also included. GibbsCAM's intuitive graphical user interface allows complex surface and solid functions to be easy to use. Using SolidSurfacer, users can address the demanding surface and solid modeling and machining requirements for complex mold, tool and die work.

Advanced CS

GibbsCAM's standard functionality is to machine on conventional, orthogonal coordinate systems (XY, XZ, YZ planes). The Advanced CS option introduces support for non-orthogonal coordinate systems allowing local coordinate systems to be defined in any 3D orientation.

Polar & Cylindrical Milling

GibbsCAM Polar & Cylindrical Milling supports machining using a rotary 4th axis. The part geometry can either be radially defined, or can be flat geometry which is wrapped around an axis. This functionality is ideally suited for roller dies, feed screws, threading, engraving and any other application where geometry is machined around an axis.

Radial Milling

GibbsCAM Radial Milling supports machining using a rotary 4th axis. The part geometry is 3D wireframe geometry with surface controls, typically extracted from radially prismatic solid models. The user has complete control over the tool's orientation relative to the part, including lead and lag angles. This functionality is ideal of off-center, Y-axis milling, such a camshafts, or pockets or grooves with variable tapers on the floors and walls.

5-Axis Milling

GibbsCAM 5-Axis Milling introduces support for 4th and 5th axis simultaneous rotary milling of multiple surfaces and solid models. Full support for tool types (ball, flat, bull, conical, and lollipop) is provided with collision checking of the tool tip, tool shaft and holder. With complete control over all aspects of the tool axis, superior surface finishes can be realized. Task oriented dialog panels are provided to only display the parameters specific to a particular machining situation, such as projection machining, swarf milling, mold cavity machining, cylinder head machining, electrode machining, and turbine blade shaft finishing. A set of dialog panels are also provided specifically for machining impellers: floor machining, general rouging and blade finishing. A variety of posting solutions are also available from Gibbs posts, ProXYZ 5-axis drivers, or APT-CL, which allows users to make use of established posting solutions.

TMS (Tombstone Management System)

GibbsCAM TMS supports part placement and program generation of multiple parts positioned on a tombstone fixture, a high-efficiency mode of machining on 4-axis horizontal machining centers. Various sequences can be examined and compared to identify the optimal machining strategy, minimizing traversals and tool changes. Full flexibility is provided to the user while developing the program, allowing different aspects to be resolved independently and then optimized as a whole. When complete, TMS outputs a complete G-code program, with optional sub-routines, canned cycles and B-rotation positions.

MTM™ (Multi-Task Machining)

GibbsCAM MTM™ (Multi-Task Machining) was specifically designed to address the CNC programming requirements of multi-task machine tools, providing powerful programming tools that are easy to learn and use with the ultimate in flexibility and configurability. Machining processes are easily defined with GibbsCAM's intuitive graphical user interface that provides seamless access to both turning and milling capabilities, and GibbsCAM's associativity allows operations to be updated easily when modifications are made. Factory-supplied post processors output multi-flow NC code complete with utility operations and sync codes.

Wire-EDM

Designed to handle the most demanding Wire-EDM programs while being easy-to-use, GibbsCAM Wire-EDM supports programming 2- thru 4-axis CNC Wire-EDM machines. With a very flexible and robust graphical user, novice users will find the system easy to understand and learn, while experienced users will find it a straightforward, efficient way to access its breadth of capability and options. GibbsCAM Wire-EDM provides the user with complete control over the Wire-EDM machining operations. Post processors for all major brands of Wire-EDM machines are included.

Machine Simulation

GibbsCAM Machine Simulation allows programs and corresponding machine tool motions to be graphically verified before running them on an actual CNC machine tool, avoiding potential mistakes which could result in scrap or potential machine crashes. While verifying the program, potential opportunities for optimization can also be identified, allowing the program to be further refined. Machine Simulation also provides an environment in which to do a virtual set-up of the machine tool, allowing various set-up parameters to also be verified before going to the actual machine tool.

Data Exchange Options

In order to ensure that GibbsCAM is able to work with data files from the widest variety of CAD sources, a comprehensive selection of various data exchange options are available. These range from DXF/DWG, to IGES, VDA-FS, STEP AP203/AP214, CATIA V4, CATIA V5, Pro/ENGINEER, NX and Granite, and ACIS. In addition, GibbsCAM has the ability to read the native data files of most popular CAD systems: SolidEdge, NX, SolidWorks, Catia V4 and V5, Pro-E Wildfire, Rhinoceros, and KeyCreator. The data exchange options or capabilities may require other GibbsCAM options.

CutDATA™

Machining feeds and speeds database

VoluMill™ Wireframe

VoluMill Wireframe is a plug-in toolpath engine for ultra high-performance 2- and 3-axis roughing that allows the programmer to establish and maintain ideal machining conditions and use high speeds and federates.

VoluMill™ Solids

VoluMill Solids is a plug-in toolpath engine for ultra high-performance 2-axis, 3-axis and 3D Model roughing that allows the programmer to establish and maintain ideal machining conditions and use high speeds and federates.

Post Processors

GibbsCAM offers a variety of approaches to generate G-code for machine tools. For users who prefer to develop their own posts, GibbsCAM offers PostHASTE, a template-based post processing system along with over 225 post templates. For users who already have a legacy posting system based on APT-CL, GibbsCAM outputs APT-CL output. GibbsCAM also has a library of over 8500 post processors for a wide variety of controller and machine tool configurations. For the ultimate level of support, GibbsCAM also offers high-efficiency, custom post processors created by a team of expert developers.

Following our merger with Gibbs System, we distribute our products to end-users in over 35 countries in five continents through certain of our subsidiaries, directly in Israel and the US, and through a network of independent Resellers (who distribute CimatronE and/or GibbsCAM products, as the case may be). Between us, our subsidiaries (including Cimatron Gibbs LLC) and our Resellers, our family of products has more than 40,000 installations.

Resellers of CimatronE Products

We believe that the Resellers of our CimatronE products, or our CimatronE Resellers, are technically competent in the mechanical engineering and manufacturing aspects of CAD/CAM markets and offer a full range of sales, service and support functions. Most CimatronE Resellers assume overall responsibility for the integrity of each end-user customer's CAD/CAM system in their respective territories, including selling, installation, training and maintenance. CimatronE Resellers are, in most cases, carefully selected on the basis of their ability to distribute and service our entire product line, with special emphasis on the ability of their engineering and sales teams to provide customer support.

We furnish our CimatronE Resellers with technical guidance and marketing and sales resources. CimatronE Resellers regularly visit our Israeli headquarters, while our employees from various departments visit CimatronE Resellers' sites. Our relationship with our CimatronE Resellers is further enhanced by international conferences, that we organize from time to time, regional workshops and cooperative exhibitions, and participation in local user meetings.

CimatronE Resellers serve as an integral part of our marketing and service network around the world. They give our products a local "feel" by (a) offering technical support in the end-user's native language, (b) being available to attend to customer needs during local business hours, (c) translating our manuals, product and marketing literature into the local language and (d) frequently organizing user programs and seminars. CimatronE Resellers continually develop new ways to adapt and enhance our products to meet their respective customers' regional and company-specific needs.

A typical agreement with a CimatronE Reseller is for a term of two years (subject to rolling two-year extensions). Our CimatronE Resellers are distributors and our agreements with them enable the CimatronE Resellers to purchase our products at a discounted price. Certain of our CimatronE Resellers act as our exclusive distributors in a single country or region. Other than our larger CimatronE Reseller in Japan, no CimatronE Reseller accounted for more than 0.9% of our total consolidated revenue for the year ended December 31, 2011. In July 2005 we acquired 27.5% of our Italian CimatronE Reseller and an option to purchase its remaining outstanding shares from its stockholders. In July 2007 we exercised our option to increase our holdings in our Italian CimatronE Reseller to 51%, and in July 2008, we completed the acquisition of such CimatronE Reseller by exercising our option to acquire the remaining 49% of its stock. These latter two holdings increases changed our Italian CimatronE Reseller's status from an independent CimatronE Reseller to a subsidiary.

There can be no assurance that all existing relationships with our CimatronE Resellers will be renewed. We believe that with the exception of our larger CimatronE Reseller in Japan, the termination of our relationship with a single CimatronE Reseller would not adversely affect us; however, the termination of our relationship with several of our CimatronE Resellers at approximately the same time or with one of our two CimatronE Resellers in Japan which accounted for 3.5% of our total consolidated revenue in 2011 could adversely affect us. There can be no assurance that, in the event that we lose any of our CimatronE Resellers, we will be successful in recruiting replacement professional and technically competent CimatronE Resellers.

Resellers of GibbsCAM Products

We believe that the Resellers of our GibbsCAM products, or our GibbsCAM Resellers, are technically competent in the mechanical engineering and manufacturing aspects of CAD/CAM markets and offer a full range of sales, service and support functions. Most of the GibbsCAM Resellers assume overall responsibility for the integrity of each end-user customer's CAD/CAM system in their respective territories, including selling, installation, training and maintenance. GibbsCAM Resellers are, in most cases, carefully selected on the basis of their ability to distribute and service our entire product line. US-based GibbsCAM Resellers count on Cimatron Gibbs LLC corporate personnel and resources for much of their service and support. Training is also provided at Cimatron Gibbs LLC's corporate headquarters based in Moorpark, CA, USA. In international markets, GibbsCAM Resellers are selected with special emphasis on their ability to provide customer service, support, and training.

We furnish our GibbsCAM Resellers with technical guidance and marketing, and technical and sales resources, in addition to our products and associated documentation. GibbsCAM Resellers visit Cimatron Gibbs LLC's headquarters in California, while our employees from various departments visit our GibbsCAM Resellers' sites as needed. Our relationship with our GibbsCAM Resellers is further enhanced by international conferences that we organize from time to time, regional workshops and cooperative exhibitions, and participation in local user meetings.

GibbsCAM Resellers serve as an integral part of our marketing and service network around the world. They give our products a local "feel" by (a) offering technical support in the end-user's native language, (b) being available to attend to customer needs during local business hours, (c) translating our manuals, product and marketing literature into the local language and (d) frequently organizing user programs and seminars. GibbsCAM Resellers continually develop new ways to adapt and enhance our products to meet their respective customers' regional and company-specific needs.

A typical agreement with a GibbsCAM Reseller is for a term of one year (subject to rolling one-year extensions). According to the terms of our agreements with them, the GibbsCAM Resellers are able to purchase our products at a discounted price. Certain of our GibbsCAM Resellers act as our only "sales agent" in a single country or region, even though we do not have an exclusivity agreement with any GibbsCAM Reseller.

GibbsCAM Resellers include nine who comprise the Gibbs "President's Club." Each of these nine GibbsCAM Resellers is an independent company that primarily engages in reselling Cimatron Gibbs LLC products and that represents the GibbsCAM Resellers with the highest total sales of Cimatron Gibbs LLC products for the preceding year. Other than the nine Presidents' Club GibbsCAM Resellers, no GibbsCAM Reseller accounted for more than 0.8% of Cimatron's total consolidated revenue for the year ended December 31, 2011. Even among the Presidents' Club members themselves, none accounted for more than 2.3% of Cimatron's total consolidated revenue during 2011.

There can be no assurance that all existing relationships with our GibbsCAM Resellers will be renewed. We believe that with the exception of our President's Club Members, the termination of our relationship with a single GibbsCAM Reseller would not adversely affect us; however, the termination of our relationship with several of our GibbsCAM Resellers at approximately the same time or with many of our President's Club GibbsCAM Resellers could adversely affect us. There can be no assurance that in the event that we lose any of our GibbsCAM Resellers we will be successful in recruiting replacement professional and technically competent GibbsCAM Resellers.

Subsidiaries

Our strategy over the years has been to increase our direct involvement in certain key markets in which we felt our Resellers were not maximizing our business opportunities, through the formation or acquisition of marketing and support subsidiaries. In furtherance of this strategy, we have incorporated subsidiaries in France, Japan, the United Kingdom, China, as well as India, where we formed a subsidiary at the end of 2005 that started commercial activities during the second quarter of 2006. We have also acquired all of the outstanding voting interests in Cimatron Technologies, Inc., our North American CimatronE Reseller, and have had our German subsidiary, Cimatron GmbH, purchase all of the Cimatron-related business of our German GibbsCAM Reseller, including, as of February 2009, the hiring of the former key employees of Gibbs System's German GibbsCAM Reseller. During August 2006, we acquired the remaining 69.83% of the outstanding shares of our Korean CimatronE Reseller following which it became a wholly owned subsidiary. In January 2005 we announced the formation of Cimatron Guangzhou, a new joint venture in Guangzhou, China, with SGV, a distributor of our products since 1998. In late 2006 we transferred our business activity in France to an independent CimatronE Reseller and substantially ceased the activity of our French subsidiary. During 2007 we transitioned our business activity in the United Kingdom from our United Kingdom subsidiary to an independent CimatronE Reseller with the intent of achieving greater efficiencies in our United Kingdom business. In July 2005, July 2007 and July 2008, we engaged in a series of transactions whereby we acquired an initial 27.5%, an additional 23.5%, and the remaining 49% of the outstanding shares of our Italian CimatronE Reseller, thereby transforming it into our wholly-owned subsidiary. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details regarding the merger with Gibbs System and the transaction with Microsystem, our Italian Reseller, and our increase in holdings thereof.

Customers

Our end-users are typically small to medium-sized companies involved in the mechanical engineering and manufacturing industry, subcontractors that supply major corporations within the core mechanical engineering and manufacturing industry, and departments or divisions within these major corporations. Our customers are located in over 35 countries worldwide.

In the years ended December 31, 2011, 2010 and 2009, approximately 49%, 49% and 54%, respectively, of our revenues were from Europe; approximately 2%, 3% and 3%, respectively, of our revenues were from Israel; approximately 15%, 16% and 15%, respectively, of our revenues were from the Far East; approximately 32%, 30% and 27%, respectively, of our revenues were from North America; and approximately 2%, 2% and 1%, respectively, of our revenues were from other countries.

Geographical Breakdown of Our Revenue

The following tables present a geographical breakdown of our revenues from products and services for the last three years (in thousands of U.S. dollars):

2011

Geographical Region	Products		Services	
	Amount	Percent of Products Revenues	Amount	Percent of Services Revenues
Europe	7,307	40.1%	12,788	56.7%
Israel	482	2.7%	497	2.2%
Far East	3,791	20.9%	2,259	10.0%
North America	6,070	33.4%	6,776	30.1%
Other	527	2.9%	217	1.0%
Total	18,177	100.0%	22,537	100.0%

2010

Geographical Region	Products		Services	
	Amount	Percent of Products Revenues	Amount	Percent of Services Revenues
Europe	6,458	40.3%	11,296	56.2%
Israel	475	3.0%	502	2.5%
Far East	3,591	22.5%	2,128	10.6%
North America	4,944	30.9%	6,000	29.9%
Other	526	3.3%	154	0.8%
Total	15,994	100.0%	20,080	100.0%

2009

Geographical Region	Products		Services	
	Amount	Percent of Products Revenues	Amount	Percent of Services Revenues
Europe	6,278	47.6%	11,516	58.3%
Israel	493	3.7%	461	2.3%
Far East	2,725	20.7%	2,065	10.5%
North America	3,382	25.6%	5,636	28.5%
Other	313	2.4%	88	0.4%
Total	13,191	100.0%	19,766	100.0%

Other than our Reseller agreements and certain maintenance contracts with customers in Israel, we currently have no significant long-term contracts with any customer, and sales are generally made pursuant to purchase orders received from distributors.

Potential Fluctuations in Operating Results; Seasonality

Potential Fluctuations in Operating Results

See "Item 3 - Risk Factors - We may experience significant fluctuations in our quarterly results, which makes it difficult for investors to make reliable period-to-period comparisons and may contribute to volatility in the market price for our Ordinary Shares" for a discussion of factors that may cause annual or quarterly fluctuations in the results of our operations.

Seasonality

We sell our products to corporations and our sales are therefore subject to the fiscal and budgeting cycles of such corporations. Accordingly, a large percentage of our sales occur in the fourth quarter, while sales in the third quarter are traditionally lowest due to the summer vacation. Sales in the first and second quarters are generally slower than in the fourth quarter but higher than in the third quarter. Nevertheless, there have been certain years with a different seasonality pattern, and we cannot guarantee that such a pattern will hold true in every future year.

Organizational Structure

As of March 31, 2012, our principal shareholder, DBSI, holds 4,264,875 shares, representing approximately 45.86% of our outstanding share capital, and effectively has the ability to control the outcome of most matters submitted to a vote of our shareholders. See "Item 7. Major Shareholders and Related Party Transactions" for additional details.

For information about our subsidiaries and our beneficial ownership therein, see Exhibit 8.1 to this annual report.

Property, Plants and Equipment

We do not own any real property. We lease the office premises that we occupy in Givat Shmuel, Israel from a private commercial property owner pursuant to the terms of a lease agreement that we entered into in February 2003. Until January 2006 we occupied an aggregate of approximately 2,100 square meters at this facility. Since January 10, 2006, we occupy approximately 1,750 square meters at this facility. The initial term of this lease expired on June 30, 2006 and, after we exercised our option to extend the lease for an initial period of three years, we have further extended the lease for an additional five years, through June 30, 2014, and reduced the occupied space to approximately 1,491 square meters. In 2011, the aggregate annual lease payments for the office premises were approximately \$1.2 million.

Following the merger with Gibbs System, we lease office space in Moonpark, California from a limited liability company controlled by Mr. Gibbs. In connection with the merger with Gibbs System, the termination date of the lease was advanced from 2020 to December 31, 2012, with an option for us to extend the lease for an additional 5 years. The rent due to be paid during the initial term is \$24,710 per month.

The following table presents a breakdown of our approximate aggregate annual lease payments for office premises worldwide for the year 2011 (in thousands of U.S. Dollars):

ENTITY	LOCATIONS	APPROXIMATE ANNUAL EXPENSE (in thousands of US\$)
Cimatron parent company	Givat Shmuel, Israel (corporate headquarters)	326
Cimatron Gibbs LLC	Moonpark, California	307
North American subsidiary	Michigan and Illinois (U.S.)*	54
German subsidiary	Eitlingen, Hamm, Nuremberg, Koln and Ismaning	221
Italian subsidiary	Bologna, Milano, Ancona, Treviso	181
Japanese subsidiary	Tokyo	-
Chinese subsidiaries	Beijing, Wuxi, Chengdu, Shanghai Guangzhou, Wuhan	81
Korean subsidiary	Seoul	24
	Total	1,194

* These offices are responsible for our selling and marketing activities in Canada as well.

Item 4A. Unresolved Staff Comments.

Not Applicable

Item 5. Operating and Financial Review and Prospects.

Overview

We design, develop, manufacture, market and support a family of modular, high-performance, CAD/CAM software products. Our products provide an integrated design through manufacturing solution for small-to-medium sized companies and manufacturing divisions of large corporations, and interface easily with other CAD/CAM systems.

We have consummated various important acquisitions that have impacted our results of operations over the past few years. In July 2005 we acquired an initial 27.5% of the shares of Microsystem, our Italian distributor, for 575,000 Euro. Pursuant to the exercise of two call options that were granted to us as part of the relevant transactions, we acquired the remaining 72.5% of Microsystem, in two stages of 23.5% and 49%, in July 2007 and July 2008, respectively, for aggregate consideration of \$599,250 and \$1.25 million, respectively. We accounted for the original acquisition under the equity method, and, accordingly, as of July 1, 2005, we commenced recording our share of Microsystem's profits or losses in our consolidated financial statements. Following our exercise of the first call option and the increase in our holding in Microsystem to 51% in July 2007, we fully consolidated the results of Microsystem into our financial statements. Now that Microsystem is our wholly-owned subsidiary, its results will continue to remain fully consolidated with those of our parent company.

In early 2008, we merged Gibbs System, also known as Gibbs & Associates, with and into a newly established US subsidiary (Cimatron Gibbs LLC) of Cimatron Technologies Inc, our US subsidiary. As consideration in the transaction, we paid to Mr. William F. Gibbs, founder, Chairman and CEO of Gibbs System, and its sole shareholder, approximately \$5 million in cash, as well as 1,500,000 newly issued Ordinary Shares of Cimatron. Following such transaction, Cimatron Gibbs LLC acts as a separate unit in the Cimatron group that is responsible for the marketing, selling and developing of the GibbsCAM product family, in substantially the same manner as conducted prior to the merger.

Revenues

We derive revenues mainly from (a) sale of our products, including software and hardware components, and (b) services which include primarily maintenance fees and the provision of technical support for our software products and, to a lesser extent, fees from the provision of engineering, training, consulting and implementation services. Revenues from sales of our products are generated by a relatively large number of sales and no one customer accounts for a material portion of our revenues. We provide maintenance services mainly pursuant to maintenance contracts, which usually provide for annual maintenance fees. Generally, maintenance contracts are for a one-year term. It has been our experience that most of our customers who purchase maintenance contracts elect to receive maintenance services from us on a continuing basis. While customers in most markets purchase maintenance services from us, most of our customers in the Far East (other than in Japan and South Korea) generally do not purchase maintenance but instead purchase product upgrades on a case-by-case basis.

Cost of Revenues

Our cost of revenues consists of six major components: (a) the cost of our Israel-based operations, which include primarily salaries (mostly for technical support personnel), subcontractors and facilities costs, (b) hardware costs in Israel and for our subsidiaries, (c) royalties payable to third parties for third party software and maintenance, (d) royalties payable to Israel's Office of the Chief Scientist of the Ministry of Industry, Trade and Labor (the OCS), (e) amortization of capitalized software development costs, and (f) amortization of intangible assets.

Software Development Costs

Costs for the development of new software products and substantial enhancements to existing software products are expensed as incurred until technological feasibility has been established, at which time any additional development costs are capitalized. Based on our product development process, technological feasibility is established upon completion of a working model. Any capitalization of software development costs continues up to the time the software is available for general release to customers. However, during 2009, 2010 and 2011, costs incurred between the completion of the working model and the point at which the products were ready for general release were insignificant. Therefore, all research and development costs incurred in 2009, 2010 and 2011 have been expensed.

Primary and Reporting Currency

We market and sell our products and services in Europe, the Far East, North America and Israel and derive a significant portion of our revenues from customers in Europe and Asia. A majority of our revenues in 2009, 2010 and 2011 were from customers in Europe. Since our financial results are reported in U.S. dollars, decreases in the rate of exchange of non-U.S. dollar currencies in which we make sales relative to the U.S. dollar will decrease the U.S. dollar-based reported value of those sales. To the extent that decreases in exchange rates are not offset by a reduction in our costs, that may in the future materially adversely affect our results of operations.

Our reporting currency is the U.S. dollar while a portion of our expenses, principally salaries and the related personnel expenses are in New Israeli Shekels, or NIS. As a result, we are exposed to the risk that the NIS will appreciate relative to the U.S. dollar, or, even if the NIS devaluates relative to the U.S. dollar, that the rate of inflation in Israel will exceed such rate of devaluation or that the timing of such devaluation will lag behind inflation in Israel. Any such NIS appreciation or excessive Israeli inflation has the effect of increasing the U.S. dollar cost of our operations. In 2010 and 2011, the NIS appreciated, while in 2009, it devalued, relative to the U.S. dollar (as measured by the change in the average representative exchange rate for each such year relative to the previous year), and, over the course of that three year period, the annual rate of Israeli inflation decreased on an annual basis (from 3.9% in 2009, to 2.7% in 2010, to 2.2% in 2011). These trends thereby had a mixed impact upon the U.S. dollar cost of our Israeli operations due to foreign currency conversion in 2011, as NIS appreciation increased that U.S. dollar cost whereas lower Israeli inflation mitigated that increase. If the U.S. dollar cost of our operations in Israel resumes its accelerated rise, however, our U.S. dollar-measured results of operations will once again be adversely affected more significantly.

Following our merger with Gibbs System, we have experienced an increase in the relative portion of our U.S. dollar based expenses and revenues as a percentage of our total expenses and revenues, thereby reducing the relative impact of the above-described, currency exchange rate related factors. For the fiscal years ended December 31, 2010 and 2011, our U.S. dollar based operating expenses constituted 38% and 40%, and our U.S. dollar based revenues constituted 49% and 50%, respectively, of our total consolidated operating expenses and revenues for such fiscal years.

See "Liquidity and Capital Resources – Impact of Inflation and Currency Devaluation on Results of Operation, Liabilities and Assets" for information relating to our policy of hedging against currency fluctuations.

Critical Accounting Policies

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which were prepared in accordance with U.S. GAAP. The preparation of these financial statements requires us to make estimates and judgments that affect the reported amounts of assets, liabilities, revenues and expenses, and related disclosure of contingent assets and liabilities. We evaluate these estimates on an ongoing basis. We base our estimates on our historical experience and on various other assumptions that we believe to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amount values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates under different assumptions or conditions.

We believe that application of the following critical accounting policies entails the most significant judgments and estimates used in the preparation of our consolidated financial statements.

Revenue Recognition

We recognize revenues in accordance with the ASC 985-605, "Software Revenue Recognition", as amended (formerly, "Statement of Position (SOP) 97-2"). Revenues from software license fees are recognized when persuasive evidence of an arrangement exists, the software product covered by written agreement or a purchase order signed by the customer has been delivered, the license fees are fixed and determinable and collection of the license fees is considered probable. When software arrangements involve multiple elements we allocate revenue to each element based on vendor-specific objective evidence, or VSOE. We limit our assessment of VSOE for each element to the price charged when the same element is sold separately.

In judging the probability of collection of software license fees we continuously monitor collection and payments from our customers and maintain a provision for estimated credit losses based upon our historical experience and any specific customer collection issues that we have identified. In connection with customers with whom we have no previous experience, we may utilize independent resources to evaluate the creditworthiness of those customers. For some customers, typically those with whom we have long-term relationships, we may grant extended payment terms. We perform on-going credit evaluations of our customers and adjust credit limits based upon payment history and the customer's current creditworthiness, as determined by our review of their current credit information. If the financial situation of any of our customers were to deteriorate, resulting in an impairment of their ability to pay the indebtedness they incur with us, additional allowances may be required.

Most of our software products do not require significant customization or modification. Service revenues include consulting services, post-contract customer support and maintenance and training. Consulting revenues are generally recognized on a time and material basis. Software maintenance agreements provide technical customer support and the right to unspecified upgrades on an if-and-when-available basis. Post-contract customer support revenues are recognized ratably over the term of the support period (generally one year), and training and other service revenues are recognized as the related services are provided. Deferred revenues represent mainly amounts received on account of service agreements.

Our sales are made pursuant to standard purchase orders, containing payment terms averaging between 30 - 120 days. For some customers with whom we have long-standing relationships and based on past experience with those customers and the same software products, we may grant payment terms of up to 180 days. Any payment terms that exceed 180 days must be approved by our Chief Financial Officer prior to the signing of any purchase order.

Our arrangements do not substantially include any refund provisions nor are payments subject to milestones. In addition, substantially all of our arrangements do not contain customer acceptance provisions.

Allowance for Doubtful Accounts

We evaluate the collectability of our accounts receivable based on a combination of factors. In circumstances where we are aware of a specific customer's inability to meet its financial obligations to us (e.g., bankruptcy filings, substantial down-grading of credit ratings), we record a specific reserve for bad debts against amounts due to reduce the net recognized receivable to the amount we reasonably believe will be collected. For all other customers, we recognize reserves for bad debts based on the length of time the receivables are past due and on our historical experience in collecting such receivables.

Impairment of long-lived assets and goodwill

We regularly review whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable. We assess the recoverability of the carrying amount of our long-lived assets based on expected undiscounted cash flows. If an asset's carrying amount is determined to be not recoverable, we recognize an impairment loss based upon the difference between the carrying amount and the fair value of such asset, in accordance with ASC 360-10 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("ASC 360-10") (formerly: "SFAS No. 144").

Operating Results

	For the Year Ended December 31,		
	2011	2010	2009
In thousands of US\$ (except per share data)			
Statement of Income Data:			
Revenue:			
Products	18,177	15,994	13,191
Services	22,537	20,080	19,766
Total	40,714	36,074	32,957
Cost of revenue:			
Products	3,769	4,320	4,567
Services	1,614	1,556	1,619
Total	5,383	5,876	6,186
Gross profit	35,331	30,198	26,771
Research and development costs	6,739	6,014	5,736
Selling, general and administrative expenses	24,453	22,053	21,992
Operating income (loss)	4,139	2,131	(957)
Financial income (expenses), net	(195)	97	19
Other income (expenses)	(6)	(6)	(41)
Income (loss) before taxes	3,938	2,222	(979)
Taxes on income	(1,327)	(657)	949
Income (loss) after income taxes	2,611	1,565	(30)
Less: Net loss (gain) attributable to the noncontrolling interest	57	26	44
Net income attributable to Cimatron's shareholders	2,668	1,591	14
Net income (loss) per share (basic and diluted)	0.29	0.18	0.00
Weighted average number of shares outstanding	9,252	9,000	9,156

	As of December 31,		
	2011	2010	2009
	(In thousands of US\$)		
Balance Sheet Data:			
Cash and cash equivalents	11,787	10,221	6,684
Long term marketable investments	-	-	-
Working capital	6,469	5,885	4,506
Total assets	34,522	34,901	32,680
Total liabilities	17,390	17,716	16,581
Shareholders' equity	17,132	17,185	16,099

Revenue

Our total revenues increased by 12.9% in 2011, to approximately \$40.7 million, from approximately \$36.1 million in 2010, after having risen by 9.5% in 2010 from \$33.0 million in 2009. Our revenues from the sale of products increased by 13.6% in 2011, to approximately \$18.2 million, from approximately \$16.0 million in 2010, after having risen by 21.2% in 2010 from approximately \$13.2 million in 2009. The increase in sales of products in 2011 relative to 2010 was primarily attributable to the continued global manufacturing activity recovery in 2011, and, to a lesser extent, to the appreciation of the Euro relative to the dollar over the course of 2011 relative to 2010 (as the average exchange rate rose from 1.328 dollars per Euro in 2010 to 1.393 dollars per Euro in 2011), which increased the dollar value of the Euro-denominated revenues that we realized in 2011. The increase in sale of products in 2010 relative to 2009 was primarily attributable to the global economic recovery in 2010, somewhat offset by the appreciation of the dollar relative to the Euro over the course of 2010 relative to 2009 (as the average exchange rate fell from 1.394 dollars per Euro in 2009 to 1.328 dollars per Euro in 2010), which reduced the dollar value of the Euro-denominated revenues that we realized in 2010. As a percentage of revenues, our revenues from the sale of products increased in 2011 to approximately 45%, from approximately 44% in 2010, after having been approximately 40% in 2009. Our revenues from maintenance and services increased by 12.2% in 2011 to approximately \$22.5 million, from approximately \$20.1 million in 2010, after having risen by 1.6% in 2010 from approximately \$19.8 in 2009. The increase in maintenance and service revenues in each of 2010 and 2011 was primarily attributable to the global economic recovery, which enabled customers to begin (in 2010) and to continue, more substantially (in 2011), increasing their levels of spending on maintenance contracts and training and implementation services that they order from us with respect to our products. As a percentage of overall revenues, our revenues from maintenance and services decreased in 2011 to approximately 55%, from approximately 56% in 2010 after having been approximately 60% in 2009. This decrease in each of 2011 and 2010 reflected the corresponding increase in products sales revenues in both years.

Because, during 2011, 49% of our revenues were derived from Europe, changes in the Euro-dollar exchange rate can significantly influence our revenues. Since mid 2007, the Euro-dollar exchange rate had an increasing influence on our revenues and results of operation due to the consolidation of Microsystem's financial results with ours, since substantially all of Microsystem's revenues are Euro-denominated.

While we believe that the trend of migration of European mold, tool, die and fixture makers operations to low cost labor markets in the Far East, where markets are also characterized by lower prices and by higher usage of pirated copies of software products, may continue, we have previously adjusted our European strategy slightly in order to increasingly focus on penetrating the high end European market, in which such migration is less prevalent. At the same time, we continue with our sales efforts in China and in other emerging markets. In addition, following the Gibbs acquisition in early 2008, we began selling the GibbsCAM product line via our legacy Cimatron sales channels in Germany, Italy, China, South Korea and Israel, and in other sales territories as well.

Cost of Revenue

Cost of revenue decreased by 8.4% in 2011, to approximately \$5.4 million, from approximately \$5.9 million in 2010, after having decreased by 5.0% in 2010 from approximately \$6.2 million in 2009. The decrease in 2011 relative to 2010 was mainly due to (i) a different revenue mix, with higher percentage of software license revenues (which carry with them lower costs of revenues) and practically no hardware revenues (which carry with them higher costs of revenues) in 2011 as compared to 2010, as towards the end of 2010 we stopped selling in Italy a hardware-based measurement product, the profitability of which was negligible, whereas management and personnel attention required for selling it were significant, and (ii) no royalty expense to the Chief Scientist of the Ministry of Industry and Trade of the Government of Israel, or the OCS, in 2011, as explained in note 8A to our 2011 financial statements. The decrease in 2010 relative to 2009 was mainly due to (i) a different revenue mix, with higher percentage of software license revenues and lower percentage of hardware revenues in 2010 as compared to 2009, and (ii) lower royalty expense to the OCS in 2010, as explained in note 8A to our 2011 financial statements.

Gross Profit

Gross profit, as a percentage of total revenue, was 87%, 84% and 81% in 2011, 2010 and 2009, respectively. The higher gross margin that we achieved in 2011 relative to 2010, and in 2010 relative to 2009, was in each case due to (i) increased revenues on a year-over-year basis, which, given the significant portion of the cost of revenue constituting fixed expenses that are not dependent on the revenue level, led to higher gross margin than in the prior year, and (ii) the lower cost, higher margin revenue mix relative to the prior year and the absence of (in 2011) or lower (in 2010) royalty expense to the OCS, as described under "Cost of Revenue" above.

Research and Development Expenses, net

Research and development, or R&D, expenses primarily consist of salaries and related costs with respect to employees engaged in ongoing research, design and development activities. R&D expenses were \$6.7 million in 2011, reflecting a 12.1% increase over the \$6.0 million of R&D expenses in 2010, which itself reflected a 4.8% increase over the \$5.7 million of R&D expenses in 2009. The increase in 2011 was mainly due to (i) higher employee-related and other R&D costs in 2011, as we further increased our R&D spending in 2011 as we continued to recover from the global economic downturn of 2009, which contributed approximately \$0.5 million to such increase, and (ii) the appreciation of the New Israeli Shekel, or NIS, relative to the dollar over the course of 2011 (as the average representative exchange rate decreased from NIS 3.732 per dollar in 2010 to NIS 3.579 per dollar in 2011), which increased the dollar value of the NIS-denominated R&D costs that we incurred in 2011, and which contributed approximately \$0.2 million to such increase. The increase in 2010 was primarily due to higher employee-related costs in 2010, as we slightly increased our R&D spending in 2010 after we had reduced such expenses in 2009 in response to the global economic downturn.

Selling, General and Administrative Expenses

Selling expenses consist of costs relating to promotion, advertising, trade shows and exhibitions, compensation (including sales commissions), sales support, travel and travel-related expenses, and, when applicable, royalties to the Fund for the Encouragement of Marketing of the Government of Israel, or the Marketing Fund, including all such expenses for our subsidiaries. We did not receive any grants from the Marketing Fund in the years 2009, 2010 and 2011 and do not expect to receive any such grants in the future. We also did not pay any royalties to the Marketing Fund in 2009, 2010 and 2011. General and administrative expenses consist of (a) compensation costs for administration, finance and general management personnel, (b) office maintenance and administrative costs, (c) rent, (d) fees paid to DBSI, our significant shareholder, for management services, (e) reserves for doubtful debts and (f) amortization of investment in acquired companies.

Selling, general and administrative, or SG&A, expenses increased by 10.9% in 2011, to \$24.5 million, from \$22.1 million in 2010, after having increased by 0.3% in 2010 from \$22.0 million in 2009. The increase in 2011 relative to 2010 was mainly attributable to (i) the appreciation of the NIS relative to the dollar over the course of 2011 (as reflected in the decrease in the average representative exchange rate from NIS 3.732 per dollar in 2010 to NIS 3.579 per dollar in 2011), which increased the dollar value of the NIS-denominated SG&A costs that we incurred in 2011 by approximately \$0.4 million; (ii) the appreciation of the Euro relative to the dollar over the course of 2011 (as evidenced by the rise in the average Euro-dollar exchange rate from 1.328 dollars per Euro in 2010 to 1.393 dollars per Euro in 2011), which increased the dollar value of the Euro-denominated SG&A costs that we incurred in 2011 by approximately \$0.4 million; (iii) our continued investment in the promotion of our two product lines, CimatronE and GibbsCAM, which increased our SG&A costs in 2011; and (iv) higher sales commissions to sales employees and sales agents that accompanied our significant increase in revenues in 2011.

The slight increase in SG&A expenses in 2010 relative to 2009 was primarily due to higher revenues in 2010, which resulted in higher commission payments to our sales employees and agents, which were offset, almost entirely, by lower reserve for doubtful debts and by the appreciation of the dollar relative to the Euro over the course of 2010 (evidenced by the decrease in the average Euro-dollar exchange rate from 1.394 dollars per Euro in 2009 to 1.328 dollars per Euro in 2010), which reduced the dollar value of the Euro-denominated SG&A expenses that we incurred in 2010.

Financial Income (Expenses), net

Financial income (expenses), net, consists primarily of interest earned on our cash reserves, interest paid on our short term and long term credit facilities from financial institutions, gains (losses) from sale of bonds and funds, interest on trade receivables and currency translation adjustments between the U.S. dollar and the NIS and Euro based on changes in exchange rates, as applied to our assets and liabilities. Financial income (expense), net, was approximately \$(0.2) million in 2011, as compared to approximately \$0.1 million in 2010 and approximately \$0.0 million in 2009. During 2011, 2010 and 2009, the interest that we received on our cash reserves was significantly lower than in previous years, due to the global trend of reduced interest rates. Therefore, the currency translation adjustments between the U.S. dollar and each of the NIS and the Euro, which were due to changes in related exchange rates, as applied to our assets and liabilities, had the most significant effect on our financial income (expenses) in these years.

Income Taxes, net

Income Taxes, net, consist of (i) changes in deferred tax assets and deferred tax liabilities, and (ii) current tax expenses or income. In 2011, we recorded a tax expense of approximately \$1.3 million, of which approximately \$0.5 million related to changes in deferred taxes, and approximately \$0.8 million related to current tax expenses. Of such \$0.8 million of current tax expenses: (i) approximately \$0.4 million related to taxes in the U.S., as we practically finished using our entire U.S. loss carry-forwards during the fourth quarter of 2011; and (ii) approximately \$0.4 million mainly related to taxes in Israel and Germany.

In 2010 we recorded a tax expense of approximately \$0.7 million, of which approximately \$0.3 million related to changes in deferred taxes, and approximately \$0.3 million related to current tax expenses. Most of the current taxes in 2010 related to taxes for previous years, mainly as part of the final tax assessment that we received in Germany for the years 2004-2007.

In 2009, we recorded tax income of approximately \$0.9 million, which consisted primarily of an increase in deferred tax assets, as a result of an increase in US loss carry-forwards that we believed we would be able to use in the foreseeable future.

Net Income Attributable to Cimatron Shareholders

We recorded net income attributable to Cimatron shareholders of approximately \$2.6 million, \$1.6 million and \$0.0 million in 2011, 2010 and 2009, respectively. The increase in 2011 relative to 2010, and in 2010 relative to 2009, were mainly due to increases in our revenues on a year-over-year basis, which resulted from a recovery in our target markets, which began in 2010 and strengthened in 2011.

Effective Corporate Tax Rate

We and each of our subsidiaries are subject to corporate taxes in various countries in which we and they operate. In Israel we received a final tax assessment through the tax year ended December 31, 2006. Our subsidiaries in Germany and Italy received a final tax assessment through the tax year ended December 31, 2007. Generally, as of January 1, 2011, Israeli companies were subject to corporate tax of 24%. Under previous legislation, the corporate tax rate was scheduled to decline to 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and thereafter. Recently, the Law for Change in the Tax Burden (Legislative Amendments) (Taxes), 2011, or the Tax Burden Law, was published by the Israeli Knesset. The Law canceled the scheduled progressive reduction of the corporate tax rate and instead fixed the corporate tax rate at 25% from 2012 and onwards. Our effective corporate tax rate in Germany in the year ended December 31, 2011 was 25%. Our effective corporate tax rates in Italy, Korea and Japan in the year ended December 31, 2011 were 31%, 24.2% and 46%, respectively. We believe that our effective tax rates in the U.S., China and India would have been approximately 34%, 25% and 31% respectively, for the year ended December 31, 2011 had we not incurred tax losses in such countries. We practically finished using our entire U.S. loss carry-forwards during the fourth quarter of 2011, and we therefore expect that our effective federal tax rate in the U.S. in 2012 will be approximately 34%. We had tax loss carryforwards in Israel in the aggregate amount of approximately \$4.3 million as of the end of 2011. In addition, as of December 31, 2011, we had approximately \$0.5 million in net operating loss carry-forwards in China. There can be no assurance that we will be able to use all the above-mentioned tax loss carryforwards at any time in the future. We expect that if our profits increase and our subsidiaries utilize their respective loss carryforwards, particularly in countries with relatively high corporate tax rates, our consolidated effective tax rate will increase.

We had been previously granted “Approved Enterprise” status under the Israeli Law for the Encouragement of Capital Investments, 1959. Consequently, we were eligible for certain Israeli tax benefits. Income derived from each of our Approved Enterprise programs was exempt from tax for a period of two years, commencing in the first year in which we generated taxable income from such Approved Enterprise (subsequent to use of all Israeli tax loss carryforwards), and was subject to a reduced tax rate of 25% for a further five years, respectively. For our most recent Approved Enterprise program (which had been approved in 2001), we decided not to pursue the completion of our investment plan related to that program, as we had not had any tax benefits from it. We have instead elected tax benefits pursuant to the 2011 Amendment to the Investment Law, as described under “Item 10. Additional Information— Taxation— Law for the Encouragement of Capital Investments, 5719-1959” below. Please also see Note 8.A of the notes to our consolidated financial statements included elsewhere in this annual report.

Liquidity and Capital Resources

We finance our operations primarily from funds provided by operations. We believe that our accumulated cash, in addition to cash generated from operations and available funds, will be sufficient to meet our cash requirements for working capital and capital expenditures for at least the next 12 months. Thereafter, if cash generated from operations is insufficient to satisfy our liquidity requirements, we may sell additional equity or debt securities or obtain credit facilities. There is no assurance that if and when we would need to obtain credit facilities, that banks or other financial institutions would agree to provide to us any such facilities on reasonable terms, or that they would agree to provide us any credit at all.

During 2011, net cash provided by operating activities was \$4.6 million, and was mainly comprised of our net profit of \$2.7 million, increase in trade payables, accrued expenses and other liabilities of \$0.2 million, decrease in net deferred taxes of \$0.5 million, and depreciation and amortization of \$1.4 million, as partially offset by increase in accounts receivable and prepaid expenses of \$0.2 million.

During 2011, net cash used in investing activities was \$0.4 million, and was solely comprised of \$0.4 million used for capital expenditures. Our capital expenditures for 2011 were mostly for the purchase of computers, computer equipment and software, and other office equipment.

During 2011, net cash used in financing activities was \$2.6 million, and was mainly comprised of \$3.2 million of cash used for the dividends that we paid and \$0.1 million of cash used for the reduction of short and long term bank credit, offset, in part, by \$0.7 million of cash provided by proceeds from issuance of shares upon exercise of options.

These activities caused our aggregate amount of cash and cash equivalents to increase to \$11.8 million as of December 31, 2011, as compared to \$10.2 million as of December 31, 2010; our short-term credit obligations to remain at \$0.1 million as of December 31, 2011, as compared to \$0.1 million as of December 31, 2010; and our long-term credit obligations to be reduced to \$0 as of December 31, 2011, as compared to \$0.1 million as of December 31, 2010.

We may make further use of our cash resources for distributing cash to shareholders. In November 2011, our board of directors authorized, and on April 18, 2012, an Israeli court approved, up to an additional \$10 million of cash distributions that we may potentially make over the course of a 12 month period following the court approval, subject to subsequent declaration by our board of directors of specific payments out of the total potential distribution amount, and subject to certain approvals from the Israeli Tax Authority. Prior to actually distributing any amount out of the \$10 million sum, we will announce the distribution amount, distribution date and record date related to the distribution. We cannot guarantee that our board of directors will approve the distribution of all, or any portion, of such \$10 million sum.

As of December 31, 2011, our working capital was \$6.5 million and our total assets were \$34.5 million, as compared to \$5.9 million and \$34.9 million, respectively, as of December 31, 2010. The increase in working capital resulted mainly from an increase of cash and cash equivalents of \$1.6 million, an increase in trade receivables of \$0.1 million, a decrease in trade payables of \$0.6 million and a decrease in deferred revenues of \$0.1 million, offset in part by a decrease in other account receivables of \$0.8 million and an increase in other trade payables of \$0.8 million.

Our trade receivables, net of allowance for doubtful accounts totaled \$5.8 million on December 31, 2011, as compared to \$5.7 million on December 31, 2010. The collection cycle for such trade receivables remained practically unchanged during 2011 as compared to 2010. We believe that, generally, the quality of receivables remained unchanged, and we will continue our efforts to shorten our collection cycles. Nevertheless, we cannot guarantee that collection cycles from one or more of our customers or Resellers will not lengthen relative to the past.

Concentration of Credit Risk

Financial instruments that potentially subject us to concentration of credit risk consist principally of cash and cash equivalents, short-term investments and accounts receivable. Our cash and cash equivalents and short-term investments are invested in deposits mainly with major banks in the United States, Europe and Israel. We believe that the financial institutions holding our cash funds are financially sound. Our accounts receivable are generated from a large number of customers located in Europe, Asia, the United States and Israel. We perform ongoing evaluations of our accounts receivable and maintain an allowance for doubtful accounts that we believe is adequate to cover all anticipated losses with respect to our accounts.

Impact of Inflation and Currency Devaluation on Results of Operations, Liabilities and Assets

Although part of our revenues are denominated and paid in U.S. dollars, the majority are not so denominated and paid. Therefore we believe that inflation and fluctuations in the U.S. dollar exchange rate may have a material effect on our results of operations. The cost of our Israel operations, as expressed in U.S. dollars, is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the U.S. dollar.

The average representative exchange rate between the U.S. dollar and the NIS, reflecting an average of buying and selling prices published by banks during the period, as published by the Bank of Israel, decreased during 2011, from NIS 3.7319 to one dollar for 2010 to NIS 3.5791 to one dollar for 2011. The average representative exchange rate was as follows for each of the five most recent fiscal years:

Period	Exchange Rate
January 1, 2007 - December 31, 2007	4.110 NIS/\$1
January 1, 2008 - December 31, 2008	3.586 NIS/\$1
January 1, 2009 - December 31, 2009	3.923 NIS/\$1
January 1, 2010 - December 31, 2010	3.732 NIS/\$1
January 1, 2011 - December 31, 2011	3.579 NIS/\$1

Despite the decrease in the average representative exchange rate for 2011 as a whole relative to 2010 (reflecting lower exchange rates during most of 2011), the concluding months of 2011 saw an increase in the exchange rate between the U.S. dollar and the NIS, such that from the start to the conclusion of 2011, the exchange rate actually rose, from NIS 3.549 to one dollar at the start of the year to NIS 3.821 to one dollar at the end of the year, and has varied slightly during the period of time since the conclusion of 2011, having ranged from a high of 3.854 NIS to one dollar to a low of 3.700 NIS to one dollar since December 31, 2011 (through April 20, 2012). The high and low exchange rates between the U.S. dollar and NIS during the 6 most recent months, as published by the Bank of Israel, were as follows:

MONTH	LOW (1 U.S. dollar = NIS __)	HIGH (1 U.S. dollar = NIS __)
October 2011	3.602	3.763
November 2011	3.650	3.800
December 2011	3.727	3.821
January 2012	3.733	3.854
February 2012	3.700	3.803
March 2012	3.715	3.814

In 2009, the rate of Israeli inflation was approximately 3.9%, and the U.S. dollar appreciated against the NIS by 9.4% (based on average representative exchange rates). In 2010, the rate of Israeli inflation was approximately 2.7%, and the U.S. dollar devalued against the NIS by 4.9% (based on average representative exchange rates). In 2011, the rate of Israeli inflation was approximately 2.2% and the U.S. dollar devalued against the NIS by 4.1% (based on average representative exchange rates).

Since our financial results are reported in dollars, fluctuations in the rates of exchange between the dollar and non-dollar currencies may have a material effect on our results of operations. We therefore use currency exchange forward contracts and currency exchange options to hedge the impact of the variability in the exchange rates on future cash flows from certain Euro-denominated transactions, as well as certain NIS-denominated expenses. Our policy is to hedge up to 100% of our Euro denominated future cash flows to protect against a reduction in reported operating income arising from depreciation of the Euro relative to the U.S. dollar and to hedge up to 100% of our NIS denominated expenses to protect against an increase in reported expenses arising from depreciation of the U.S. dollar relative to the NIS. However, we may decide not to hedge in accordance with this policy where, in our judgment, the applicable exchange rate is sufficiently low. The counter-parties to our forward contracts and currency exchange options are major financial institutions with high credit ratings. We believe that the risk of incurring losses on such forward contracts and currency exchange options related to credit risks is remote and that any losses would be immaterial. As of December 31, 2011, we had currency exchange forward transactions to sell \$6.1 million for a total amount of NIS 22.5 million until December 27, 2012. See "Item 11 - Quantitative and Qualitative Disclosure about Market Risk" for a description of hedging and other similar transactions.

Research and development, patents and licenses, etc.

We conduct our research and development operations primarily in Israel and to a small extent in Russia. Following the merger with Gibbs System in January 2008 we also have substantial research and development operations in California. Our research and development efforts have been financed through internal resources and through programs sponsored by the OCS. In the years ended December 31, 2009, 2010 and 2011, our gross research and development expenditures were \$5.9 million, \$6.0 million and \$6.7 million, respectively (18%, 17% and 17% of total revenues, respectively). Prior to 2001, we were granted royalty-bearing grants from the OCS for research and development activities. Under the provisions of Israeli law in effect until 1996, royalties of 2%-3% of the revenues derived from the sale of software products developed under a research and development program funded by the OCS and certain related services must be paid to the State of Israel. Pursuant to an amendment effected in 1996 with respect to OCS programs funded in or after 1994, royalties of revenues derived from products developed according to such programs are generally payable to the State of Israel at the rate of 3% during the first three years, 4% over the following three years and 5% in or after the seventh year of the relevant OCS program. The maximum aggregate royalties will not, however, exceed 100% (for programs funded prior to 1994, 100% to 150%) of the U.S. dollar-linked value of the total grants received from the OCS. Pursuant to an amendment effected in 2000, effective with respect to OCS programs funded in or after 2000, the royalty rates described above were updated to 3%, during the first three years, and 3.5%, in or after the fourth year, of the revenues derived in connection with products developed under such programs. Pursuant to an amendment effected on January 1, 1999 with respect to OCS programs approved in or after 1999, funds received from the OCS shall bear annual interest at a rate equal to LIBOR for twelve months. As of December 31, 2011, our contingent liability with respect to such grants was approximately \$2.0 million, which liability is contingent upon our generating revenues from sales of products developed with funds provided by the OCS.

We believe that the majority of products that we have sold since January 1, 2005 are not based on technology developed with funds provided by the OCS and that, accordingly, such sales should not be subject to the payment of royalties to the OCS. Therefore, the royalty reports we have submitted to the OCS for the period starting January 1, 2005 and thereafter have reflected significantly reduced royalty obligations in comparison to our royalty reports for the years prior to 2005. In addition, during the second half of 2005 we initiated a process with the OCS in an attempt to obtain the agreement of the OCS with our position and to the cessation of our obligation to pay future royalties. Following this application and further correspondence between the OCS and us, the OCS appointed an external professional examiner to examine our claim from a technological point of view. This examiner submitted his report to the OCS in November 2005. In December 2005, the OCS appointed a second professional examiner to submit a second opinion regarding our technological claim. During January 2006 our management met with the OCS in an attempt to, among other things, accelerate the OCS's treatment of our application. In September 2006 we received a letter from the OCS rejecting our application. Following further inquiries made by us, we continued corresponding with the OCS and in January 2007 our management met again with the OCS. As a result of this meeting the OCS agreed to continue its examination of our application. In July 2007 we met with an OCS examiner and two additional OCS representatives. We followed up on this meeting via further inquiries to the OCS staff as to when they expected to conclude their examinations and provide a final decision; however, to date, we have not received any final decision from the OCS.

Although we believe that we have strong arguments to support our position, we have accrued royalty expenses in the amount of approximately \$3 million in our financial statements for the periods from January 1, 2005 through March 31, 2010, but we have not paid to the OCS any royalties associated with the products mentioned above.

We do not intend to further accrue for royalty expenses to the OCS in our financial statements, as we believe that the chances for actual payments above the amounts already accrued are remote. See "Item 3. Risk Factors - We may be required to pay royalties to the OCS in respect of sales since January 1, 2005" for a discussion of the risks to us arising from the possibility that we may be obligated to pay to the OCS the past amounts that we accrued with regard to this issue or even more than such amounts.

The State of Israel does not own proprietary rights in technology developed with OCS funding and there is no restriction on the export of products manufactured using technology developed with OCS funding. The technology is, however, subject to transfer restrictions, as described below. These restrictions may impair our ability to sell our technology assets or to outsource manufacturing and the restrictions continue to apply even after we have paid the full amount of royalties payable for the grants. In addition, the restrictions may impair our ability to consummate a merger or similar transaction in which the surviving entity is not an Israeli company.

The transfer to a non-Israeli entity of technology developed with OCS funding, including pursuant to a merger or similar transaction, and the transfer of rights related to the manufacture of more than ten percent (10%) of a product developed with OCS funding are subject to approval by an OCS committee and to the following conditions:

- *Transfer of Technology.* If the committee approves the transfer of OCS-backed technology, such a transfer would be subject to the payment to the OCS of a portion of the consideration we receive for such technology. The amount payable would be a fraction of the consideration equal to the relative amount invested by the OCS in the development of such technology compared to our total investment in the technology, but in no event less than the amount of the grant. However, in the event that in consideration for our transfer of technology out of Israel we receive technology from a non-Israeli entity for use in Israel, we would not be required to make payments to the OCS if the approval committee finds that such transfer of non-Israeli technology would significantly increase the future return to the OCS.
- *Transfer of Manufacturing Rights.* The committee is authorized to approve transfers of manufacturing rights only if the transfer is conditioned upon either (1) payment of increased aggregate royalties, ranging from 120% to 300% of the amount of the grant plus interest, depending on the percentage of foreign manufacture or (2) a transfer of manufacturing rights into Israel of another product of similar or more advanced technology.
- *Merger or Acquisition.* If the committee approves a merger or similar transaction in which the surviving entity is not an Israeli company, such a transaction would be subject to the payment to the OCS of a portion of the consideration paid. The amount payable would be a fraction of the consideration equal to the relative amount invested by the OCS in the development of such technology compared to the total investment in the company, net of financial assets that the company has at the time of the transaction, but in no event less than the amount of the grant.

In the event that the committee believes that the consideration to be paid in a transaction requiring payment to the OCS pursuant to the provisions of the law described above does not reflect the true value of the technology or the company being acquired, it may determine an alternate value to be used as the basis for calculating the requisite payments.

In the years ended December 31, 2009, 2010 and 2011, we paid or accrued royalties to the OCS in the amount of \$0.3 million, \$0 and \$0, respectively. We currently believe that further accruals will not be necessary in light of the facts described above concerning our application to the OCS to recognize our claim that we are no longer obligated to pay royalties on a majority of our sales subsequent to January 1, 2005.

In addition to the OCS grants, we received grants from the Fund for the Encouragement of Overseas Marketing of the Israeli Government's Ministry of Industry and Trade, with respect to which we are obligated to pay royalties amounting to 3% to 4% of the incremental exports, up to a maximum of 100% of the grants received. Our contingent liability as of December 31, 2011 with respect to such grants was \$0.6 million, contingent upon our incremental exports.

In addition, until June 2011, we participated in a four year project of the European Sixth Research and Technological Development Framework Program, as part of a consortium led by European companies, with respect to machining of very high precision parts and molds aimed at mass production of optical lenses. Grants received under this project are not subject to any future royalty payments. In 2009, 2010 and 2011, we recorded in our profit and loss statements \$120,000, \$0 and \$0, respectively, of grants received.

Trend Information

We are subject to various trends and uncertainties in the CAD/CAM business, including changing customer demands, new products developed by competitors, consolidation of operations and the use of cost-cutting measures. Following is a summary of the material trends and uncertainties influencing our operations:

Cash and Cash Equivalents. Following the reduction in our cash and cash equivalents in 2008 of approximately \$6.0 million due to our payment of the consideration for our merger with Gibbs System and our acquisition of the remaining 49% of Microsystem, in 2009, we reversed that trend, as our cash and cash equivalents increased by approximately \$1.0 million, due mostly to positive cash flow from operating activities, as partially offset by repurchases under our share buyback plan and purchases of property and equipment. During 2010 and 2011, we strengthened the trend of 2009, having experienced a further increase in cash and cash equivalents, in amounts of approximately \$3.5 million and \$1.6 million, respectively, due mostly to positive cash flow from operating activities, as offset partially (i) in 2010 by capital expenditures, bank credit repayments and share repurchases, and (ii) in 2011, by capital expenditures, bank credit repayments and dividend distributions.

Migration to Far East. Many mold, tool, die and fixture makers as well as discrete part manufacturers have migrated or intend to migrate their operations to markets in the Far East, such as China, in order to take advantage of the relatively lower cost of labor available in those markets for the manufacturing activities. We anticipate that this migration will continue and have expanded our operations in Asia, including in China, South Korea and India, in order to increase our share of those growing markets. Many of those markets, including China, South Korea and India, are characterized by lower prices and by higher usage of pirated copies of software products. While those markets are also often much larger than a number of our traditional markets in Europe, to the extent that we cannot offset the effects of lower prices and higher incidents of pirated software usage, our revenues and profitability may be adversely affected.

Maintenance Revenues. It has been our experience that most of our customers who purchase maintenance contracts elect to receive maintenance services from us on a continuing basis. While customers in most markets do purchase maintenance services from us, our customers in the Far East (other than in Japan, and South Korea to a certain extent) generally do not purchase maintenance but instead purchase product upgrades on a case-by-case basis. Accordingly, our maintenance revenues may be adversely impacted to the extent that our customer base shifts to those markets in the Far East where customers often do not purchase maintenance and there is no corresponding increase in customers in other markets.

Movement in Prices. The strong competition in the software business generally, and in the CAD/CAM business specifically, caused prices of products in our industry to decrease in past years. Such decrease in software prices had resulted in a decrease in our revenues and thus in our profits. Nevertheless, in more recent years, we have seen that this trend has moderated, and does not even exist in certain territories. If the foregoing trend renews, however, we may have to employ cost-reduction measures in order to remain profitable.

Risk Factors. In addition, our results of operations and financial condition may be affected by various other factors discussed in "Item 3 - Key Information - Risk Factors", including market acceptance of our products, changes in political, military or economic conditions in Israel and in the Middle East, general slowing of local or global economies and decreased economic activity in one or more of our target industries.

Off-Balance Sheet Arrangements

Other than as discussed below, we are not party to any off-balance sheet arrangements or subject to any contingent liabilities.

1. With respect to our contingent liability relating to payment of royalties to the OCS, see “Research and development, patents, licenses, etc.” in this Item 5 above.

2. As consideration for grants received from the Fund for the Encouragement of Overseas Marketing of the Israeli Government’s Ministry of Industry and Trade, we are obligated to pay such Fund royalties amounting to 3% to 4% of the incremental exports, up to a maximum of 100% of the grants received. Our contingent liability as of December 31, 2011 was \$0.6 million, contingent upon our incremental exports.

F. Tabular Disclosure of Contractual Obligations

The following table summarizes our contractual obligations and commercial commitments as of December 31, 2011:

Contractual Obligations as of December 31, 2011	Payments due by Period (US\$, in thousands)				
	Total	Less than 1 Year	1-3 Years	3-5 Years	More than 5 Years
Operating Leases	7,550	1,867	3,235	2,448	-
Purchase Obligations and Commitments ⁽¹⁾	1,224	1,000	224	-	-
Other Long-Term Liabilities	⁽²⁾ 4,135	4,135	-	-	-
Total Contractual Cash Obligations	12,909	7,002	3,459	2,448	-

(1) Certain obligations to software vendors reflected in the amounts recorded in this row assume that we achieve minimum revenue levels. To the extent that our revenues are lower than such minimum levels, our obligations will be reduced accordingly.

(2) Represents a provision for future severance pay obligations.

G. Safe Harbor

This annual report on Form 20-F contains “forward-looking” statements within the meaning of Section 27A of the Securities Act of 1933, as amended, or the Securities Act, and Section 21E of the Securities Exchange Act of 1934, as amended, or the Exchange Act. These are statements that are not historical facts and include statements about our beliefs and expectations. These statements contain potential risks and uncertainties, and actual results may differ significantly. Forward-looking statements are typically identified by the words “believe,” “expect,” “intend,” “estimate” and similar expressions. Such statements appear in this annual report and include statements regarding the intent, belief or current expectation of our company or our directors or officers. Actual results may differ materially from those projected, expressed or implied in the forward-looking statements as a result of various factors, including, without limitation, the factors set forth in “Item 3—Key Information—Risk Factors,” which we refer to as the Cautionary Statements. Any forward-looking statements contained in this annual report speak only as of the date hereof, and we caution potential investors not to place undue reliance on such statements. We undertake no obligation to update or revise any forward-looking statements. All subsequent written or oral forward-looking statements attributable to us or to persons acting on our behalf are expressly qualified in their entirety by the Cautionary Statements.

Item 6. Directors, Senior Management and Employees.

Directors and Senior Management

As of the date of this annual report, our directors, senior management and key employees are as follows:

Name	Age	Position
Yossi Ben Shalom	57	Chairman of the Board
William F. Gibbs	58	Vice Chairman of the Board
Barak Dotan	44	Director
Yoel Rosenthal	57	Director
David Golan	71	Director
Eti Livni	63	External Director
Rami Entin	61	External Director
Dan Haran	54	President and Chief Executive Officer
Ilan Erez	44	Chief Financial Officer

Yossi Ben Shalom, our Chairman of the Board since May 2008 and a director since February 2002, is a co-founder of DBSI. Prior to establishing DBSI, Mr. Ben Shalom served as Executive Vice President and Chief Financial Officer of Koor Industries Ltd. (NYSE:KOR), from 1998 through 2000. Prior to that, he served as Chief Financial Officer of Tadiran Ltd. Mr. Ben Shalom has also been an active director on numerous boards, such as NICE Systems (NASDAQ:NICE), Machtshim Agan, Bank Klali and others. Mr. Ben Shalom holds a bachelor's degree in economics and a master's degree in business administration from Tel Aviv University.

William F. Gibbs, our Vice Chairman of the Board since January 2008, is the founder of Gibbs System (also known as Gibbs and Associates), the makers of GibbsCAM. He joined our company on January 2, 2008, upon the merger of Gibbs System into our wholly owned subsidiary. Mr. Gibbs worked as a mechanical design engineer from 1972 to 1978. He designed his first CAM system for the Hasbach Co., as their VP of software development from 1978 to 1982. He started Gibbs and Associates as a contract programming service for CNC part programming in 1982, beginning CAM software development for the Macintosh computer in 1984. GibbsCAM, the 2nd generation Gibbs System software, was first released in 1993. Mr. Gibbs holds a Bachelor of Science degree in computer science from the California State University at Northridge California.

Barak Dotan, a director of our company since February 2002, is a co-founder of DBSI. Prior to establishing DBSI, Mr. Dotan worked as Product Manager for Jacada (NASDAQ:JCDA), formerly CST and later managed private investments in high-tech and other areas. Mr. Dotan graduated summa cum laude from the Hebrew University of Jerusalem with a bachelor's degree in computer science and business administration.

Yoel Rosenthal, a director of our company since May 2008, has been the CFO of DBSI since 2001. Prior to joining DBSI, Mr. Rosenthal was a founder and partner of a private accounting firm in Israel, Bruckner, Rosenthal, Ingber & Co. Prior to that he held the position of Loan Officer for multinational corporations at the Bank of Montreal in the USA. Mr. Rosenthal holds an MBA from the University of California in Los Angeles and a BA in Economics and Accounting from Tel Aviv University.

David Golan has been a member of our board of directors since 1992 and is a former Chairman of the Board. Mr. Golan is currently an independent businessman and a director in several public and private companies. Previously he was an executive director in the Binat Group. From May 1998 to September 2000 Mr. Golan was Managing Director in charge of Zeevi Holdings' investments, not including ZCT. From March 1997 to May 1998, he was the Chief Executive Officer of Clal Trading Ltd., a subsidiary of the IDB group. From 1992 to March 1997, he was Executive Vice President of Clal Trading. Mr. Golan was formerly president of Gal Weisfield Industries Ltd. Mr. Golan holds a bachelors degree in economics and statistics from Hebrew University in Jerusalem and a master's degree in business administration from New York University.

Eti Livni, one of our external directors since April 2008, is currently active as a lawyer in commercial issues, environmental issues, intellectual property and also serves as an arbitrator and mediator in various disputes. Ms. Livni also currently serves as a director in various Israeli public companies, including the Israel Military Industry (IMI), New Makefet Pension and Benefit Funds Management Ltd., and Alrov Ltd. From 2003 until 2006, Ms. Livni served as a member of the 16th Knesset and as a member of several Knesset committees. From 1999 until 2006, Ms. Livni was a member of the Shinui Party and was also acting as head of the women's section in the party. From 1995 until 2003, Ms. Livni acted as a member of the managing committee of the Israeli Bar Association and as a member of the Association's ethics committee. Ms. Livni holds an L.L.B from the Hebrew University of Jerusalem, and is a certified lawyer in Israel.

Rami Entin, an external director of ours since May 2005, also currently serves as an external director of Inter Colony Ltd., an Israeli publicly traded construction company, and as an external director of Babylon Ltd., an Israeli publicly traded company that provides software solutions and services in the online translation market. Mr. Entin is also the Chairman of the board of directors of Hilan-Tech Ltd., an Israeli publicly traded company, and a director of Incentives Solutions Ltd. and of Avnet Data Security Ltd., and serves as an external director of B.S.P. Biological Signals Processing Ltd. From 2002 until 2003, Mr. Entin was the chairman of the Hashavim Group, a data center for direct taxation and employment laws and a processor of wages and personnel data. From 1999 until 2001, Mr. Entin was Co-Chief Executive Officer and a director of Hilan-Tech Ltd., where he was in charge of financial, personnel, sales and marketing and Lotus Notes operations. From 1985 until 1999 he was financial manager and a director of Hilan Ltd., where he was in charge of financial and personnel operations. From 1981 until 1985, Mr. Entin worked for Kesselman & Kesselman, an accounting firm, where he served various publicly traded companies engaged in the services and industry fields. Mr. Entin holds a B.A. degree in accounting and economics and an M.B.A. degree from the Tel Aviv University, and is a certified accountant in Israel. He is also a graduate of the Advanced Management Program at Harvard University.

Dan Haran has been our President and Chief Executive Officer since July 2005. Mr. Haran joined Cimatron as Vice President of Marketing and Chief Operating Officer in November 2003 after having been employed by Comverse (NASDAQ:CMVT) where he held several senior management positions, most recently as Chief Operating Officer of the Intelligent Network Division. Prior to Comverse, Mr. Haran managed Medcon Systems, an Israeli-based start-up company. Mr. Haran holds a bachelor of science degree in computer engineering from the Technion, a master of science degree from the Weizman Institute, and a master of business administration degree from Tel Aviv University.

Ilan Erez joined us as VP Finance in May 2005 and became our Chief Financial Officer in July 2005. From 1998 to 2005, Mr. Erez served as the Chief Financial Officer of Silicom Ltd., a NASDAQ listed company engaged in the design, manufacturing and selling of server-networking cards. He also served as VP Operations of Silicom from May 2001 until his departure, and has served as external director of Silicom since July 2010. From 1996 to 1998 Mr. Erez served as a Controller and assistant to the Chief Executive Officer at Bio-Dar Ltd. From 1994 until 1996 Mr. Erez served as an auditor at Kesselman & Kesselman, a member of PriceWaterhouseCoopers. Mr. Erez is a Certified Public Accountant in Israel and holds a B.A in Accounting and Economics from the Hebrew University in Jerusalem and an LL.M. in Business Law from Bar-Ilan University.

Arrangements for the Election of Directors

Under our merger agreement with Gibbs System, we appointed William Gibbs as the vice chairman of our board of directors and undertook to him that he will continue to serve in that position as long as he continues to hold at least 9% of our issued and outstanding share capital. As a result of the merger, Mr. Gibbs was issued 1,500,000 Ordinary Shares, of which he currently holds 1,497,500 Ordinary Shares, representing approximately 16.1% of our outstanding share capital].

Compensation

During the year ended December 31, 2011, we paid, in the aggregate, approximately \$1.79 million in direct remuneration to our directors and officers for services provided by them to our company in such capacities. Such sum includes amounts expended by us for automobiles and other fringe benefits made available to our officers, but excludes amounts that we have reimbursed to our officers for strict business expenses such as travel, professional and business association dues and expenses (which do not constitute benefits "in kind"). We pay each of our external directors, as well as Mr. David Golan and Mr. William F. Gibbs, an annual fee of approximately \$4,865, plus approximately \$494 for each meeting of the board of directors or a committee thereof attended and reimbursement for expenses incurred in connection with the discharge of responsibilities as a board member, including attendance at meetings of the board of directors.

Please see "Item 7—Major Shareholders and Related Party Transactions" for a description of the employment agreement entered into with Mr. Gibbs, and the terms pursuant to which Cimatron Gibbs LLC leases office space from Mr. Gibbs.

Board of Directors

Our Articles of Association provide for a board of directors of not less than two members. Each director, with the exception of external directors who are elected to serve for set periods of time (as described below), is elected to serve until the next annual general meeting of shareholders and until his or her successor has been duly elected. Officers serve at the discretion of the board.

Substitute Directors

Our Articles of Association provide that any director may, by written notice to us, appoint another person to serve as a substitute director and may cancel such appointment. A person may not serve as a substitute director for more than one director and may not serve both as a director and as a substitute director.

The term of appointment of a substitute director may be for one meeting of our board of directors or for a specified period or until notice is given of the cancellation of the appointment. Any substitute director will have all of the rights and obligations of the director appointing him or her, except the power to appoint a substitute (unless the instrument appointing him or her provides otherwise), and the right to remuneration. The substitute director may not act at any meeting at which the director appointing him or her is present. Unless the appointing director limits the time period or scope of any appointment, the appointment is effective for all purposes, but will expire upon the expiration of the appointing director's term. To our knowledge, no director currently intends to appoint any other person as a substitute director, except if the director is unable to attend a meeting of the board of directors.

External Directors

The Israeli Companies Law, 1999, or the Companies Law, requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two external directors. A person may not be appointed as an external director if the person is a relative of the controlling shareholder of the company or if that person or his or her relative, partner, employer, another person to whom he or she was directly or indirectly subject, or any entity under the person's control, has, as of the date of the person's appointment to serve as external director, or had, during the two years preceding that date, any affiliation or one of certain other prohibited relationships with the company or any person or entity controlling (or relative of such controlling person), controlled by or under common control with the company (or, in the case of a company with no controlling shareholder, any affiliation or one of certain other prohibited relationships with a person serving as chairman of the board, chief executive officer, a substantial shareholder or the most senior office holder in the company's finance department). The term "affiliation" and the similar types of prohibited relationships include:

- an employment relationship;
- a business or professional relationship, even if not maintained on a regular basis (but excluding a de minimis level relationship);
- control; and
- service as an office holder (as defined in the Companies Law and described under "Item 10— Articles of Association; Israeli Companies Law— Approval of Certain Transactions Under the Companies Law" below).

No person may serve as an external director if the person's position or other business activities create, or may create, a conflict of interest with the person's responsibilities as an external director or may otherwise interfere with the person's ability to serve as an external director or if the person is an employee of the Israel Securities Authority or of an Israeli stock exchange. A person may furthermore not continue to serve as an external director if he or she accepts, during his or her tenure as an external director, direct or indirect compensation from the company for his or her role as a director, other than amounts prescribed under the Companies Law regulations (as described below) or indemnification, the company's undertaking to indemnify such person, exemption and insurance coverage. If, at the time of election of an external director, all other directors who are not the company's controlling persons or their relatives are of the same gender, the external director to be elected must be of the other gender.

External directors are to be elected by a majority vote at a shareholders' meeting, provided that either:

- the majority voted in favor of election includes a majority of the shares held by non-controlling shareholders who do not have a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) that are voted at the meeting (abstentions are disregarded in this calculation), or
- the total number of shares held by non-controlling, disinterested shareholders (as described in the previous bullet-point) voted against the election of the director does not exceed two percent (2%) of the aggregate voting rights in the company.

The initial term of an external director is three years and may be extended by the general meeting of shareholders, for up to two additional three year terms, provided that his or her service for each such additional term is recommended by one or more shareholders holding at least one percent (1%) of the company's voting rights and is approved by a majority at a shareholders meeting, which majority must include both criteria described above with respect to his or her initial election. In addition, under regulations promulgated under the Companies Law, an external director of a public company whose shares are also registered for trading in certain stock exchanges outside of Israel, like ours, may be elected for additional three year terms (in excess of the original six year term) provided that in light of such external director's expertise and special contribution to the work of the company's board of directors and audit committee, the re-election of such external director is for the benefit of the company. The same special majority is required for election of the external director for each additional three-year term.

An external director may be removed from office only: (i) by a court, upon determination that the external director to be so removed ceased to meet the statutory qualifications for his or her appointment or if he or she violated his or her duty of loyalty to the company; (ii) by the same percentage of shareholders, acting through a shareholders meeting, as is required for his or her election, if the board of directors has determined that the external director to be so removed has ceased to meet the statutory qualifications for his or her appointment or violated his or her duty of loyalty to the company and has proposed the removal to the shareholders. Such determination by the board of directors is to be made in the first meeting of the board of directors to be convened following learning of the said cessation or violation. An external director who ceases to meet the conditions for his or her service as such must notify the company immediately and such service shall cease immediately upon such notification.

Following the termination of an external director's service on a board of directors, such former external director and his or her spouse and children may not be provided a direct or indirect benefit by the company, its controlling shareholder or any entity under its controlling shareholder's control, including engagement to serve as an executive officer or director of the company or a company controlled by its controlling shareholder or employment by, or providing services to, any such company for consideration, either directly or indirectly, including through a corporation controlled by the former external director, for a period of two years (which prohibition also applies to other relatives of the former external director for a period of one year).

Each committee of a company's board of directors that has the right to exercise powers delegated by the board must include at least one external director, and the audit committee is required to include all of the external directors. Our external directors are Eti Livni and Rami Entin, who will complete their current terms in April 2014, in accordance with Israeli law.

An external director is entitled to certain compensation as provided in regulations adopted under the Companies Law but is otherwise prohibited from receiving any other compensation, directly or indirectly, in connection with service provided as an external director or otherwise to the company.

Under the Companies Law, at least one of the external directors serving on a company's board of directors is required to have "accounting and financial expertise" and the other external director or directors are required to have "professional expertise." A director is deemed to have "professional expertise" if he or she either (i) has an academic degree in economics, business management, accounting, law or public service, (ii) has an academic or other degree or has completed other higher education, all in the field of business of the company or relevant for his/her position, or (iii) has at least five years experience as either a senior managing officer in the company's line of business with a significant volume of business, a public office, or a senior position in the company's main line of business. A director with "accounting and financial expertise" is a director that due to his or her education, experience and skills has a high expertise and understanding in financial and accounting matters and financial statements, in such a manner which allows him to deeply understand the financial statements of the company and initiate a discussion about the presentation of financial data. However, under regulations promulgated under the Companies Law, a public company whose shares are also registered for trading in certain stock exchanges outside of Israel, like ours, is not required to appoint an external director with accounting and financial expertise, if at such time there is another director serving on the board of directors of such company who has accounting and financial expertise and who is an independent director for purposes of membership on the audit committee thereof, in accordance with the applicable laws of the state in which such shares are registered (and the rules and regulations of such foreign stock exchange). Our board of directors has determined that Mr. Entin has the requisite "accounting and financial expertise" while Ms. Livni has "professional expertise" as required of our external directors under the Companies Law.

Qualifications of Directors Generally Under the Companies Law

Under the Companies Law, the board of directors of a publicly traded company is required to make a determination as to the minimum number of directors (not merely external directors) who must have accounting and financial expertise (according to the same criteria described above with respect to external directors under "—External Directors"). In accordance with the Companies Law, the determination of the board should be based on, among other things, the type of the company, its size, the volume and complexity of its activities and the number of directors. Based on the foregoing considerations, our board of directors has determined that the number of directors with accounting and financial expertise in our company shall be not less than one. As described above under "—External Directors," currently Mr. Rami Entin has been determined by the board to possess such accounting and financial expertise.

Unaffiliated Directors Under the Companies Law

Under a recent amendment to the Companies Law, the audit committee of a publicly traded company must consist of a majority of unaffiliated directors. An "unaffiliated director" is defined as an external director and as a director who meets the following criteria:

- he or she meets the qualifications for being appointed as an external director, except for (i) the requirement that the director be an Israeli resident (which does not apply to companies whose securities have been offered outside of Israel or are listed outside of Israel) and (ii) the requirement for accounting and financial expertise or professional qualifications; and
- he or she has not served as a director of the company for a period exceeding nine consecutive years. For this purpose, a break of less than two years in the service shall not be deemed to interrupt the continuation of the service.

The foregoing amendment to the Companies Law further provides that a company may also elect to impose, via the adoption of a proposed set of corporate governance rules, certain requirements with respect to the membership of unaffiliated directors on the board of directors. Those requirements, if undertaken by a company, mandate that (i) if the company has no controlling shareholder or no shareholder that holds at least 25% of the company's voting rights, most of the members of the board must be unaffiliated directors, whereas (ii) if the company has a controlling shareholder or a shareholder that holds at least 25% of the voting rights, then at least one-third of the directors need to be unaffiliated directors.

As of the date of this annual report, we have not elected to adopt these corporate governance rules.

Audit Committee

In addition to the foregoing requirement with respect to the majority of its members being unaffiliated directors, the Companies Law requires public companies such as ours to appoint an audit committee, comprised of at least three directors, including all of the external directors, one of whom must serve as chairman of the committee. The chairman of the board of directors, or any director employed by or otherwise providing services to the company or to a controlling shareholder or any entity controlled by a controlling shareholder, may not be a member of the audit committee. Under the Companies Law (as amended in 2011), our audit committee is responsible for (i) determining whether there are delinquencies in the business management practices of the company, including in consultation with the company's internal auditor or the independent auditor, and making recommendations to the board to improve such practices, (ii) determining whether to approve certain related party transactions (including compensation of office holders (as defined under "Item 10— Articles of Association; Israeli Companies Law— Approval of Certain Transactions Under the Companies Law" below)) or transactions in which an office holder has a personal interest and whether such transaction is material, (iii) where the board of directors approves the working plan of the internal auditor, to examine such working plan before its submission to the board and propose amendments thereto, (iv) examine the company's internal controls and internal auditor's performance, including whether the internal auditor has sufficient resources and tools to dispose of his responsibilities (taking into consideration the company's special needs and size), (v) examine the scope of the company's auditor's work and compensation and submit its recommendation with respect thereto to the corporate organ considering the appointment thereof (either the board or the general meeting of shareholders) and (vi) determine procedures with respect to the treatment of company employees' complaints as to the management of the company's business and the protection to be provided to such employees. An audit committee may not approve an action or a transaction with a controlling shareholder, or with an office holder, or take any other action required under the Companies Law, unless at the time of approval a majority of the committee's members are present, of whom a majority consist of independent directors and at least one of them is an external director.

The NASDAQ Listing Rules and U.S. securities laws likewise require that we maintain an audit committee, consisting of at least three independent directors, all of whom (a) do not have any relationship to the company that may interfere with the exercise of their independence, and (b) must be financially literate. Under the NASDAQ rules and the Sarbanes-Oxley Act of 2002, or the Sarbanes-Oxley Act, the audit committee (i) has the sole authority and responsibility to select, evaluate, and, where appropriate, replace the company's independent auditors, (ii) is directly responsible for the appointment, compensation and oversight of the work of the independent auditors for the purpose of preparing its audit report or related work, and (iii) is responsible for establishing procedures for (A) the receipt, retention and treatment of complaints received by the company regarding accounting, internal accounting controls or auditing matters, and (B) the confidential, anonymous submission by employees of the company of concerns regarding questionable accounting or auditing matters. The audit committee is required to consult with management but may not delegate these responsibilities. In addition, under the Sarbanes-Oxley Act, the audit committee is responsible, among other things, for the following:

- Review in advance, and granting any appropriate pre-approvals of, (i) all audit and non-audit services to be provided by the independent auditors and (ii) all fees and other terms of engagement;
- Review and discussion with management and the independent auditors of the company's quarterly financial statements (including the independent auditors' review of the quarterly financial statements) prior to any required submission to shareholders, the Securities and Exchange Commission, or SEC, any stock exchange or the public;
- Review and discussion with management and the independent auditors of the company's annual audited financial statements prior to any required submission to shareholders, the SEC, any stock exchange or the public;
- Recommendation to the board of directors, if appropriate, that the company's annual audited financial statements be included in the company's annual report;

- Review and discussion with management of all disclosures made by the company concerning any material changes in the financial condition or operations of the company;
- Review of disclosures made to the audit committee by the company's chief executive officer and chief financial officer during their certification process for the company's annual report about any significant deficiencies in the design or operation of internal controls or material weaknesses therein and any fraud involving management or other employees who have a significant role in the company's internal controls; and
- Review and approval of all related-party transactions.

We have adopted a formal audit committee charter that we have implemented, embodying these responsibilities.

As of the date of this annual report, Mr. David Golan, Ms. Eti Livni and Mr. Rami Entin are serving as members of our audit committee.

Internal Auditor

Under the Companies Law, a company's board of directors must appoint an internal auditor, nominated by the audit committee. The role of the internal auditor is to examine, among other matters, whether the company's actions comply with the law and orderly business procedure. Under the Companies Law, the internal auditor may be an employee of the company but not an office holder, or an affiliate, or a relative of an office holder or affiliate, and he may not be the company's independent accountant or its representative. During November 2007, we appointed Fahn Kanne Control Management, a member firm of Grant Thornton, as our internal auditor.

NASDAQ Exemptions for a Foreign Private Issuer

We are a foreign private issuer within the meaning of NASDAQ Listing Rule 5005(a)(18), since we are incorporated in Israel and we meet the other criteria set forth for a "foreign private issuer" under Rule 3b-4(c) under the Exchange Act. Therefore, pursuant to NASDAQ Listing Rule 5615(a)(3), we may follow home country practice in lieu of certain provisions of the NASDAQ Listing Rule 5600 series and certain other NASDAQ Listing Rules. Pursuant to this allowance, we have opted out from complying with the majority independence requirement for our board of directors as a whole under NASDAQ Listing Rule 5605(b), given the fact that Israeli law (i.e., the Companies Law) does not impose such a requirement, and we have furthermore opted out from compliance with several other NASDAQ Listing Rules. Please see "Item 16G. Corporate Governance" below for a description of the manner in which we rely upon home country practice in lieu of complying with certain NASDAQ Listing Rules.

Compensation of Executive Officers

Under a recent amendment to the Companies Law (which went into effect over the course of 2011), in lieu of appointing a separate board committee with responsibility for setting appropriate compensation levels for our executive officers, the audit committee of our board of directors serves as the body with authority for establishing such compensation levels (whereas for executive officers who are not directors, the board of directors itself as a whole sets compensation levels). In setting compensation levels, our audit committee and board are guided by the levels of compensation provided to executives in other companies in our industry and our home country, as adjusted to account for differences in size and other relevant distinguishing factors. The amendment of existing compensation terms of our office holders who are not directors merely requires the approval of our audit committee, if such committee determines that the amendment is not substantial in relation to the existing terms. The compensation levels of executive officers who are also directors requires the approval of the audit committee, the board of directors and our shareholders, except in certain circumstances prescribed in regulations promulgated under the Companies Law.

Directors' Severance Benefits Upon Termination of Employment

Except for the employment agreement entered into by our subsidiary Cimatron Gibbs LLC with William Gibbs in his role on behalf of such subsidiary (as described below in "Item 7—Major Shareholders and Related Party Transactions—Related Party Transactions") we have not entered into any service contracts with any members of our board of directors that provide for specific benefits upon termination of employment. Other than any termination notice provisions under Mr. Gibbs' employment contract, the only severance pay benefits that may be provided are required under Israeli law and are described below in the section titled "Employees".

Employees

The following table sets forth, as of the end of each of the last three financial years, the number of our employees broken down by category of activity:

As of December 31,	2011	2010	2009
Research and Development	72	70	76
Marketing, Sales and Customer Support	181	186	187
Management, Administration and Information Systems	25	24	24
Total	278	280	287

The following table sets forth, as of the end of each of the last three financial years, the number of our (and our subsidiaries') employees broken down by geographic location:

As of December 31,	2011	2010	2009
Israel	87	81	81
Russia	4	4	5
North America (Cimatron Technologies Inc.)	16	13	13
North America (Cimatron Gibbs LLC)	59	61	62
Germany	32	34	36
Italy	37	38	44
China	31	39	37
India	1	1	1
Brazil	1	-	-
Korea	10	9	8
Total	278	280	287

In addition, during the 2010 and 2011 years, we employed, on average, 3.4 and 3 subcontractors or free-lance personnel, respectively, and as of December 31, 2010 and 2011, we employed 5 and 3 subcontractors personnel, respectively.

Certain provisions of the collective bargaining agreements between the Histadrut (General Federation of Labor in Israel) and the Coordination Bureau of Economic Organizations (including the Industrialists' Associations) are applicable to our employees in Israel by order of the Israeli Ministry of Labor. These provisions concern principally the length of the workday, minimum daily wages for professional workers, insurance for work-related accidents, procedures for dismissing employees, determination of severance pay and other conditions of employment. We generally provide our employees with benefits and working conditions beyond the required minimums. In addition to salary and other benefits, certain of our marketing personnel are paid commissions based on our performance in certain territories worldwide.

Israeli law generally requires severance pay, which may be funded via Managers' Insurance (as described below), upon the retirement or death of an employee or termination of employment without cause (as defined in the law). The payments related thereto amount to approximately 8.33% of wages. The majority of our employees in Israel have subscribed to Section 14 of Israel's Severance Pay Law, 5723-1963, or Section 14. Pursuant to Section 14, our employees, covered by this section, are entitled only to monthly deposits, at such 8.33% rate, made on their behalf by our company, covering potential severance payments to them. Payments in accordance with Section 14 release us from any future severance liabilities in respect of those employees. With regards to employees in Israel that are not subject to Section 14, our liability for severance pay is calculated pursuant to the Severance Pay Law, based on the most recent salary of the relevant employee and the number of years of employment. Such employees are entitled to one month's salary for each year of employment (or a portion thereof for additional corresponding partial years of employment). Our liability for such employees is fully provided for via monthly deposits to Managers' Insurance (as described below).

Israeli employees and employers are furthermore required to pay predetermined sums to the National Insurance Institute, which is similar to the United States Social Security Administration. Such amounts also include payments by the employee for national health insurance. The total payments to the National Insurance Institute are equal to approximately 17.43% of the employee's wages (up to a specified amount), of which the employee contributes approximately 69% and the employer contributes approximately 31%.

A general practice that we follow, which, as of May 2006, is also legally required, is the contribution of funds on behalf of our employees to a fund known as "Managers' Insurance." This fund provides a combination of savings plan, insurance and severance pay benefits to the employee, giving the employee payments upon retirement or death and securing the severance pay, if legally entitled, upon termination of employment. While prior to May 2006 we could decide whether each employee was entitled to participate in the plan, after that date, we are required to enable participation of all employees in the plan. Each employee is required to contribute an amount equal to 5% of his or her basic salary per month for the Managers' Insurance and we contribute an additional amount equal to between 13.3% and 15.8% of the monthly basic salary.

Share Ownership

2004 Share Option Plan

In October 2004, our board of directors and shareholders adopted the 2004 Share Option and Restricted Shares Incentive Plan, or the 2004 Share Option Plan, pursuant to which 240,000 Ordinary Shares were reserved for issuance upon the exercise of options to be granted to our directors, officers, employees and consultants. The 2004 Share Option Plan is administered by our board of directors, which designates the optionees and dates of grant. The exercise price of an option granted under the 2004 Share Option Plan may be no less than 95% of the fair market value of an Ordinary Share, as determined by our board of directors on the date that an option is granted. Options granted vest over a period determined by the board, terminate ten years from the date of grant, unless otherwise determined by the board, and are non-assignable except by the laws of descent. The board has the authority to amend the terms of the 2004 Share Option Plan, provided that any such amendment does not adversely affect any options granted thereunder. Following various option grants over the course of 2005, in December 2005, our board of directors increased the 2004 Share Option Plan reserve by an additional 250,000 shares. In May 2006, August 2007 and January 2008, we granted additional options at various exercise prices to our employees, each with a term of five years, including 2,000 options to William F. Gibbs, our Vice Chairman of the Board, at an exercise price of \$2.75 per underlying Ordinary Share. All options that have been granted to date under the 2004 Share Option Plan become exercisable pursuant to a three (3) year vesting schedule, as follows: (i) thirty three percent (33%) of the options become exercisable on the first anniversary of the grant date; and (ii) sixteen and one-half percent (16.5%) of the options become exercisable at the end of each subsequent six month period over the course of the following two (2) years, subject to the continued employment of each grantee by us and/or our subsidiaries. Each grantee is responsible for all personal tax consequences of a grant and the exercise thereof. We intend to grant additional options under the 2004 Share Option Plan to our various directors, executive officers and employees.

In November 2007, our board of directors approved the transfer of a pool of 618,500 unallocated Ordinary Shares from our prior share option plan, the 1998 Share Option Plan, to the 2004 Share Option Plan for future grants.

In 2011, our board of directors approved an amendment to the 2004 Share Option Plan that provides that (i) options may be granted pursuant to the "capital gains route" under Section 102 of the Israeli Income Tax Ordinance, 1961 and (ii) the exercise price at which options may be exercised may be adjusted by our board of directors due to dividend distributions that we may make from time to time.

At March 31, 2012, 59,905 Ordinary Shares underlie outstanding options granted to, and 641,917 Ordinary Shares are available for issuance pursuant to future option grants to (and subsequent exercise of options by), our various directors, officers, employees and consultants under the 2004 Share Option Plan.

Beneficial Ownership by Officers and Directors

Messrs. Ben Shalom, Dotan and Rosenthal may each (subject to the disclaimer provided in footnote (3) to the table in Item 7 below) be deemed to have beneficial ownership of an aggregate of 4,264,875 of our Ordinary Shares, representing 45.86% of our issued and outstanding share capital, by virtue of their positions with DBSI. As indicated in the table appearing in Item 7 below, Mr. William F. Gibbs beneficially holds 1,499,500 or 16.12% of our outstanding Ordinary Shares, which includes 2,000 shares issuable at an exercise price of \$2.75 per share upon exercise of options that are currently exercisable or will be exercisable within 60 days of March 31, 2012 (as described under "2004 Share Option Plan" above). As to our remaining board members, each of David Golan, Eti Livni and Rami Entin beneficially holds no Ordinary Shares. Among our executive officers, each of Dan Haran, our President and Chief Executive Officer, and Ilan Erez, our Chief Financial Officer, beneficially holds no Ordinary Shares. The options held by any of our directors and executive officers are subject to the terms (including exercise price and expiration date) referenced above in the description of option grants under our 2004 Share Option Plan.

The Ordinary Shares held (or issuable upon exercise of options held) by our directors and executive officers do not have voting rights that differ from those enjoyed by all holders of our Ordinary Shares.

Item 7. Major Shareholders and Related Party Transactions.

Major Shareholders

The following table sets forth information, as of March 31, 2012, concerning the beneficial ownership (as defined in Form 20-F promulgated by the SEC) of our Ordinary Shares by (i) any person who is known to us to own at least 5% of the Ordinary Shares of our company and (ii) all of our directors and executive officers as a group. The voting rights of our major shareholders do not differ from the voting rights of all other holders of our Ordinary Shares.

Name and Address	Number of Ordinary Shares	Percent of Ordinary Shares
DBSI Investments Ltd. 85 Medinat Hayehudim St. Herzliya, Israel	4,264,875	45.86%
William F. Gibbs 4017 N. Cedarpine Lane Moonpark, CA 93021 California, U.S	1,497,500 ⁽¹⁾	16.12%
3Kotek 2 B.V. Wielewaaleg 1, 4791, PD, Klundert, Netherlands	550,000	5.91%
All directors and executive officers as a group (9 persons)	5,762,375 ⁽¹⁾⁽²⁾	61.96%

(1) Includes an aggregate of 1,497,500 Ordinary Shares and additional 2,000 Ordinary Shares issuable upon exercise of options to purchase Ordinary Shares beneficially held by William F. Gibbs. All of such 1,497,500 Ordinary Shares are held indirectly through the Gibbs Family Trust.

(2) Includes an aggregate of 4,264,875 Ordinary Shares beneficially held by DBSI Investments Ltd., or DBSI, which are attributable to certain of our directors by virtue of the positions that they hold on the board of directors of DBSI. All of our directors to whom such share ownership is attributable disclaim such beneficial ownership. (Mr. Rosenthal in particular does not share in the equity ownership of DBSI).

Recent Significant Changes in the Percentage Ownership of Major Shareholders

There have been no significant changes in the percentage ownership of our major shareholders of which we are aware during the past three fiscal years.

Record Holders

As of April 10, 2012, there were 29 record holders of our Ordinary Shares, of which 11 were United States record holders owning an aggregate of approximately 55% of our outstanding Ordinary Shares. Such number of record holders and such percentage of our Ordinary Shares are not representative of the actual number of beneficial holders of our Ordinary Shares, and actual percentage of our Ordinary Shares, that are held in the United States.

Related Party Transactions

Services Agreement

Until February 2002, our former principal shareholder Zeevi Computers and Technology Ltd., or ZCT, provided us with certain corporate and administrative services, including, but not limited to, executive management, facilities and other such services as were agreed upon from time to time between us and ZCT. The primary executive management services that we received under the agreement represented the services of the chief executive officer and the chief financial officer of ZCT, who did not receive separate fees for such services. Pursuant to such agreement, we shared the expenses relating to the specific services we received from ZCT with the other subsidiaries of ZCT that also received such services from ZCT.

As of February 21, 2002, in connection with its sale of its equity interest in our company to Koonras Technologies Ltd., or Koonras (which consequently became a significant shareholder of ours, and remained such a significant shareholder for a period of time), and DBSI, ZCT assigned all rights and obligations under the foregoing services agreement to Koonras and DBSI. An assignment of this agreement to Koonras and DBSI was ratified by our shareholders on July 11, 2002. Following the consummation of the sale of 1,700,000 of our Ordinary Shares by Koonras to DBSI on June 24, 2008, and the related approval of our shareholders at such time, the management services agreement was assigned in full to DBSI, which continues to provide all of the services and receive the entire annual fee. The amount that we paid for services under this agreement totaled NIS 1.87 million or \$0.52 million in the year ended December 31, 2011, and the amount that we have paid thus far in 2012 (through April 15, 2012) has amounted to NIS 0.55 million (\$0.15 million).

Lease Agreement

Prior to its merger with our subsidiary, Gibbs System leased office space in Moonpark, California from a limited liability corporation controlled by Mr. Gibbs. In connection with the merger in 2008, the lease was assigned to us, as a result of which we lease the space from that limited liability corporation. At the time of the assignment of the lease, we entered into an amendment to the original terms of the lease, pursuant to which the expiration date for the term of the lease was brought forward from 2020 to December 31, 2012, with an option for us to extend the lease for an additional five years. Also a result of the lease amendment, the rent that we are obligated to pay during the initial term of the lease is \$24,710 per month (in lieu of \$22,464 per month).

Registration Rights

In October 2004, following approval by our board of directors, our audit committee and the requisite majority of our disinterested shareholders, in accordance with the related party transaction requirements of Israeli law, we entered into a registration rights agreement with Koonras and DBSI, then our two largest shareholders. Under the agreement, Koonras and DBSI had the right, subject to various conditions and limitations, to require us to file a registration statement for the resale of their shares or to include their shares in certain registration statements that we file. On June 3, 2008, in connection with the sale of certain of its Ordinary Shares to Kotek, Koonras assigned to Kotek all registration rights applicable to such shares under the registration rights agreement.

In January 2008, in connection with the merger of our subsidiary with Gibbs System, we granted to Mr. Gibbs certain registration rights with respect to the Ordinary Shares issued to him as part of the merger consideration. The grant of such registration rights was approved by our board of directors. Pursuant to the registration rights agreement entered into with him, Mr. Gibbs has the right, subject to various conditions and limitations, to include his shares in certain registration statements that we file.

Demand Registration Rights

Under the above-described registration rights agreement with DBSI and Kotek (as successor to Koonras), DBSI and Kotek together, and pro-rata between themselves, are entitled to up to two demand registrations on SEC Form F-1 (or an equivalent form) promulgated under the Securities Act at our expense, provided that the anticipated aggregate offering price for the shares to be registered, net of any underwriting discounts and commissions, exceeds \$1 million.

Notwithstanding the foregoing, we are not required to effect a demand registration during the period starting with the date of filing of, and ending on the date that is one hundred eighty (180) days following the effective date of, a registration statement pertaining to our securities.

DBSI and Kotek, together, and pro-rata between themselves, also have the right to require us to effect up to four registrations on SEC Form F-3, including for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering for resale from time to time by such holders all of their shares (which we refer to as a Shelf Registration Statement), but no more than two such registrations in any 12 month period, in each case, at our expense, provided, however, that we are not required to bear the cost of more than one counsel for these shareholders. Under his registration rights agreement with us, Mr. Gibbs has the right to require us to effect up to two registrations on SEC Form F-3, under substantially the same terms specified above.

We are required to use our best efforts to (a) cause a Shelf Registration Statement to be declared effective under the Securities Act within three months after a demand for registration is made and (b) keep such Shelf Registration Statement continuously effective under the Securities Act until the expiration of five (5) years from the date that a Shelf Registration Statement is declared effective by the SEC.

Piggyback Registration Rights

If (but without any obligation to do so) we propose to register for our own account any of our capital stock or other securities under the Securities Act in connection with a public offering of such securities solely for cash (subject to certain exceptions, such as the registration of employees options), then DBSI, Kotek and Mr. Gibbs shall be entitled to include their shares in such registration.

The underwriter of any such offering by us shall have the right to reduce the number of shares proposed to be registered in light of market conditions, and in such event (a) the capital stock that we propose to register shall have first priority for inclusion in the relevant registration statement, and following our priority, (b) DBSI, Kotek and Mr. Gibbs shall have priority (pro rata among them) to have their shares included in such registration, before any other shares are included.

In furtherance of our obligations to each of DBSI, Koteck and Mr. Gibbs under the above-described registration rights agreements, on September 8, 2009, we filed an F-3 registration statement registering the resale of the Ordinary Shares held by each such shareholder. Such registration statement was declared effective by the SEC on December 9, 2009, and remains effective as of the date of this annual report, and may be used by the selling shareholders to sell Ordinary Shares pursuant thereto, which may have an adverse effect on the price of our Ordinary Shares. See “Item 3. Key Information—Risk Factors—One of our shareholders beneficially owns a substantial amount of our Ordinary Shares and may therefore influence our affairs.”

Employment Agreement with William F. Gibbs

In connection with the merger with Gibbs System in January 2008, Cimatron Gibbs LLC, our subsidiary into which the Gibbs System business was merged, entered into an employment agreement with Mr. Gibbs. The agreement provides, among others, for (i) an annual base salary of \$160,000, (ii) an annual bonus based on increases in contribution to our sales in North America and to the sale of Gibbs System products, and (iii) other fringe benefits as customary for comparable officers of our company group in the United States. Mr. Gibbs also signed non-compete undertakings for our benefit. The employment agreement may be terminated by our subsidiary at any time upon three months prior written notice. In the event of termination by our subsidiary without cause (as defined under the agreement), Mr. Gibbs would be entitled to payment of all then-accrued but unpaid salary and benefits, and a pro-rata portion of the bonus determined by the company’s management to be otherwise due to Mr. Gibbs for the applicable calendar quarter or year, as appropriate, in exchange for a release of claims to be executed by Mr. Gibbs. On February 15, 2008, we announced that Mr. Gibbs was appointed as President, North America of our company. Mr. Gibbs, who continues to maintain his position as President and CEO of Cimatron Gibbs LLC, is now responsible for promoting both CimatronE and GibbsCAM product lines in North America. In addition, pursuant to an option grant approved in January 2008, Mr. Gibbs was granted options to purchase 2,000 of our Ordinary Shares.

Item 8. Financial Information.

Consolidated Statements and Other Financial Information

Our consolidated financial statements and other financial information are included in this annual report in “Item 18—Financial Statements”.

Legal Proceedings

Currently, and in the recent past, we are not and have not been a party to any legal proceedings, nor are there any legal proceedings (including governmental proceedings) pending or, to our knowledge, threatened against us or our subsidiaries, that our management believes, individually or in the aggregate, would have a significant effect on our financial position or profitability. From time to time, we may become party to litigation relating to the ordinary course of our operations. We intend to defend against any claims to which we may become subject, and to proceed with any claims that we may need to assert against third parties, in a vigorous fashion.

Dividend Distribution Policy

Certain of our enterprises are Approved Enterprises (as defined under the Israeli Law for the Encouragement of Capital Investments, 1959). In the event of a distribution to shareholders of cash dividends out of earnings subject to the exemption from the payment of corporate tax provided to an Approved Enterprise, we would be subject to tax at a rate of 25%. In our consolidated financial statements, we have not provided an allowance for deferred taxes on future distributions of tax-exempt earnings, as our management and board of directors have determined not to make any distribution that may result in such tax liability to us. Accordingly, such earnings have been considered to be permanently reinvested. Our tax-exempt earnings may be distributed to shareholders without subjecting us to taxes only upon a complete liquidation of our company. We may, nevertheless, make distributions of funds from earnings that were not tax exempt without subjecting our company to tax liability.

On May 12, 2011 and August 4, 2011, we declared special cash dividends of NIS 0.45 and NIS 0.80 per Ordinary Share, respectively (approximately \$0.12 and \$0.22, based on the exchange rate published by the Bank of Israel as of the payment dates), which were payable on June 20, 2011 and September 12, 2011 to shareholders of record as of May 31, 2011 and August 24, 2011, respectively. We believe that these distributions were not made out of earnings subject to the exemption from the payment of corporate tax provided to an Approved Enterprise.

In November 2011, our board of directors approved, subject to approval by an Israeli court (which was subsequently obtained on April 18, 2012), up to an additional \$10 million of cash distributions that we may potentially make over the course of a 12 month period following the court approval, subject to subsequent declaration by our board of directors of specific payments out of the total potential distribution amount, and subject to certain approvals from the Israeli Tax Authority. Court approval was required because we have no substantial distributable earnings (as such term is defined under the Companies Law) and we instead would need to make such potential distributions (if any) from additional paid-in capital. Prior to actually distributing any amount out of the \$10 million sum, we will announce the distribution amount, distribution date and record date related to the distribution. We cannot guarantee that our board of directors will approve the distribution of all, or any portion, of such \$10 million sum.

Repurchase of Our Shares

On June 4, 2008, our board of directors authorized the use of up to \$1 million of our available cash to repurchase our Ordinary Shares. Under the repurchase program, share purchases may be made from time to time at the discretion of management in the open market or in privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases are to be made in accordance with the requirements of the SEC. The repurchase program has no time limit, does not require us to acquire a specific number of shares, and may be suspended from time to time or discontinued. As of the date of this annual report, we have repurchased 441,856 of our Ordinary Shares pursuant to this repurchase plan at an average price of \$1.33 per share. None of such repurchases was effected in 2011 or thus far in 2012.

After adding the 166,100 shares that we had previously repurchased in the open market (during 2002 and 2003), at an average price of \$0.95 per share, we have repurchased an aggregate of 607,956 of our Ordinary Shares under share repurchase programs. Under Israeli law, while all such repurchased shares are considered to be part of our outstanding share capital that can be reissued by us in the future, they are “dormant shares” and, as such, cannot be voted and do not provide any other rights, other than upon liquidation.

Significant Changes

Since the date of our consolidated financial statements included in this annual report, there has not been a significant change in our company other than as described in the notes to such financial statements.

Item 9. The Offer and Listing.

Offer and listing details

Our Ordinary Shares were quoted on the NASDAQ Global Market (formerly the NASDAQ National Market) from March 1996 until April 17, 2001, from which time our Ordinary Shares have been quoted on the NASDAQ Capital Market (formerly the NASDAQ SmallCap Market). Through April 16, 2000, we were quoted under the symbol CIMTF, and since April 17, 2000, we have been quoted under the symbol CIMT. The table below sets forth the high and low bid prices of our Ordinary Shares, as reported by NASDAQ during the indicated fiscal periods:

Period	High (U.S. \$)	Low (U.S. \$)
Six most recent months:		
April 2012 (through April 20, 2012)	4.49	3.74
March 2012	4.11	3.62
February 2012	3.98	3.26
January 2012	3.65	3.03
December 2011	3.46	3.01
November 2011	4.50	2.82
October 2011	3.89	2.84
Two most recent full financial years and subsequent periods, by quarter:		
Second Quarter 2012 (through April 20, 2012)	4.49	3.74
First Quarter 2012	4.11	3.03
Fourth Quarter 2011	4.50	2.82
Third Quarter 2011	4.06	3.02
Second Quarter 2011	3.94	2.93
First Quarter 2011	5.10	2.56
Fourth Quarter 2010	3.18	1.41
Third Quarter 2010	1.80	1.21
Second Quarter 2010	2.38	1.30
First Quarter 2010	3.58	0.98
Five most recent financial years:		
2011	5.10	2.56
2010	3.58	0.98
2009	1.41	0.56
2008	3.98	0.65
2007	4.58	1.34

Since March 2, 2011, our Ordinary Shares have also been listed on the Tel Aviv Stock Exchange, or TASE, under the symbol "CIMT". The following table sets forth, for the periods indicated, the high and low bid prices in NIS of our Ordinary Shares on the Tel Aviv Stock Exchange. On December 30, 2011 (as December 31, 2011 fell out on a weekend when no exchange rate data was available), the exchange rate of the NIS to the US dollar was NIS 3.821 per one US dollar.

Period	High (NIS)	Low (NIS)
Six most recent months:		
April 2012 (through April 20, 2012)	16.80	12.01
March 2012	15.44	13.61
February 2012	14.21	11.16
January 2012	13.60	11.59
December 2011	12.53	11.47
November 2011	15.96	10.00
October 2011	13.20	11.31
Most recent quarterly periods (since listing on the TASE):		
Second Quarter 2012 (through April 20, 2012)	16.80	12.01
First Quarter 2012	15.44	11.16
Fourth Quarter 2011	15.96	10.00
Third Quarter 2011	14.80	11.17
Second Quarter 2011	15.36	9.79
First Quarter 2011 (beginning March 2, 2011)	16.50	11.70
Most recent financial year (since listing on the TASE):		
2011 (beginning March 2, 2011)	16.50	9.79

Item 10. Additional Information.

Memorandum and Articles of Association

Register

Our registration number at the Israeli registrar of companies is 52-004267-2.

Articles of Association; Israeli Companies Law

In December 2006, our shareholders adopted amended and restated articles of association for our company, which we refer to as the Articles, which replaced in their entirety our previous articles of association, which were approved prior to the adoption of the Companies Law and were not always consistent with the provisions of the Companies Law. Our objective as stated in our Articles and in our Memorandum of Association is to engage in any lawful activity.

We currently have only one class of securities outstanding, our Ordinary Shares, par value NIS 0.10 per share. No preferred shares are currently authorized.

Holders of Ordinary Shares have one vote per share, and are entitled to participate equally in the payment of dividends and share distributions and, in the event of our liquidation, in the distribution of assets after satisfaction of liabilities to creditors. Our Articles may be amended by a resolution approved at a general meeting by a majority of the shares present and voting thereon (excluding abstained votes). Our shareholders' rights may not be modified in any other way unless otherwise expressly provided in the terms of issuance of the shares.

Our Articles require that we hold our annual general meeting of shareholders each year no later than 15 months from the last annual meeting, at a time and place determined by our board of directors, upon at least 21 days prior notice to our shareholders. Under NASDAQ Listing Rule 5620(a), we must hold the meeting within one year after our fiscal year-end (which is December 31st). No business may be commenced in any annual meeting until a quorum of two or more shareholders holding at least 33% of the voting rights are present in person or by proxy. A meeting adjourned for a lack of a quorum generally is adjourned to the same day in the following week at the same time and place or any time and place as the chairman of the meeting may decide with the consent of the holders of a majority of the voting power represented at the meeting in person or by proxy and voting on the question of adjournment. At the reconvened meeting, if a quorum is not present within one-half hour from the time designated for holding the meeting, the reconvened meeting shall be adjourned once again in the same manner as the original meeting. Shareholders may vote in person or by proxy, and will be required to prove title to their shares as required by the Companies Law pursuant to procedures established by our board of directors. Resolutions regarding the following matters must be passed at a general meeting of shareholders:

- amendments to our Articles;
- appointment or termination of our auditors;
- appointment and dismissal of directors;
- approval of acts and transactions requiring general meeting approval under the Companies Law;
- increase or reduction of our authorized share capital or the rights of shareholders or a class of shareholders;
- any merger as provided in Section 320 of the Companies Law; and
- the exercise of our board of directors' powers by a general meeting, if the board of directors is unable to exercise its powers and the exercise of any of such powers is vital for our proper management, as provided in Section 52(a) of the Companies Law.

In addition, the Companies Law provides that an extraordinary meeting of our shareholders shall be convened by the board, at the request of any two directors or one quarter of the directors, or by request of one or more shareholders holding at least 5% of our issued share capital and 1% of the voting rights, or by request of one or more shareholders holding at least 5% of the voting rights. Shareholders requesting a special meeting must submit their proposed resolution(s) with their request.

Our Articles provide that our board of directors may from time to time, at its discretion, borrow or secure the payment of any sum of money for the objectives of our company. Our directors may raise or secure the repayment of such sum in a manner, time and terms as they see fit.

According to our Articles, our board of directors may delegate any authority that it has to a committee comprised of members of the board. Any committee to which the board's powers are delegated must abide by the regulations enacted by the board in respect of such delegated powers. In the absence of any such regulations, the committee must abide by our Articles. Our board has currently appointed one committee, which is our audit committee, as described above in Item 6.

Approval of Certain Transactions Under the Companies Law

The Companies Law codifies the fiduciary duties that "office holders," including directors and executive officers, owe to a company. An office holder, is defined in the Companies Law, as a (i) general manager, (ii) chief business manager, (iii) deputy general manager, (iv) vice general manager, (v) any other person assuming the responsibilities of any of the foregoing positions without regard to such person's title, (vii) director and (viii) another manager directly subordinate to the managing director. Our office holders consist of the individuals listed in the table under "Directors and Senior Management," which is displayed under "Item 6. Directors, Senior Management and Employees". The duty of care prescribed by the Companies Law requires an office holder to act with the level of care, which a reasonable office holder in the same position would have acted under the same circumstances. The duty of loyalty prescribed by the Companies Law generally includes (i) avoiding any conflict of interest between the office holder's position in the company and his or her personal affairs, (ii) avoiding any competition with the company, (iii) avoiding exploiting any business opportunity of the company in order to receive personal advantage for himself or others and (iv) revealing to the company any information or documents relating to the company's affairs which the office holder has received due to his or her position as an office holder.

The Companies Law requires that an office holder of a company promptly disclose any personal interest that he or she may have and all related material information known to him or her, in connection with any existing or proposed transaction by the company. The disclosure must be made to our board of directors and/or shareholders a reasonable period of time prior to the meeting at which the transaction is to be discussed. A personal interest, as defined under the Companies Law, includes any personal interest held by the office holder's spouse, siblings, parents, grandparents or descendants; spouse's descendants, siblings or parents; and the spouses of any of the foregoing, and also includes any interest held by any corporation in which the office holder owns 5% or more of the share capital, is a director or general manager or in which he or she has the right to appoint at least one director or the general manager. A personal interest furthermore includes the personal interest of a person for whom the office holder holds a voting proxy or the interest of the office holder with respect to his or her vote on behalf of the shareholder for whom he or she holds a proxy even if such shareholder itself has no personal interest in the approval of the matter.

In the case of a transaction that is not an extraordinary transaction (as defined below) and does not involve the compensation of the office holder, after the office holder complies with the above disclosure requirement, only board approval is required unless the articles of association of the company provide otherwise (ours do not provide otherwise). If the transaction is an extraordinary transaction, then, in addition to any approval required by the articles of association, it must also be approved by the audit committee and by the board of directors, and, under specified circumstances, by a meeting of the shareholders.

An extraordinary transaction is defined as a transaction not in the ordinary course of business, not on market terms, or that is likely to have a material impact on the company's profitability, assets or liabilities.

Under a recent amendment to the Companies Law (which went into effect in 2011), all arrangements as to compensation of office holders who are not directors require approval of the audit committee (or, should we wish to establish such a committee in the future, a compensation committee of our board of directors that meets all of the requirements applicable to an audit committee) and the board of directors. The amendment of existing compensation terms of our office holders who are not directors merely requires the approval of our audit committee, if such committee determines that the amendment is not substantial in relation to the existing terms. Agreements regarding directors' terms of employment require the approval of the audit committee, the board of directors and the shareholders. In all matters in which a director has a personal interest, including matters of his/her terms of employment, he/she shall not be permitted to vote on the matter or be present in the meeting in which the matter is considered, subject to certain exceptions, including an allowance for him or her to be present in order to present the transaction, if the chairman of the audit committee or board of directors (as applicable) determines that such presentation by him or her is necessary. Should a majority of the audit committee or of the board of directors have a personal interest in the matter, then:

- all of the directors are permitted to vote on the matter and attend the meeting at which the matter is considered; and
- the matter requires approval of the shareholders at a general meeting.

Notwithstanding having been approved in compliance with the foregoing processes, any transaction in which an office holder has a personal interest must, in addition, not be adverse to the company's interest in order for it to be properly approved.

According to the Companies Law, the disclosure requirements discussed above also apply to a controlling shareholder of a public company. In general, extraordinary transactions with a controlling shareholder or in which a controlling shareholder has a personal interest, or a transaction with a controlling shareholder or his or her relative, directly or indirectly, including for receipt of services from an entity controlled by him or her (or his or her relative), and the terms of engagement and compensation of a controlling shareholder who is an office holder or an employee of the company, require the approval of the audit committee, the board of directors and the shareholders of the company. The term "controlling shareholder" is defined as a shareholder who has the ability to direct the activities of a company, other than if this power derives solely from the shareholder's position on the board of directors or any other position with the company. The definition also includes shareholders that hold 25% or more of the voting rights if no other shareholder owns more than 50% of the voting rights in the company.

The shareholder approval must either include at least a majority of the shares held by disinterested shareholders who are present in person or by proxy at the meeting and who are voting thereon, or, alternatively, the total shareholdings of the disinterested shareholders who vote against the transaction must not represent more than two percent (2%) of the voting rights in the company. To the extent that any such transaction with a controlling shareholder is for a period extending beyond three years, approval is required once every three years, unless the audit committee determines that the duration of the transaction is reasonable given the circumstances related thereto. In certain cases provided in regulations promulgated under the Companies Law, shareholder approval is not required.

In addition, a private placement of securities (or a series of related private placements during a 12-month period or that are part of one continuous transaction or transactions conditioned upon each other) that (i) includes the issuance of twenty percent or more of the company's outstanding voting rights (prior to such issuance) in which the consideration, in whole or in part, is not in cash or registered securities or is not at market value, and as a result of which a person holding five percent or more of the company's share capital or voting rights will increase or that will cause any person to become, as a result of the issuance, a holder of more than five percent of the company's outstanding share capital, or (ii) will cause any person to become, as a result of the issuance, a controlling shareholder of the company (as defined above), requires approval by the board of directors and the shareholders of the company. The foregoing does not apply to a company like ours, whose securities were offered only outside of Israel or are listed only outside of Israel. Thus, we may sell securities via a private placement at the discretion of our board of directors.

Further, under the Companies Law (as described under "Item 6. Directors, Senior Management and Employees— Board of Directors— External Directors"), the appointment of external directors requires, in addition to a majority of the Ordinary Shares voting and approving the appointment, that either (a) the approving majority must include a majority of the shares of shareholders that are not controlling shareholders of the company and who do not have a personal interest in the election of the external director (other than a personal interest not deriving from a relationship with a controlling shareholder) and who are present and voting (with abstentions being disregarded), or (b) the shares of such non-controlling, non-interested shareholders that vote against the appointment may not constitute more than two percent (2%) of our total voting rights. In addition, as described below (see "—Modification of Class Rights" in this Item 10), under our Articles, the alteration of the rights, privileges, preferences or obligations of any class of our share capital requires a simple majority of the class so affected), in addition to the ordinary majority of all classes of shares voting together as a single class at a shareholder meeting.

A further exception to the simple majority shareholder vote requirement is a resolution for the voluntary winding up, or other reorganization of, the company pursuant to Section 350 of the Companies Law, which requires the approval of holders of 75% of the voting rights represented at the meeting, in person, by proxy or by voting deed and voting on the resolution, provided that such shareholders constitute more than 50% of the shareholders voting on such matter.

Shareholder Duties

Under the Companies Law, a shareholder has a duty to act in good faith towards the company and other shareholders and refrain from abusing his power in the company, including, among other things, in connection with voting in the general meeting of shareholders on the following matters:

- any amendment to the articles of association;
- an increase of the company's authorized share capital;
- a merger; or
- approval of actions of office holders in breach of their duty of loyalty and of interested party transactions.

In addition, any controlling shareholder, any shareholder who knows that it possesses the power to determine the outcome of a shareholder vote and any shareholder who has the power to appoint or prevent the appointment of an office holder of the company is under a duty to act with fairness towards the company. The Companies Law does not describe the substance of this duty, except to state that the remedies generally available upon a breach of contract will apply also in the event of a breach of the duty to act with fairness.

Transfer of Shares

Fully paid Ordinary Shares are issued in registered form and may be freely transferred under our Articles unless the transfer is restricted or prohibited by another instrument.

Modification of Class Rights

Under our Articles, the rights attached to any class unless otherwise provided by the terms of the class including voting, rights to dividends and the like, may be varied by adoption of the necessary amendment to the Articles, provided that the affected shareholders approve the change by a class meeting in which a simple majority of the voting power of the class represented at the meeting and voting on the matter approves the change.

Election of Directors

Our Ordinary Shares do not have cumulative voting rights in the election of directors. As a result, the holders of Ordinary Shares that represent more than 50% of the voting power represented at a shareholders meeting, have the power to elect all of our directors, other than the external directors who are appointed by a special majority of shareholders. For a summary of the provisions of our Articles that govern our directors, see "Item 6. Directors, Senior Management and Employees."

Limitation on Ownership of Securities

The ownership and voting of our Ordinary Shares by non-residents of Israel are not restricted in any way by our Articles or by the laws of the State of Israel, except for shareholders who are subjects of countries which are in a state of war with Israel.

Anti-Takeover Provisions; Mergers and Acquisitions Under Israeli Law

Mergers

The Companies Law includes provisions with respect to the approval of corporate mergers that are applicable to us. These provisions require that the board of directors of each company that is party to the merger approve the transaction. In addition, the shareholders of each company must approve the merger by a vote of the majority of the company's shares, present and voting on the proposed merger at a shareholders' meeting. In determining whether the requisite majority has approved the merger, shares held by the other party to the merger, or by any person holding at least 25% of the means of control of the other party to the merger, or anyone acting on behalf of either of them, including any of their affiliates, are excluded. If, however, the merger involves a merger with a company's own controlling shareholder or if the controlling shareholder has a personal interest in the merger, then the merger is instead subject to the same special majority approval that governs all extraordinary transactions with controlling shareholders (as described above in this Item 10 under "—Approval of Certain Transactions Under the Companies Law"). In the event that the merger transaction has not been approved by either of the above-described special majorities (as applicable), the holders of at least 25% of the voting rights of the company may apply to a court for approval of the merger. The court may approve the merger if it is found that the merger is fair and reasonable, taking into account the value of the parties to the merger and the consideration offered to the shareholders.

Upon the request of a creditor of either party to the proposed merger, a court may delay or prevent the merger if it concludes that there exists a reasonable concern that as a result of the merger, the surviving company will be unable to satisfy the obligations of any of the parties of the merger to their creditors.

A merger may not be completed unless at least 50 days have passed from the date that a proposal of the merger was filed with the Israeli Registrar of Companies by each merging company and 30 days from the date that shareholder approval of both merging companies was obtained. The merger proposal may be filed once a shareholder meeting has been called to approve the merger.

The Companies Law further provides that the foregoing approval requirements will not apply to shareholders of a wholly-owned subsidiary in a rollup merger transaction, or to the shareholders of the acquirer in a merger or acquisition transaction if:

- the transaction does not involve an amendment to the acquirer's memorandum or articles of association;
- the transaction does not contemplate the issuance of more than 20% of the voting rights of the acquirer which would result in any shareholder becoming a controlling shareholder; and
- there is no "cross ownership" of shares of the merging companies, as described above.

Tender Offers

The Companies Law also provides that the acquisition of shares in a public company on the open market must be made by means of a tender offer if, as a result of the acquisition, the purchaser would become a 25% shareholder of the company. The rule does not apply if there already is another 25% shareholder of the company. Similarly, the law 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 greater-than 45% shareholder of the company, unless there already is a greater-than 45% shareholder of the company.

The foregoing provisions do not apply to:

- a private placement in which the company's shareholders approved such holder owning 25% or more of the voting rights in the company (if there is no other shareholder that holds 25% or more of the voting rights in the company); or more than 45% of the voting rights in the company (if there is no other shareholder that holds more than 45% of the voting rights in the company); or
- a purchase from an existing holder of 25% or more of the voting rights in the company that results in another person becoming a holder of 25% or more of the voting rights in the company or a purchase from an existing holder of more than 45% of the voting rights in the company that results in another person becoming a holder of more than 45% of the voting rights in the company.

Regulations adopted under the Companies Law provide that these tender offer requirements do not apply to companies whose shares are listed for trading outside of Israel if, according to the law in the country in which the shares are traded, including the rules and regulations of the stock exchange on which the shares are traded, there is either a limitation on acquisition of any level of control of the company, or the acquisition of any level of control requires the purchaser to do so by means of a tender offer to the public.

The Companies Law also provides that if following any acquisition of shares, the acquirer holds more than 90% of the company's shares or of a class of shares (or voting rights thereof), the acquisition must be made by means of a tender offer for all of the target company's shares or all of the shares of the class, as applicable, not held by the acquirer. An acquirer who wishes to eliminate all minority shareholders must do so by way of a tender offer and hold, following consummation of the tender offer, more than 95% of all of the company's outstanding shares (and provided that a majority of the offerees that do not have a personal interest in such tender offer shall have approved it, which condition shall not apply if, following consummation of the tender offer, the acquirer holds at least 98% of all of the company's outstanding shares). If, however, following consummation of the tender offer, the acquirer would hold 95% or less of the company's outstanding shares, the acquirer may not acquire shares tendered if by doing so the acquirer would own more than 90% of the shares of the target company. Appraisal rights are available with respect to a successfully completed full tender offer for a period of six months after such completion; however, the acquirer may provide in the tender offer documents that a shareholder that accepts the offer may not seek appraisal rights.

Material Contracts

Other than the registration rights agreements, the services agreement and the lease agreement described in “Item 7 - Major Shareholders and Related Party Transactions – Related Party Transactions” and our additional lease agreement described below, all of the contracts to which we have been party over the past two years have been in the ordinary course of our business.

We lease the office premises that we occupy in Givat Shmuel, Israel from a private commercial property owner pursuant to the terms of a lease agreement that we entered into in February 2003. Since January 10, 2006, we have occupied approximately 1,750 square meters at this facility. The initial term of the lease was three years, expiring in June 30, 2006, following which we exercised our option to extend the lease for an additional three years. In mid 2008, we further extended the lease for an additional five year period, through June 30, 2014, and reduced our occupied space to approximately 1,475 square meters. We currently pay approximately \$30 thousand on a monthly basis as rent under this agreement.

Exchange Controls

There are currently no Israeli currency control restrictions on payments of dividends or other distributions with respect to our Ordinary Shares or the proceeds from the sale of the shares, except for the obligation of Israeli residents to file reports with the Bank of Israel regarding some transactions. However, legislation remains in effect under which currency controls can be imposed by administrative action at any time.

The ownership or voting of our Ordinary Shares by non-residents of Israel, except with respect to citizens of countries which are in a state of war with Israel, is not restricted in any way by our Memorandum of Association or Articles or by the laws of the State of Israel.

Taxation

The following discussion sets forth the material United States and Israeli tax consequences of the ownership of Ordinary Shares by a holder that holds our Ordinary Shares as capital assets.

The following discussion does not address the tax consequences to holders of Ordinary Shares to which special tax rules may apply, such as tax-exempt entities, certain insurance companies, broker-dealers, grantor trusts, real estate investment trusts or regulated investment companies, financial institutions or financial services entities, traders in securities that elect to mark to market, holders liable for alternative minimum tax, holders that actually or constructively own 10% or more of our voting stock, holders that hold Ordinary Shares as part of a straddle or a hedging or conversion transaction or holders whose functional currency is not the U.S. dollar. This discussion also does not apply to holders who acquired their Ordinary Shares pursuant to the exercise of employee stock options or otherwise as compensation or through a tax-qualified retirement plan. This discussion is based on the tax laws of Israel and the United States, including the Internal Revenue Code of 1986, as amended, its legislative history, existing and proposed regulations under the Internal Revenue Code, published rulings and court decisions, as in effect on the date of this document, as well as the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income (or the U.S.-Israel Tax Treaty), all of which are subject to change or change in interpretation, possibly with retroactive effect.

For purposes of this discussion, a “U.S. Holder” is any beneficial owner of Ordinary Shares that is:

a citizen or resident of the United States;

a corporation or other entity taxable as a corporation organized under the laws of the United States or any political subdivision of the United States;

an estate the income of which is subject to United States federal income taxation without regard to its source; or

a trust if (i) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons have the authority to control all substantial decisions of the trust or (ii) that has in effect a valid election under applicable U.S. Treasury Regulations to be treated as a U.S. person.

This discussion does not address any aspects of United States taxation other than federal income taxation. Holders are urged to consult their tax advisors regarding the United States estate, state and local and the Israeli and other tax consequences of owning and disposing of Ordinary Shares.

United States Federal Income Taxation of Owning and Selling Ordinary Shares.

Dividends and Distributions

U.S. Holders

Subject to the discussion below under “Passive Foreign Investment Company Rules” (which we refer to as the PFIC discussion), U.S. Holders will include in gross income the gross amount of any dividend paid, before reduction of Israeli withholding taxes, by us out of current or accumulated earnings and profits, as determined for United States federal income tax purposes, as ordinary income when the dividend is actually or constructively received by the U.S. Holder. Dividends will be income from sources outside the United States for foreign tax credit limitation purposes, but generally will be “passive income” which is a type of income that is treated separately from other types of income for foreign tax credit limitation purposes. Dividends will not be eligible for the dividends-received deduction generally allowed to United States corporations in respect of dividends received from other United States corporations. The amount of the dividend distribution included in income of a U.S. Holder will be the U.S. dollar value of the NIS payments made, determined at the spot NIS/U.S. dollar rate on the date such dividend distribution is included in the income of the U.S. Holder, regardless of whether the payment is in fact converted into U.S. dollars. Generally, any gain or loss resulting from currency exchange fluctuations during the period from the date the dividend distribution is included in income to the date such dividend distribution is converted into U.S. dollars will be treated as ordinary income or loss. Such gain or loss will generally be income from sources within the United States for foreign tax credit limitation purposes. Distributions in excess of current and accumulated earnings and profits, as determined for United States federal income tax purposes, will be treated as a return of capital to the extent of the U.S. Holder’s basis in the Ordinary Shares and thereafter as capital gain. We will notify our shareholders of any distribution in excess of current and accumulated earnings and profits at the time of such distribution in accordance with the requirements of the Internal Revenue Code.

Subject to certain limitations, the Israeli tax withheld in accordance with the U.S.-Israel Tax Treaty and paid over to Israel will be creditable against the U.S. Holder's United States federal income tax liability. To the extent a refund of the tax withheld is available to a U.S. Holder under the laws of Israel or under the U.S.-Israel Tax Treaty, the amount of tax withheld that is refundable will not be eligible for credit against the U.S. Holder's United States federal income tax liability, whether or not the refund is actually obtained.

For certain non-corporate U.S. Holders, subject to the PFIC discussion below, for the taxable years of 2011 and 2012, a dividend paid by us to certain shareholders will be taxed at the preferential tax rates applicable to long-term capital gains if (a) we are a "qualified foreign corporation" (as defined below), (b) the U.S. Holder receiving such dividend is an individual, estate, or trust and (c) such dividend is paid on our shares that have been held by such U.S. Holder for more than 60 days during the 120-day period beginning 60 days before the "ex-dividend date" (i.e., the first date that a purchaser of such Share will not be entitled to receive such dividend). Generally, we may be considered a "qualified foreign corporation", or a QFC, if we are eligible for the benefits of a comprehensive income tax treaty with the United States which includes an information exchange program that the United States Internal Revenue Service, or the IRS, determines is satisfactory. However, even if we are so eligible, we will not be treated as a QFC if we were a PFIC for the taxable year during which we paid a dividend or for the preceding taxable year. See the PFIC discussion below as to PFIC status.

Sale or Exchange of Ordinary Shares

U.S. Holders

Subject to the PFIC discussion below, a U.S. Holder that sells or otherwise disposes of Ordinary Shares generally will recognize capital gain or loss for United States federal income tax purposes equal to the difference between the U.S. dollar value of the amount realized on the sale or disposition and the tax basis, determined in U.S. dollars, in the Ordinary Shares. Capital gain of a non-corporate U.S. Holder is generally taxed at a maximum rate of 15% (for a holding period ending in taxable years beginning before January 1, 2013, whereas a maximum rate of 20% will apply for holding periods that end thereafter) if the Ordinary Shares were held for more than one year. The gain or loss will generally be income or loss from sources within the United States for foreign tax credit limitation purposes.

Non-U.S. Holders

A non-U.S. Holder will not be subject to United States federal income tax on gain recognized on the sale or other disposition of Ordinary Shares unless (i) the gain is "effectively connected" with the non-U.S. Holder's conduct of a trade or business in the United States, and the gain is attributable to a permanent establishment maintained in the United States (if that is required by an applicable income tax treaty as a condition for subjecting that non-U.S. Holder to United States taxation on a net income basis), or (ii) the non-U.S. Holder is an individual and present in the United States for at least 183 days in the taxable year of the sale and certain other conditions are met. In such cases, a non-U.S. Holder will be taxed in the same manner as a U.S. Holder. A corporate non-U.S. Holder may also, under certain circumstances, be subject to an additional "branch profits tax" at a 30% rate, or at a lower rate if eligible for the benefits of an income tax treaty that provides for a lower rate, on "effectively connected" gains recognized.

Passive Foreign Investment Company Rules

We believe that our Ordinary Shares should not be treated as stock of a passive foreign investment company, or a PFIC, for United States federal income tax purposes, but such a conclusion is a factual determination made annually and may be subject to change. A U.S. Holder may have less advantageous tax consequences upon the sale, exchange or receipt of dividends with respect to our shares if we are deemed a PFIC, unless such U.S. Holder makes certain elections which may have additional tax consequences.

Generally, a non-United States corporation is deemed to be a PFIC if either (i) 75% or more of its gross income (including the pro rata gross income of any company (United States or non-United States) in which such corporation is considered to own 25% or more of the stock by value) for the taxable year is passive income (generally referred to as the "income test") or (ii) 50% or more of the average value of its assets (including the pro rata value of the assets of any company in which such corporation is considered to own 25% or more of the stock by value) during the taxable year, measured at the end of each quarter, produce, or are held for the production of, passive income in the taxable year (generally referred to as the "asset test").

Based on the active nature of our assets and income, we do not believe that we have been a PFIC for the tax years through and ending on December 31, 2011, and we do not believe that we will be deemed a PFIC for the tax year ending December 31, 2012. However, the statutory provisions, legislative history and administrative pronouncements related to the application of the asset test leave unanswered a number of questions pertaining to the application of the PFIC rules. In addition, there are circumstances both in our control and out of our control that may affect our potential status as a PFIC. For example, sale of non-passive assets in exchange for passive assets (such as cash) may impact the percentage of passive assets in applying the assets test. Fluctuation in the market price of our shares may also impact the application of such test.

While we will attempt to manage our business so as to avoid PFIC status, to the extent consistent with our other business goals, we cannot predict whether our business plans will allow us to avoid PFIC status in the future or whether our business plans will change in a manner that affects our PFIC determination.

Taxation of U.S. Holders of PFIC Shares Generally

If we were deemed to be a PFIC for any taxable year during which a U.S. Holder held our Ordinary Shares and such holder failed to make certain elections, then the following would apply to the U.S. Holder:

- gain recognized by the U.S. Holder upon the disposition of, as well as income recognized upon receiving excess distributions on, our Ordinary Shares would be taxable as ordinary income ("excess distributions" are the portion of any distributions received in a taxable year in excess of 125% of the average annual distributions received in the three preceding taxable years, or, if shorter, during the U.S. Holder's holding period for our Ordinary Shares);

- the U.S. Holder would be required to allocate such excess distribution income and/or disposition gain ratably over such holder's entire holding period for our Ordinary Shares;
- the amount allocated to each year other than the year of the distribution payment or disposition would be subject to tax at the highest individual or corporate tax rate, as applicable, in effect for such other year, and an interest charge for the deemed deferral benefit would be imposed with respect to the resulting tax liability for each such other year;
- the U.S. Holder would be required to file an annual return on IRS Form 8621 regarding distributions received on, and gain recognized on dispositions of, our Ordinary Shares; and
- any U.S. Holder who acquired our Ordinary Shares upon the death of a U.S. Holder would not receive a step-up of the income tax basis to the fair market value of such shares. Instead, such U.S. Holder beneficiary would have a tax basis equal to the decedent's basis, if lower.

U.S. HOLDERS OF OUR ORDINARY SHARES (AND/OR OPTIONS TO ACQUIRE OUR ORDINARY SHARES) SHOULD CONSULT THEIR TAX ADVISORS ABOUT THE PFIC RULES, INCLUDING THE POSSIBILITY, AND ADVISABILITY OF, AND THE PROCEDURE AND TIMING FOR MAKING CERTAIN ELECTIONS THAT MIGHT HELP THEM AVOID CERTAIN OF THE ADVERSE CONSEQUENCES THAT WOULD RESULT IF WE WERE TO BE DEEMED A PFIC.

Information Reporting and Backup Withholding

U.S. information reporting requirements and backup withholding tax generally will apply to payments to some U.S. non-corporate holders of Ordinary Shares. Information reporting generally will apply to payments of dividends on, and to proceeds from the sale or redemption of, Ordinary Shares by a payor within the United States to a holder of Ordinary Shares other than an "exempt recipient," including a corporation and any payee that is not a U.S. Holder that provides an appropriate certification.

A payor within the United States will be required to withhold at the fourth lowest rate of tax applicable to single individual taxpayers (currently 28%) on any payments of dividends on, or proceeds from the sale of, Ordinary Shares within the United States to a holder, other than an "exempt recipient," if the holder fails to furnish its correct taxpayer identification number or otherwise fails to comply with, or establish an exemption from, backup withholding tax requirements.

Israeli Taxation

The following is a summary of the current tax law applicable to companies in Israel, with special reference to its effect on our subsidiaries and us. The following also contains a discussion of specific Israeli tax consequences to our shareholders and government programs from which we, and some of our subsidiaries, benefit. To the extent that the discussion is based on tax legislation that has not been subject to judicial or administrative interpretation, there can be no assurance that the views expressed in the discussion will be accepted by the tax authorities in question.

The discussion is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations.

General Corporate Tax Structure Applicable to Our Company

Generally, in 2011, Israeli companies were subject to corporate tax at the rate of 24% of their taxable income for such year. The corporate tax rate was scheduled to decline to 23% in 2012, 22% in 2013, 21% in 2014, 20% in 2015 and 18% in 2016 and onwards. Recently, the Law for Change in the Tax Burden (Legislative Amendments) (Taxes), 2011, or the Tax Burden Law, was published by the Israeli Knesset. The Tax Burden Law canceled the scheduled progressive reduction of the corporate tax rate and instead fixed the corporate tax rate at 25% from 2012 and onwards. However, the effective tax rate payable by a company that derives income from an Approved Enterprise, Benefited Enterprise or Preferred Enterprise, as discussed further below, may be considerably less. See "Law for the Encouragement of Capital Investments" in this Item 10 below.

Beginning as of 2010, Israeli companies are subject to regular corporate tax rate for their capital gains. In 2009, Israeli companies were generally subject to capital gains tax at a rate of 25% for such gains (other than capital gains from the sale of listed securities derived by companies with respect to which the provisions of Section 6 of the Israeli Income Tax Law (Inflationary Adjustments) 5745-1985 (the Inflationary Adjustments Law), or the provisions of Section 130A of the Income Tax Ordinance, 1961 (the Ordinance), applied immediately before the 2006 tax reform came into force, which were instead subject to the regular corporate tax rate).

Besides being subject to the general corporate tax rules in Israel, we have also, from time to time, applied for and received certain grants and tax benefits from, and participate in, programs sponsored by the Government of Israel, as described below.

Law for the Encouragement of Capital Investments, 5719-1959

The Law for the Encouragement of Capital Investments, 5719-1959, or the Investment Law, provides certain incentives for capital investments in a production facility (or other eligible assets). Generally, an investment program that is implemented in accordance with the provisions of the Investment Law, referred to as an "Approved Enterprise", is entitled to benefits. These benefits may include cash grants from the Israeli government and tax benefits, based upon, among other things, the location of the facility in which the investment is made or the election of the grantee. An application to the Investment Center of the Ministry of Industry and Trade, or the Investment Center, must be submitted to obtain Approved Enterprise status. Each instrument of approval for an Approved Enterprise relates to a specific investment program that is defined both by the financial scope of the investment, including sources of funds, and by the physical characteristics of the facility or other assets.

The tax benefits available under any instrument of approval relate only to taxable profits attributable to the specific program and are contingent upon meeting the criteria set out in the instrument of approval. If a company has more than one approval or only a portion of its capital investments are approved, its effective tax rate is the weighted average of the various applicable tax rates, excluding any tax-exempt income.

The Investment Law has been amended several times over the last years, with the two most significant changes effective as of April 1, 2005 (which we refer to as the 2005 Amendment), and as of January 1, 2011 (which we refer to as the 2011 Amendment). Pursuant to the 2005 Amendment, tax benefits granted in accordance with the provisions of the Investment Law prior to its revision by the 2005 Amendment remain in force but any benefits granted subsequently are subject to the provisions of the amended Investment Law. Similarly, the 2011 Amendment introduced new benefits instead of the benefits granted in accordance with the provisions of the Investment Law prior to the 2011 Amendment, yet companies entitled to benefits under the Investment Law as in effect up to January 1, 2011 may choose to continue to enjoy such benefits, provided that certain conditions are met, or elect instead to forego such benefits and elect the benefits of the 2011 Amendment.

The following discussion is a summary of the Investment Law prior to its amendments as well as the relevant changes contained in the new legislation.

Tax benefits for Approved Enterprises approved before April 1, 2005

Under the Investment Law prior to its amendment, a company that wished to receive benefits had to receive an approval from the Investment Center of the Israeli Ministry of Industry, Trade and Labor, which we refer to as the Investment Center. Each certificate of approval for an Approved Enterprise relates to a specific investment program in the Approved Enterprise, delineated both by the financial scope of the investment and by the physical characteristics of the facility or the asset.

An Approved Enterprise may elect to forego any entitlement to the grants otherwise available under the Investment Law and, instead, participate in an alternative benefits program. We chose to receive benefits through the alternative benefits track with respect to our programs. Under the alternative benefits track, a company's undistributed income derived from an Approved Enterprise will be exempt from corporate tax for a period of between two and ten years from the first year of taxable income, depending upon the geographic location within Israel of the Approved Enterprise. The benefits commence on the date in which that taxable income is first earned. Upon expiration of the exemption period, the Approved Enterprise is eligible for the reduced tax rates otherwise applicable under the Investment Law for any remainder of the otherwise applicable benefits period. The benefits period under Approved Enterprise status is limited to 12 years from commencement of production, or 14 years from the date of the approval, whichever ends earlier. If a company has more than one Approved Enterprise program or if only a portion of its capital investments are approved, its effective tax rate is the result of a weighted combination of the applicable rates. The tax benefits from any certificate of approval relate only to taxable profits attributable to the specific Approved Enterprise. Income derived from activity that is not integral to the activity of the Approved Enterprise will not enjoy tax benefits. In our case, subject to compliance with applicable requirements stipulated in the Investment Law and its regulations and in the specific certificate of approval, as described above, the portion of our undistributed income derived from our Approved Enterprise program approved in 2001 was to be exempt from income tax for a period of two years, followed by five years with reduced tax rate of 25% on income derived from our Approved Enterprise investment programs. The period of tax benefits for such Approved Enterprise was to expire in 2015 or earlier, depending on when and whether we were to generate taxable income from such Approved Enterprise's operations.

A company that has an Approved Enterprise program is eligible for further tax benefits if it qualifies as a Foreign Investors' Company, or FIC. An FIC eligible for benefits is essentially a company with a level of foreign investment, as defined in the Investment Law, of more than 25%. The level of foreign investment is measured as the percentage of rights in the company (in terms of shares, rights to profits, voting and appointment of directors), and of combined share and loan capital, that are owned, directly or indirectly, by persons who are not residents of Israel. The determination as to whether or not a company qualifies as an FIC is made on an annual basis. An FIC that has an Approved Enterprise program will be eligible for an extension of the period during which it is entitled to tax benefits under its Approved Enterprise status (so that the benefit periods may be up to ten years) and for further tax benefits if the level of foreign investment exceeds 49%. If a company that has an Approved Enterprise program is a wholly owned subsidiary of another company, then the percentage of foreign investment is determined based on the percentage of foreign investment in the parent company.

The tax rates and related levels of foreign investments with respect to an FIC that has an Approved Enterprise program are set forth in the following table:

<u>Percentage of non-Israeli ownership</u>	<u>Tax Rate</u>
Over 25% but less than 49%	25%
49% or more but less than 74%	20%
74% or more but less than 90%	15%
90% or more	10%

A company that has elected to participate in the alternative benefits program and that subsequently pays a dividend out of the income derived from the portion of its facilities that have been granted Approved Enterprise status during the tax exemption period will be required to recapture the deferred corporate income tax applicable to the amount distributed (grossed up to reflect such tax) at the rate that would have been applicable had such income not been tax-exempted under the alternative route. This rate generally ranges from 10% to 25%, depending on the extent to which non-Israeli shareholders hold such company's shares. Such company may also be required to record a deferred tax liability with respect to such tax-exempt income prior to its distribution.

In addition, dividends paid out of income generated by an Approved Enterprise (or out of dividends received from a company whose income is generated by an Approved Enterprise) are generally subject to withholding tax at the rate of 15%, or at the lower rate provided under an applicable tax treaty. The 15% tax rate is limited to dividends and distributions out of income derived during the benefits period and actually paid at any time up to 12 years thereafter. After this period, the withholding tax is applied at a rate of up to 30%, or at the lower rate under an applicable tax treaty. In the case of an FIC, the 12-year limitation on reduced withholding tax on dividends does not apply.

The Investment Law also provides that an Approved Enterprise is entitled to accelerated depreciation on its property and equipment that are included in an approved investment program. This benefit is an incentive granted by the Israeli government regardless of whether the alternative benefits program is elected.

The benefits available to an Approved Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations and the criteria in the specific certificate of approval with respect thereto, as described above. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest.

In February 2007, we received a letter from the Investment Center stating that our Approved Enterprise from April 2001 was about to be terminated if we did not submit a final performance report. We decided not to pursue the completion of this investment plan, as we had not had any tax benefits from it, and we have instead opted for tax benefits pursuant to the 2011 Amendment, as described below.

Tax benefits under the 2005 Amendment that became effective on April 1, 2005.

On April 1, 2005, the Israeli Parliament passed an amendment to the Investment Law, in which it revised the criteria for investments qualified to receive tax benefits. An eligible investment program under the 2005 Amendment will qualify for benefits as a Benefited Enterprise (rather than the previous terminology of Approved Enterprise). Among other things, the 2005 Amendment provides tax benefits to both local and foreign investors and simplifies the approval process.

The 2005 Amendment applies to new investment programs and investment programs commencing after 2004, and does not apply to investment programs approved prior to December 31, 2004. The 2005 Amendment provides that terms and benefits included in any certificate of approval that was granted before the 2005 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval. Pursuant to the 2005 Amendment, the Investment Center will continue to grant Approved Enterprise status to qualifying investments. However, the 2005 Amendment limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an Approved Enterprise, such as provisions generally requiring that at least 25% of the Approved Enterprise's income be derived from export.

The 2005 Amendment provides that the approval of the Investment Center is required only for Approved Enterprises that receive cash grants. As a result, a company is no longer required to obtain the advance approval of the Investment Center in order to receive tax benefits. Rather, a company may claim the tax benefits offered by the Investment Law directly in its tax returns, provided that its facilities meet the criteria for tax benefits set forth in the 2005 Amendment. A company that has a Benefited Enterprise may, at its discretion, approach the Israeli Tax Authority for a pre-ruling confirming that it is in compliance with the provisions of the Investment Law.

Tax benefits are available under the 2005 Amendment to production facilities (or other eligible facilities) that derive more than 25% of their business income from export to specific markets with a population of at least 12 million. In order to receive the tax benefits, the 2005 Amendment states that a company must make an investment which meets all the conditions that are set out in the amendment for tax benefits and which exceeds a minimum amount specified in the Investment Law. Such investment entitles a company to a Benefited Enterprise status with respect to the investment, and may be made over a period of no more than three years ending at the end of the year in which the company requested to have the tax benefits apply to the Benefited Enterprise. Where a company requests to have the tax benefits apply to an expansion of existing facilities, only the expansion will be considered to be a Benefited Enterprise, and the company's effective tax rate will be the weighted average of the applicable rates. In such case, the minimum investment required in order to qualify as a Benefited Enterprise must exceed a certain percentage of the value of the company's production assets before the expansion.

The extent of the tax benefits available under the 2005 Amendment to qualifying income of a Benefited Enterprise are determined, among other things, by the geographic location of the Benefited Enterprise. Such tax benefits include an exemption from corporate tax on undistributed income for a period of between two to ten years, depending on the geographic location of the Benefited Enterprise within Israel, and a reduced corporate tax rate of between 10% to 25% for the remainder of the benefit period, depending on the level of foreign investment in the company in each year, as explained above.

Dividends paid out of income derived by a Benefited Enterprise (or out of dividends received from a company whose income is derived from a Benefited Enterprise) are generally subject to withholding tax at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. The reduced rate of 15% is limited to dividends and distributions out of income derived from a Benefited Enterprise during the benefits period and actually paid at any time up to 12 years thereafter, except with respect to a qualified FIC, in which case the 12-year limit does not apply. A company qualifying for tax benefits under the 2005 Amendment which pays a dividend out of income derived by its Benefited Enterprise during the tax exemption period will be subject to corporate tax at a rate otherwise applicable to the company in the year the income was earned (i.e. 25%, or lower in the case of an FIC which is at least 49% owned by non-Israeli residents) on an amount consisting of such dividend amount, grossed up by the otherwise applicable corporate tax rate. Such company may also be required to record a deferred tax liability with respect to such tax-exempt income prior to its distribution.

The benefits available to a Benefited Enterprise are subject to the fulfillment of conditions stipulated in the Investment Law and its regulations. If a company does not meet these conditions, it may be required to refund the amount of tax benefits, together with consumer price index linkage adjustment and interest, or other monetary penalty.

Tax benefits under the 2011 Amendment that became effective on January 1, 2011.

The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such term is defined in the Investment Law) effective as of January 1, 2011 and onward. A Preferred Company is defined as either (i) a company incorporated in Israel and not fully owned by a governmental entity or (ii) a limited partnership (a) that was registered under the Israeli Partnerships Ordinance and (b) all limited partners of which are companies incorporated in Israel, but not all of them are governmental entities, which, in the case of the company and companies referenced in clauses (i) and (ii)(b), have, among other things, Preferred Enterprise status and are controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011-2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate will be reduced to 12.5% and 7%, respectively, in 2013-2014 and to 12% and 6% in 2015 and thereafter, respectively. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax will be withheld.

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that: (i) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment came into effect, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, while the 25% tax rate applied to income derived by an Approved Enterprise during the benefit period will be replaced with the regular corporate income tax rate (24% in 2011 and 25% in 2012), unless a request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011 (such request should have been made by way of an application to the Israeli Tax Authority by June 30, 2011 and may not be withdrawn); and (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an alternative benefits program, before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. However, a company that has such an Approved Enterprise can file a request with the Israeli Tax Authority, according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law, as amended in 2011; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met, or file a request with the Israeli Tax Authority according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law as amended in 2011.

As we are no longer eligible for any benefits under our previous Approved Enterprises, in early May 2011 we informed the Israeli Tax Authority that we opted to be subject to the provisions of the Investment Law under the 2011 Amendment, effective as of January 1, 2011.

Law for the Encouragement of Industrial Research and Development, 5744-1984

Under the Law for the Encouragement of Industrial Research and Development, 5744- 1984, or the Research Law, and the regulations promulgated thereunder, research and development programs approved by the Research Committee of the Office of the Chief Scientist, or the Research Committee, are eligible for grants or loans if they meet certain criteria, in return for the payment of royalties from revenues derived from products incorporating know-how developed within the framework of each such program or derived from such program (including ancillary services in connection with such program). Once a project is approved, the Office of the Chief Scientist of Israel, or the OCS, will award grants of up to 50% of the project's expenditures in return for royalties, usually at rates between 3% to 5% of sales of products developed with such grants, usually up to an aggregate of 100% (for programs funded prior to 1994, 100% to 150%) of the dollar-linked value of the total grants received in respect of such program (or, for grants received on or after January 1, 1999, until 100% of the dollar value plus LIBOR interest is repaid).

For information regarding restrictions upon, and conditions to, (a) the manufacture outside of Israel of products using technology developed using OCS funding and (b) the transfer of such technology to a non-Israeli entity whether through the direct transfer of the technology or through a transaction involving the company that received such funding, see “Item 5 – Operating and Financial Review and Prospects - Research and development, patents and licenses, etc.”

Tax Benefits and Grants for Research and Development

Israeli tax law allows, under specified conditions, a tax deduction for research and development expenditures, including capital expenditures, for the year in which they are incurred. Such expenditures must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry, determined by the field of research, and the research and development must be for the promotion or development of the company. Furthermore, the research and development must be carried out by or on behalf of the company seeking such tax deduction. The amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not approved by the relevant Israeli government ministry, but otherwise qualifying for deduction, are deductible over a three-year period. However, the amounts of any government grants made available are subtracted from the amount of the deductible expenses.

Law for the Encouragement of Industry (Taxes), 5729- 1969

The Law for the Encouragement of Industry (Taxes), 5729-1969, or the Industry Encouragement Law, provides several tax benefits for an “Industrial Company”. Pursuant to the Industry Encouragement Law, a company qualifies as an Industrial Company if it is an Israeli resident and at least 90% of its income in any tax year (other than income from certain government loans) is generated from an “Industrial Enterprise” that it owns. An “Industrial Enterprise” is defined as an enterprise whose major activity, in a given tax year, is industrial production.

An Industrial Company is entitled to certain tax benefits, including:

- Deduction of the cost of the purchases of patents, or the right to use a patent or know-how used for the development or promotion of the Industrial Enterprise, over an eight year period commencing on the year in which such rights were first exercised;
- Straight-line deduction of expenses related to a public offering in equal amounts over a three-year period commencing on the year of offering; and
- The right to elect, under certain conditions, to file a consolidated tax return with additional Israeli Industrial Companies controlled by it.

Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority.

We believe that we currently qualify as an Industrial Company within the definition under the Industry Encouragement Law. We cannot assure you that we will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

Special Provisions Relating to Taxation under Inflationary Conditions

The Income Tax Law (Inflationary Adjustments), 5745-1985, or the Inflationary Adjustments Law, represents an attempt to overcome the problems presented to a traditional tax system by an economy with high inflation rates. Under the Inflationary Adjustments Law, taxable results of Israeli companies through, and including, the year 2007 were measured on a real basis, taking into account the rate of change in the Israeli consumer price index, or CPI. Subject to certain transitional provisions, the Inflationary Adjustments Law was repealed as of January 1, 2008.

Taxation of Our Shareholders

The following is a short summary of certain provisions of the tax environment to which our shareholders may be subject. This summary is based on the current provisions of tax law. To the extent that the discussion is based on new tax legislation that has not been subject to judicial or administrative interpretation, we cannot assure you that the views expressed in the summary will be accepted by the appropriate tax authorities or the courts.

The summary below does not address all of the tax consequences that may be relevant to all purchasers of our Ordinary Shares in light of each purchaser's particular circumstances and specific tax treatment. For example, the summary below does not address the tax treatment of residents of Israel and traders in securities who are subject to specific tax regimes. As individual circumstances may differ, holders of our Ordinary Shares should consult their own tax adviser as to the United States, Israeli or other tax consequences of the purchase, ownership and disposition of Ordinary Shares. The following is not intended, and should not be construed, as legal or professional tax advice and is not exhaustive of all possible tax considerations. Each individual should consult his or her own tax or legal adviser.

Overview

Israeli law generally imposes a capital gains tax on the sale of capital assets by residents of Israel, as defined for Israeli tax purposes, and on the sale of assets located in Israel, including shares in Israeli companies, by both residents and non-residents of Israel, unless a specific exemption is available or unless a tax treaty between Israel and the shareholder's country of residence provides otherwise. The Ordinance distinguishes between the "Real Capital Gain" and the "Inflationary Surplus". The Inflationary Surplus is a portion of the total capital gain which is equivalent to the increase of the relevant asset's purchase price which is attributable to the increase in the CPI or, in certain circumstances, a foreign currency exchange rate, between the date of purchase and the date of sale. The Real Capital Gain is the excess of the total capital gain over the Inflationary Surplus.

Israeli Resident Individuals

Capital Gains

Beginning as of January 1, 2006, the tax rate applicable to Real Capital Gain derived by Israeli individuals from the sale of shares purchased on or after January 1, 2003, whether listed on a stock market or not, was 20%. However, if such shareholder was considered a "substantial shareholder" (i.e., a person who holds, directly or indirectly, alone or together with another, 10% or more of any of the company's "means of control" (including, inter-alia, the right to receive company profits, voting rights, the right to receive the company's liquidation proceeds and the right to appoint a company director)) at the time of sale or at any time during the preceding 12-month period, such gain was to be taxed at the rate of 25%. Individual shareholders dealing with securities in Israel are taxed at the tax rates applicable to business income (up to 45% in 2011, and up to 48% in 2012).

Notwithstanding the foregoing, pursuant to the Tax Burden Law, the capital gain tax rate applicable to individuals was raised from 20% to 25% from 2012 and onwards (from 25% to 30% if the selling individual shareholder is a substantial shareholder at any time during the 12-month period preceding the sale). With respect to assets (not shares that are listed on a stock exchange) purchased on or after January 1, 2003, the portion of the gain generated from the date of acquisition until December 31, 2011 will be subject to the previous capital gains tax rates (20% or 25%) and the portion of the gain generated from January 1, 2012 until the date of sale will be subject to the new tax rates (25% or 30%).

Dividend Income

Israeli resident individuals are generally subject to Israeli income tax on the receipt of dividends paid on our Ordinary Shares (other than bonus shares or share dividends) at 20%, or 25% if the dividend recipient is a substantial shareholder, at the time of distribution or at any time during the preceding 12-month period. Pursuant to the Tax Burden Law, as of 2012, such tax rate is 25%, or 30% if the dividend recipient is a substantial shareholder at the time of distribution or at any time during the preceding 12-month period. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/ Benefited/ Preferred income).

Israeli Resident Corporations

Capital Gains

Under Israeli current tax legislation, the tax rate applicable to Real Capital Gain derived by Israeli resident corporations from the sale of shares of an Israeli company is the general corporate tax rate. As described in "General Corporate Tax Structure Applicable to Our Company" above in this Item 10, recent changes in the law abolished the scheduled progressive reduction of the corporate tax rate and set the corporate tax rate at 25% from 2012 and onwards.

Dividend Income

Generally, Israeli resident corporations are exempt from Israeli corporate tax on the receipt of dividends paid on shares of Israeli resident corporations. However, dividends distributed from taxable income accrued during the period of benefit of an Approved Enterprise or Benefited Enterprise are subject to withholding tax at the rate of 15%, if the dividend is distributed during the tax benefit period under the Investment Law or within 12 years after that period.

Non-Israeli residents

Capital Gains

Israeli capital gains tax is imposed on the disposal of capital assets by a non-Israeli resident if those assets are either (i) located in Israel; (ii) shares or rights to shares in an Israeli resident company, or (iii) represent, directly or indirectly, rights to assets located in Israel, unless a tax treaty between Israel and the seller's country of residence provides otherwise. As mentioned above, Real Capital Gain is generally subject to tax at the corporate tax rate (24% in 2011 and 25% in 2012) if generated by a company, or at the rate of 20% in 2011 (25% in 2012)/ 25% in 2011 (30% in 2012) if generated by an individual from an asset purchased on or after January 1, 2003. Individual and corporate shareholders dealing in securities in Israel are taxed at the tax rates applicable to business income (a corporate tax rate for a corporation and a marginal tax rate of up to 45% for an individual in 2011).

Notwithstanding the foregoing, shareholders that are not Israeli residents (individuals and corporations) are generally exempt from Israeli capital gains tax on any gains derived from the sale, exchange or disposition of shares publicly traded on the Tel Aviv Stock Exchange or on a recognized stock exchange outside of Israel provided, *inter-alia*, that (i) such gains are not derived through a permanent establishment that the non-Israeli resident maintains in Israel, (ii) the shares were purchased after being listed on a recognized stock exchange outside of Israel, and (iii) such shareholders are not subject to the Inflationary Adjustments Law. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (a) has a controlling interest of 25% or more in such non-Israeli corporation, or (b) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. Furthermore, such an exemption is not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income.

In addition, a sale of securities may be exempt from Israeli capital gains tax under the provisions of an applicable tax treaty. For example, under the U.S.-Israel Tax Treaty, the sale, exchange or disposition of shares of an Israeli company by a shareholder who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) holding the shares as a capital asset is exempt from Israeli capital gains tax unless either (i) the shareholder holds, directly or indirectly, shares representing 10% or more of the voting capital during any part of the 12-month period preceding such sale, exchange or disposition, (ii) the shareholder, being an individual, has been present in Israel for a period or periods aggregating to 183 days or more during the taxable year; or (iii) the capital gains arising from such sale are attributable to a permanent establishment of the shareholder maintained in Israel. In either case, the sale, exchange or disposition of such shares would be subject to Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, the U.S. resident would be permitted to claim a credit for the tax against the U.S. federal income tax imposed with respect to the sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The U.S.-Israel Tax Treaty does not apply to U.S. state or local taxes.

Any of the purchaser, an Israeli stockbroker effecting the transaction, or the financial institution through which the sold, traded securities are held, are obligated, subject to any of the above-described exemptions and the demonstration of a shareholder regarding his, her or its foreign residency, to withhold tax upon the sale of securities from the Real Capital Gain derived from the sale of shares publicly traded in a stock exchange or the gross consideration paid in such sale, as applicable, at the rate of 25%.

Dividend Income

Non-Israeli residents (either individuals or corporations) are generally subject to Israeli income tax on the receipt of dividends paid on non-publicly traded shares at the rate of 20% in 2011, or 25% in 2012 (25% in 2011 or 30% in 2012 if the dividend recipient is a substantial shareholder, at the time of distribution or at any time during the preceding 12-month period), which tax will be withheld at source, unless a different rate is provided under an applicable tax treaty. Dividends paid on publicly traded shares, like our Ordinary Shares, to non-Israeli residents, although subject to the same tax rates applicable to dividends paid for non-publicly traded shares, are generally subject to Israeli withholding tax at a rate of 20% in 2011, or 25% in 2012, so long as the shares are registered with a Nominee Company (whether the recipient is a substantial shareholder or not), unless a different rate is provided under an applicable tax treaty. However, distribution of dividends attributed to an Approved Enterprise, Benefited Enterprise or Preferred Enterprise to non-Israeli residents (either individuals or corporations) is subject to withholding tax at a rate of 15%, unless a reduced tax rate is provided under an applicable tax treaty. An average rate will be set in case the dividend is distributed from mixed types of income (regular and Approved/Benefited/ Preferred income).

Under the U.S.-Israel Tax Treaty, the maximum rate of tax withheld in Israel on dividends paid to a holder of our Ordinary Shares who is a U.S. resident (for purposes of the U.S.-Israel Tax Treaty) is 25%. However, generally, the maximum rate of withholding tax on dividends, not generated by our Preferred Enterprise, that are paid to a U.S. corporation holding at least 10% or more of our outstanding voting capital from the start of the tax year preceding the distribution of the dividend up until (and including) the distribution of the dividend, is 12.5%, provided that not more than 25% of our gross income for such preceding year consists of certain types of dividends and interest. Notwithstanding the foregoing, dividends generated by an Approved Enterprise, Benefited Enterprise or Preferred Enterprise are subject to withholding tax at the rate of 15% for such a U.S. corporate shareholder, provided that the condition related to our gross income for the previous year (as set forth in the previous sentence) is met. If the dividend is attributable partly to income derived from an Approved Enterprise, Benefited Enterprise or Preferred Enterprise, and partly to other sources of income, the withholding rate will be a blended rate reflecting the relative portions of the two types of income. U.S. residents who are subject to Israeli withholding tax on a dividend may be entitled to a credit or deduction for United States federal income tax purposes in the amount of the taxes withheld, subject to detailed rules contained in United States tax legislation.

A non-Israeli resident who receives dividends from which tax was withheld is generally exempt from the obligation to file tax returns in Israel in respect of such income, provided that (i) such income was not derived from a business conducted in Israel by the taxpayer, and (ii) the taxpayer has no other taxable sources of income in Israel with respect to which a tax return is required to be filed.

Documents on Display

We are required to file reports and other information with the SEC under the Exchange Act and the regulations thereunder applicable to foreign private issuers. Reports and other information filed by us with the SEC may be inspected and copied at the SEC's public reference facilities described below. Although as a foreign private issuer we are not required to file periodic information as frequently or as promptly as United States companies, we generally do publicly announce our quarterly and year-end results promptly and file periodic information with the SEC under cover of Form 6-K. As a foreign private issuer, we are also exempt from the rules under the Exchange Act prescribing the furnishing and content of proxy statements and our officers, directors and principal shareholders are exempt from the reporting, short-swing profit and other provisions of Section 16 of the Exchange Act and the rules promulgated thereunder.

This annual report and the exhibits thereto, are available for inspection and copying at the public reference facilities of the SEC located at 100 F Street, NE, Washington, D.C. 20549, and the SEC's regional offices located in New York, New York and Chicago, Illinois. Copies of all or any part of the annual report or other filings may be obtained from these offices after payment of fees required by the SEC. Please call the SEC at 1-800-SEC-0330 for further information. The Exchange Act file number for our SEC filing is 000-27974.

The SEC also maintains a website at <http://www.sec.gov> from which certain filings may be accessed.

All documents referenced herein concerning us are archived and may also be inspected at our head offices located at 11 Gush Etzion Street, Givat Shmuel, Israel. Information about us is also available on our website at <http://www.cimatron.com>. Such information is not part of this annual report.

Item 11. Quantitative and Qualitative Disclosures About Market Risks.

We are exposed to market risks from changes in foreign currency exchange rates and interest rates, which could impact our results of operations and financial condition. We seek to manage the exposure to these market risks through our regular operating and financing activities and through the use of foreign currency exchange contracts and other financial instruments.

All of such financial instruments are managed and controlled under a program of risk management in accordance with established policies. These policies are reviewed and approved by our board of directors. Our treasury operations are subject to an internal audit on a regular basis.

As of December 31, 2011, we had currency exchange forward transactions to sell \$6.1 million for a total amount of NIS 22.5 million until December 27, 2012. As of March 31, 2012, we had currency exchange forward transactions to sell \$4.09 million for a total amount of NIS 15.06 million until December 31, 2012.

Interest Rate Risks

Our exposure to market rate risk for changes in interest rates relates primarily to our investment portfolio. We have not used derivative financial instruments in our investment portfolio. As of December 31, 2011, we had financial assets totaling approximately \$11.8 million, comprised of cash and bank deposits, all of which may be considered fixed rate financial assets. Given the current low interest rates in the financial markets, assuming a 10% interest rate decrease, the net decrease in our earnings would be negligible, holding other variables constant.

Currency Exchange Rate Risks

Our operating and pricing strategies take into account changes in exchange rates over time. However, there can be no assurance that future fluctuations in the value of foreign currencies will not have a material adverse effect on our business, operating results or financial condition. Since the beginning of 2000, we have been using financial instruments to hedge the following foreign currency exposure risks:

Our Subsidiaries - We operate internationally, and our subsidiaries in Germany and Italy conduct their respective operations in Euros. This exposes us to market risk from changes in foreign exchange rates to the extent that the functional currency of our subsidiaries will decline in value as compared to the U.S. dollar, resulting in a foreign currency exchange rate loss. Assuming an adverse 20% foreign exchange rate fluctuation, we would experience exchange rate losses of approximately \$1.36 million.

Our Resellers - Commencing on June 1, 2000 we initiated a Euro denominated price list for all of our Resellers in countries whose currency is linked to the Euro. Our revenues from these Resellers are therefore exposed to exchange rate differences between the Euro and the United States dollar. Assuming an adverse 20% foreign exchange rate fluctuation, we would experience exchange rate losses from these Resellers of approximately \$155 thousand.

During the first eight months of 2011 (through August 2011), the Euro appreciated relative to the U.S. dollar by approximately 8%, with the exchange rate rising from 1.34 U.S. dollars per one Euro at the start of 2011 to approximately 1.44 U.S. dollars per Euro as of late August 2011. However, commencing in September 2011, market fears concerning the ongoing financial crisis in various countries of the European Union caused a reversal of that trend, which caused exchange rates between the Euro and U.S. dollar to return by year-end to their approximate levels at the start of 2011 and to decrease even further at the start of 2012. Further depreciation of the Euro relative to the U.S. dollar would have an adverse impact on our U.S. dollar denominated financial results. See "Item 3—Key Information—Risk Factors" for a discussion of the risks to us arising from this possibility.

Because of our international operations, changes in exchange rates against the U.S. dollar have and could continue to have a significant effect on our results of operations. In addition, local economic conditions or currency fluctuations could cause customers to decrease or cancel orders or default on payment.

Expenses in New Israeli Shekels

The cost of our Israel operations, as expressed in U.S. dollars, is influenced by the extent to which any increase in the rate of inflation in Israel is not offset (or is offset on a lagging basis) by a devaluation of the NIS in relation to the U.S. dollar. The inflation rate in Israel was 2.2%, 2.7% and 3.9% in 2011, 2010 and 2009, respectively. The appreciation (devaluation) of the NIS against the U.S. dollar (calculated based on the average representative exchange rate for each such year relative to the previous year, as published by the Bank of Israel) amounted to 4.1%, 4.9% and (9.4)% in 2011, 2010 and 2009, respectively. Assuming a 10% appreciation of the NIS against the U.S. dollar, and assuming a maximum deviation of 1% in inflation, we would experience exchange rate losses of approximately \$0.9 million, excluding the effect of our hedging transactions.

A significant portion of our expenditures is employee compensation-related. Salaries are paid in NIS and may be adjusted for changes in the Israeli consumer price index, or CPI, through salary increases or adjustments. These upward adjustments increase salary expenses in U.S. dollar terms. The devaluation/appreciation of the NIS against the U.S. dollar decreases/increases employee compensation expenditures as expressed in dollars proportionally. Some of our other NIS-based expenses are either currently adjusted to U.S. dollars or are adjusted to the CPI.

Item 12. Description of Securities Other than Equity Securities.

Not Applicable.

PART II

Item 13. Defaults, Dividend Arrearages and Delinquencies.

None.

Item 14. Material Modifications to the Rights of Security Holders and Use of Proceeds.

None.

Item 15. Controls and Procedures.

(a) *Disclosure Controls and Procedures* – Our management evaluated, with the participation of our principal executive and principal financial officers, the effectiveness of our disclosure controls and procedures (as defined in Rules 13a-15(e) and 15d-15(e) under the Exchange Act), as of December 31, 2011. Based on their evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2011.

(b) *Management's Annual Report on Internal Control Over Financial Reporting* – Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as such term is defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act. Our internal control over financial reporting system is designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

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

Our management, with the participation of our principal executive and principal financial officers, assessed our internal control over financial reporting as of December 31, 2011. Our management based its assessment on criteria established in Internal Control–Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission. Based on that assessment, our management has concluded that, as of December 31, 2011, our internal control over financial reporting is effective.

(c) *Attestation Report of the Registered Public Accounting Firm* – Not applicable.

(d) *Changes in Internal Control Over Financial Reporting* – Based on the evaluation conducted by our management, with the participation of our principal executive and principal financial officers, pursuant to Rules 13a-15(d) and 15d-15(d) promulgated under the Exchange Act, our management (including such officers) has concluded that there has been no change in our internal control over financial reporting that occurred during 2011, that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.

Item 16A. Audit Committee Financial Expert.

Our board of directors has determined that Rami Entin, who serves on the audit committee of our board of directors and who meets the “independence” definition under the NASDAQ Stock Market Listing Rules, qualifies as our “audit committee financial expert,” as defined under the rules and regulations of the SEC, as well as our external director with “accounting and financial expertise” under the Companies Law.

Item 16B. Code of Ethics.

We have adopted a code of ethics that applies to our Chief Executive Officer and Chief Financial Officer (who also serves as our principal accounting officer), and persons performing similar functions, and which complies with the rules promulgated by the SEC. We will provide to any person, without charge, upon request, a copy of the code of ethics and respond to any questions concerning the code. Requests to receive a copy of the code of ethics should be sent to us at our corporate headquarters located at 11 Gush Etzion Street, Givat Shmuel 54030, Israel, Attention: Chief Financial Officer. In addition, we have adopted a code of business conduct that applies to all of our directors, officers and employees, and which complies with the rules of the NASDAQ Capital Market.

The chairman of our audit committee may approve a request by our Chief Executive Officer, Chief Financial Officer (who also serves as our principal accounting officer) or any person performing similar functions for a waiver from the requirements of our code of ethics pertaining to (i) honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationship; (ii) full, fair, accurate, timely and understandable disclosure in reports and documents that we must file with, or submit to, the SEC and in other public communications made by us; (iii) compliance with applicable governmental laws, rules and regulations; (iv) the prompt internal reporting of violation of the code of ethics to the chairman of our audit committee; and (v) accountability for adherence to the code of ethics; provided in each case that the person requesting such waiver provides to our audit committee a full disclosure of the particular circumstances relating to such request. The chairman of our audit committee will first determine whether a waiver of the relevant requirements of the code of ethics is required and, if such waiver is required, whether a waiver will be granted. The person requesting such waiver may be required to agree to certain conditions before a waiver or a continuing waiver is granted.

Any amendments to the code of ethics and all waivers from compliance with the code of ethics granted to our Chief Executive Officer, Chief Financial Officer (who also serves as our principal accounting officer) or any person performing similar functions with respect to its requirements described in the above paragraph will be publicly disclosed by us in accordance with the regulations of the SEC. No such amendment has been adopted, nor waiver provided, by us during the fiscal year ended December 31, 2011.

Item 16C. Principal Accountant Fees and Services.

Audit Fees

The aggregate fees billed for professional services rendered to us by our principal accountants for the audit of our financial statements in 2010 and 2011 were \$71,000 and \$81,000, respectively.

Audit-Related Fees

We incurred no fees for assurance and related services rendered to us by our principal accountants that were reasonably related to the audit of our financial statements in 2010 and 2011 (aside from the fees included under "Audit Fees" above).

Tax Fees

The aggregate fees billed for professional services rendered to us by our principal accountants for tax compliance, tax advice and tax planning in 2010 and 2011 were \$20,000 and \$0, respectively, which, in 2010, related to a transfer pricing study for our German subsidiary and to assistance that was provided to us for a tax assessment process that was held in Germany.

All Other Fees

In 2010 and 2011, there were no fees billed for additional professional services rendered to us by our principal accountants, other than for services described in the above categories.

Policy on Audit Committee Pre-Approval of Audit and Non-Audit Services of Independent Accountants

The audit committee of our board of directors is responsible for the oversight of our independent accountants' work. The audit committee's policy is to pre-approve all audit and non-audit services provided by our independent accountants, Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu. These services may include audit services, audit-related services, tax services and other services, as described above. Our audit committee sets forth the basis for its pre-approval in detail, listing the particular services or categories of services which are pre-approved, and setting forth a specific budget for such services. Additional services may be pre-approved by the audit committee on an individual basis. Once services have been pre-approved, our independent accountants and management then report to the audit committee on a periodic basis regarding the extent of services actually provided in accordance with the applicable pre-approval, and regarding the fees for the services performed. Such fees for 2010 and 2011 were pre-approved by the audit committee in accordance with these procedures, including a \$1,800 amount that was pre-approved by the audit committee in 2010 for consulting on a tax assessment in Germany, and \$15,000 for a transfer pricing study for our German subsidiary, and a \$4,000 amount that was approved in 2011 for a review of our first half 2011 financial statements that was required in relation to the dividend we paid in September 2011, and \$5,200 for tax consulting related to our application to the court for a cash distribution of up to \$10 million to our shareholders.

In April 2011, our shareholders approved the engagement of Brightman Almagor Zohar & Co., a member of Deloitte Touche Tohmatsu, as our independent auditors for the fiscal year ended December 31, 2011 and until the next annual shareholder meeting. Such approval followed the pre-approval by our board of directors and audit committee of such engagement (in the case of the audit committee, as described above).

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

Not applicable

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

On June 4, 2008, we announced that our board of directors had approved the use of up to \$1 million of our available cash to repurchase our Ordinary Shares. Under the repurchase program, share purchases may be made from time to time at the discretion of management in the open market or in privately negotiated transactions depending on market conditions, share price, trading volume and other factors. Such purchases were to be made in accordance with the requirements of U.S. securities laws. For portions of the authorized repurchase amount, we entered into plans that were compliant with Rule 10b5-1 and Rule 10b-18 under the Exchange Act that were designed to facilitate such purchases. The repurchase program has no time limit, does not require us to acquire a specific number of shares, and may be suspended from time to time or discontinued. In August 2010, we suspended repurchases under this program, and did not make any further repurchases during all of 2011. We may continue repurchases under this program once again at any time in the future.

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

Not applicable.

Item 16G. Corporate Governance.

NASDAQ Listing Requirements

NASDAQ rules enable foreign private issuers, such as us, to comply with the prevalent practice in our jurisdiction of incorporation in place of certain NASDAQ listing requirements. To the extent that we choose to do so, we are required to disclose in our annual reports filed with the SEC each NASDAQ listing requirement that we do not follow and describe the home country practice that we follow in lieu of such requirement.

We have chosen not to comply with NASDAQ Listing Rules 5605(e)(2) (requiring companies to adopt a formal written charter or board resolution addressing the company's board nominations process), 5605(b)(1) (requiring a majority of the board of directors to be comprised of independent directors) and 5605(b)(2) (requiring regularly scheduled "executive" meetings of a listed company's independent directors). Under Israeli law, the board nominations process is conducted by the full board of directors. Similarly, under Israeli law, all matters that are subject to the approval of a company's board of directors are discussed by the full board of directors. Furthermore, under Israeli law, the board of directors needs to include external directors (as described in "Item 6— Directors, Senior Management and Employees— Board of Directors— External Directors") but independent, unaffiliated or external directors do not need to comprise a majority of the board. In addition, we do not intend to comply (if and when the events underlying such rule become relevant) with the NASDAQ listing requirement for shareholder approval for the establishment of, and amendments to, stock option or equity compensation plans (NASDAQ Listing Rule 5635(c)), which matter is not subject to shareholder approval under Israeli law and practice.

We have also chosen to follow our home country practice in lieu of compliance with NASDAQ Listing Rule 5605(d), which requires that the compensation of the chief executive officer and all other executive officers of our company be determined, or recommended to the board for determination, either by a majority of the independent directors, or by a compensation committee comprised solely of independent directors. Under the Companies Law, the compensation of such officers is determined by both the audit committee (or, should we wish to establish such a committee in the future, a compensation committee of our board of directors that meets all of the requirements applicable to an audit committee) and the board of directors as a whole. The amendment of existing compensation terms of our office holders who are not directors merely requires the approval of our audit committee, if such committee determines that the amendment is not substantial in relation to the existing terms. There is no requirement for a recommendation or determination by independent directors or a separate compensation committee. If the chief executive officer or any other executive officer is also a director, then the Companies Law requires that the terms of compensation of the officer must be approved by the audit committee, board of directors and shareholders of a company and that the officer may not be present when the audit committee or board of directors discusses or acts upon the terms of his or her compensation.

As opposed to the Listing Rules of NASDAQ that require listed issuers to make annual and quarterly reports available to shareholders in one of a number of specific manners, Israeli law does not require us to distribute such reports directly to shareholders and the generally accepted business practice in Israel is not to distribute such reports to shareholders but to make such reports available through a public website. In addition, we make our annual report containing audited financial statements available to our shareholders at our offices (in addition to a public website) and will only mail such report to shareholders upon request.

PART III

Item 17. Financial Statements.

We have elected to provide financial statements and related information pursuant to Item 18.

Item 18. Financial Statements.

See pages F-1 through F-32 appended hereto.

Item 19. Exhibits.

- 1.1 Amended and Restated Articles of Association of Cimatron Ltd.*
 - 4.1 Services Agreement by and between Cimatron Ltd and DBSI Investments Ltd. ("DBSI"), as assignee of Zeevi Computers and Technology Ltd.**
 - 4.2 Registration Rights Agreement, dated June 3, 2007, by and among Cimatron Ltd., 3Kotek 2 B.V. (as successor in interest to Koonras Technologies Ltd.) and DBSI Investments Ltd.***
 - 4.3 Registration Rights Agreement, dated December 31, 2007, by and between Cimatron Ltd. and William F. Gibbs.****
 - 4.4 Employment Agreement, dated as of January 2, 2008, by and between William F. Gibbs and Cimatron Gibbs LLC (formerly known as Nortamic LLC).*****
 - 8.1 List of Cimatron Ltd. Subsidiaries.
 - 12.1 Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act.
 - 12.2 Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a) under the Exchange Act.
 - 13 Certification of Chief Executive Officer and Chief Financial Officer pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Exchange Act and 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
 - 15.1 Consent of Brightman Almagor Zohar & Co., Certified Public Accountants, a member of Deloitte Touche Tohmatsu.
 - 15.2 Consent of Lucas, Horsfall, Murphy & Pindroh, LLP.
- * Incorporated by reference to Exhibit A to our Proxy Statement for our 2006 Annual General Meeting of Shareholders, included in our Current Report on Form 6-K, filed with the SEC on November 22, 2006.
- ** Incorporated by reference to our Registration Statement on Form F-1, File No. 333-1484, as amended, filed with the SEC on February 16, 1996.
- *** Incorporated by reference to Exhibit 4.2 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2006, filed with the SEC on June 28, 2007 (File No. 0-27974).
- **** Incorporated by reference to Exhibit 4.2.3 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007, filed with the SEC on June 30, 2008 (File No. 0-27974).
- ***** Incorporated by reference to Exhibit 4.2.5 to our Annual Report on Form 20-F for the fiscal year ended December 31, 2007, filed with the SEC on June 30, 2008 (File No. 0-27974).

SIGNATURES

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

CIMATRON LTD.

By: /s/ Dan Haran

Name: Dan Haran

Title: President and Chief Executive Officer

Date: April 30, 2012

CIMATRON LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
AS OF DECEMBER 31, 2011

CIMATRON LIMITED
CONSOLIDATED FINANCIAL STATEMENTS
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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

**To the Shareholders of
Cimatron Ltd.**

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

We didn't audit the financial statements of a subsidiary, which statements reflect total assets constituting 11% and 9% of consolidated total assets as of December 31, 2011 and 2010, respectively, and total revenues constituting 30%, 30% and 28% of consolidated revenues for the years ended December 31, 2011, 2010 and 2009 respectively. Those statements were audited by other auditor, whose report has been furnished to us and our opinion, insofar as it relates to the amounts included for that subsidiary, is based solely on the report of the other auditor.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The company is not required to have, nor were engaged to perform, an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits and the report of the other auditor provide a reasonable basis for our opinion.

In our opinion, based on our audits and report of the other auditor, such consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company and its subsidiaries as of December 31, 2011 and 2010 and the consolidated results of their operations and their consolidated cash flows for each of the three years in the period ended December 31, 2011, in conformity with U.S. generally accepted accounting principles.

/s/ Brightman Almagor Zohar & Co.
Certified Public Accountants
A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
March 26, 2012

TEL AVIV - MAIN OFFICE	RAMAT GAN	JERUSALEM	HAIFA	BEER SHEVA	EILAT
1 Azrieli Center	6 Ha'racon	12 Sarei Israel	5 Ma'aleh Hashichrur	Omer Industrial Park	The City Center
Tel Aviv, 67021	Ramat Gan, 52521	Jerusalem, 94390	P.O.B. 5648	Building No.10	P.O.B 583
P.O.B. 16593			Haifa, 31055	P.O.B. 1369	Eilat, 88104
Tel Aviv, 61164				Omer, 84965	
Tel: +972 (3) 608 5555	Tel: +972 (3) 755 1500	Tel: +972 (2) 501 8888	Tel: +972 (4) 860 7333	Tel: +972 (8) 690 9500	Tel: +972 (8) 637 5676
Fax: +972 (3) 609 4022	Fax: +972 (3) 575 9955	Fax: +972 (2) 537 4173	Fax: +972 (4) 867 2528	Fax: +972 (8) 690 9600	Fax: +972 (8) 637 1628
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Please see www.deloitte.com/about for a detailed description of the legal structure of Deloitte Touche Tohmatsu Limited and its member firms.

CIMATRON LIMITED

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	<u>Note</u>	<u>December 31,</u>	
		<u>2 0 1 1</u>	<u>2 0 1 0</u>
ASSETS			
Current assets			
Cash and cash equivalents		\$ 11,787	\$ 10,221
Trade accounts receivable, net of allowance for doubtful accounts of \$964 and \$983 as of December 31, 2011 and 2010 respectively	3	5,840	5,708
Other accounts receivable and prepaid expenses	4	1,264	2,084
Inventory		188	191
Total current assets		<u>19,079</u>	<u>18,204</u>
Deposits with insurance companies and severance pay funds	7	3,069	3,279
Property and equipment	5		
Cost		9,845	9,773
Less - accumulated depreciation		8,836	8,824
Property and equipment, net		<u>1,009</u>	<u>949</u>
Other assets			
Goodwill, net		8,998	9,112
Other Intangible Assets		2,367	3,357
Total other assets		<u>11,365</u>	<u>12,469</u>
Total assets		<u><u>34,522</u></u>	<u><u>34,901</u></u>

The accompanying notes are an integral part of the financial statements

CIMATRON LIMITED

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data) (cont)

	<u>Note</u>	<u>December 31,</u>	
		<u>2 0 1 1</u>	<u>2 0 1 0</u>
LIABILITIES AND SHAREHOLDERS' EQUITY			
Current liabilities			
Short-term bank credit		\$ 87	\$ 99
Related parties		144	150
Trade payables		1,072	1,685
Other liabilities and accrued expenses	6	8,904	8,110
Deferred revenues		2,403	2,275
Total current liabilities		<u>12,610</u>	<u>12,319</u>
Long-term liabilities			
Accrued severance pay	7	4,135	4,297
Long term loan		6	98
Deferred tax liability		639	1,002
		<u>4,780</u>	<u>5,397</u>
Contingent liabilities and commitments	8	-	-
Shareholders' equity			
Cimatron Ltd. Shareholders' equity:			
<u>Share capital:</u>			
	9		
Ordinary shares of NIS 0.10 par value (Authorized - 19,950,000 shares, issued and outstanding - 9,907,948 shares at December 31, 2011 and 9,567,198 at December 31, 2010)		313	304
Additional paid-in capital and other capital surplus		18,999	18,275
Accumulated deficit		(851)	(303)
<u>Accumulated other comprehensive income (loss):</u>			
Foreign currency translation adjustments		(267)	(626)
Unrealized gain on other intangible assets and goodwill		98	207
Unrealized gain (loss) on derivative instruments		(277)	154
		<u>18,015</u>	<u>18,011</u>
Treasury stock, at cost; 607,956 shares at December 31, 2011 and 2010		(752)	(752)
Total Cimatron Ltd. shareholders' equity		<u>17,263</u>	<u>17,259</u>
Non controlling interest		<u>(131)</u>	<u>(74)</u>
Total equity		<u>17,132</u>	<u>17,185</u>
Total liabilities and shareholders' equity		<u>\$ 34,522</u>	<u>\$ 34,901</u>

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

CIMATRON LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS
(in thousands, except per share data)

	Note	Year ended December 31,		
		2011	2010	2009
Revenues:	12a			
Products		\$ 18,177	\$ 15,994	\$ 13,191
Maintenance and Services		22,537	20,080	19,766
Total		40,714	36,074	32,957
Cost of revenues	12b			
Products		3,769	4,320	4,567
Services		1,614	1,556	1,619
Total		5,383	5,876	6,186
Gross profit		35,331	30,198	26,771
Research and development expenses, net		6,739	6,014	5,736
Selling, general and administrative expenses	12c	24,453	22,053	21,992
Operating income (loss)		4,139	2,131	(957)
Financial income (expenses), net		(195)	97	19
Other expenses		(6)	(6)	(41)
Income (loss) before income taxes		3,938	2,222	(979)
Income taxes	10	(1,327)	(657)	949
Net income (loss) after income taxes		2,611	1,565	(30)
Less: Net loss attributable to the non controlling interest		57	26	44
Net income attributable to Cimatron's shareholders		\$ 2,668	\$ 1,591	\$ 14
Net Income per share (basic and diluted)		\$ 0.29	\$ 0.18	\$ 0.00
Weighted average number of shares outstanding				
Basic earnings per share		9,252	9,000	9,156
Diluted earnings per share		9,292	9,000	9,156

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

CIMATRON LIMITED

STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)

(in thousands)

	<u>Non- controlling interest</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Treasury stock</u>	<u>Comprehensive income (loss)</u>	<u>Total shareholders' equity</u>
Balance at December 31, 2008	(4)	304	18,131	65	(1,908)	(389)		16,199
Changes during the year ended								
December 31, 2009:								
Net Income (loss)	(44)				14		(30)	(30)
Investment in treasury stock						(153)		(153)
Unrealized loss on derivative instruments				(81)			(81)	(81)
Foreign currency translation adjustment				91			91	91
Stock option compensation			73					73
Total comprehensive income			73					73
Balance at December 31, 2009	<u>\$ (48)</u>	<u>\$ 304</u>	<u>\$ 18,204</u>	<u>\$ 75</u>	<u>\$ (1,894)</u>	<u>\$ (542)</u>	<u>\$ (20)</u>	<u>\$ 16,099</u>

CIMATRON LIMITED

STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)
(in thousands)

	<u>Non- controlling interest</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Treasury stock</u>	<u>Comprehensive income (loss)</u>	<u>Total shareholders' equity</u>
Balance at December 31, 2009	(48)	304	18,204	75	(1,894)	(542)		16,099
Changes during the year ended								
December 31, 2010:								
Net Income (loss)	(26)				1,591		1,565	1,565
Investment in treasury stock						(210)		(210)
Unrealized loss on derivative instruments				(79)			(79)	(79)
Unrealized gain on other intangible assets and goodwill				207			207	207
Foreign currency translation adjustment				(468)			(468)	(468)
Exercise of stock options		-	11					11
Stock option compensation			60					60
Total comprehensive income								
Balance at December 31, 2010	<u>(74)</u>	<u>304</u>	<u>18,275</u>	<u>(265)</u>	<u>(303)</u>	<u>(752)</u>	<u>1,225</u>	<u>17,185</u>

CIMATRON LIMITED**STATEMENTS OF SHAREHOLDERS' EQUITY AND COMPREHENSIVE INCOME (LOSS)****(in thousands)**

	<u>Non- controlling interest</u>	<u>Share capital</u>	<u>Additional paid-in capital</u>	<u>Accumulated other comprehensive income (loss)</u>	<u>Retained earnings (accumulated deficit)</u>	<u>Treasury stock</u>	<u>Comprehensive income (loss)</u>	<u>Total shareholders' equity</u>
Balance at December 31, 2010	(74)	304	18,275	(265)	(303)	(752)		17,185
Changes during the year ended December 31, 2011:								
Net Income (loss)	(57)				2,668		2,611	2,611
Cash dividend paid					(3,216)			(3,216)
Unrealized loss on derivative instruments				(431)			(431)	(431)
Unrealized gain on other intangible assets and goodwill				(109)			(109)	(109)
Foreign currency translation adjustment				359			359	359
Exercise of stock options		9	724					733
Total comprehensive income								
Balance at December 31, 2011	<u>(131)</u>	<u>313</u>	<u>18,999</u>	<u>(446)</u>	<u>(851)</u>	<u>(752)</u>	<u>2,430</u>	<u>17,132</u>

CIMATRON LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2011	2010	2009
CASH FLOWS - OPERATING ACTIVITIES			
Net Income (loss)	\$ 2,611	\$ 1,565	\$ (30)
Adjustments to reconcile net income to net cash provided by operating activities:			
Depreciation and amortization	1,376	1,512	1,575
Increase (decrease) in accrued severance pay	(135)	228	138
Loss from sale of property and equipment, net	-	8	-
Stock options compensation	-	60	73
Loss on disposal of closure of sites	-	-	43
Deferred taxes, net	504	406	(984)
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable and prepaid expenses	(222)	(583)	1,854
Decrease (increase) in inventory	(2)	13	(15)
Decrease (increase) in deposits with insurance companies and severance pay fund	210	(344)	(216)
Increase (decrease) in trade payables, accrued expenses and other liabilities	228	1,908	(1,164)
Net cash provided by operating activities	4,570	4,773	1,274
CASH FLOWS - INVESTING ACTIVITIES			
Purchase of property and equipment	(428)	(384)	(262)
Cash disposal related to closure of sites	-	-	(46)
Net cash used in investing activities	(428)	(384)	(308)
CASH FLOWS - FINANCING ACTIVITIES			
Short-term bank credit	(10)	(340)	301
Long-term bank credit	(87)	(98)	(104)
Proceeds from issuance of shares upon exercise of options	733	11	-
Cash dividend paid	(3,216)	-	-
Investment in treasury stock	-	(210)	(153)
Net cash used in (provided by) financing activities	(2,580)	(637)	44
Effect of exchange rate changes on cash	4	(215)	(53)
Net increase in cash and cash equivalents	1,562	3,752	1,010
Cash and cash equivalents at beginning of year	10,221	6,684	5,727
Cash and cash equivalents at end of year	11,787	10,221	6,684
Supplemental information:			
Cash paid during the year for income taxes	\$ 755	\$ 80	\$ 92

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

CIMATRON LIMITED

APPENDIX TO STATEMENTS OF CASH FLOWS
(U.S. dollars in thousands)

	<u>Year ended December 31,</u>		
	<u>2011</u>	<u>2010</u>	<u>2009</u>
Appendix B - Non-cash transactions			
Purchase of property on credit	<u>\$ 19</u>	<u>\$ 68</u>	<u>\$ 10</u>

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

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS **(in thousands, except share and per share data)**

NOTE 1 - GENERAL

Cimatron Ltd. (the "Company" or "Cimatron") designs, develops, manufactures, markets and supports a family of CAD/CAM software solutions for mold, tool and die makers as well as manufacturers of discrete parts. The Cimatron product line includes the CimatronE and GibbsCAM brands with solutions for mold design, die design, electrodes design, 2.5 to 5 axes milling, wire EDM, turn, Mill-turn, rotary milling, multi-task machining, and tombstone machining. Cimatron's subsidiaries and distribution network serve and support customers in the automotive, aerospace, medical, consumer plastics, electronics, and other industries in over 40 countries worldwide.

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with U.S. generally accepted accounting principles ("GAAP").

A. Use of estimates in preparation of financial statements

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions in determining the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

B. Financial statements in U.S. dollars

The reporting currency of the Company is the U.S. dollar (the "dollar").

The dollar is the functional currency of the Company and its subsidiaries in the United States and Canada. Transactions and balances originally denominated in dollars are presented at their original amounts. Non-dollar transactions and balances are remeasured into dollars in accordance with the principles set forth in Accounting Standards Codification ("ASC") 830-10 "Foreign Currency Translation" ("ASC 830-10") (formerly: Statement of Financial Accounting Standards ("SFAS") No. 52). All exchange gains and losses from remeasurement of monetary balance sheet items resulting from transactions in non-dollar currencies are recorded in the statement of operations as they arise.

The financial statements of certain subsidiaries whose functional currency is other than the dollar are translated into dollars in accordance with the principles set forth in ASC 830-10 (formerly: "SFAS No. 52"). Assets and liabilities have been translated at year-end exchange rates; results of operations have been translated at average exchange rates. The translation adjustments have been reported as a separate component of shareholders' equity.

C. Principles of consolidation

The consolidated financial statements include the financial statements of the Company and all of its subsidiaries. All significant intercompany transactions and balances have been eliminated.

D. Cash and cash equivalents

Cash equivalents consist of short-term, highly liquid investments that are readily convertible into cash with original maturities of three months or less.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

E. Marketable securities

The Company accounts for its investments in marketable securities in accordance with ASC 320-10, "Accounting for Certain Investments in Debt and Equity Securities" ("ASC 320-10") (formerly: "SFAS No. 115).

Management determines the appropriate classification of the Company's investments in marketable debt securities at the time of purchase and reevaluates such determinations at each balance sheet date. Debt securities for which the Company does not have the intent or ability to hold to maturity are classified as available-for-sale.

Realized gains and losses on sales of investments, as determined on a specific identification basis, were included in the consolidated statement of operations. As of December 31, 2011 the Company had no investment in marketable securities.

F. Fair value of financial instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term investments, current accounts receivable, accounts payable and long-term liabilities. In view of their nature, the carrying values of the financial instruments included in working capital of the Company approximate their fair-values.

G. Concentrations of credit risk

Financial instruments which potentially subject the Company to concentration of credit risk consist principally of cash and cash equivalents, and accounts receivable. The Company's cash and cash equivalents are invested primarily in deposits with major banks worldwide. Management believes that the financial institutions that hold the Company's investments are financially sound, and accordingly, minimal credit risk exists with respect to such investments. The Company's trade receivables are derived from sales to customers located primarily in the U.S., Europe, Asia and Israel. The allowance for doubtful accounts is provided with respect to all balances deemed doubtful of collection.

H. Allowance for doubtful accounts

The allowance for doubtful accounts is computed on a specific identification basis for accounts, the collection of which, in management's estimation, is doubtful.

I. Inventory

Inventory is presented at the lower of cost or market. Cost is determined by the "first in, first out" method.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

J. Property and equipment

Property and equipment are stated at cost. Depreciation is computed using the "straight-line" method, over the estimated useful life of assets, as follows:

Computers and software	3 years
Office furniture and equipment	5- 16.5 years

Leasehold improvements are amortized over the shorter of the life of the relevant lease or the service life of the improvements.

K. Impairment of long-lived assets, goodwill and other intangible assets

The Company evaluates its long-lived tangible and intangible assets for impairment in accordance with ASC 350-20, "Goodwill and Other Intangible Assets," and ASC 360-10, "Accounting for the Impairment or Disposal of Long-Lived Assets," whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. Goodwill is subject to an annual test for impairment. If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds the fair value of the assets. No write-offs were recorded during 2011, 2010 and 2009.

During 2011, 2010 and 2009, the Company amortized approximately \$990,000, \$984,000 and \$988,000 respectively.

The Company regularly reviews whether facts and circumstances exist which indicate that the carrying amount of assets may not be recoverable. The Company assesses the recoverability of the carrying amount of its long-lived assets based on expected undiscounted cash flows. If an asset's carrying amount is determined to be not recoverable, the Company recognizes an impairment loss based upon the difference between the carrying amount and the fair value of such asset, in accordance with ASC 360-10 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("ASC 360-10") (formerly: "SFAS No. 144").

L. Software development costs

The Company capitalizes software development costs in accordance with ASC 985-20 "Accounting for the Costs of Computer Software to be Sold, Leased or Otherwise Marketed" ("ASC 985-20") (formerly: "SFAS No. 86"). Capitalization of software development costs begins upon the establishment of technological feasibility, and continues up to the time at which the software is available for general release to customers. The establishment of technological feasibility and the ongoing assessment of the recoverability of these costs require considerable judgment by management with respect to certain external factors including, but not limited to, anticipated future gross product revenue, estimated economic life and changes in software and hardware technology.

Based on the Company's product development process, technological feasibility is established upon completion of a working model. Costs incurred by the Company between completion of a working model and the point at which a product is ready for general release has been insignificant. Therefore, all research and development costs have been expensed.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

M. Acquisition-related intangible assets

The Company accounts for its business combinations in accordance with ASC 805 "Business Combinations" and with ASC 350-20 "Goodwill and Other Intangible Assets" ("ASC 350-20") (Formerly: "SFAS No. 142"). ASC 805-10 specifies the accounting for business combinations and the criteria for recognizing and reporting intangible assets apart from goodwill.

Acquisition-related intangible assets result from the Company's acquisitions of businesses accounted for under the purchase method and consist of the value of identifiable intangible assets including developed software products, established workforce and trade names, as well as goodwill. Goodwill is the amount by which the acquisition cost exceeds the fair values of identifiable acquired net assets on the date of purchase. Acquisition-related intangible assets are reported at cost, net of accumulated amortization.

N. Stock-based compensation

The Company applied the provisions of ASC 718-10, "Share-Based Payment" ("ASC 718-10") (formerly: "SFAS No. 123 (Revised)"). ASC 718-10 requires employee share-based equity awards to be accounted for under the fair value method. Accordingly, stock-based compensation is measured at the grant date, based on the fair value of the award.

There were no option grants in 2011, 2010 and 2009.

O. Revenue recognition

The Company recognizes revenues in accordance with the American Institute of Certified Public Accountants ("AICPA") ASC 985-605-15, "Software Revenue Recognition", as amended (formerly: "Statement of Position "SOP" 97-2").

Revenues from software license fees are recognized when persuasive evidence of an arrangement exists, the software product covered by written agreement or a purchase order signed by the customer has been delivered, the license fees are fixed and determinable and collection of the license fees is considered probable. When software arrangements involve multiple elements the Company allocates revenue to each element based on the relative fair values of the elements. The Company's determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence ("VSOE"). The Company limits its assessment of VSOE for each element to the price charged when such element is sold separately.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

O. Revenue recognition (Cont.)

Service revenues include consulting services and post-contract customer support and training. Consulting revenues are generally recognized on a time and material basis. Software maintenance agreements provide technical customer support and the right to unspecified upgrades on an if-and-when-available basis. Post-contract customer support revenues are recognized ratably over the term of the support period (generally one year) and training and other service revenues are recognized as the related services are provided. Deferred revenues represent mainly amounts received on account of service agreements.

The Company's sales are made pursuant to standard purchase orders, containing payment terms averaging between 30 - 120 days. The Company's arrangements do not substantially include any refund provisions nor are payments subject to milestones. In addition, the Company's arrangements do not substantially contain customer acceptance provisions.

P. Research and development costs

Research and development costs are expensed as incurred.

Q. Deferred income taxes

The Company accounts for income taxes in accordance with ASC 740, "Income Taxes". This topic prescribes the use of the liability method whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities. Deferred taxes are computed based on the tax rates anticipated (under applicable law as of the balance sheet date) to be in effect when the deferred taxes are expected to be paid or realized.

The Company evaluates the realizability of the Company's its deferred tax assets for each jurisdiction in which it operates at each reporting date, and establish valuation allowances when it is more likely than not that all or a portion of our deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income of the same character and in the same jurisdiction. The Company considers all available positive and negative evidence in making this assessment, including, but not limited to, the scheduled reversal of deferred tax liabilities and projected future taxable income. In circumstances where there is sufficient negative evidence indicating that deferred tax assets are not more-likely-than-not realizable, the Company establishes a valuation allowance.

The Company uses a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate tax positions taken or expected to be taken in a tax return by assessing whether they are more-likely-than-not sustainable, based solely on their technical merits, upon examination and including resolution of any related appeals or litigation process. The second step is to measure the associated tax benefit of each position as the largest amount that the Company believes is more-likely-than-not realizable. Differences between the amount of tax benefits taken or expected to be taken in the Company's income tax returns and the amount of tax benefits recognized in the Company's financial statements, represent unrecognized income tax benefits, which the Company either record as a liability or as a reduction of deferred tax assets. The Company's policy is to include interest and penalties related to unrecognized income tax benefits as a component of income tax expense.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

R. Net income (loss) per ordinary share

Basic and diluted net income (loss) per share have been computed in accordance with ASC 260-10 "Earning per Share" (formerly: "SFAS No. 128") using the weighted average number of ordinary shares outstanding during the relevant fiscal year. Basic income (loss) per share excludes any dilutive effect of options and warrants.

S. Derivative financial instruments

The Company's primary objective in holding derivative financial instruments is to manage currency market risks. The Company transacts business in various currencies other than the U.S. dollar, primarily the Euro and New Israeli Shekel (the "NIS"). The Company has established balance sheet and forecasted transaction risk management programs to protect against volatility of future cash flows caused by changes in exchange rates. The Company uses currency forward contracts and currency options in these risk management programs. These programs reduce, but do not always entirely eliminate, the impact of currency exchange movements.

In accordance with ASC 815-10, "Accounting for Derivative Instruments and Hedging Activities" (formerly: "SFAS No. 133"), as amended, the Company recognizes all derivative instruments as either assets or liabilities on the balance sheet at fair value. Fair values of currency forward contracts and currency options are based on quoted market prices or pricing models using current market rates. The accounting for gains or losses from changes in fair value of a derivative instrument depends on whether it has been designated and qualifies for hedge accounting as well as on the type of hedging relationship.

The criteria for designating a derivative as a hedge include the instrument's effectiveness in risk reduction and one-to-one matching for the derivative instrument to its underlying transaction. Gains and losses on derivatives that are not designated as hedges for accounting purposes are recognized currently in earnings.

The Company's outstanding derivative instruments as of balance sheet dates are included in other receivables and other accrued liabilities.

Currency forward contracts and currency options, which generally expire within 12 months and are used to hedge exposures to variability in expected future foreign-denominated cash flows, are designated as cash flows hedges. For these derivatives, the effective portion of the gain or loss is reported as a component of other comprehensive income in stockholders' equity and is reclassified into earnings in the same period or periods during which the hedged transaction affects earnings, and within the same income statement line item.

The ineffective portion of the gain or loss on the derivative in excess of the cumulative change in the present or future cash flows of the hedged item, if any, is recognized in financial income (expenses) net during the period of change.

The fair value of foreign currency forward contracts and foreign currency options outstanding at December 31, 2011 and 2010 were \$(277) and \$154, respectively.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 2 - SIGNIFICANT ACCOUNTING POLICIES (cont.)

T. Recently issued accounting pronouncements

On June 16, 2011, the FASB issued ASU 2011-05,1 which revises the manner in which entities present comprehensive income in their financial statements. The new guidance removes the presentation options in ASC 2202 and requires entities to report components of comprehensive income in either (1) a continuous statement of comprehensive income or (2) two separate but consecutive statements. Under the two-statement approach, the first statement would include components of net income, which is consistent with the income statement format used today, and the second statement would include components of other comprehensive income (OCI). The ASU does not change the items that must be reported in OCI.

On September 15, 2011, the FASB issued ASU 2011-08,1 which amends the guidance in ASC 350-202 on testing goodwill for impairment. Under the revised guidance, entities testing goodwill for impairment have the option of performing a qualitative assessment before calculating the fair value of the reporting unit (i.e., step 1 of the goodwill impairment test). If entities determine, on the basis of qualitative factors, that the fair value of the reporting unit is more likely than not less than the carrying amount, the two-step impairment test would be required. The ASU does not change how goodwill is calculated or assigned to reporting units, nor does it revise the requirement to test goodwill annually for impairment. In addition, the ASU does not amend the requirement to test goodwill for impairment between annual tests if events or circumstances warrant; however, it does revise the examples of events and circumstances that an entity should consider.

On December 23, 2011, the FASB issued ASU 2011-12, which defers certain provisions of ASU 2011-05. One of ASU 2011-05's provisions required entities to present reclassification adjustments out of accumulated other comprehensive income by component in both the statement in which net income is presented and the statement in which other comprehensive income is presented (for both interim and annual financial statements). Accordingly, this requirement is indefinitely deferred by ASU 2011-12 and will be further deliberated by the FASB at a future date. The new ASU is in response to constituents' concerns about whether the requirements under ASU 2011-05 for the presentation of reclassification adjustments were operational.

The FASB also decided that during the deferral period, entities would be required to comply with all existing requirements for reclassification adjustments in ASC 220, which indicates that "an entity may display reclassification adjustments on the face of the financial statement in which comprehensive income is reported, or it may disclose reclassification adjustments in the notes to the financial statements."

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 3 - TRADE ACCOUNTS RECEIVABLE

	December 31,	
	2011	2010
Accounts receivable	6,804	6,691
Less - allowance for doubtful accounts	(964)	(983)
	<u>5,840</u>	<u>5,708</u>

	Year ended December 31,		
	2011	2010	2009
Allowance for doubtful accounts at beginning of year	\$ 983	\$ 1,404	\$ 1,319
Provision	156	(307)	260
Translation adjustments	(1)	(1)	(1)
Accounts receivable written off	(174)	(113)	(174)
Allowance for doubtful accounts at end of year	<u>964</u>	<u>983</u>	<u>1,404</u>

NOTE 4 - OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31,	
	2011	2010
Prepaid expenses	\$ 312	\$ 257
Deferred tax asset	50	917
Derivative instruments	-	154
Government institutions	704	516
Other	198	240
	<u>\$ 1,264</u>	<u>\$ 2,084</u>

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 5 - PROPERTY AND EQUIPMENT

	December 31,	
	2 0 1 1	2 0 1 0
Cost:		
Computers and software	6,819	6,614
Office furniture and equipment	2,297	2,428
Vehicles	143	147
Leasehold improvements	586	584
	<u>9,845</u>	<u>9,773</u>
Accumulated depreciation:		
Computers and software	5,975	5,875
Office furniture and equipment	2,165	2,260
Vehicles	131	128
Leasehold improvements	565	561
	<u>8,836</u>	<u>8,824</u>
Property and equipment, net	<u>1,009</u>	<u>949</u>

NOTE 6 - OTHER LIABILITIES AND ACCRUED EXPENSES

	December 31,	
	2 0 1 1	2 0 1 0
Employees and related liabilities	\$ 2,569	\$ 2,289
Accrued expenses	1,892	1,969
Accrued royalties	2,967	2,983
Taxes to government institutions	836	506
Derivative instruments	277	-
Deferred tax liability	363	363
	<u>\$ 8,904</u>	<u>\$ 8,110</u>

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS (in thousands, except share and per share data)

NOTE 7 - ACCRUED SEVERANCE PAY (DEPOSITS WITH INSURANCE COMPANIES AND SEVERANCE PAY FUNDS)

Until April 30, 2009 the Company's liability for severance pay in Israel was calculated pursuant to Israeli severance pay law based on the most recent salary of an employee multiplied by the number of years of employment as of the balance sheet date. Starting May 1, 2009, and only for employment periods after May 1, 2009, the calculation was changed, based on a certain provision of the Israeli law that allows the Company to recognize the accumulated funds deposited in monthly deposits with severance pay funds and insurance policies as the fulfillment of the Company's liability for severance pay, subject to such monthly deposits being in line with the requirements of said provision of the law. There was no change in the calculation of the Company's liability for severance pay in Israel for employment periods before May 1, 2009.

The Company's liability for all of its employees is funded by monthly deposits with severance pay funds and insurance policies. An accrual is set up for any unfunded amount.

The deposited funds include profits accumulated up to the balance sheet date. The deposited funds may be withdrawn only upon the fulfillment of the obligation pursuant to Israeli severance pay law or labor agreements. The value of the deposited funds is based on the cash surrender value of the policies.

NOTE 8 - CONTINGENT LIABILITIES AND COMMITMENTS

- A.** In consideration of grants by the Chief Scientist of the Ministry of Industry and Trade of the Government of Israel (the "Chief Scientist"), the Company is obligated to pay the Chief Scientist, in respect of awarded grants, royalties of 3.5% of sales of products developed with funds provided by the Chief Scientist, until the dollar-linked amount of such royalty payments is equal to 100% (150% for certain grants) of the grant payments received by the Company plus Libor interest rate (the Libor interest rate applies to grants received since January 1999). With respect to funds provided by the Chief Scientist for development projects held until December 31, 2000, the Company received grants in a total amount of \$9,500, and paid back to the Chief Scientist royalties in the amount of approximately \$6,600. The Company believes that the majority of products that it has sold since January 1, 2005 are not based on technology developed with funds provided by the Chief Scientist and that, accordingly, such sales should not be subject to the payment of royalties to the Chief Scientist. Nevertheless, the Company has accrued royalty expenses in its financial reports for the periods from January 1st, 2005 to March 31st, 2010 in the amount of approximately \$3,000, but has not paid any royalties associated with the products mentioned above to the Chief Scientist. The Company's contingent liability to the Chief Scientist in respect of such grants as of December 31, 2011 is approximately \$2,000, and the company does not intend to further accrue for royalty expenses in its financial statements, as it believes that the chances for actual payments above the amounts already accrued are remote.
- B.** Regarding commitments in respect of the Company's approved enterprises see Note 10.A.
- C.** In consideration of grants received from the Fund for the Encouragement of Overseas Marketing of the Israeli Government's Ministry of Industry and Trade (the "Fund"), the Company is obligated to pay the Fund royalties amounting to 3% to 4% of the Company's incremental exports, up to a maximum of 100% of the grants received.

The Company's contingent liability to the Fund as of December 31, 2011 is \$558, contingent upon the Company's incremental exports.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 8 - CONTINGENT LIABILITIES AND COMMITMENTS (cont.)

D. The Company uses technology in respect of which it is obligated to pay annual royalties to third parties, up to an amount of \$1,224, until December 31, 2013.

E. Lease commitments

The premises of the Company and its subsidiaries are leased under various operating lease agreements, which expire on various dates.

Rent expenses for the years ended December 31, 2011, 2010 and 2009 were approximately \$1,194, \$1,187, and \$1,180, respectively.

The Company leases its motor vehicles under cancelable operating lease agreements for periods through 2011. The minimum payment under these operating leases, that would be due upon the cancellation thereof, amounted to \$929 as of December 31, 2011.

Future minimum lease commitments under the Company's operating leases as of December 31, 2011 are as follows:

Year ended December 31,	
2012	1,867
2013	1,598
2014	1,637
2015	1,376
2016 and thereafter	1,072
	<u>7,550</u>

NOTE 9 - SHAREHOLDERS' EQUITY

A. Share Trading Market

The Company's shares are traded in the United States and are listed on the Nasdaq Capital Market.

B. Share Option Plans

In April 1998, the Company's Board of Directors adopted a stock option plan (the "1998 Share Option Plan") pursuant to which 620,000 of the Company's Ordinary Shares were reserved for issuance upon the exercise of options to be granted to directors, officers, employees and consultants of the Company. The 1998 Share Option Plan is administered by the Company's Board, which designates the optionees and dates of grant thereunder. The exercise price of an option granted under the 1998 Share Option Plan may be no less than 85% of the fair market value of an Ordinary Share, as determined by the Board on the date that the option is granted. Options granted vest over a period determined by the Board, terminate three years after they become exercisable, and are non-assignable except by the laws of descent. The Board has the authority to amend the terms of option grants, provided that any such amendment is not adverse to the best interest of any grantee affected thereby.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 9 - SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plans (Cont.)

In March 2000, the Board adopted new guidelines for the options to purchase Ordinary Shares reserved for issuance under the 1998 Share Option Plan. Options granted thereunder were henceforth to be exercisable commencing two years after the date of grant at a rate of 50% on the second anniversary of the date of grant and 25% in each of the following two years, subject to the continued employment of each employee/grantee.

In August 2003 the Board approved the grant of options to purchase 150,000 of the Company's shares at a price of \$2.50 per share to two officers of the Company under the 1998 Share Option Plan. These options became exercisable commencing one year after the date of grant at a rate of 25%-33.3% per year, subject to the continued employment of the officers. No such options were outstanding at December 31, 2011. As of December 31, 2011, no other options were outstanding under the 1998 Share Option Plan. In addition, no shares are reserved for future issuances under that plan, as such reserve has been previously transferred into the 2004 Share Option Plan (as defined below).

In October 2004, the Company's Board of Directors adopted an additional share option plan (the "2004 Share Option Plan") pursuant to which 240,000 Ordinary Shares were reserved for issuance upon the exercise of options to be granted to directors, officers, employees and consultants of the Company. The exercise price of an option granted under the 2004 Share Option Plan may be no less than 95% of the fair market value of an Ordinary Share, as determined by the Board on the date that an option is granted. An option granted under the 2004 Share Option Plan may be exercised over a 10-year term unless otherwise determined by the Board. A grantee is responsible for all personal tax consequences of a grant and the exercise thereof.

In February 2005, 238,500 options, with an exercise price of \$2.20 per share, were granted under the 2004 Share Option Plan to employees of the Company, and in August 2005, the Board of Directors approved the grant of an additional 32,000 options, with an exercise price of \$2.00 per share, to a Company employee, under such plan. 21,405 options from such grants were outstanding at December 31, 2011.

In December 2005, our Board of Directors increased the 2004 Share Option Plan share reserve by an additional 250,000 shares.

In May 2006 an additional 189,000 options, with exercise prices of \$1.75-\$2.00 and with terms of five years, were granted to Company employees under the 2004 Share Option Plan, and in August 2007, an additional 79,000 options, with an exercise price of \$2.78 and with a term of five years, were granted to Company employees under such plan. As of December 31, 2011, 5,000 options from such grants were outstanding.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 9 - SHAREHOLDERS' EQUITY (cont.)

B. Share Option Plans (cont.)

In January 2008, the Company granted an additional 66,000 options, with an exercise price of \$2.75 and a term of five years, to Company employees, and in April 2008, an additional 2,000 options, also with an exercise price of \$2.75 and a term of five years, were granted to a Company employee under the 2004 Share Option Plan. As of December 31, 2011, an aggregate of 31,500 options from such grants were outstanding. Such options become exercisable pursuant to a three (3) year vesting schedule, as follows: (i) thirty-three percent (33%) of the options become exercisable on the first anniversary of the grant date; and (ii) sixteen and one-half percent (16.5%) of the options become exercisable at the end of each subsequent six month period over the course of the following two (2) years, subject to the continued employment of each employee/grantee.

In November 2007, the Company's Board of Directors approved the transfer of a pool of 618,500 unallocated options from the 1998 Share Option Plan to the 2004 Share Option Plan for future grants.

The Company intends to grant additional options under the 2004 Share Option Plan to various of its directors, executive officers and employees. At December 31, 2011 options to purchase 641,917 of the Company's Ordinary Shares were available under the 2004 Share Option Plan for grants to directors, officers, employees and consultants of the Company.

A summary of the status of the Company's stock option plans (both the 1998 Share Option Plan and the 2004 Share Option Plan) as of December 31, 2011, 2010 and 2009, and changes during the years ending on those dates, is presented below:

	Year ended December 31,					
	2011		2010		2009	
	Shares underlying options	Weighted average exercise price	Shares underlying options	Weighted average exercise price	Shares underlying options	Weighted average exercise price
Outstanding at beginning of year	400,655	\$ 2.21	452,656	\$ 2.21	469,156	\$ 2.22
Granted	-	-	-	-	-	-
Exercised	(340,750)	\$ 2.15	(6,500)	\$ 1.75	-	-
Cancelled	-	-	(45,501)	\$ 2.26	(16,500)	\$ 2.32
Outstanding at year end	59,905	\$ 2.56	400,655	\$ 2.21	452,656	\$ 2.21
Options exercisable at year end	59,905	\$ 2.56	392,738	\$ 2.20	404,739	\$ 2.54
Weighted average fair value of options granted during the year	-	-	-	-	-	-

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 9 - SHAREHOLDERS' EQUITY (cont.)

B. Share Option Plans (cont.)

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

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares underlying outstanding options at December 31, 2011	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares underlying exercisable options at December 31, 2011	Weighted average exercise price
\$2.2 - \$2.78	59,905	1.78	\$ 2.56	59,905	\$ 2.56

The following table summarizes information about stock options outstanding at December 31, 2010:

Range of exercise prices	Options outstanding			Options exercisable	
	Number of shares underlying outstanding options at December 31, 2010	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares underlying exercisable options at December 31, 2010	Weighted average exercise price
\$1.75 - \$2.78	400,655	2.15	\$ 2.21	392,738	\$ 2.20

NOTE 10 - INCOME TAXES

A. The Law for Encouragement of Capital Investments, 1959

Commencing in 1994, the Company's operations were granted "approved enterprise" status under the Law for Encouragement of Capital Investments, 1959 (the "Investment Law"). Reduced tax rates applied to the Company's income from the approved enterprise (which was determined based upon the increase in the Company's revenue during the first year of its having the above-mentioned status as compared to the year before).

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 10 - INCOME TAXES (Cont.)

A. The Law for Encouragement of Capital Investments, 1959 (Cont.)

In the event of a distribution of cash dividends to shareholders of earnings subject to the approved enterprise exemption, the Company will be liable for tax at a rate of 25% on such earnings. The Company has not provided deferred taxes on future distributions of tax-exempt earnings, as management and the Board of Directors have determined not to make any distribution that may result in a tax liability for the Company. Accordingly, such earnings have been considered to be permanently reinvested. The tax-exempt earnings may be distributed to shareholders without subjecting the Company to taxes only upon a complete liquidation of the Company.

On May 12, 2011 and August 4, 2011, the Company declared special cash dividends of NIS 0.45 and NIS 0.80, respectively (approximately \$0.12 and \$0.22, based on the exchange rate published by the Bank of Israel as of the payment dates), which were payable on June 20, 2011 and September 12, 2011 to shareholders of record as of May 31, 2011 and August 24, 2011, respectively. The company believes that these distributions were not made out of earnings subject to the exemption from the payment of corporate tax provided to an Approved Enterprise.

On April 1, 2005, a significant amendment to the Investment Law became effective. Despite the amendment, any terms and benefits included in any certificate of approval that was granted before the amendment came into effect will remain subject to the provisions of the Investment Law, as in effect on the date of such approval. Pursuant to the amendment, the Investment Center will continue to grant approved enterprise status to qualifying investments. The amendment, however, limits the scope of enterprises that may be approved by the Investment Center by setting criteria for the approval of a facility as an approved enterprise, such as provisions generally requiring that at least 25% of an approved enterprise's income will be derived from export.

In January 6, 2011 an amendment to the Investment Law was published. The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investment Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its Preferred Enterprise (as such term is defined in the Investment Law) effective as of January 1, 2011 and onward. A Preferred Company is defined as either (i) a company incorporated in Israel and not fully owned by a governmental entity or (ii) a limited partnership (a) that was registered under the Israeli Partnerships Ordinance and (b) all limited partners of which are companies incorporated in Israel, but not all of them are governmental entities, which, in the case of the company and companies referenced in clauses (i) and (ii)(b), have, among other things, Preferred Enterprise status and are controlled and managed from Israel. Pursuant to the 2011 Amendment, a Preferred Company is entitled to a reduced corporate tax rate of 15% with respect to its preferred income derived by its Preferred Enterprise in 2011-2012, unless the Preferred Enterprise is located in a certain development zone, in which case the rate will be 10%. Such corporate tax rate will be reduced to 12.5% and 7%, respectively, in 2013-2014 and to 12% and 6% in 2015 and thereafter, respectively. Income derived by a Preferred Company from a 'Special Preferred Enterprise' (as such term is defined in the Investment Law) would be entitled, during a benefits period of 10 years, to further reduced tax rates of 8%, or to 5% if the Special Preferred Enterprise is located in a certain development zone.

Dividends paid out of income attributed to a Preferred Enterprise are generally subject to withholding tax at source at the rate of 15% or such lower rate as may be provided in an applicable tax treaty. However, if such dividends are paid to an Israeli company, no tax will be withheld.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 1 - INCOME TAXES (Cont.)

A. The Law for Encouragement of Capital Investments, 1959 (Cont.)

The 2011 Amendment also provided transitional provisions to address companies already enjoying current benefits. These transitional provisions provide, among other things, that: (i) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which chose to receive grants, before the 2011 Amendment came into effect, will remain subject to the provisions of the Investment Law as in effect on the date of such approval, while the 25% tax rate applied to income derived by an Approved Enterprise during the benefit period will be replaced with the regular corporate income tax rate (24% in 2011), unless a request is made to apply the provisions of the Investment Law as amended in 2011 with respect to income to be derived as of January 1, 2011 (such request should be made by way of an application to the Israeli Tax Authority by June 30, 2011 and may not be withdrawn); and (ii) terms and benefits included in any certificate of approval that was granted to an Approved Enterprise, which had participated in an alternative benefits program, before the 2011 Amendment came into effect will remain subject to the provisions of the Investment Law as in effect on the date of such approval, provided that certain conditions are met. However, a company that has such an Approved Enterprise can file a request with the Israeli Tax Authority, according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law, as amended in 2011; and (iii) a Benefited Enterprise can elect to continue to benefit from the benefits provided to it before the 2011 Amendment came into effect, provided that certain conditions are met, or file a request with the Israeli Tax Authority according to which its income derived as of January 1, 2011 will be subject to the provisions of the Investment Law as amended in 2011.

As the Company is no longer eligible for any benefits under its previous Approved Enterprises, in early May 2011 the Company informed the Israeli Tax Authority that it opted to be subject to the provisions of the Investment Law under the 2011 Amendment, effective as of January 1, 2011.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 10 - INCOME TAXES (cont.)

B. Current income taxes.

The Company's current income tax liability in 2011, 2010 and 2009, based on its income in such years, is presented in the following table:

	Year ended December 31,		
	2011	2010	2009
Income (loss) before taxes on income:			
Domestic (Israel)	\$ 646	\$ 127	\$ (2,075)
Foreign	3,292	2,095	1,096
	<u>3,938</u>	<u>2,222</u>	<u>(979)</u>
Income (loss) on taxes:			
Deferred taxes	(504)	(347)	984
Current taxes	(823)	(310)	(35)
	<u>\$ (1,327)</u>	<u>\$ (657)</u>	<u>\$ 949</u>

C. Deferred income taxes

The corporate tax rate in Israel is as follows: 2008 - 27%, 2009 - 26%, 2010 - 25%, 2011 - 24%.

In July 23, 2009 the Israeli Parliament (Knesset) passed the Economic Efficiency Law (Legislative Amendments for implementation of the economic plan for 2009 and 2010) of 2009 which defines, inter alia, further gradual reductions of corporate tax rates and real capital gains tax, in Israel, starting in 2011, to the following rates: 2012 - 23%, 2013 - 22%, 2014 - 21%, 2015 - 20% and in 2016 and onwards - 18%. Such tax reductions have no significant impact on the Company's financial statements.

On September 26, 2011 the Social-Economic Reform Committee headed by Professor Manuel Trajtenberg published a report with its recommendations. Consequently, on December 6, 2011, the Law for Change in the Tax Burden (Legislative Amendments), based on the recommendations in the Tax Section of that report, was published, after being approved in a third reading in the Knesset.

The main changes of the new law regarding corporate income taxes are as follows:

1. Cancellation of the planned gradual reduction of income taxes and corporate income taxes commencing in 2012.
2. Increase of the corporate income tax rate to 25% in 2012.
3. Increase of the capital gains tax rate to 25%.

Such tax rate changes have no significant impact on the Company's financial statements.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 10 - INCOME TAXES (cont.)

C. Deferred income taxes (Cont.)

Significant components of the deferred tax assets and liabilities of the Company and its subsidiaries are as follows.

	December 31,	
	2 0 1 1	2 0 1 0
Deferred tax assets:		
Loss carryforwards	\$ 1,521	\$ 2,592
Other reserve and allowances	49	35
Total deferred tax assets	1,570	2,627
Valuation allowance	(1,520)	(1,710)
	\$ 50	\$ 917
Deferred tax liabilities:		
Intangible assets	\$ (1,002)	\$ (1,365)
Total deferred tax liabilities	(1,002)	(1,365)
Total deferred tax assets (liabilities), net	\$ (952)	\$ (448)

The Company has provided valuation allowances in respect of deferred tax assets mainly resulting from net operating loss carry forwards in Israel. Management currently believes that it is more likely than not that those deferred tax assets will not be utilized in the foreseeable future.

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 10 - INCOME TAXES (cont.)

- D. Under the Income Tax Law (Adjustments for Inflation) 1985, income for tax purposes was measured in terms of earnings in NIS, adjusted for the changes in the Israeli Consumer Price Index (the "CPI"), until tax year 2007. Such adjustments for inflation were not in effect starting tax year 2008. The following table presents a reconciliation of the Company's income taxes calculated at the statutory tax rate in Israel to the actual income tax reported in the Company's financial statements:

	Year ended December 31,		
	2 0 1 1	2 0 1 0	2 0 0 9
Income (loss) before income taxes as reported in the consolidated statements of operations	\$ 3,938	\$ 2,222	\$ (979)
Income taxes under statutory tax rate	1,257	907	(180)
Increase (decrease) in taxes:			
Decrease in valuation allowance	(190)	(240)	(850)
Increase in taxes resulting from permanent differences and non deductible expenses	204	307	137
Tax in respect of prior years	-	(243)	-
Differences in taxes arising from differences between Israeli currency income and dollar income, net *	56	(67)	(87)
Other	-	(7)	31
Income taxes in the statements of operations	\$ 1,327	\$ 657	\$ (949)

- * Differences between Israeli currency income and dollar income are based on changes in the Israeli CPI (the basis for computation of taxable income in Israel) and the exchange rate of Israeli currency relative to the dollar.

The following reconciliation summarizes the Company's total gross unrecognized tax benefits:

	Year ended
	December 31, 2 0 1 1
Balance at January 1, 2011	\$ 367
Gross change tax positions of current period	325
Gross change for tax positions of prior year	(148)
Balance at December 31, 2011	<u>\$ 544</u>

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 10 - INCOME TAXES (cont.)

E. Tax assessments

The Company has been issued final tax assessments by the Israeli income tax authorities through the tax year ended December 31, 2006.

The Company's subsidiary in Germany has been issued final assessments by the German tax authorities through the tax year ended December 31, 2007.

The Company's subsidiary in Italy has been issued final assessments by the Italian tax authorities through the tax year ended December 31, 2007.

NOTE 11 - TRANSACTIONS WITH RELATED PARTIES

A. In February 2002, Koonras Technologies Ltd., a subsidiary of Polar Investments Ltd. ("Koonras") and DBSI Investments Ltd. ("DBSI") consummated a transaction with Zeevi Computers and Technology Ltd. ("ZCT"), whereby they acquired all of the Ordinary Shares of the Company previously held by ZCT. Following the consummation of the sale of 1,700,000 Ordinary Shares from Koonras to DBSI on June 24, 2008, and the related approval by Cimatron's shareholders at such time, DBSI alone will continue to provide to the Company all of the management services that were previously provided to the Company by Koonras and DBSI, and will receive the entire annual management fee.

B. The following transactions between the Company, on the one hand, and Koonras and/or DBSI (significant shareholders of the Company), on the other hand, are reflected in the Company's financial statements:

	<u>Year ended December 31,</u>		
	<u>2 0 1 1</u>	<u>2 0 1 0</u>	<u>2 0 0 9</u>
Management fees	\$ 520	\$ 489	\$ 452

C. Prior to the Company's merger with Gibbs System Inc. (Gibbs), Gibbs leased office space in Moonpark, California from a limited liability corporation controlled by Mr. William F. Gibbs. In connection with the merger in 2008, the lease was assigned to the Company, as a result of which the Company leases the space from that limited liability corporation. At the time of the assignment of the lease, the Company entered into an amendment to the original terms of the lease, pursuant to which the expiration date for the term of the lease was brought forward from 2020 to December 31, 2012, with an option for the Company to extend the lease for an additional five years. Also, as a result of the lease amendment, the rent that the Company is obligated to pay during the initial term of the lease is \$24,710 per month (in lieu of \$22,464 per month).

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 12 - SELECTED STATEMENTS OF OPERATIONS DATA

A. Revenues

A breakdown of the Company's revenues by geographical region and based upon distribution of the Company's products by major distributors is provided below for the years 2011, 2010 and 2009:

	Year ended December 31,		
	2011	2010	2009
Revenue by geographical region:			
Israel	\$ 979	\$ 977	\$ 954
Germany	9,860	8,300	8,232
Italy	6,797	6,473	7,204
Rest of Europe	3,438	2,978	2,358
Far East	6,050	5,729	4,790
USA	11,187	9,172	7,914
Rest of North America	1,659	1,743	1,105
Others	744	702	400
	<u>\$ 40,714</u>	<u>\$ 36,074</u>	<u>\$ 32,957</u>
Revenue through major distributors, as a percentage of total revenues:			
Distributor (A)	4%	4%	4%

B. Cost of revenues

	Year ended December 31,		
	2011	2010	2009
Hardware and software	\$ 3,073	\$ 3,505	\$ 3,488
Salaries and employee benefits	1,084	1,118	1,052
Amortization of capitalized software development cost	-	39	39
Royalties to the Chief Scientist	-	89	347
Amortization of other intangible assets	588	588	588
Depreciation	9	9	11
Other	632	522	676
	<u>5,386</u>	<u>5,870</u>	<u>6,201</u>
Decrease (increase) in inventory	(3)	6	(15)
	<u>\$ 5,383</u>	<u>\$ 5,876</u>	<u>\$ 6,186</u>

CIMATRON LIMITED

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(in thousands, except share and per share data)

NOTE 12 - SELECTED STATEMENTS OF OPERATIONS DATA (cont.)

C. Selling, general and administrative expenses

	<u>Year ended December 31,</u>		
	<u>2 0 1 1</u>	<u>2 0 1 0</u>	<u>2 0 0 9</u>
Marketing costs	\$ 1,167	\$ 1,019	\$ 1,190
Selling expenses	18,135	16,378	15,904
General and administrative expenses	4,535	3,970	4,156
Amortization of other intangible assets	392	396	395
Depreciation	224	290	347
	<u>\$ 24,453</u>	<u>\$ 22,053</u>	<u>\$ 21,992</u>



Lucas, Horsfall, Murphy & Pindroh, LLP
Certified Public Accountants and Business Advisors

INDEPENDENT AUDITORS' REPORT

Board of Directors
Cimatron Gibbs, LLC
Moorpark, California

We have audited the accompanying balance sheet of Cimatron Gibbs, LLC (the Company), a California Limited Liability Company, as of December 31, 2011 and 2010, and the related statements of income and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with the auditing standards as established by the Auditing Standards Board (United States) and in accordance with the auditing standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform an audit of its internal control over financial reporting. Our audit included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Cimatron Gibbs, LLC as of December 31, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with U.S. generally accepted accounting principles.

LUCAS, HORSFALL, MURPHY & PINDROH, LLP

Pasadena, California
February 7, 2012

Subsidiaries

ENTITY*	JURISDICTION OF INCORPORATION
Cimatron Gibbs LLC**	United States
Cimatron Technologies, Inc.	United States
Cimatron Technologies, Inc.	Canada
Cimatron GmbH	Germany
Microsystem Srl	Italy
Cimatron Japan K.K	Japan
Cimatron Technologies (P) Ltd	India
Cimatron (Beijing) Technology Co. Ltd.	China
Cimatron (Guangzhou) Technology Co. Ltd.***	China
Korea Cimatron Technologies Co. Ltd.	Korea

* Each of the entities listed above conducts business either under the general Cimatron name or under its individual name provided above

** Cimatron Gibbs LLC is a wholly owned subsidiary of Cimatron Technologies, Inc. (US) and was incorporated on December 20, 2007 under the name of Nortamic LLC. On January 1, 2008, Gibbs System, Inc. merged with and into Cimatron Gibbs LLC, with Cimatron Gibbs LLC being the surviving entity. This entity also conducts business under the name Gibbs and Associates.

*** We hold only 60% of the shares of this joint venture.

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE EXCHANGE ACT**

I, Dan Haran, certify that:

1. I have reviewed this annual report on Form 20-F of Cimatron Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2012

By: /s/ Dan Haran

Dan Haran
President and Chief Executive Officer

**CERTIFICATION PURSUANT TO
RULE 13a-14(a)/RULE 15d-14(a) UNDER
THE EXCHANGE ACT**

I, Ilan Erez, certify that:

1. I have reviewed this annual report on Form 20-F of Cimatron Ltd.;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the company as of, and for, the periods presented in this report;
4. The company's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the company and have:
 - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the company, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
 - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
 - (c) Evaluated the effectiveness of the company's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
 - (d) Disclosed in this report any change in the company's internal control over financial reporting that occurred during the period covered by the annual report that has materially affected, or is reasonably likely to materially affect, the company's internal control over financial reporting; and
5. The company's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the company's auditors and the audit committee of the company's board of directors (or persons performing the equivalent functions):
 - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the company's ability to record, process, summarize and report financial information; and
 - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the company's internal control over financial reporting.

Date: April 30, 2012

By: /s/ Ilan Erez
Ilan Erez
Chief Financial Officer

**CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF
FINANCIAL OFFICER PURSUANT TO
RULE 13a-14(b)/RULE 15d-14(b) UNDER THE EXCHANGE ACT
AND 18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002**

In connection with the Annual Report of Cimatron Ltd. (the "Company") on Form 20-F for the period ended December 31, 2011 as filed with the Securities and Exchange Commission on the date hereof (the "Report"), we, Dan Haran, Chief Executive Officer of the Company, and Ilan Erez, Chief Financial Officer of the Company, certify, pursuant to Rule 13a-14(b)/Rule 15d-14(b) under the Securities Exchange Act of 1934, as amended and 18 U.S.C. §1350, as adopted pursuant to §906 of the Sarbanes-Oxley Act of 2002, that:

- (1) The Report fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
- (2) The information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Dated: April 30, 2012

By: /s/ Dan Haran
Dan Haran
President and Chief Executive Officer

By: /s/ Ilan Erez
Ilan Erez
Chief Financial Officer

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in Registration Statement Nos. 333-12458 and 333-140809 on Form S-8 and Registration Statement No. 333-161781 on Form F-3 of our report, dated March 26, 2012, relating to the consolidated financial statements of Cimatron Ltd. (the "Company") for the year ended December 31, 2011, appearing in this Annual Report on Form 20-F of the Company.

/s/ Brightman Almagor Zohar & Co.

Certified Public Accountants

A member of Deloitte Touche Tohmatsu

Tel Aviv, Israel

April 30, 2012



Lucas, Horsfall, Murphy & Pindroh, LLP

Certified Public Accountants and Business Advisors

April 27, 2012

Brightman Almagor Zohar & Co.
Certified Public Accountants
A member of Deloitte Touche Tohmatsu
Tel Aviv, Israel

We consent to the incorporation by reference in Registration Statements Nos. 333-12458, and 333-140809 on Form S-8, and No. 333-161781, on Form F-3, of our report, dated February 7, 2012, relating to the consolidated financial statements of Cimatron Gibbs, LLC (not presented separately herein) for the year ended December 31, 2011 appearing in this annual report on Form 20-F of Cimatron Ltd.

LUCAS, HORSFALL, MURPHY & PINDROH, LLP

Lucas, Horsfall, Murphy & Pindroh, LLP
Pasadena, California
