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SECURITIES AND EXCHANGE COMMISSION
WASHINGTON, D.C. 20549

FORM 20-F

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

For the fiscal year ended December 31, 2006 | Commission File No. 000-27974

CIMATRON LTD.

(Exact name of Registrant as specified in its charter and translation of Registrant's name into English)

Israel
(Jurisdiction of incorporation or organization)

11 Gush Etzion St., Givat Shmuel 54030, Israel
(Address of principal executive offices)

Securities registered or to be registered pursuant to Section 12(b) of the Act:
None
Securities registered or to be registered pursuant to Section 12(g) of the Act:
Ordinary Shares, nominal value 0.10 New Israeli Shekel per share
(Title of Class)
Securities for which there is a reporting obligation pursuant to Section 15(d) of the Act:

None
(Title of Class)

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

8,001,270 Ordinary Shares

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

☐ Yes ☒ No

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

☐ Large accelerated filer ☐ Accelerated filer ☒ Non-accelerated filer

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

Item 17 ☐ Item 18 ☒

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

☐ Yes ☒ No

All references herein to "dollars" or "$" are to United States dollars, and all references to "Shekels" or "NIS" are to New Israeli Shekels.

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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

The following selected financial statement of income data for the years ended December 31, 2004, 2005 and 2006, and the balance sheet data as of December 31, 2004, 2005 and 2006 are derived from the financial statements set forth elsewhere in this Report. The selected financial statements of income data for the years ended December 31, 2002 and 2003 and the selected balance sheet data as of December 31, 2002 and 2003, are derived from other audited financial statements not included in this report. The audited financial statements have been prepared in accordance with accounting principles generally accepted in the United States, or U.S. GAAP. The financial statements for the years ended December 31, 2003, 2004, 2005 and 2006 were audited by Brightman Almagor & Co., a member of Deloitte Touche Tohmatsu, independent auditors. All of the financial data set forth below should be read in conjunction with "Item 5 - Operating and Financial Review and Prospects" and the audited financial statements and notes thereto (together, the "Financial Statements") and other financial information included elsewhere in this annual report.

	December 31,				
	2002	2003	2004	2005	2006
	(In thousands of US$, except per share data)				
Statement of Income Data:					
Revenue:					
Products	11,150	10,448	11,370	8,968	9,642
Services	10,478	11,161	11,793	11,957	11,817
Total	21,628	21,609	23,163	20,925	21,459
Cost of revenue:					
Products	3,234	3,056	2,923	3,367	2,154
Services	1,783	1,562	1,678	1,568	1,469
Total	5,017	4,618	4,601	4,935	3,623
Gross profit	16,611	16,991	18,562	15,990	17,836
Research and development costs, net	5,562	5,210	5,554	4,815	4,426
Restructuring costs	(250)	-	-	-	-
Selling, general and administrative expenses	11,670	12,645	13,962	15,650	13,362
Operating profit (loss)	(371)	(864)	(954)	(4,475)	48
Financial income (expenses), net	428	369	445	(148)	574
Other income (expenses)	1	203	144	1	(5)
Income (loss) before taxes	58	(292)	(365)	(4,622)	617
Taxes on income	(48)	(9)	(23)	(2)	(27)
Income (loss) after income taxes	10	(301)	(388)	(4,624)	590
Company's equity in results of affiliated company	-	-	-	(5)	(105)
Minority interest in results of subsidiary	-	-	-	36	29
Net income (loss)	10	(301)	(388)	(4,593)	514
Net income (loss) per share	*	(0.04)	(0.05)	(0.59)	0.07
Weighted average number of shares outstanding	7,981	7,838	7,835	7,835	7,835

* Less than $ 0.01

	2002	2003	December 31, 2004	2005	2006
			(In thousands of US$)		
Balance Sheet Data					
Cash and cash equivalents	4,077	3,124	1,711	2,708	5,597
Short-term investments	4,017	6,358	6,381	2,167	-
Total cash, cash equivalents and short-term investments	8,094	9,482	8,092	4,875	5,597
Working capital	10,861	10,639	10,306	4,328	5,342
Total assets	21,371	22,386	20,804	16,442	17,907
Total liabilities	7,212	8,865	7,956	8,456	9,062
Shareholders' equity	14,159	13,521	12,848	7,982	8,845

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 Cimatron E consists of integrated CAD/CAM systems. Many high-end market products are roughly similar to our Cimatron E product.

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 industry;
- 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 Providers; 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 Cimatron E 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 one family of products.

Sales and services related to the Cimatron E product family have historically accounted for substantially all of our revenue. If sales of the Cimatron E family were to decline, or fail to grow, or the profit margin on these 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, and accordingly could cause a reduction in demand for products manufactured by our customers. Softening consumer demand for consumer products has in the past caused a decline in the demand for our products and any future softening in demand for consumer products could cause uncertainty with respect to our expected revenues or adversely affect our revenues and operating results.

Two of our shareholders beneficially own a substantial amount of our ordinary shares and may therefore influence our affairs.

In February 2002, two private holding companies, Koonras Technologies Ltd., or Koonras, a subsidiary of Polar Communications Ltd., and DBSI Investments Ltd. or DBSI, consummated a transaction with Zeevi Computers and Technology Ltd., or ZCT, by which they acquired, for approximately $9,900,000, all of our Ordinary Shares previously held by ZCT, representing 64.3% of our share capital (including in this calculation 166,100 of our ordinary shares which we have repurchased and which, pursuant to Israeli law, cannot be voted and possess no rights other than upon liquidation). Following this transaction, each of Koonras and DBSI beneficially owned approximately 33% of our ordinary shares and each currently continues to own approximately 32% of our ordinary shares. Accordingly, Koonras and DBSI together are expected to continue to effectively have 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. Koonras and DBSI have entered into an agreement by which, among other matters, they will each appoint one half of our directors, not including our external directors, and vote together at our shareholders' meetings. The concentration of ownership of our Ordinary Shares by Koonras and 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 these shareholders sell substantial amounts of our ordinary shares under their registration rights.

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; 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 Providers, to market, sell, service and support our products worldwide. Generally, our relationships with our Providers are based on agreements with two-year terms (subject to rolling two-year extensions) and which enable Providers to purchase our products at a discounted price. While we have exclusive relationships with certain of our Providers, there can be no assurance that these Providers will give high priority to the marketing and support of our products. In addition, our Providers in Italy and Japan each accounted for more than 10% of our revenues in 2006. In July 2005 we acquired 27.5% of the shares of the Italian Provider and an option to purchase its remaining outstanding shares from its shareholders and granted the Provider's shareholders an option to require us to purchase 49% of the Provider's share capital under specific circumstances. In May 2007, our board of directors approved the exercise of our option to increase our holdings in the Italian Provider to 51%, which increase is scheduled to take effect during the first week of July 2007. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details regarding the transaction with our Italian Provider and the options received both by us and the Provider's shareholders. The results of our operations could be adversely affected by changes in the financial condition of a Provider, which could occur rapidly, or to other changes in our current Providers' business or marketing strategies. There can be no assurance that we will retain our current Providers, nor can there be any assurance that, in the event that we lose any of our Providers, we will be successful in recruiting other highly professional and technically competent Providers to represent us. Any such changes in our distribution channels, especially those in the Far East and Europe, could materially adversely affect our business, operating results and financial condition. See "Item 4 – Information on the Company – Business Overview."

Following our acquisition of 51% of MicroSystem, its results of operations may have a material impact on our results of operations.

Following the exercise of our option to increase our holdings in MicroSystem, our Italian Provider, to 51%, which increase is scheduled to take effect during the first week of July 2007, we will fully consolidate the results of Microsystem, subject to exclusion of minority interest. Therefore, Microsystem's results of operation, including revenues, gross margins and operating income, could have a material effect on our results of operation including revenues, gross margins and operating income. The consolidation of Microsystem's financial statements will also increase the impact of changes in the Euro – dollar exchange rate on our revenues and expenses, as substantially all of Microsystem's revenues and expenses are Euro-denominated.

We have a history of annual and quarterly losses and cannot assure you that we will continue to remain profitable on an annual basis or remain profitable on a quarterly basis in the future.

We incurred net losses of approximately $0.4 million and $4.6 million in 2004 and 2005 respectively. Although we had net income of $0.5 million in 2006 and net income of approximately $0.2 million in the first quarter of 2007, we cannot be certain that we will maintain profitability on a quarterly or annual basis.

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. 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 in the future, the price of our ordinary shares will likely decrease again.

Because of our international operations, changes in exchange rates against the U.S. dollar could 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 we believe that inflation and fluctuations in the U.S. dollar exchange rate may 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. 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.

Prior to 2006 we experienced decreases in our revenues from products. If this trend will return, it will likely adversely affect our gross margins and profitability.

Although our revenues from the sales of products increased to approximately $9.6 million in 2006 from approximately $9.0 million in 2005, product revenues have decreased from approximately $11.4 million in 2004. At the same time, revenues from maintenance and services have remained generally unchanged at approximately $11.8 million to approximately $12.0 million. Our gross margin from products is higher than our gross margin from services. This is because our cost of services, which includes expenses of salaries and related benefits of the employees and subcontractors engaged in providing the services, is relatively higher than our cost of products. If our overall percentage of revenues comprised by maintenance and service revenues will increase, our gross margins and profitability will likely be adversely affected. In addition, if our revenues from the sale of products will decrease, such decrease may adversely affect our future maintenance and service revenues, as it may result in a smaller user base to purchase maintenance and service contracts from us.

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 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 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 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 in Israel where competition for qualified personnel is intense. We may not be able to compete effectively for the personnel 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 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. 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. Under current Israeli law, we may be unable to enforce these agreements and it may be difficult for us to restrict our competitors from gaining the expertise our former employees gained while working for us. For example, Israeli courts have required employers seeking to enforce non-compete undertakings of a former employee to demonstrate that the competitive activities of the former employee will harm one of a limited number of material interests of the employer that have been recognized by the courts, such as the secrecy of a company’s confidential commercial information or its intellectual property. If we cannot demonstrate that harm would be caused to us, we may be unable to prevent our competitors from benefiting from the expertise of our former employees.

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, in July 2005 we acquired 27.5% of the shares of our Italian distributor and an option to purchase the remaining outstanding shares of that company from its stockholders, and granted the distributor's shareholders an option to require us to purchase 49% of the distributor's share capital under specific circumstances. In May 2007, our board of directors approved the exercise of our option to increase our holdings in our Italian distributor to 51%, which increase is scheduled to take effect during the first week of July 2007. During August 2006, we acquired the remaining 69.83% of the outstanding shares of our Korean provider, which thereafter became a wholly owned subsidiary. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details regarding the transaction with our Korean distributor and Italian distributor and the options received both by us and the shareholders of the Italian distributor. 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. If we acquire or invest in another company, we could have difficulty assimilating that company's personnel, operations, technology or products and service offerings into our own or the key personnel of the acquired company may decide not to work for us. These difficulties could disrupt our ongoing business, distract our management and employees, increase our expenses and adversely affect our results of operations. In addition, we may incur indebtedness or dilute our existing shareholders by issuing equity securities to pay for any future acquisitions.

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. This volatility has often been unrelated to the operating performance of these companies, including Cimatron. 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.

We may not be successful in our arbitration proceedings with Omega.

In April 2004, Omega – Adem Technologies Ltd., an Israeli privately held company engaged in the development of software, filed a lawsuit against us, claiming that we caused four employees of the plaintiff located in Russia to terminate their employment with the plaintiff and join us. In September 2004, Omega submitted a statement of claim to an arbitrator for an amount of $20,000,000 for damages caused to it due to the employment of the four employees in question. The arbitration process is now in its final stage. We believe that there is no merit to the claim, which we have continuously vigorously opposed, but we have nevertheless accrued in the fourth quarter of 2005 a sum of $250,000 for this claim. We cannot give any assurance that we will be victorious or that the arbitration award will not exceed the amount we accrued. See "Item 8 – Financial Information – Legal Proceedings" for more information regarding this claim.

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 Cimatron E 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 new Cimatron E 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 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.

We may not be successful in protecting our intellectual proprietary technology 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.

Risks Related to our Operations in Israel

We may be adversely affected if the rate of inflation in Israel exceeds the rate of devaluation 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 the related personnel expenses, are in new Israeli shekels, or NIS. As a result, we are exposed to the risk that the rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the U.S. dollar or that the timing of this devaluation lags behind inflation in Israel. To the extent that the value of the New Israeli Shekel increases against the U.S. dollar, our expenses on a U.S. dollar cost basis increase. We cannot predict any future trends in the rate of inflation/ deflation in Israel or the rate of devaluation of the NIS against the U.S. dollar. 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 (deflation) amounted to 1.2%, 2.4% and (0.1)% for the years ended December 31, 2004, 2005 and 2006, respectively. If the U.S. dollar cost of our operations in Israel increases, our dollar-measured results of operations will be adversely affected. The New Israeli Shekel revaluation (devaluation) in relation to the U.S. dollar amounted to (1.6)%, 6.8% and (8.2)% for the years ended December 31, 2004, 2005 and 2006, and to (4.5%) for the five-month period ended May 31, 2007.

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 up to 50 miles into Israel. There can be no assurance that the recent relative calm 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 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 conditions, including making specified investments in property and equipment and financing a percentage of investments with share capital. 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. The Israeli government has reduced the benefits available under some of these programs in recent years, and Israeli governmental authorities have indicated that the government may further reduce or eliminate some of these benefits in the future. The termination or reduction of existing programs and tax benefits could increase our expenses, thereby reducing our profits or increasing our losses. In addition, the law and regulations prescribing the benefits provide an expiration date for the grant of new benefits. The expiration date has been extended several times in the past. The expiration date currently in effect is December 31, 2007, and no new benefits will be granted after that date unless the expiration date is extended again. There can be no assurance that new benefits will be available after December 31, 2007, or that existing benefits will be continued in the future at their current levels or at any level.

In connection with research and development grants received from the Office of the Chief Scientist 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. The inability to receive these grants would result in an increase in our research and development expenses.

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 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. Although we believe we have strong arguments to support our position, we have accrued royalty expenses in our financial reports for the periods from January 1st, 2005 to March 31st, 2007 in the amount of $1.6 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 intend to consider our next steps with the OCS and whether further royalty expenses accruals will be necessary. 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 that determination is made after we cease to accrue for any such royalties on our financial statements or if the amount that we become obligated to pay exceeds the amounts for which we have accrued in our financial statements, such payments would 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.

In July 2005 we acquired 27.5% of the shares of Microsystem Srl, our Italian distributor, for 575,000 Euro. Under the agreement, we also received an option to acquire up to 100% of Microsystem from Microsystem's shareholders and Microsystem's shareholders received an option to require us to purchase 49% of Microsystem's share capital under specific circumstances. In May 2007 our board of directors approved the exercise of our option to increase our holdings in our Italian distributor to 51%, which increase is scheduled to take effect during the first week of July 2007. See "Item 5. Operating and Financial Review and Prospects – Overview" for additional details regarding the transaction with Microsystem and the options received both by us and Microsystem's shareholders. The transaction was 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 agreement, Microsystem's marketing, sales, and support groups remained in their current offices throughout Italy, nevertheless, in the last two years Microsystem went through a comprehensive restructuring and turnaround.

During August 2006, we acquired the remaining 69.83% of the outstanding shares of KCT Co. Ltd, our South Korean provider for approximately $225,000 plus an additional payment subject to collection of certain receivables, following which such provider became our wholly owned subsidiary.

Our full 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 972-3-531-2121 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 manufacturing the 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 Providers; 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

Cimatron E

Cimatron E, our current generation of CAD/CAM solutions for the tooling and production industries, was initially released in September 2001. We released our newest version of the Cimatron E (Version 8.0) in March 2007. Cimatron E provides comprehensive tools, applications and process-automation solutions for the tooling and manufacturing industries.

With Version 8 of Cimatron E, Cimatron helps toolmakers and manufacturers of complex discrete parts step up to new levels of productivity, introducing breakthrough improvements such as:

– A new application for progressive die design, covering the entire spectrum of quoting, strip design, tool design, and manufacturing, compressing weeks of work into days;
– New automated drilling capabilities, reducing programming time by up to 80%;
– NC-Preview functionality, presenting machining results in a matter of seconds and eliminating errors early in the process;
– Concurrent mold design and the ability to handle mega-size molds, allowing multiple users to work on the same assembly with increased speed and ease; and
– New enhancements in 5-Axis Production, delivering higher performance and better user control.

Cimatron E 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, Cimatron E integrates tools to split part geometry, find and implement changes, create electrodes and inserts, and detail tooling components. During manufacturing, Cimatron E implements 2.5 to 5 axis toolpaths using high-speed machining, knowledge of stock remaining and templates to reduce programming and machine 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.

Cimatron E 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.

Cimatron E 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. Cimatron E 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. Cimatron E stores product data hierarchically to ensure overall structural integrity of the product and the ability to interface with engineering data management systems. Cimatron E'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, Cimatron E 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. Cimatron E 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. Cimatron E's architecture is based upon a software kernel, which includes database utilities, the graphic sub-system 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 Cimatron E 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 Cimatron E'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 Cimatron E 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

QuickElectrode is an EDM electrode design package used to automate the whole electrode process. QuickElectrode 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 impelers, 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.

Marketing and Distribution

We employ a broad range of marketing activities to promote our products and develop name recognition and visibility. We use print and online advertising, trade shows, seminars, direct mail, online promotions, and regional marketing development in an effort to further penetrate the tooling and manufacturing segments of the CAD/CAM market. In addition to online promotions, we use the Internet as a marketing tool that increases our visibility in the marketplace, offers downloadable product demonstrations and facilitates communication between our clients and us.

Additionally, we have been increasing our penetration to the target market of mold, tool, die and fixture makers, as well as discrete part manufacturers, in an effort to become the lead supplier of CAD/CAM solutions to these segments of the manufacturing market. Our strategy involves examining the functionality of current and future products through in-depth focus-meetings with mold, tool, die fixture and discrete part makers, thereby making customers partners in the development of custom solutions for these market segments.

We distribute our products to end-users in approximately 35 countries in five continents through certain of our subsidiaries, directly in Israel and through a network of independent Providers. Between us, our subsidiaries and our Providers, our family of products is currently supported at over 8,500 customer sites with more than 20,000 installations.

Providers

We believe that our Providers 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. Providers 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. Providers are 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 Providers with technical guidance and marketing and sales resources. Providers regularly visit our Israeli headquarters, while our employees from various departments visit Provider sites. Our relationship with our Providers is further enhanced by an annual international conference that we organize, regional workshops and cooperative exhibitions, and participation in local user meetings.

Providers 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. Providers 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 Provider is for a term of two years (subject to rolling two-year extensions). Our Providers are distributors and our agreements with them enable the Providers to purchase our products at a discounted price. Certain of our Providers act as our exclusive distributors in a single country or region. Other than our Providers in Italy and Japan, no Provider accounted for more than 2.5% of our total revenue for the year ended December 31, 2006. In July 2005 we acquired 27.5% of our Italian Provider and an option to purchase its remaining outstanding shares from its stockholders. In May 2007 our board of directors approved the exercise of our option to increase our holdings in our Italian distributor to 51%, which increase is scheduled to take effect during the first week of July 2007. This holding increase will change its statues from an independent provider to a subsidiary.

There can be no assurance that all existing relationships with our Providers will be renewed. We believe that with the exception of our Provider in Japan, the termination of our relationship with a single Provider would not harm us materially; however, the termination of our relationship with several of our Providers at approximately the same time or with our Provider in Japan could seriously harm us. There can be no assurance that, in the event that we lose any of our Providers, we will be successful in recruiting replacement professional and technically competent Providers.

Subsidiaries

Our strategy over the years has been to increase our direct involvement in certain key markets in which we felt the Providers were not maximizing the business opportunities, through the formation or acquisition of marketing and support subsidiaries. In furtherance of this strategy, we have incorporated subsidiaries in France, Japan, 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 Provider, and have had our German subsidiary, Cimatron GmbH, purchase all of the Cimatron-related business of our German Provider. During August 2006, we acquired the remaining 69.83% of the outstanding shares of our Korean provider 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 provider and practically stopped the activity of our French subsidiary. During April 2007 we began a process of transitioning our business activity in the United Kingdom from our United Kingdom subsidiary to an independent provider with the intent of achieving greater efficiencies in our United Kingdom business. See “Item 5. Operating and Financial Review and Prospects – Overview” for additional details regarding the transaction with Microsystem, our Italian provider and our anticipated 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 approximately 35 countries worldwide.

In the years ended December 31, 2006, 2005 and 2004, approximately 52%, 51% and 57%, respectively, of our revenues were from Europe; approximately 7%, 8% and 8%, respectively, of our revenues were from Israel; approximately 23%, 22% and 19%, respectively, of our revenues were from the Far East; approximately 17%, 18% and 15%, respectively, of our revenues were from North America; and approximately 1%, 1% and 1%, respectively, of our revenues were from other countries.

Geographical Breakdown of Our Revenue

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

2006

Geographical Region	Products		Services	
	Amount	Percent	Amount	Percent
Europe	4,027	41.8%	6,848	58.0%
Israel	358	3.7%	1,151	9.7%
Far East	3,531	36.6%	1,505	12.7%
North America	1,397	14.5%	2,234	18.9%
Other	329	3. 4%	79	0.7%
Total	9,642	100.0%	11,817	100.0%

2005

Geographical Region	Products		Services	
	Amount	Percent	Amount	Percent
Europe	3,802	42.4%	6,974	58.3%
Israel	435	4.9%	1,204	10.1%
Far East	3,048	34.0%	1,576	13.2%
North America	1,607	17.9%	2,108	17.6%
Other	76	0.8%	95	0.8%
Total	8,968	100.0%	11,957	100.0%

2004

Geographical Region	Products		Services	
	Amount	Percent	Amount	Percent
Europe	6,039	53.1%	7,216	61.2%
Israel	734	6.5%	1,206	10.2%
Far East	3,033	26.7%	1,373	11.6%
North America	1,498	13.1%	1,911	16.2%
Other	66	0.6%	87	0.8%
Total	11,370	100%	11,793	100%

Other than our Provider 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 which 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 these corporations. Accordingly, a large percentage of our sales occur in the fourth quarter, while sales in the third quarter are traditionally the lowest due to the summer vacations and in the first and second quarters sales are slower than in the fourth quarter but higher than in the third quarter.

Organizational Structure

Our principal shareholders, Koonras and DBSI, hold 2,560,360 and 2,565,950 shares, representing approximately 31.84% and 31.91% of our outstanding share capital, respectively. Koonras and DBSI have entered into an agreement by which a number of their shares equal to, or greater than, 25.05% of our issued and outstanding share capital cannot be sold by either party without first offering such holding to the other party. Additionally, under such agreement, in the event that the selling party’s offer is refused, the other party shall then have the right to participate, pro-rata, with the selling party in the sale of its shares to a third party. Additionally, Koonras and DBSI have agreed that they will each appoint half of our directors, not including our external directors required to be appointed under Israeli law and independent directors required to be appointed under the Nasdaq’s listing qualifications, and that they will vote together at our shareholders meetings.

For information about Cimatron's subsidiaries and its beneficial ownership therein, see Exhibit 8.1.

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 we entered into in February 2003. Until January 2006 we occupied an aggregate of approximately 2.100 square meters at this facility. As of January 10, 2006, we occupy approximately 1,750 square meters at this facility. In 2006, the aggregate annual lease payments for the office premises were approximately $255 thousand. The initial term of this lease ended on June 30, 2006 and we have exercised our option to extend the lease for an additional three years.

The following table represents a breakdown of our approximate aggregate annual lease payments for office premises worldwide for the year 2006 (in thousands of U.S. Dollars):

ENTITY	LOCATIONS	APPROXIMATE ANNUAL EXPENSE (in thousands of US$)
Headquarters in Israel	Givat Shmuel	255
North American subsidiary	Michigan and Illinois (U.S.)*	84
German subsidiary	Ettlingen, Hamm, Nurenberg, Koln and Ismaning	230
French subsidiary	Oyonnax (Since February 2005 - Lyons)	14
UK subsidiary	Huddersfield	21
Japanese subsidiary	Tokyo	4
Chinese subsidiaries	Beijing Wuxi Chengdu Shanghai Guangzhou Fujian	58
Korean subsidiary		30
Indian subsidiary		9
	Total	705

* These offices are responsible for our marketing efforts in Canada as well.

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.

In July 2005 we acquired 27.5% of the shares of Microsystem Srl, our Italian distributor, for 575,000 Euro, and an option, which we refer to as the First Call Option, to acquire up to additional 23.5% of Microsystem from Microsystem's shareholders. In May 2007 our board of directors approved the exercise of this option at the stated exercise price of $599,250. The exercise is scheduled to take effect during the first week of July 2007. In addition, upon exercise of the First Call Option we will have a second option, which we refer to as the Second Call Option, to acquire up to the remaining 49% of Microsystem's share capital, for an exercise price of approximately $1.25 million. The Second Call Option is exercisable at any time within a thirty-day period, which we refer to as the Second Option Exercise Period, starting on the twelve month anniversary of our exercise of the First Call Option. In addition, once we exercise the First Call Option, any remaining other shareholders of Microsystem will have an option to require us to purchase, at any time during the Second Exercise Period, 49% of Microsystem's share capital, for consideration of approximately $1.25 million. We have accounted for the original acquisition under the equity method and accordingly, as of July 1, 2005 we commenced recording our share of Microsystems's profits or losses in our consolidated financial statements. Once we exercise the First Call Option and increase our holding in Microsystem to 51%, we will fully consolidate the results of Microsystem, subject to exclusion of minority interest. This change is expected to take place in the third quarter of 2007.

During August 2006, we acquired the remaining 69.83% of the outstanding shares of KCT Co. Ltd, our South Korean provider for approximately $225,000 plus an additional payment subject to collection of certain receivables, following which such provider became our wholly owned subsidiary.

We released our newest version of the Cimatron E (Version 8.0) in March 2007, to include significant improvements such as a new application for progressive die design, new automated drilling capabilities, NC-Preview functionality, concurrent mold design and the ability to handle mega-size molds, and new enhancements in 5-Axis Production.

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 pursuant to maintenance contracts, which either provide for annual maintenance fees or for the payment of maintenance fees upon the provision of upgrades to our products. 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 do purchase maintenance services from us, our customers in the Far East (other than in Japan) generally do not purchase maintenance but instead purchase product upgrades on a case-by-case basis.

Cost of Revenues

Our cost of revenue consists of five 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 in our subsidiaries, (c) royalties payable to third parties for third party software and maintenance, (d) royalties payable to the Israeli Office of the Chief Scientist and (e) amortization of capitalized software development costs.

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 2004 and 2006 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 2004 and 2006 have been expensed. In 2005 we capitalized approximately $0.2 million in connection with the development of Cimatron E 7.0.

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 2004, 2005 and 2006 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, they 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 rate of inflation in Israel will exceed the rate of devaluation of the NIS in relation to the U.S. dollar or that the timing of this devaluation lags behind inflation in Israel. This would have the effect of increasing the U.S. dollar cost of our operations. In 2005 and 2006 the rate of devaluation of the NIS against the U.S. dollar exceeded the rate of inflation. In 2004 there was inflation coupled with a devaluation of the U.S. dollar against the NIS. During the first five months of 2007 the US Dollar has continued to devaluate against the NIS. If the U.S. dollar cost of our operations in Israel increases, our U.S. dollar-measured results of operations will be adversely affected.

See "- Liquidity and Capital Resources – Impact of Inflation and 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 on-going 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 American Institute of Certified Public Accountants Statement of Position 97-2, Software Revenue Recognition, as amended.

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 the relative fair values of the elements. Our determination of fair value of each element in multiple element arrangements is based on vendor-specific objective evidence ("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.

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

We have no significant expenditures relating to either warranties or post-contract customer support bundled with the initial sale of the software license and, therefore, other than a provision of approximately $64,000, no provision in respect of warranties or post-contract customer support is included in our financial statements.

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.

Operating Results

	December 31,		
	2004	2005	2006
	In thousands of US$ (except per share data)		
Statement of Income Data:			
Revenue:			
Products	11,370	8,968	9,642
Services	11,793	11,957	11,817
Total	23,163	20,925	21,459
Cost of revenue:			
Products	2,923	3,367	2,154
Services	1,678	1,568	1,469
Total	4,601	4,935	3,623
Gross profit	18,562	15,990	17,836
Research and development costs	5,554	4,815	4,426
Selling, general and administrative expenses.	13,962	15,650	13,362
Operating income (loss)	(954)	(4,475)	48
Financial income (expenses), net	445	(148)	574
Other income (expenses)	144	1	(5)
Income (loss) before taxes	(365)	(4,622)	617
Taxes on income	(23)	(2)	(27)
Income (loss) after income taxes	(388)	(4,624)	590
Company's equity in results of affiliated company	-	(5)	(105)
Minority interest in results of subsidiary	-	36	29
Net income (loss)	(388)	(4,593)	514
Net income (loss) per share (basic and diluted)	(0.05)	(0.59)	0.07
Weighted average number of shares outstanding.	7,835	7,835	7,835

	December 31,		
	2004	2005	2006
	In thousands of US$		
Balance Sheet Data			
Cash and cash equivalents	1,711	2,708	5,597
Short-term investments	6,381	2,167	-
Total cash, cash equivalents and short-term investments	8,092	4,875	5,597
Long term marketable investments	-	1,309	1,287
Working capital	10,306	4,328	5,342
Total assets	20,804	16,442	17,907
Total liabilities	7,956	8,460	9,062
Shareholders' equity	12,848	7,982	8,845

Revenue

Our total revenues increased to approximately $21.5 million in 2006 from approximately $20.9 million in 2005 and decreased from approximately $23.1 million in 2004. Our revenues from the sale of products increased to approximately $9.6 million in 2006 from approximately $9.0 million in 2005 and decreased from approximately $11.4 in 2004. The increase in the sale of products in 2006 was mainly due to an increase of approximately $0.2 million in sales in Europe, which was in part due to the higher Euro – dollar exchange rate, and an increase of approximately $0.5 million in sales in the Far-East, as we continue our efforts to penetrate the emerging markets in this region. Such increases were partially offset by decreases of sales in other regions. As 51% of our 2006 revenues were derived from European countries, changes in the Euro – dollar exchange rate can significantly influence our revenues. Although the Euro – dollar exchange rate in 2005 was lower than in 2006, it did not have a significant influence on our 2006 results of operations as compared to 2005, due to the fact that the influence of low rate in 2005 was partially offset by the influence of Euro – dollar options we had during 2005. We expect the Euro – dollar exchange rate to have an increasing influence on our revenues and results of operation after we begin consolidating Microsystem's financial results with ours, as substantially all of Microsystem's revenues are Euro-denominated. The decrease in the sale of products in 2005 as compared to 2004 was mainly due to a decrease of 37.3% in sales in Europe. In addition, 5% of the decrease in sales revenues was due to the fall in the Euro – dollar exchange rate. Total revenues in 2005 were primarily influenced by mold, tool, die and fixture makers in Europe, migrating their operations to low cost labor markets in the Far East, which markets are also characterized by lower prices and by higher usage of pirated copies of software products. While we believe that this trend may continue, we have adjusted our European strategy slightly in order to increasingly focus on penetrating the high end European market, in which such migration is less frequent. In addition, we have increased our sales efforts in China and in other emerging markets, in order to, among others things, attempt to set off the decreases in Europe. As a percentage of revenues, our revenues from the sale of products decreased from approximately 49.1% in 2004 to approximately 42.9% in 2005 and increased to approximately 45% in 2006. Our revenues from services decreased in 2006 to approximately $11.8 million from approximately $12.0 million in 2005 and were similar to approximately $11.8 million in 2004. As a percentage of revenues, our revenues from services increased from approximately 50.9% in 2004 to approximately 57.1% in 2005 and decreased to approximately 55% in 2006.

Cost of Revenue

Cost of revenue decreased in 2006 to $3.6 million, from approximately $4.9 million in 2005 and $4.6 million in 2004. The decrease in 2006 resulted mainly from the implementation of a cost reduction plan in the second half of 2005. The overall increase in costs of revenue in 2005 was due to our write-off of capitalized software development expenses in the amount of $0.8 million, which was offset by a decrease in all other components of our costs revenue, in line with the decrease in product sales. Cost of revenues in 2004 included an increase in royalties to the OCS in the amount of $0.2 million, which offset a decrease in the amount of $0.2 million in salaries and employee benefits.

Gross Profit

Gross profit, as a percentage of total revenue, was 83.1%, 76.4% and 80.1% in 2006, 2005 and 2004, respectively. The increase in percentage in 2006 resulted mainly from our cost reduction plan implemented during the second half of 2005.

*Research and Development, Patents and Licenses, etc***.**

Research and development costs primarily consist of salaries and related costs of employees engaged in ongoing research, design and development activities. Research and development costs were $4.4 million in 2006, $4.8 million in 2005 and $5.6 million in 2004. The decreases in 2006 and in 2005 were due mainly to our cost reduction plan implemented during the second half of 2005.

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 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 2004, 2005 or 2006 and do not expect to receive any such grants in the future. 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 for management services to DBSI and Koonras and (e) reserves for doubtful debts.

Selling, general and administrative expenses decreased to $13.4 million in 2006 from $15.6 million in 2005 and $14.0 million in 2004. The main reason for the decrease in 2006 was the cost reduction plan implemented in the second half of 2005. The main reason for the increase in 2005 compared to 2004 was the implementation of the organizational changes and cost reduction plan that resulted in termination and severance payments in 2005.

Financial Income (Expenses), net

Financial income (expenses), net, consists primarily of interest earned on our cash reserves, gains (losses) from sale of bonds and funds, as well as interest on trade receivables and tax rebates and currency translation adjustments between the U.S. dollar exchange rate imposed on our assets and liabilities. Financial income (expenses), net, were $0.6 million in 2006, compared to $(0.1 million) in 2005 and $0.4 million in 2004, respectively. The increase in financial income, net, in 2006 was due primarily to the devaluation of the U.S. Dollar in relation to the Euro and the New Israeli Shekel. The decrease in financial income, net, in 2005 compared to 2004 was due primarily to the devaluation of the Euro in relation to the U.S. dollar.

Net Income (Loss)

We incurred net losses of approximately $0.4 million and $4.6 million in 2004 and 2005 respectively, and recorded net income of $0.5 million in 2006. Although we had net income in 2006 and net income of approximately $0.2 million in the first quarter of 2007, we cannot be certain that we will maintain profitability on a quarterly or annual basis. If the percentage of our overall revenues comprised by service revenue will increase, our gross margins and profitability will likely be adversely affected. In addition, if our revenues from the sale of products will decrease, such decrease may adversely affect our future service revenues, as it may result in a smaller user base to purchase service contracts from us. See “Item 3 – Risk Factors.” For a geographical breakdown of our revenues, please refer to “Item 4 – Information on the Company – Geographical Breakdown of our Revenue.”

Effective Corporate Tax Rate

We and each of our subsidiaries are subject to corporate taxes in various countries in which we and they operate. We are currently most significantly affected by corporate taxes in Israel where we received a final tax assessment through the tax year ended December 31, 2000. Generally, as of January 1, 2007, Israeli companies are subject to corporate tax of 29% on taxable income and are subject to capital gains tax at a rate of 25% on capital gains derived after January 1, 2003 (other than capital gains from the sale of listed securities, which are subject to tax at the current rate of 31%). The corporate tax rate was reduced in July 2005, from 31% for the 2006 tax year to 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. However, the effective tax rate payable by a company that derives income from an approved enterprise (as discussed below) may be considerably less. We believe that our effective tax rates in the U.S., Germany, France, the U.K., China, Japan, India and Korea would have been approximately 35%, 25%, 33%, 19%, 33%, 31%, 34% and 27.5%, respectively, for the year ended December 31, 2006, had we not incurred tax losses in such countries. We believe that we had tax loss carryforwards in Israel in the aggregate amount of $8.4 million as of the end of 2006. In addition, as of December 31, 2006, we had approximately $6.4 million in net operating loss carryforwards in North America, $1.4 million in Germany, $2.5 million in France and $0.5 million in the U.K. We expect that as 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 have been granted “Approved Enterprise” status under the Israeli Law for the Encouragement of Capital Investments, 1959 continuously since 1994. Consequently, we are eligible for certain Israeli tax benefits. Income derived from our Approved Enterprise plan is exempt from tax for a period of two years, commencing in the first year in which we generate taxable income from such Approved Enterprise (subsequent to use of all Israeli tax loss carryforwards), and is subject to a reduced tax rate of 25% for a further five years, respectively. See Note 13 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 and, to a lesser extent, from accumulated cash and cash generated by the sale of our investments. 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.

As of December 31, 2006, we had $6.9 million in cash and marketable investments. During 2006, net cash provided by operating activities was $1.3 million, and was comprised of our net profit of $0.5 million, non-cash use of depreciation and amortization of $0.5 million, increase in accrued severance pay of $0.5 million and increase in trade payables, accrued expenses and other liabilities of $0.4 million, partially offset by increase in deposits with insurance companies and severance pay fund of $0.4 million and decrease in debts to related parties of $0.2 million. In addition, long-term investments in the amount of $2.2 million reached maturity and were reclassified as cash and cash equivalents. Furthermore, we utilized a renewable loan in the amount of $0.5 million from a Swiss bank, which is secured by all our assets held by the bank. Such assets vary from time to time. Until recently the loan had a 6-month term and was renewable every 6 months provided that we had other assets in the bank. So long as amounts under the loan are outstanding, we are not allowed to use our assets in the bank in an amount that would exceed the amount of the loan. In May 2007 we renewed the loan for an additional term of three months.

In addition to the cash provided by investing activities described above, we invested $0.1 million in acquisition of affiliated companies, and $0.5 million in the purchase of property and equipment, resulting in net cash provided by investing activities of $1.6 million.

These transactions caused our aggregate amount of cash and cash equivalents to be $5.6 million as of December 31, 2006 as compared to $2.7 million as of December 31, 2005, and our short-term and long-term marketable investments to be $1.3 million as of December 31, 2006, as compared to $3.5 million as at December 31, 2005.

As of December 31, 2006, our combined cash and cash equivalents and short-term and long-term marketable investments totaled $6.9 million, compared to $6.2 million as of December 31, 2005. As of December 31, 2006, our working capital was $5.3 million and our total assets were $17.9 million, compared to $4.3 million and $16.4 million, respectively, as of December 31, 2005. The increase in working capital resulted from an increase in cash and cash equivalents and short term investments, trade account receivables, and inventory, offset by an increase in trade payables and accrued expenses and other liabilities. The change in total assets resulted from an increase in cash and cash equivalents and short-term investments, deposits with insurance and severance funds, offset by an increase in accrued expenses and other liabilities and accrued severance pay.

Our trade receivables, net of allowance for doubtful accounts on December 31, 2006 totaled $4.8 million, compared to $4.5 million on December 31, 2005. The increase was due to higher sales in 2006. The collection cycle remained unchanged during 2006 compared to 2005. We believe that, generally, the quality of receivables remained unchanged and we will continue our efforts to shorten the collection cycle.

Our capital expenditures for 2006 amounted to approximately $0.5 million and were mostly for the purchase of computers, computer equipment and other office equipment.

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, short-term investments and long-term investments are invested in deposits with major banks in the United States, Europe and Israel. We believe that the financial institutions holding our cash funds are financially sound, and that minimal credit risk exists with respect to our marketable securities, which consist of debt securities of the Government of Israel and highly rated corporate bonds. 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 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 revenue. 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 exchange rate between NIS and the U.S. dollar has fluctuated during the past six months (December 2006 – May 2007) from a low of NIS 3.932 to the dollar to a high of NIS 4.26 to the dollar. The high and low exchange rates between the NIS and U.S. dollar during the six most recent months, as published by the Bank of Israel, were as follows:

MONTH	LOW 1 U.S. dollar =	HIGH 1 U.S. dollar =
December 2006	4.176	4.234
January 2007	4.187	4.260
February 2007	4.183	4.254
March 2007	4.155	4.222
April 2007	4.014	4.135
May 2007	3.932	4.065

The average exchange rate, using the average of the exchange rates on the last day of each month during the period, for each of the five most recent fiscal years, was as follows:

Period	Exchange Rate
January 1, 2002 - December 31, 2002	4.738 NIS/$1
January 1, 2003 - December 31, 2003	4.548 NIS/$1
January 1, 2004 - December 31, 2004	4.478 NIS/$1
January 1, 2005 - December 31, 2005	4.503 NIS/$1
January 1, 2006 - December 31, 2006	4.466 NIS/$1

In 2002 the rate of inflation was 6.5% and the rate of devaluation of the NIS against the dollar was 7.27%. In 2003, there was on the one hand a devaluation of the U.S. dollar against the NIS and on the other hand a deflation. In 2004 the rate of inflation was approximately 1.2% and the U.S. dollar was devaluated against the NIS by 1.6%. In 2005 the rate of inflation was approximately 2.4% and the U.S. dollar was devaluated against the NIS by 6.8%. In 2006 the rate of inflation was approximately (0.1)% and the U.S dollar was devaluated against the ILS by 8.2%.

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 50% to 80% of our Euro denominated future cash flows to protect against a reduction in reported operating income arising from decreases in the Euro – U.S. dollar exchange rate and to hedge 60% to 80% of our NIS denominated expenses to protect against an increase in reported expenses arising from increases in the U.S. dollar – NIS exchange rate. 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 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, 2006 we had no currency exchange options. As of May 31, 2007, we had currency exchange options to sell up to 1.47 million Euro for a total amount of $1.91 million, and had written currency exchange options to sell up to 1.47 million Euro for a total amount of $2.03 million that were scheduled to expire prior to December 31, 2007. As of December 31, 2006, we had currency forward transactions to sell $2.04 million for a total amount of NIS 9.17 million until March 29, 2007. As of May 31, 2007 we had no currency forward transactions. See “Item 11 – Quantitative and Qualitative Disclosure about Market Risk” for a description of hedging and other similar transactions.

Research and development, patents, licenses, etc.

We conduct our research and development operations primarily in Israel and to a small extent in Russia. Our research and development efforts have been financed through internal resources and through plans sponsored by the Chief Scientist of the Government of Israel, or the OCS. In the years ended December 31, 2004, 2005 and 2006 our gross research and development expenditures were $5.5 million, $4.8 million and $4.4 million, respectively (24%, 23%, and 21% 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 effective with respect to OCS plans funded in or after 1994, royalties generally 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 revenues derived in connection with products developed according to such plans are payable to the State of Israel. The maximum aggregate royalties will not exceed 100% (for funding prior to 1994, 100% to 150%) of the U.S. dollar-linked value of the total grants received. Pursuant to an amendment effected in 2000, effective with respect to OCS plans 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 plans. Pursuant to an amendment effected on January 1, 1999, effective with respect to OCS plans 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, 2006, our contingent liability with respect to such grants was approximately $2.19 million, contingent upon us 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 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. However, to date, we have not received any final decision from the OCS, despite our ongoing efforts to resolve this matter.

Although we believe we have strong arguments to support our position, we have accrued royalty expenses in the amount of $1.6 million in our financial reports for the periods from January 1st, 2005 to March 31st, 2007, but we have not paid to the OCS any royalties associated with the products mentioned above. In light of the above-mentioned facts, we continue to evaluate and consider our next steps with the OCS, including without limitation, whether further royalty expense accruals will be necessary. 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 amount we have accrued with regard to this issue or even more than such amount.

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 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, 2004, 2005 and 2006, we paid or accrued royalties to the OCS in the amount of $0.8 million, $0.7 million and $0.7 million, respectively. We intend to consider whether further accruals will 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, 2006 with respect to such grants was $0.6 million, contingent upon our incremental exports.

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:

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.

Decrease in prices. The strong competition in the software business generally, and in the CAD/CAM business specifically, has caused prices of products in our industry to decrease. Such decrease in software prices has resulted in a decrease in our revenues and thus in our profits. As a result, we have been forced to employ cost-cutting measures. If the foregoing trend continues, we may have to employ additional cost-reduction measures.

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.

E. 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." 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 the 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, 2006 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, 2006:

Contractual Obligations as of December 31, 2006	Payments due by Period (US$ in thousands)				
	Total	Less than 1 Year	1-3 Years	4-5 Years	After 5 Years
Operating Leases	3,989	1,256	2,285	448	-
Purchase Obligations and Commitments	1,220	799	421	-	-
Other Long-Term Liabilities	3,003[(1)]	-	-	-	-
Total Contractual Cash Obligations	8,212	2,055	2,706	448	-

(1) 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, and Section 21E of the Securities Exchange Act of 1934, as amended (the "1934 Act") (collectively, the "Safe Harbor Provisions'"). 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 the Company or its 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") under the caption "Risk Factors" ("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 were as follows:

Name	Age	Position
Rimon Ben-Shaoul	62	Chairman of the Board
Yossi Ben Shalom	52	Director
Barak Dotan	39	Director
Kenny Lalo	49	Director
David Golan	66	Director
Ofra Brown	53	External Director
Rami Entin	56	External Director
Dan Haran	49	President and Chief Executive Officer
Ilan Erez	39	Chief Financial Officer

Rimon Ben-Shaoul has served since February 2001 as Co-Chairman, President and Chief Executive Officer of Koonras Technologies Ltd. and as a Chairman or member of the boards of various companies of the Polar Investments Group. From June 1997 to February 2001 he served as President and Chief Executive Officer of Clal Industries and Investments Ltd. and served as a member of the board of Clal (Israel) Ltd. and on the board of several of its subsidiaries. From 1985 to June 1997, he served as President and Chief Executive Officer of Clal Insurance Company Ltd., as a member of its board and as Chairman or a member of the board of several of its subsidiaries. Mr. Ben-Shaoul holds a bachelor’s degree in economics and a master’s degree in business administration from Tel Aviv University.

Yossi Ben Shalom is a co-founder of DBSI Investments Ltd. Prior to establishing DBSI Investments, 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), Machteshim 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.

Barak Dotan is a co-founder of DBSI Investments Ltd. Prior to establishing DBSI Investments, 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.

Kenny Lalo has served since 2001 as Vice President of Koonras Technologies Ltd. and as a member of the board of several of its affiliates. Mr. Lalo has acted in the capacity of “of-counsel” to the law firm of Pearl, Cohen, Latzer, Zedek since 2001. From 1993 to 2001, he served as general counsel and later as Vice President of Clal Industries and Investments Ltd. and as a member of the board of several of its affiliates. From 1986 to 1992, Mr. Lalo was an attorney in Maryland, USA. Mr. Lalo holds an LL.B. from Tel Aviv University, an M.C.L. from Georgetown University and a master’s degree in business administration from Northwestern University, Chicago.

David Golan has been a director on our board since 1992 and is a former Chairman of the board. Mr. Golan is currently an independent businessman and a director. Previously he was an executive director in the Binat Group and served on the board of directors of several public and private companies. 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.

Ofra Brown currently serves as the Chief Financial Officer of VIZRT Ltd., a public company traded on the Frankfurt Stock Exchange and on the Oslo Stock Exchange in Norway. From 1999 to 2001, Ms. Brown served as the Chief Financial Officer of BVR Technologies Ltd., a company previously publicly traded on the NASDAQ. From 1978 through 1998 Ms. Brown served as the Credit Manager for Electronic and Hi-Tech Industries – Industrial Development Bank of Israel Ltd. Ms. Brown holds a bachelor's degree in economics from Tel Aviv University and a master's degree in business administration from City University of Seattle.

Rami Entin currently serves as a director of ECtel Ltd., a Nasdaq-traded company that develops and markets fraud prevention and revenue assurance solutions for circuit-switched and packet-switched wireline and wireless networks, and is an external director of Solomon Holdings Ltd., an Israeli publicly traded construction company. Mr. Entin is also a director of Hilan-Tech Ltd., of Incentives Solutions Ltd. and of Gilon Business Insight 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 Weitzman Institute, and a master of business administration degree from Tel Aviv University.

Ilan Erez, joined us as VP Finance in May 2005 and became CFO 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. 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

Koonras Ltd. and DBSI Investments Ltd., our two largest shareholders (each holding approximately 32% of our share capital), control the outcome of most matters submitted to a vote of our shareholders, including the election of members of our board of directors. Koonras and DBSI have entered into an agreement by which, among other matters, they will each appoint one half of our directors, not including our external directors, and vote together at our shareholders' meetings.

Compensation

During the year ended December 31, 2006, we paid, in the aggregate, approximately $0.7 million in direct remuneration to our directors and officers for services provided by them to the Company in such capacities. The above does not include amounts expended by us for automobiles made available to our officers, expenses (including business travel, professional and business association dues and expenses) reimbursed to officers and other fringe benefits commonly reimbursed or paid by companies in Israel. We pay our external directors, as well as Mr. David Golan, an annual fee of $7,000 plus $335 for each meeting of the board of directors attended and each meeting of a committee of the board of directors attended and reimbursement for expenses incurred in connection with the discharge of responsibilities as a board member, including attending board of directors meeting.

Board of Directors

Our Articles of Association provide for a Board of not less than two members. Each director, with the exception of external directors who are elected to serve 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 as both director and as a substitute director.

The term of appointment of a substitute director may be for one meeting of the 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 requires Israeli companies with shares that have been offered to the public in or outside of Israel to appoint at least two external directors.

No person may be appointed as an external director if the person or the person's relative, partner, employer or any entity under the person's control, has or had, on or within the two years preceding the date of the person's appointment to serve as external director, any affiliation with the company or any entity controlling, controlled by or under common control with the company. The term "affiliation" includes:

- an employment relationship;
- a business or professional relationship maintained on a regular basis;
- control; and
- service as an office holder.

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. If, at the time external directors are to be appointed, all current members of the board of directors are of the same gender, and then at least one external director 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 of shares voted at the meeting, including at least one-third of the shares held by non-controlling shareholders voted at the meeting, vote in favor of election of the director; or
- the total number of shares held by non-controlling shareholders voted against the election of the director does not exceed one percent of the aggregate voting rights in the company.

The initial term of an external director is three years, and he or she may be reelected to one additional term of three years by a majority vote at a shareholders' meeting. An external director may be removed only by the same percentage of shareholders as is required for his or her election, or by a court, and then only if he or she ceases to meet the statutory requirements for his or her appointment or if he or she violates the duty of loyalty to the company.

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 our audit committee is required to include all of the external directors. Our external directors are Ofra Brown and Rami Entin, who will complete their current terms in May 2008, in accordance with Israeli law.

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

Under the Companies Law, at least one of the external directors serving on a company's board of directors is required to have "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 completed another higher education, all in the field of business of the company or relevant for his/her position, or (iii) has at least 5 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 "financial expertise" is a director that due to his 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.

Audit Committee

The Companies Law requires public companies to appoint an audit committee. The responsibilities of the audit committee include identifying irregularities in the management of the company's business, approving related party transactions as required by law, and reviewing the quarterly and annual balance reports and recommending their approval before our board or directors. An audit committee must consist of at least three directors, including all the external directors of the company. The chairman of the board of directors, any director employed by or otherwise providing services to the company, and a controlling shareholder or any relative of a controlling shareholder, may not be a member of the audit committee.

Under the Nasdaq rules, we are required to have at least three independent directors on the audit committee. In addition, Nasdaq requires that the members of the audit committee (a) 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, 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:

- Have the sole authority to review in advance, and grant 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 discuss with management and the independent auditors the company's quarterly financial statements (including the independent auditors' review of the quarterly financial statements) prior to any required submission to shareholders, the SEC, any stock exchange or the public;
- Review and discuss with management and the independent auditors the company's annual audited financial statements prior to any required submission to shareholders, the SEC, any stock exchange or the public;
- Recommend to the Board, if appropriate, that the company's annual audited financial statements be included in the company's annual report;
- Review and discuss with management all disclosures made by the company concerning any material changes in the financial condition or operations of the company;
- Review 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 approve all related-party transactions.

As of the date of this annual report, Mr. David Golan, Ms. Ofra Brown and Mr. Rami Entin are serving as members of our audit committee. Mr. Kenny Lalo serves as a non-voting member of our audit committee.

Internal Auditor

Under the Companies Law, the 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. Ernst & Young – Kost, Forer, Gabbay & Kasierer Business Risk Services serves as our internal auditor.

Nasdaq Listing Requirements

Nasdaq rules enable foreign private issuers, such as ourselves, 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 Commission each Nasdaq listing requirement that we do not follow and describe the home country practice we follow in lieu of such requirement.

We have chosen not to comply with Nasdaq Marketplace Rules 4350(c)(4)(B) (requiring companies to adopt a formal written charter or board resolution addressing the company's nominations process) and 4350(c)(2) (Regularly scheduled meetings of the company's independent directors). Under Israeli law, the 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. In addition, we do not intend to comply (if and when the events underlying such rule become relevant) with the Nasdaq listing requirement of shareholder approval for the establishment of and amendments to stock option or purchase plans (Rule 4350(i)(A)), which matter is not subject to shareholder approval under Israeli law and practice.

Employees

The following table sets forth for the last three financial years, the number of our employees broken down into categories.

Period ending December 31,	2006	2005	2004
Research and Development	56	59	84
Marketing, Sales and Customer Support	124	125	106
Administration Management and Information Systems	17	20	24
Total	197	204	214

As of May 31, 2007, we employed 192 full-time personnel, of whom 52 (most of whom hold advanced technical degrees) were employed in research and development, 124 were employed in marketing, sales and customer support and 16 were employed in various administrative, information systems and management positions. Of these employees, 92 were employed in Israel operations, 21 were employed by our North American subsidiary, 33 were employed by our German subsidiary, 41 were employed by our Chinese subsidiaries, 2 were employed by our Indian subsidiary and 6 were employed by our Korean subsidiary. In addition, we employed 9 subcontractors' or free-lance personnel on average during the year 2006 and as of May 31, 2007 we employed 7 subcontractors' personnel.

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 by Managers' Insurance described below, upon the retirement or death of an employee or termination of employment without cause (as defined in the law). The payments thereto amount to approximately 8.33% of wages. Furthermore, Israeli employees and employers are 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 14.6% of the employee's wages (up to a specified amount), of which the employee contributes approximately 66% and the employer contributes approximately 34%.

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. In past years we could decide whether each employee was entitled to participate in the plan. Following a new regulation is Israel, starting May 2006 all our Israeli employees participate in such plan. Each such employee is required to contribute an amount equal to 5% of their salary per month for the managers insurance and we contribute an additional amount between 13.3% and 15.8% of their salary per month.

Share Ownership

1998 Share Option Plan

In April 1998, the board of directors adopted an additional share option plan (the "1998 Share Option Plan") pursuant to which 620,000 Ordinary Shares were reserved for issuance upon the exercise of options to be granted to our directors, officers, employees and consultants. The 1998 Share Option Plan is administered by our Board, which designates the optionees and dates of grant. 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 in the best interest of the grantee. As of May 31, 2007, none of these options were outstanding. The grantee will be responsible for all personal tax consequences of the grant and the exercise thereof.

In March 2000, the board adopted new guidelines for the options to purchase Ordinary Shares reserved for issuance under the 1998 Share Option Plan upon the exercise of options to be granted to our directors, officers, employees and consultants. As of May 31, 2007, none of such options were outstanding.

In August 2003, the board of directors 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. These options are exercisable commencing one year after the date of grant at a rate of 25% per year, subject to the continued employment of the officers. As of May 31, 2007, 50,000 such options were outstanding at a price of $2.50 per share. For additional information relating to the stock options granted by us under the 1998 Share Option Plan, see Note 12(B) to our financial statements included in Item 18.

2004 Share Option Plan

In October 2004, our board of directors and shareholders adopted the 2004 Share Option and Restricted Shares Incentive Plan ("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, 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 the board on the date that the 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 option plan, provided that any such amendment does not adversely effect any options granted thereunder. In February 2005, 238,500 of such options were granted to employees of the Company at an exercise price of $2.20 per share and with a term of ten years, and in August 2005, the board of directors approved the grant of 32,000 of such options at an exercise price of $2.00 per share to the Company's Chief Executive Officer. In December 2005 our board of directors increased the 2004 Share Option Plan reserve by an additional 250,000 shares. In May 2006 an additional 189,000 options were granted to Company employees under the 2004 Share Option Plan at an exercise price of $1.75-$2.00 and with a term of five years. As of May 31, 2007, 360,239 of such options were outstanding. These options are exercisable pursuant to a three (3) year vesting schedule as follows: (i) thirty three percent (33%) of the shares covered by the options become exercisable on the first anniversary of the grant date; and (ii) sixteen and one-half percent (16.5%) of the shares covered by the options become exercisable at the end of each subsequent six months period over the course of the following two (2) years, subject to the continued employment of each employee. The grantee will be responsible for all personal tax consequences of the grant and the exercise thereof. We intend to grant additional options under the 2004 Share Option Plan to various of our directors, executive officers and employees.

At May 31, 2007 options to purchase 601,250 and 91,333 of our ordinary shares were available for grants to various of our directors, officers, employees and consultants under the 1998 and 2004 Share Option Plans, respectively.

Repurchase of Our Shares

We purchased 159,600 of our shares in the open market between September 2002 and February 2003 at an average price of $0.95 per share. During 2003, we repurchased 26,000 shares at an average price of $1.04 per share. Under Israeli law, while these 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 they cannot be voted and do not provide any other rights, other than upon liquidation.

Beneficial Ownership by Officers and Directors

Messrs. Ben Shalom, Ben Shaoul, Dotan and Lalo may be deemed to have beneficial ownership of an aggregate of 5,126,310 of our shares, representing 63.91% of our issued and outstanding capital share, by virtue of their positions with Polar and DBSI and the voting agreement between Koonras and DBSI described elsewhere in this report.

Item 7. Major Shareholders and Related Party Transactions

Major Shareholders

The following table sets forth information, as of May 31, 2007, concerning the beneficial ownership (as defined in Rule 13d-3 under the Securities Exchange Act of 1934) of ordinary shares by (i) any person who is known to own at least 5% of the ordinary shares of our company and (ii) all directors and executive officers as a group. The voting rights of our major shareholders do not differ from the voting rights of holders of all our ordinary shares.

Name and Address	Number of Ordinary Shares	Percent of Ordinary Shares
Koonras Ltd. 21 Ha'arba'ah St. Tel-Aviv, Israel	2,560,360	31.84%
DBSI Investments Ltd. 85 Medinat Hayehudim St. Herzliya, Israel	2,565, 950	31.91%
All directors and executive officers as a group (11 persons)	5,139,299[1]	63.91%

(1) Includes an aggregate of 5,126,310 shares beneficially held by Koonras and DBSI, by virtue of the positions held by certain of our directors on the board of directors of Koonras and DBSI, as to which such individuals disclaim beneficial ownership.

Record Holders

As of May 31, 2007, there were 28 record holders of our ordinary shares, of which 16 represented United States record holders owning an aggregate of approximately 36% of our outstanding ordinary shares.

Related Party Transactions

Services Agreement and Lease Agreement

Until February 2002, our former principal shareholder 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, 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. From February 21, 2002 through December 31, 2003 we paid Koonras and DBSI an aggregate of NIS 2,919,500 for these services. Koonras and DBSI will continue to provide these services to the Company for an annual fee of NIS 1,560,000 (linked to the Israeli Consumer Price Index as of July 2002).

Registration Rights

In October 2004, we granted to Koonras and DBSI the registration rights described below. This action was approved by our board, audit committee and the requisite majority of disinterested shareholders in accordance with the related party transaction requirements of Israeli law. Pursuant to the registration rights agreement entered into with them, Koonras and DBSI have 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.

Demand Registration Rights

Koonras and DBSI, together, and pro-rata between themselves, are entitled to up to two demand registrations on Form F-1 (or an equivalent form) promulgated under the U.S. Securities Act of 1933, as amended, at our expense, provided that the anticipated aggregate offering price for the shares to be registered, net of any underwriting discounts and commissions, shall exceed US$1,000,000.

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 one hundred eighty (180) days following the effective date of, a registration statement pertaining to our securities.

Koonras and DBSI, together, and pro-rata between themselves, also have the right to require us to effect up to four F-3 registrations, 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 of all of their shares (the “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 such holders.

We are required to use our best efforts to (a) cause the Shelf Registration Statement to be declared effective under the Securities Act within three months after the "demand" 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 United States Securities and Exchange Commission.

Piggyback Registration

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 Koonras and DBSI 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) Koonras and DBSI shall have priority (pro rata among them) to have their shares included in such registration, before any other shares are included.

Item 8. Financial Information

Consolidated Statements and Other Financial Information

Our consolidated financial statements and other financial information are included in this annual repot in "Item 18 – Financial Statements".

Legal Proceedings

In April 2004, Omega – Adem Technologies Ltd., an Israeli privately held company engaged in the development of software, filed a lawsuit against us, claiming that we caused four employees of the plaintiff located in Russia to terminate their employment with the plaintiff and join us. During a period of two years (until March 2003), the plaintiff provided certain services to us. The four employees were among several employees who provided such services. The plaintiff claimed, among other things, that we undertook not to employ Omega's employees after the termination of the project Omega performed for us. The plaintiff requested the District Court in Tel Aviv, Israel to grant an injunction and a permanent order that would prevent us from hiring the four employees. In June, 2004, the court rejected the plaintiff's request for an injunction. In September 2004, Omega initiated arbitration proceedings against us pursuant to the services agreement between the parties and submitted to an arbitrator agreed upon between the parties a statement of claim for an amount of $20,000,000 for damages caused to Omega due to the employment of the four employees in question. In November 2004, we submitted a statement of defense denying all of Omega's claims and asserting, among other things, that we engaged the employees upon expiration of a one-year period following termination of the agreement between us and Omega and that we therefore were allowed to do so. On October 11, 2005 Omega submitted affidavits and on January 25, 2006 we submitted our affidavits. A few evidentiary hearings were held by the arbitrator and on November 22, 2006, Omega filed its summaries. The Company filed its summaries on March 27, 2007. The arbitration process is now in its final stage. We believe that there is no merit to the claim and have continuously vigorously opposed it, but we have nevertheless accrued in the fourth quarter of 2005 a sum of $250,000 for this claim. We cannot give any assurance that we will be victorious or that the arbitration award will not exceed the amount we accrued.

On May 9, 2007, Collins & Aikman Corporation, on behalf of themselves and certain related parties filed a complaint with the United States Bankruptcy court of Michigan, Detroit, against our wholly owned subsidiary, Cimatron Technologies, Inc. On May 17, 2005 the plaintiffs filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The plaintiffs are demanding repayment of an amount of $318,515 plus interest and expenses on the basis of, among others, that such payment was made within ninety days preceding the petition date. The payment to the subsidiary was mainly made in consideration for software delivered to the plaintiff, and to a negligible extent, for services and maintenance provided to the plaintiff. The subsidiary has engaged local counsel and intends to vigorously oppose such claim.

Dividend Distribution Policy

Certain of our enterprises are Approved Enterprises. 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, the Company will be subject to tax at a rate of 25%. We have 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.

Significant Changes

Since the date of our consolidated financial statements there has not been a significant change in our Company other then as set forth in the Financial Statements.

See “Item 5. Operating and Financial Review and Prospects – Overview” for additional details regarding the transaction with Microsystem, our Italian provider and our anticipated increase in holdings thereof.

Item 9. The Offer and Listing

Offer and listing details

Our ordinary shares were quoted on the NASDAQ Global Market System from March 1996 until April 17, 2001, from which time our ordinary shares have been traded on the NASDAQ Capital 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 Ordinary Shares are not listed on any other stock exchange and have not been publicly traded outside the United States. The table below sets forth the high and low bid prices of the Ordinary Shares, as reported by NASDAQ during the indicated fiscal quarters:

Period	High (U.S. $)	Low (U.S. $)
Six most recent months:	4.58	1.29
May 2007	3.98	2.33
April 2007	4.58	3.22
March 2007	3.30	1.36
February 2007	1.43	1.36
January 2007	1.42	1.34
December 2006	1.49	1.29
Two most recent full financial years and subsequent periods:		
First Quarter 2007	3.30	1.34
Forth Quarter 2006	1.73	1.16
Third Quarter 2006	1.54	1.15
Second Quarter 2006	1.53	1.15
First Quarter 2006	1.49	1.00
Fourth Quarter 2005	1.29	1.05
Third Quarter 2005	1.61	1.14
Second Quarter 2005	1.79	1.12
First Quarter 2005	2.14	1.58
Five most recent years:		
2006	1.73	1.00
2005	2.14	1.05
2004	2.95	1.25
2003	2.48	0.88
2002	1.49	0.7

Markets

Our shares are traded only on the NASDAQ Capital Market, where they are listed and traded under the symbol "CIMT".

Item 10. Additional Information

Memorandum and Articles of Association

Articles of Association; Israeli Companies Law

In December 2006, our shareholders adopted amended and restated articles of association 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 carried at a General Meeting by a majority of the shares present and voting thereon (excluding abstained votes). The 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 the board of directors, upon at least 21 days prior notice to our shareholders. 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. 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 the 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;
- the exercise of the 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 its 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 their discretion, borrow or secure the payment of any sum of money for the objectives of the 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, the board of directors may delegate any authority they have to a committee comprised of members of the board. Any committee to whom the board's powers were delegated to 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.

Transactions with Certain Shareholders

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) director, (ii) general manager, (iii) chief business manager, (iv) deputy general manager, (v) vice general manager, (vi) executive vice president, (vii) vice president, (viii) another manager directly subordinate to the managing director or (ix) any other person assuming the responsibilities of any of the forgoing positions without regard to such person's title. 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 requires an office holder to act in good faith and for the good of the company.

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. In addition, if the transaction is an extraordinary transaction, as defined under Israeli law, the office holder must also disclose any personal interest held by the office holder's spouse, siblings, parents, grandparents, descendants, spouse's descendants and the spouses of any of the foregoing, or by any corporation in which the office holder is a 5% or greater shareholder, holder of 5% or more of the voting power, director or general manager or in which he or she has the right to appoint at least one director or the general manager. 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.

In the case of a transaction that is not an extraordinary transaction, 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. The transaction must not be adverse to the company's interest. 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.

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. However, 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 shall be permitted to vote on the matter and attend the meeting in which the matter is considered; and
- the matter requires approval of the shareholders at a general meeting.

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, and agreements relating to employment and compensation terms of a controlling shareholder 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 one-third 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 one percent of the voting rights in the company.

In addition, a private placement of securities 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 in registered securities or is not at market value, and as a result of which a person holding five percent of 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, requires approval by the board of directors and the shareholders of the company. The regulations to the Companies Law provide certain exceptions. Any placement of securities that does not fit the above description may be issued at the discretion of the Board of Directors.

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, 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 interested party transactions that require shareholder approval.

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 office holder in 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.

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 of association 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.

Mergers and Acquisitions; Anti-Takeover Provisions

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 any person holding at least 25% of such other party or otherwise affiliated with such other party are excluded from the vote.

The Companies Law does not require court approval of a merger other than in specified situations. However, 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 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 45% shareholder of the company, unless there already is a 45% shareholder of the company.

If, following any acquisition of shares, the purchaser would hold 90% or more of the shares of the company that acquisition must be made by means of a tender offer for all of the target company's shares. An acquirer who wishes to eliminate all minority shareholders must do so by means of a tender offer and acquire 95% of all shares not held by or for the benefit of the acquirer prior to the acquisition. However, in the event that the tender offer to acquire that 95% is not successful, the acquirer may not acquire tendered shares if by doing so the acquirer would own more than 90% of the shares of the target company.

Material Contracts

Other than the registration rights agreement, service agreement and lease agreement described in “Item 6 – Major Shareholders and Related Party Transactions – Related Party Transactions,” our current lease agreement described below and the Microsystems investment contract described in “Item 4. History and development of the Company”, all of the contracts that we have entered into over the past two years have been in the ordinary course of our business.

In February 2003, we leased from a private commercial property owner the same office space that we had previously leased from ZCT, under a new lease agreement. 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.

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 of association or by the laws of the State of Israel.

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 specified 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

Generally, as of January 1, 2007, Israeli companies are subject to corporate tax at a rate of 29% on taxable income and are subject to capital gains tax at a rate of 25% on capital gains derived after January 1, 2003 (other than capital gains from the sale of listed securities, which are subject to tax at the current rate of 31%). The effective tax rate payable by a company that derives income from an Approved Enterprise (as discussed below), however, may be considerably less. In July 2005, an amendment to the corporate tax rates was approved by the Israeli Knesset. The amendment provides that taxes paid by Israeli companies will be gradually reduced from a rate of 31% for the 2006 tax year, to a rate of 29% for the 2007 tax year, 27% for the 2008 tax year, 26% for the 2009 tax year and 25% for the 2010 tax year and thereafter. Capital gains derived after January 1, 2003 (other than gains derived from the sale of listed securities that are taxed at the prevailing corporate tax rates) are subject to tax at a rate of 25%.. Under the Income Tax Law (Adjustment for Inflation) 1985, income for tax purposes is measured in terms of earnings in NIS adjusted for the increase in the Israeli Consumer Price Index. The difference between the annual changes in the Israeli Consumer Price Index and in the NIS/U.S. Dollar exchange rates causes a difference between taxable income and the income reflected in our financial statements. See note 13D of our financial statements.

Law for the Encouragement of Capital Investments, 1959

The Law for the Encouragement of Capital Investment, 1959, or the Investment Law provides that a proposed capital investment in production facilities or other eligible facilities may be designated as an Approved Enterprise. 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 applicable rates. Subject to certain qualifications, however, if a company with one or more approvals distributes dividends, the dividends are deemed attributable to the entire enterprise. As explained below, following the amendment of the Investment Law which became effective on April, 1, 2005, companies may receive tax benefits under the law without applying for an Approved Enterprise status.

Tax benefits for income from Approved Enterprises approved before April 1, 2005

Before April 1, 2005, an Approved Enterprise was entitled to receive a grant from the Government of Israel or an alternative package of tax benefits, which we refer to as alternative benefits. We have elected to forego the entitlement to grants and have applied for the alternative benefits, under which undistributed income that we generate from our Approved Enterprises will be completely tax-exempt for two years commencing from the year that we first produce taxable income and will be subject to a tax rate of 10% to 25% for an additional five to eight years, depending on the extent of foreign investment in the company. Alternative benefits are available to us until the earlier of (i) seven consecutive years, commencing in the year in which the specific Approved Enterprise first generates taxable income, (ii) twelve years from commencement of production and (iii) fourteen years from the date of approval of the Approved Enterprise status.

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%. This withholding tax is deductible at source by the Approved Enterprise. 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 twelve years thereafter. We elected the alternative benefits track, and will additionally be subject to pay corporate tax at the rate of 25% in respect of the gross amount of the dividend that we may distribute out of profits which were exempt from corporate tax in accordance with the provisions of the alternative benefits track. If we are also deemed to be a Foreign Investors Company, or FIC (as defined below), and if the FIC is at least 49% owned by non-Israeli residents, the corporate tax rate paid by us in respect of the dividend we may distribute from income derived by our Approved Enterprises during the tax exemption period may be taxed at a lower rate.

As we have elected the alternative benefits package, we are not obligated to attribute any part of dividends that we may distribute to exempt profits, and we may decide from which year's profits to declare dividends. We currently intend to reinvest any income that we may in the future derive from our Approved Enterprise programs and not to distribute the income as a dividend.

If we qualify as a FIC, our Approved Enterprises will be entitled to additional tax benefits. Subject to certain conditions, a FIC is a company with a level of foreign investment 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. Such a company 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%.

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, as described above. If a company does not meet these conditions, it would 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 is about to be terminated if we do not submit a final performance report. We have decided not to pursue the completion of this investment plan, as we have not had any tax benefits from it, and we intend to apply for tax benefits pursuant the amended law as described below, if and when relevant.

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

On April 1, 2005, a significant amendment to the Investment Law became effective. The Investment Law provides that 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 they were 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 the Approved Enterprise's income will be derived from export.

The amendment provides that Approved Enterprise status will only be necessary for receiving grants. As a result, it is no longer necessary for a company to acquire Approved Enterprise status in order to receive the tax benefits previously available under the alternative benefits provisions. 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 out by the amendment. Companies are entitled to approach the Israeli Tax Authority for a pre-ruling regarding their eligibility for benefits under the amendment.

Tax benefits are available under the amendment to production facilities (or other eligible facilities), which are generally required to derive more than 25% of their business income from export. In order to receive the tax benefits, the amendment states that the company must make an investment which meets all the conditions set out in the amendment for tax benefits and exceeds a minimum amount specified in the Investment Law. Such investment allows the company to receive a benefited enterprise status, 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 the 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 this case, the minimum investment required in order to qualify as a benefited enterprise is required to 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 amendment to qualifying income of a benefited enterprise are determined by the geographic location of the benefited enterprise. The location will also determine the period for which tax benefits are available.

Dividends paid out of income derived by a benefited enterprise will be treated similarly to payment of dividends by an Approved Enterprise under the alternative benefits track. Therefore, 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%. 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 twelve years thereafter. A company qualifying for tax benefits under the amendment which pays a dividend out of income derived by its benefited enterprise during the tax exemption period will be subject to corporate tax in respect of the gross amount of the dividend at the otherwise applicable rate of 25%, or lower in the case of a qualified FIC which is at least 49% owned by non-Israeli residents. The dividend recipient would be subject to tax at the rate of 15% on the amount received which tax would be deducted at source.

As a result of the Amendment, tax-exempt income generated under the provisions of the new law will subject us to taxes upon distribution of the tax-exempt income to shareholders or liquidation of the company, and we may be required to record a deferred tax liability with respect to such tax-exempt income.

The amendment sets a minimal amount of foreign investment required for a company to be regarded as a FIC.

Law for the Encouragement of Industrial Research and Development, 1984

Under the Law for the Encouragement of Industrial Research and Development, 1984 (the "Research Law"), research and development programs approved by the Research Committee of the Office of the Chief Scientist (the "Research Committee") are eligible for grants or loans if they meet certain criteria, in return for the payment of royalties from the sale of the product developed in accordance with the program. Once a project is approved, the Office of the Chief Scientist, or 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, up to a dollar-linked amount equal to 100% to 150% of such grants. Grants received under programs approved after January 1, 1999, are subject to interest at an annual rate of LIBOR for 12 months applicable to dollar deposits, which will accrue annually based on the LIBOR rate published on the first day of each year.

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, 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. These expenses must relate to scientific research and development projects, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company and carried out by or on behalf of the company seeking such tax deduction. The amount of such deductible expenses, however, is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. Expenditures not so approved are deductible over a three-year period.

Law for the Encouragement of Industry (Taxes), 1969

The following preferred corporate tax benefits, among others, are available to Industrial Corporations (including us).

- Deduction of purchases of know-how and patents over eight years for tax purposes.
- Deduction, for tax purposes, of expenses incurred in connection with certain public securities issuances.
- Accelerated depreciation rates on both equipment and buildings.
- The right to elect, under specified conditions, to file a consolidated tax return with additional related Israeli industrial companies and an industrial holding company.

Taxation under Inflationary Conditions

Under the Law for the Encouragement of Industry (Taxes), 1969, industrial companies, as defined under the law, are entitled to the following tax benefits, among others:

- deductions over an eight-year period for purchases of know-how and patents;
- expenses related to a public offering are deductible over a three-year period in equal amounts;
- the right to elect, under specified conditions, to file a consolidated tax return with other related Israeli industrial companies; and
- accelerated depreciation rates on equipment and buildings.

Eligibility for benefits under the Law for the Encouragement of Industry is not subject to receipt of prior approval from any governmental authority. Under the law, an industrial company is defined as a company resident in Israel, at least 90% of the income of which, in any tax year, determined in Israeli currency, exclusive of income from government loans, capital gains, interest and dividends, is derived from an industrial enterprise owned by it. An industrial enterprise is defined as an enterprise whose major activity in a given tax year is industrial production activity.

We believe that we currently qualify as an industrial company within the definition under the Law for the Encouragement of Industry (Taxes). No assurance can be given that we will continue to qualify as an industrial company or that the benefits described above will be available in the future.

Capital Gains Tax

Israeli law imposes a capital gains tax on the sale of capital assets by both residents and non-residents of Israel. The law distinguishes between the “Real Gain” and the “Inflationary Amount.” The Real Gain is the excess of the total capital gain over the Inflationary Amount, computed on the basis of the increase in the Israeli Consumer Price Index between the date of purchase and the date of sale. The Inflationary Amount accumulated prior to December 31, 1993 is taxed at a rate of 10% for residents of Israel (reduced to no tax for non-residents if calculated according to the exchange rate of the dollar instead of the Israeli CPI), while the Inflationary Amount accumulated following December 31, 1993 is exempt from any capital gains tax. Until the end of the year 2002, capital gains from the sale of our ordinary shares were generally exempt from Israeli Capital Gains Tax. This exemption did not apply to a shareholder whose taxable income is determined pursuant to the Israeli Income Tax Law (Inflationary Adjustments), 1985, or to a person whose gains from selling or otherwise disposing of our securities are deemed to be business income.

An individual is subject to a 20% tax rate on real capital gains derived from the sale of shares, as long as the individual has not demanded a deduction of interest and linkage differences in connection with the purchase and holding of the securities; and as long as the individual is not a substantial shareholder of the company issuing the shares, which is generally a shareholder with 10% or more of the right to profits, the right to nominate a director and voting rights. A substantial shareholder (or a shareholder who has demanded a deduction of interest and linkage differences) will be subject to tax at a rate of 25% on real capital gains derived from the sale of shares issued by the company. The determination of whether the individual is a substantial shareholder will be made on the date that the securities are sold. In addition, the individual will be deemed to be a substantial shareholder if at any time during the twelve months preceding this date he or she had been a substantial shareholder. The foregoing tax rates, however, will not apply to dealers in securities.. However, according to the tax reform legislation, non-residents of Israel will be exempt from any capital gains tax from the sale of our ordinary shares so long as the gains are not derived through a permanent establishment that the non-resident maintains in Israel, and so long as our ordinary shares remain listed for trading as described above.

Corporations are subject to corporate tax rates in respect of capital gains from the sale of shares in Israeli publicly traded companies. As described above in "–General Corporate Tax Structure," recent changes in the law reduced the corporate tax rate from 31% in 2006 to 29% in 2007, 27% in 2008, 26% in 2009 and 25% in 2010. Between 2006 and 2009, however, corporations whose taxable income was not determined immediately before the 2006 Tax Reform was published, pursuant to part B of the Israeli Income Tax Law (Inflationary Adjustments), 1985, or pursuant to the Income Tax Regulations (Rules on Bookkeeping by Foreign Invested Companies and Certain Partnership and Determination of their Chargeable Income), 1984, or the Dollar Regulations, will generally be taxed at a rate of 25% on their capital gains from the sale of their shares.

U.S.-Israel Tax Treaty

Pursuant to the Convention Between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income (referred to as the U.S.-Israel Tax Treaty), the sale, exchange or disposition of Ordinary Shares by a person who qualifies as a resident of the United States within the meaning of the U.S.-Israel Tax Treaty and who is entitled to claim the benefits afforded to such resident by the U.S.-Israel Tax Treaty (called a "Treaty U.S. Resident") will generally not be subject to Israeli capital gains tax unless (a) such Treaty U.S. Resident is an individual and was present in Israel for more than 183 days during the relevant taxable year or (b) such Treaty U.S. Resident holds, directly or indirectly, shares representing 10% or more of the voting power of a company during any part of the 12-month period preceding such sale, exchange or disposition. A sale, exchange or disposition of shares by a Treaty U.S. Resident who either is an individual and was present in Israel for more than 183 days during the relevant taxable year or who holds, directly or indirectly, shares representing 10% or more of the voting power of a company at any time during such preceding 12-month period would be subject to such Israeli tax, to the extent applicable; however, under the U.S.-Israel Tax Treaty, such Treaty U.S. Resident would be permitted to claim a credit for such taxes against the U.S. income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits.

Taxation of Non-Residents

Corporations are subject to corporate tax rates in respect of capital gains from the sale of shares in Israeli publicly traded companies. As described above in "–General Corporate Tax Structure," recent changes in the law reduced the corporate tax rate from 31% in 2006 to 29% in 2007, 27% in 2008, 26% in 2009 and 25% in 2010. Between 2006 and 2009, however, corporations whose taxable income was not determined immediately before the 2006 Tax Reform was published, pursuant to part B of the Israeli Income Tax Law (Inflationary Adjustments), 1985, or pursuant to the Income Tax Regulations (Rules on Bookkeeping by Foreign Invested Companies and Certain Partnership and Determination of their Chargeable Income), 1984, or the Dollar Regulations, will generally be taxed at a rate of 25% on their capital gains from the sale of their shares.

Non-residents of Israel, including corporations, will generally be exempt from any capital gains tax from the sale of shares so long as (i) the gains are not derived through a permanent establishment that the non-resident maintains in Israel, (ii) the shares remain listed for trading on a designated stock market and (iii) the shares were purchased after being listed on the designated stock market. These provisions dealing with capital gains are not applicable to a person whose gains from selling or otherwise disposing of the shares are deemed to be business income. However, non-Israeli corporations will not be entitled to the foregoing exemptions if an Israeli resident (i) has a controlling interest of 25% or more in such non-Israeli corporation, or (ii) is the beneficiary of or is entitled to 25% or more of the revenues or profits of such non-Israeli corporation, whether directly or indirectly. In addition, pursuant to the Convention between the Government of the United States of America and the Government of Israel with Respect to Taxes on Income, as amended, which we refer to as the United States-Israel Tax Treaty, the sale, exchange or disposition of ordinary shares by a person who qualifies as a resident of the United States within the meaning of the United States-Israel Tax Treaty and who is entitled to claim the benefits afforded to such person by the United States-Israel Tax Treaty, which we refer to as a Treaty United States Resident, generally will not be subject to the Israeli capital gains tax unless such Treaty United States Resident holds, directly or indirectly, shares representing 10% or more of our voting power during any part of the twelve-month period preceding such sale, exchange or disposition, subject to certain conditions. Under the United States-Israel Tax Treaty, such Treaty United States Resident would be permitted to claim a credit for such taxes against the U.S. federal income tax imposed with respect to such sale, exchange or disposition, subject to the limitations in U.S. laws applicable to foreign tax credits. The United States-Israel Tax Treaty does not relate to state or local taxes in the U.S.

Non-residents of Israel are subject to income tax on income accrued or derived from sources in Israel. These sources of income include passive income, including dividends, royalties and interest, as well as non-passive income from services rendered in Israel. On distribution of dividends other than bonus shares or share dividends, income tax is withheld at the rate of 20% for dividends paid to an individual or foreign corporation who is not a substantial shareholder, 25% for dividends paid to a substantial shareholder and 15% for dividends generated by an Approved Enterprise, unless in each case a different rate is provided in a treaty between Israel and shareholder's country of residence. Under the United States-Israel Tax Treaty, the maximum tax on dividends paid to a holder of ordinary shares who is a U.S. resident will be 25%. The maximum tax rate on dividends not generated by an Approved Enterprise paid to a U.S. corporation holding at least 10% of our voting power is 12.5%.

A non-resident of Israel who receives dividends from which tax was withheld is generally exempt from the duty to file returns in Israel in respect of such income, provided such income was not derived from a business conducted in Israel by the taxpayer, and the taxpayer has no other taxable sources of income in Israel.

Documents on Display

We are required to file reports and other information with the SEC under the Securities Exchange Act of 1934 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 and other provisions in Section 16 of the Exchange Act.

This annual report and the exhibits thereto, are available for inspection and copying at the public reference facilities of the Securities and Exchange Commission located a Room 1024, 450 Fifth Street, NW, Washington, D.C. 20549, and the Commission'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 Commission. Please call the Commission at 1-800-SEC-0330 for further information. The Exchange Act file number for our Securities and Exchange Commission filing is 1-8201.

The Commission 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, 2006 we had no currency exchange options. As of May 31, 2007, we had currency exchange options to sell up to 1.47 million Euro for a total amount of $1.91 million, and had written currency exchange options to sell up to 1.47 million Euro for a total amount of $2.03 million that were scheduled to expire prior to December 31, 2007. As of December 31, 2006, we had currency forward transactions to sell $2.04 for a total amount of NIS 9.17 million until March 29, 2007. As of May 31, 2007 we had no currency forward transactions.

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, 2006, we had financial assets totaling approximately $6.9 million. Fixed rate financial assets, comprised of cash, bank deposits and debt securities, totaled approximately $5.6 million. For the year 2006 we have classified all of our marketable debt securities as “available for sale securities” which exposes the consolidated statement of operations or balance sheets to fluctuations in interest rates. Variable rate financial assets totaled approximately $1.3 million. The net decrease in our earnings for the next year from our variable rate financial assets resulting from a 10% interest rate decrease would be approximately $20,000 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. As of 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 France 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 $661 thousand excluding the effect of our hedging transactions.

Our Providers – Commencing on June 1, 2000 we initiated a Euro denominated price list for all of our Providers in countries whose currency is linked to the Euro. Our revenues from these Providers 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 providers of approximately $631 thousand excluding the effect of our hedging transactions.

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 (0.1)%, 2.4%, and 1.2% in 2006, 2005 and 2004, respectively. The devaluation (revaluation) of the NIS against the U.S. dollar was (8.2)%, 6.4% and (1.6)% in 2006, 2005, and 2004, respectively. Assuming a 10% devaluation of the U.S. dollar against the NIS, and assuming a maximum deviation of 1% in inflation, we would experience exchange rate losses of approximately $1.0 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 CPI through salary increases or adjustments. This increases salary expenses in U.S. dollar terms. The devaluation / revaluation 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. **<u>Descriptions of Securities Other than Equity Securities</u>**

Not Applicable

PART II

Item 13. **<u>Defaults, Dividend Arrearages and Delinquencies</u>**

None.

Item 14. **<u>Material Modifications to the Rights of Security Holders and Use of Proceeds</u>**

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, 2006. Based on their evaluation, our principal executive and principal financial officers concluded that our disclosure controls and procedures were effective as of December 31, 2006.

(b) Not applicable.

(c) Not applicable.

(d) *Changes in Internal Control Over Financial Reporting* – There has been no change in our internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) that occurred during 2006, 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 Ofra Brown qualifies to serve as our audit committee financial expert as well as our external director with "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, Chief Financial Officer, Controller 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 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, Principal Accounting Officer, Controller or any person performing similar functions for a waiver from the requirements of the 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 Securities and Exchange Commission 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 to the Chairman of our Audit Committee; and (v) accountability for adherence to the code; 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 the persons subject thereto have to be publicly disclosed by us as, and to the extent, required by any applicable law, rule and regulations.

Item 16C. PRINCIPAL ACCOUNTANT FEES AND SERVICES

Audit and Audit-related Fees

The aggregate fees billed for professional services rendered to us by our principal accountants for the audit of our financial statements and for audit-related services in 2004, 2005 and 2006 were $55,000, $66,000 and $66,000, respectively.

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 2004, 2005 and 2006 were $37,000, $18,000 and $0, respectively. The services provided to us by our principal accountants in 2004 were mainly related to the tax assessments process performed by the Israeli income tax authorities. In addition, in 2005 we received from our principal accountants tax advice with respect to a transfer pricing study.

All Other Fees

We did not receive from our principal accountants any other products or services, other than the services disclosed above, in 2005 and 2006.

Audit Committee Approval

In December 2006, our shareholders approved the engagement of Brightman Almagor & Co., a member of Deloitte Touche Tohmatsu, as our independent auditors for the fiscal year ended December 31, 2006 and until the next annual shareholder meeting. Such approval followed the approval by our board of directors and audit committee of such engagement.

Item 16D. EXEMPTIONS FROM THE LISTING STANDARDS FOR AUDIT COMMITTEES - Not applicable

Item 16E. REPURCHASE OF EQUITY SECURITIES BY THE ISSUER AND AFFLIATED PURCHASERS - Not applicable

PART III

Item 17. **Financial Statements**

Not Applicable

Item 18. **Financial Statements**

See page F-1 through F-25.

Item 19. **Exhibits**

1.1	Amended and Restated Articles of Association.*
4.1	Services Agreement with Koonras Technologies Ltd. and DBSI Investments Ltd., as assigned to them by Zeevi Computers and Technology Ltd.**
4.2	Letter of Agreement with Microsystem Srl and all the shareholders of Microsystem Srl dated May 24, 2005, including the First Call Option Agreement, the Second Call Option Agreement, and the Put Option Agreement, and the Shareholders Agreement, all dated July 1, 2005 with Microsystem Srl and all the shareholders of Microsystem Srl.***
4.2	Registration Rights Agreement with Koonras Technologies Ltd. and DBSI Investments Ltd.
8.1	List of subsidiaries.
12.1	Certificate of Chief Executive Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a)
12.2	Certificate of Chief Financial Officer pursuant to Rule 13a-14(a)/Rule 15d-14(a)
13	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350
15.1	Consent of Independent Public Accountants.

* Incorporated by reference to our current report on Form 6-K, filed on November 22, 2006.

** Incorporated by reference to our Registration Statement on Form F-1, File No. 333-1484, as amended, filed with the Securities and Exchange Commission on February 16, 1996.

*** Incorporated by reference to our Annual Report on Form 20-F for the fiscal year ended December 31, 2005, filed June 29, 2006 (File No. 0-27974).

SIGNATURES

Pursuant to the requirements of Section 12 of the Securities Exchange Act of 1934, the registrant certifies that it meets all the requirements for filing on Form 20-F and has duly caused and authorized the undersigned to sign this annual report on its behalf in the City of Givat Shmuel, State of Israel, on this 28th day of June, 2007.

CIMATRON LTD.

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

CIMATRON LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Shareholders of
Cimatron Limited

We have audited the accompanying consolidated balance sheets of Cimatron Limited and subsidiaries (the "Company") as of December 31, 2006 and 2005 and the related consolidated statements of operations, shareholders' equity and comprehensive income (loss) and cash flows for each of the three years in the period ended December 31, 2006. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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

In our opinion, based on our audits and the reports of the other auditors, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2006 and 2005 and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2006 in conformity with U.S. generally accepted accounting principles.

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

Tel-Aviv, Israel
June 17, 2007

CIMATRON LIMITED

CONSOLIDATED BALANCE SHEETS
(in thousands, except share data)

	December 31,	
	2006	**2005**
ASSETS		
Current assets		
Cash and cash equivalents	$ 5,597	$ 2,708
Short-term investments (Note 3)	-	2,167
Trade accounts receivable, net of allowance for doubtful accounts of $1,625 and $1,694 as of December 31, 2006 and 2005 respectively (Note 4)	4,848	4,541
Other accounts receivable and prepaid expenses (Note 5)	853	774
Inventory	127	62
Total current assets	11,425	10,252
Long-term investments (Note 3)	2,035	2,195
Deposits with insurance companies and severance pay funds (Note 9)	2,653	2,219
Property and equipment (Note 6)		
Cost	5,840	5,321
Less - accumulated depreciation	4,830	4,325
Property and equipment, net	1,010	996
Other assets		
Software development costs, net (Note 7)	156	193
Goodwill, net	628	587
Total other assets	784	780
Total assets	$ 17,907	$ 16,442
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Short-term bank credit	$ 500	$ 501
Related parties	109	304
Trade payables	828	663
Other liabilities and accrued expenses (Note 8)	4,221	3,977
Deferred revenues	425	479
Total current liabilities	6,083	5,924
Long-term liabilities		
Accrued severance pay (Note 9)	3,003	2,532
Minority interests	(24)	4
Contingent liabilities and commitments (Note 10)		
Shareholders' equity		
Share capital (Note 11):		
Ordinary shares of NIS 0.10 par value (Authorized - 19,950,000 shares, issued and outstanding - 8,001,270 shares at December 31, 2006 and 2005)	264	264
Additional paid-in capital	13,521	13,417
Accumulated other comprehensive loss:		
Foreign currency translation adjustments	(515)	(478)
Unrealized loss on available for-sale securities	(209)	(202)
Unrealized gain (loss) on derivative instruments	131	(158)
Accumulated deficit	(4,188)	(4,702)
	9,004	8,141
Treasury stock, at cost; 166,100 shares at December 31, 2006 and 2005	(159)	(159)

Total shareholders' equity	8,845	7,982
Total liabilities and shareholders' equity	$ 17,907	$ 16,442

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

CIMATRON LIMITED

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

	Year ended December 31,		
	2006	2005	2004
Revenues (Note 14a):			
Products	$ 9,642	$ 8,968	$ 11,370
Services	11,817	11,957	11,793
Total	21,459	20,925	23,163
Cost of revenues (Note 14b):			
Products	2,154	3,367	2,923
Services	1,469	1,568	1,678
Total	3,623	4,935	4,601
Gross profit	17,836	15,990	18,562
Research and development expenses, net	4,426	4,815	5,554
Selling, general and administrative expenses (Note 14c)	13,362	15,650	13,962
Operating income (loss)	48	(4,475)	(954)
Financial income (expenses), net	574	(148)	445
Other income (expenses)	(5)	1	144
Income (loss) before income taxes	617	(4,622)	(365)
Income taxes (Note 12)	(27)	(2)	(23)
Income (loss) after income taxes	590	(4,624)	(388)
Company's equity in results of affiliated company	(105)	(5)	-
Minority interest in results of subsidiary	29	36	-
Net Income (loss)	$ 514	$ (4,593)	$ (388)
Net Income (loss) per share (basic and diluted)	$ 0.07	$ (0.59)	$ (0.05)
Weighted average number of shares outstanding (basic and diluted)	7,835	7,835	7,835

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

CIMATRON LIMITED

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

	Share capital	Additional paid-in capital	Accumulated other comprehensive income (loss)	Retained earnings (accumulated deficit)	Treasury stock	Comprehensive income (loss)	Total shareholders' equity
Total comprehensive loss						$ (611)	
Balance at January 1, 2004	264	13,417	(280)	279	(159)		13,521
Changes during the year ended December 31, 2004:							
Net loss				(388)		(388)	(388)
Unrealized loss on available-for-sale securities			(222)			(222)	(222)
Unrealized loss on derivative instruments			(174)			(174)	(174)
Foreign currency translation adjustment			111			111	111
Total comprehensive loss						$ (673)	
Balance at December 31, 2004	264	13,417	(565)	(109)	(159)		12,848
Changes during the year ended December 31, 2005:							
Net loss				(4,593)		(4,593)	(4,593)
Unrealized gain on available-for-sale securities			64			64	64
Unrealized loss on derivative instruments			(158)			(158)	(158)
Foreign currency translation adjustment			(179)			(179)	(179)
Total comprehensive loss						$ (4,866)	
Balance at December 31, 2005	$ 264	$ 13,417	$ (838)	$ (4,702)	$ (159)		$ 7,982
Changes during the year ended December 31, 2006:							
Net Income				514		514	514
Unrealized loss on available-for-sale securities			(7)			(7)	(7)
Unrealized gain on derivative instruments			289			289	289
Foreign currency translation adjustment			(37)			(37)	(37)
Stock option compensation		104				104	104
Total comprehensive income						$ 863	
Balance at December 31, 2006	$ 264	$ 13,521	(593)	(4,188)	$ (159)		$ 8,845

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

CIMATRON LIMITED

CONSOLIDATED STATEMENTS OF CASH FLOWS
(in thousands)

	Year ended December 31,		
	2006	2005	2004
CASH FLOWS - OPERATING ACTIVITIES			
Net Income (loss)	$ 514	$ (4,593)	$ (388)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:			
Depreciation and amortization	521	1,676	820
Increase (decrease) in accrued severance pay	464	(736)	(179)
Gain from sale of property and equipment, net	-	(13)	(71)
stock options compensation	104	-	-
Loss (gain) from sale and devaluation (revaluation) of bonds and funds	22	284	(2)
Company's equity in results of affiliated company	116	5	-
Minority interest in results of subsidiary	(28)	(36)	-
Changes in assets and liabilities:			
Decrease (increase) in accounts receivable and prepaid expenses	(266)	1,354	(416)
Decrease (increase) in inventory	6	(11)	13
Decrease (increase) in deposits with insurance companies and severance pay fund	(434)	727	99
Increase in debts to related parties	(195)	205	2
Increase (decrease) in trade payables, accrued expenses and other liabilities	434	935	(797)
Net cash provided by (used in) operating activities	1,258	(203)	(919)
CASH FLOWS - INVESTING ACTIVITIES			
Investment in bonds	-	(250)	(577)
Proceeds from sale and redemption of bonds	2,160	2,935	334
Purchase of property and equipment	(444)	(429)	(505)
Proceeds from sale of property and equipment	7	27	221
Acquisition of affiliated companies	-	(891)	-
Capitalization of software development costs	-	(193)	-
Acquisition of subsidiary, net of cash acquired (Appendix A)	(127)	40	-
Net cash provided by (used in) investing activities	1,596	1,239	(527)
CASH FLOWS - FINANCING ACTIVITIES			
Short-term bank credit	(1)	-	-
Net cash used in financing activities	(1)	-	-
Effect of exchange rate changes on cash	36	(39)	33
Net increase (decrease) in cash and cash equivalents	2,853	1,036	(1,446)
Cash and cash equivalents at beginning of year	2,708	1,711	3,124
Cash and cash equivalents at end of year	5,597	$ 2,708	$ 1,711
Supplemental information:			
Cash paid during the year for income taxes	$ 47	$ 29	$ 173

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

CIMATRON LIMITED

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

	Year ended December 31,		
	2006	2005	2004
Appendix A - Acquisition of subsidiary, net of cash acquired			
Working capital - excluding cash	59	-	-
Goodwill	41	-	-
Property and equipment	27	-	-
	$ 127	$ -	$ -
Appendix B - Non-cash transactions			
Purchase of property on credit	$ 60	$ 36	$ 38

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

NOTE 1 – GENERAL

Cimatron Limited ("the Company") designs, develops, manufactures, markets and supports a family of modular CAD/CAM software products which offer integrated design-through-manufacturing solutions for small to medium-sized companies. The Company's products have been sold to end-users in numerous industries, including automotive, aviation and aerospace, household goods, mold and die making, machinery and tools, and telecommunications. The Company markets its products through distributors and through its subsidiaries located in different countries.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES

The financial statements are prepared in conformity with U.S. generally accepted accounting principles.

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 ("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 Statement of Financial Accounting Standards ("SFAS") No. 52 "Foreign Currency Translation" ("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 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 in consolidation.

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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

E. Marketable debt securities

The Company accounts for its investments in marketable securities in accordance with SFAS No. 115, "Accounting for Certain Investments in Debt and Equity Securities"("SFAS 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.

As of December 31, 2006 and 2005 all marketable debt securities are designated as available-for-sale and accordingly are stated at fair value, with the unrealized gains and losses reported in shareholders' equity under accumulated other comprehensive income (loss). Realized gains and losses on sales of investments, as determined on a specific identification basis, are included in the consolidated statement of operations.

F. Fair value of financial instruments

The financial instruments of the Company consist mainly of cash and cash equivalents, short-term investments, current and non-current accounts receivable, accounts payable and long-term liabilities. In view of their nature, the fair value of the financial instruments included in working capital of the Company is usually identical or close to their carrying amounts.

G. Concentrations on 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 these 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 the 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.

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	6.5 - 16.5 years

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

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

K. Impairment of long-lived assets

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 assets, in accordance with SFAS No. 144 "Accounting for the Impairment or Disposal of Long-Lived Assets" ("SFAS No. 144").

L. Software development cost

The Company capitalized certain software development costs in accordance with SFAS No. 86 "Accounting for Costs of Computer Software to be Sold, Leased or Otherwise Marketed". Capitalization of software development costs begins upon the establishment of technological feasibility and continues up to the time the software is available for general release to customers, at which time capitalized software costs are amortized to product development expenses on the "straight-line" basis over the expected life of the related product which is greater than the ratio that current gross revenues for a product bear to the total of current and anticipated future gross revenues, generally five years.

Management believes that future revenues related to capitalized software development costs s will be sufficient to realize the amounts capitalized at December 31, 2006 and, as such, these amounts will be recovered over the lives of the related projects. The estimates of anticipated future revenues and remaining useful life of the Company's products are subject to risk inherent in the software industry, such as changes in technology and customer perceptions.

M. Acquisition-related intangible assets

The Company accounts for its business combinations in accordance with SFAS No. 141 "Business Combinations" ("SFAS 141") and the related acquired intangible assets and goodwill in accordance with SFAS No. 142 "Goodwill and Other Intangible Assets" ("SFAS 142"). SFAS 141 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 values 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Stock-based compensation

Effective January 1, 2006, the Company adopted the provisions of SFAS No. 123 (revised 2004), "Share-Based Payment" (SFAS No. 123(R)). SFAS No. 123 (R) 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. Prior to January 1, 2006, the Company accounted for stock-based equity awards granted using the intrinsic value method prescribed by Accounting Principles Board (APB) Opinion No. 25, "Accounting for Stock Issued to Employees" (APB No. 25), and related interpretations, and provided the required pro forma disclosures prescribed by SFAS No. 123, "Accounting for Stock-Based Compensation" (SFAS No. 123), as amended. The exercise price of options is equal to the Company share market price on the date of grant.

Under the modified prospective method of adoption for SFAS No. 123(R), the compensation cost recognized by the Company beginning in 2006 includes (a) compensation cost for all equity incentive awards granted prior to, but not yet vested as of January 1, 2006, based on the grant-date fair value estimated in accordance with the original provisions of SFAS No. 123, and (b) compensation cost for all stock-based compensations granted subsequent to January 1, 2006, based on the grant-date fair value estimated in accordance with the provisions of SFAS No. 123(R). The Company uses the straight-line attribution method to recognize stock-based compensation costs over the service period of the award.

Stock-based compensation recognized in 2006 as a result of the adoption of SFAS No. 123(R), as well as pro forma disclosures according to the original provisions of SFAS No. 123 for periods prior to the adoption of SFAS No. 123(R), use the Black-Scholes option pricing model for estimating the fair value of options granted under the Company's equity plans. The weighted average assumptions that were used in calculating such values during 2006, 2005, and 2004, were based on estimates at the date of grant as follows:

	2006	2005	2004(*)
Risk-free interest rate	5.41%	3.3%	-
Expected life of options	3.25 year	4 year	-
Expected volatility	67%	96%	-
Expected dividend yield	None	None	-

(*) No options were granted during 2004.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

N. Stock-based compensation (Cont.)

Pro forma information required under SFAS No. 123(R) for periods prior to fiscal year 2006, as if the Company had applied the fair value recognition provisions of SFAS No. 123 to options granted is as follows:

	2005	2004
Pro forma net income:		
Net income for the year, as reported	$ (4,593)	$ (388)
Deduct - stock-based compensation determined under APB-25	-	-
Add - stock-based compensation determined under SFAS 123	(77)	(70)
Pro forma net income	$ (4,670)	$ (458)
Pro forma basic earnings per share	$ (0.59)	$ 0.06
Basic earnings per share as reported	$ (0.60)	$ (0.05)
Pro forma diluted earnings per share	$ (0.60)	$ 0.06
Diluted earnings per share as reported	$ (0.59)	$ (0.05)

O. Revenue recognition

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

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 the same element is sold separately.

Service revenues include consulting services, 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.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

O. Revenue recognition (Cont.)

The Company has no significant expenditures relating to either warranties or post-contract customer support bundled with the initial sale of the software license and, therefore, other than a provision of approximately $64,000, no provision in respect of warranties or post-contract customer support is included in our financial statements.

The Company's sales are made pursuant to standard purchase orders, containing payment terms averaging between 30 – 120 days. For some customers with whom the Company has long-standing relationships and based on past experience with those customers and the same software products, the Company may grant payment terms of not over 180 days. Any payment terms that are above 90-120 days must be approved by the Company's Chief Financial Officer, prior to signing any purchase order.

The Company's arrangements do not include any refund provisions nor are payments subject to milestones. In addition, the Company's arrangements do not contain customer acceptance provisions.

P. Research and development costs

Research and development costs are expensed as incurred.

Q. Advertising costs

Advertising costs are charged to expenses, as incurred.

R. Deferred income taxes

Deferred income taxes are provided for temporary differences between the assets and liabilities, as measured in the financial statements and for tax purposes, at the tax rates expected to be in effect when these differences reverse, in accordance with SFAS No. 109 "Accounting for Income Taxes" ("SFAS No. 109").

S. Net income (loss) per ordinary share

Basic and diluted net income (loss) per share have been computed in accordance with SFAS No. 128 "Earning per Share" using the weighted average number of ordinary shares outstanding. Basic income (loss) per share excludes any dilutive effect of options and warrants. A total 12,000 incremental shares were excluded from the calculation of diluted net income (loss) per ordinary share for 2004, due to the anti-dilutive effect.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

T. Derivative financial instruments

The Company's primary objective for holding derivative financial instruments is to manage mainly currency market risks. The Company transacts business in various currencies other than the U.S. dollar, primarily the Euro and 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. It 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 SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities", 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 as part of a hedging relationship as well as on the type of hedging relationship.

The Company's accounting policies for these instruments are based on whether they meet the criteria for designation as hedging transactions, either as cash flow or fair value hedges. 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, and generally offset changes in the value of assets and liabilities.

The Company's outstanding derivative instruments as of balance sheet date 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 carrying amount of foreign currency forward contracts and foreign currency options outstanding at December 31, 2006 and 2005 is $131 and $154, respectively. As of the balance sheet dates, the fair value of these contracts approximates their carrying amount.

NOTE 2 – SIGNIFICANT ACCOUNTING POLICIES (Cont.)

U. Recently issued accounting pronouncements

FASB Interpretation No. 48, "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109" – In June 2006, the FASB issued FASB Interpretation No. 48 ("FIN-48"), "Accounting for Uncertainty in Income Taxes – an Interpretation of FASB Statement No. 109." The interpretation clarifies the accounting for uncertainty in income taxes recognized in an entity's financial statements in accordance with SFAS No. 109, "Accounting for Income Taxes." Specifically, FIN-48 prescribes a recognition threshold and a measurement attribute for the financial statement recognition and measurement of a tax position taken or expected to be taken.

The provisions of FIN-48 are effective for financial statements for fiscal years beginning after December 15, 2006. Accordingly, the Company is to adopt FIN-48 on January 1, 2007. The adoption of FIN-48 is not expected to have a material effect on the Company's financial position or results of operations.

SFAS No. 157, "Fair Value Measurements" – In September 2006, the FASB issued SFAS No. 157, "Fair Value Measurements" ("SFAS 157"), which defines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurements. SFAS 157 applies whenever other accounting standards require or permit assets or liabilities to be measured at fair value. Accordingly, it does not expand the use of fair value in any new circumstances. Fair value under SFAS 157 is defined as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Standard clarifies the principle that fair value should be based on the assumptions market participants would use when pricing an asset or liability. In support of this principle, SFAS 157 establishes a fair value hierarchy that prioritizes the information used to develop those assumptions. The fair value hierarchy gives the highest priority to quoted prices in active markets and the lowest priority to unobservable data, for example, a reporting entity's own data. Under SFAS 157, fair value measurements would be separately disclosed by level within the fair value hierarchy. SFAS 157 is effective for fiscal years beginning after November 15, 2006. Accordingly, the Company is to adopt SFAS 157 on January 1, 2007. The adoption of SFAS 157 is not expected to have a material effect on the Company's financial position or results of operations.

In February 2007, the FASB issued SFAS No. 159, "The Fair Value Option for Financial Assets and Financial Liabilities" (SFAS No. 159). SFAS No. 159 permits companies to choose to measure certain financial instruments and certain other items at fair value. The standard requires that unrealized gains and losses on items for which the fair value option has been elected be reported in earnings. SFAS No. 159 is effective for the Company beginning in the first quarter of fiscal year 2008, although earlier adoption is permitted. The company is currently evaluating the impact that SFAS No. 159 will have on its consolidated financial statements.

NOTE 3 – SHORT-TERM AND LONG-TERM INVESTMENTS

A. Short-term investments

	December 31, 2006	December 31, 2005
Comprised as follows:		
Marketable securities - Corporate bonds	$ -	$ 2,167

B. Long-term investments

	December 31, 2006	December 31, 2005
Comprised as follows:		
Marketable securities - Corporate bonds (1)	$ 1,287	$ 1,309
Investment in affiliated companies:		
Microsystem Srl (2)	748	870
Other	-	16
	748	886
	$ 2,035	$ 2,195

(1) Comprised of structured bonds, which are debt instruments whose cash flows are linked to the movement in interest rates. The structured notes were issued by financial institutions. The notes typically contain embedded option components such as caps, calls, and floors. Contractual cash flows for principal from such structured notes can vary in timing throughout the life of the structured notes. Interest income resulting from investment in structured notes is accounted for based on the guidance provided in EITF No. 96-12, "Recognition of Interest Income and Balance Sheet Classification of Structured Notes". Under this guidance the retrospective method is used for recognizing interest income.

(2) In June 2005, the Company completed the acquisition of 27.5% of the share capital of Microsystem Srl, its Italian distributor, for a consideration of $694. The Company had an option (First Call Option) to acquire up to additional 23.5% of Microsystem's share capital until June 30, 2007, for an additional consideration of approximately $600. In May 2007 the Company's board of directors approved the exercise of this option. Upon exercise of the First Call Option the Company will have a second option, at any time within a thirty days period (Second Exercise Period) starting at the expiration of twelve months from the exercise of the First Call Option to acquire up to the remaining 49% of Microsystem's share capital, for an additional consideration of approximately $1,250. In addition, once the Company exercises the First Call Option, the then remaining other shareholders of Microsystem will have an option to sell to the Company at any time during the Second Exercise Period 49% of Microsystem's share capital, for a consideration of approximately $1,250.

NOTE 3 – SHORT-TERM AND LONG-TERM INVESTMENTS (Cont.)

B. Long-term investments (Cont.)

The Company's investment consisting of:

	December 31, 2006	December 31, 2005
Cost (including related expenses)	$ 873	$ 873
Equity in earnings (losses)	(103)	(5)
Translation adjustments	(22)	2
	$ 748	$ 870

Aggregate maturities of marketable securities are as follows:

	December 31, 2006
Seven years	$ 1,046
Twelve years	241
	$ 1,287

C. As of December 31, 2006 and 2005 all the investments in marketable securities are classified in accordance with SFAS No. 115 as available-for-sale.

Unrealized loss on available-for-sale securities of $ 7 and $64 at December 31, 2006 and 2005, respectively, were recorded in other comprehensive loss.

NOTE 4 – TRADE ACCOUNTS RECEIVABLE

	December 31, 2006	December 31, 2005
Accounts receivable	$ 6,473	$ 6,235
Less - allowance for doubtful accounts	(1,625)	(1,694)
	$ 4,848	$ 4,541

NOTE 5 – OTHER ACCOUNTS RECEIVABLE AND PREPAID EXPENSES

	December 31, 2006	December 31, 2005
Prepaid expenses	203	241
Derivative instruments	131	5
Interest receivable	16	66
Other	503	462
	$ 853	$ 774

NOTE 6 – PROPERTY AND EQUIPMENT

	December 31,	
	2006	2005
Cost:		
Computers and software	$ 4,374	$ 3,940
Office furniture and equipment	964	926
Leasehold improvements	502	455
	5,840	5,321
Accumulated depreciation:		
Computers and software	3,687	3,373
Office furniture and equipment	751	660
Leasehold improvements	392	292
	4,830	4,325
Property and equipment, net	$ 1,010	$ 996

NOTE 7 – SOFTWARE DEVELOPMENT COSTS, NET

	December 31,	
	2006	2005
Capitalized software development costs	$ 193	$ 193
Accumulated amortization	(37)	-
	$ 156	$ 193

The Company released its newest version of Cimatron E (Version 7.0) ("Cimatron E7") in August 2005. Cimatron E7 was developed on the basis of advanced technology and infrastructure that replaced the infrastructure of the older versions, and includes new elements that did not exist in older versions.

During the fourth quarter of 2005 the Company evaluated its capitalized software costs and wrote off all the net balance of capitalized costs related to its older products in the amount of $803, and capitalized $193 of costs related to the development of Cimatron E7.

NOTE 8 – ACCRUED EXPENSES AND OTHER LIABILITIES

	December 31,	
	2006	2005
Employees and related liabilities	$ 1,674	$ 1,951
Derivative instruments	-	158
Accrued expenses	916	994
Accrued royalties	1,341	718
Taxes to government institutions	289	154
Others	1	2
	$ 4,221	$ 3,977

NOTE 9 – ACCRUED SEVERANCE PAY (DEPOSITS WITH INSURANCE COMPANIES AND SEVERANCE PAY FUNDS)

The Company's liability for severance pay is calculated pursuant to Israeli severance pay law based on the most recent salary of the employee multiplied by the number of years of employment as of the balance sheet date. Employees are entitled to one month's salary for each year of employment or a portion thereof.

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 10 – 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 is equal 100% of the grants payments received by the Company plus Libor interest rate (the Libor interest rate applies to grants received since January 1999). The Company's contingent liability as of December 31, 2006 is approximately $2,194 contingent upon the Company generating revenues from sales of products developed with funds provided by the Chief Scientist.

B. Regarding commitments in respect of the "Approved Enterprise", see Note 13a.

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 incremental exports, up to a maximum of 100% of the grants received.

The Company's contingent liability as of December 31, 2006 is $558, contingent upon the Company's incremental exports.

D. The Company uses technology in respect of which it is obligated to pay royalties up to an amount of $1,220, until 2009.

NOTE 10 – CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

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, 2006, 2005 and 2004, were approximately $705, $627 and $661, respectively.

The Company leases its motor vehicles under cancelable operating lease agreements for periods through 2007.

The minimum payment under these operating leases, upon cancellation of these lease agreements, amounted to $412 as of December 31, 2006.

Future minimum lease commitments under operating leases as of December 31, 2006 are as follows:

Year ended December 31,	
2007	1,256
2008	979
2009	822
2010	484
2011 and thereafter	448
	$ 3,989

F. Legal claims

In April 2004, Omega – Adem Technologies Ltd., an Israeli privately held company engaged in the development of software, filed a lawsuit against Cimatron, claiming that Cimatron caused four employees of the plaintiff located in Russia to terminate their employment with the plaintiff and join Cimatron. During a period of two years (until March 2003), the plaintiff provided certain services to Cimatron. The four employees were among several employees who provided such services to Cimatron. The plaintiff claimed, among other things, that the four employees are restricted from working for any competitor of the plaintiff for a period of three years following termination of their employment with the plaintiff. The plaintiff requested the District Court in Tel Aviv, Israel to grant an injunction and a permanent order that would prevent Cimatron from hiring the four employees. In June, 2005, the court rejected the plaintiff's request for an injunction. However, in September 2005, Omega initiated arbitration proceedings against the Company pursuant to the services agreement between the parties and submitted to an arbitrator agreed upon between the parties a statement of claim for an amount of $20,000,000 caused to Omega due to the employment of the four employees in question. In November 2005, the Company submitted a statement of defense denying all of Omega's claims and asserting, among other things, that it engaged the Employees through Manpower Russia only following the expiration of a year following the conclusion of their relationship with Omega and that it therefore was allowed to do so. As of December 31, 2006 this proceeding was at its final stages. Cimatron believes that there is no merit to the claim and has continuously vigorously opposed it, but has nevertheless accrued in the fourth quarter of 2005 a sum of $250,000 for this claim.

NOTE 10 – CONTINGENT LIABILITIES AND COMMITMENTS (Cont.)

F. Legal claims (Cont.)

On May 9, 2007, Collins & Aikman Corporation, on behalf of themselves and certain related parties filed a complaint with the United States Bankruptcy court of Michigan, Detroit, against our wholly owned subsidiary, Cimatron Technologies, Inc. On May 17, 2005 the plaintiffs filed a voluntary petition for relief under Chapter 11 of the Bankruptcy Code. The plaintiffs are demanding repayment of an amount of $318,515 plus interest and expenses on the basis of, among others, that such payment was made within ninety days preceding the petition date. The payment to the subsidiary was mainly made in consideration for software delivered to the plaintiff, and to a negligible extent, for services and maintenance provided to the plaintiff. The subsidiary has engaged local counsel and intends to vigorously oppose such claim.

NOTE 11 – SHAREHOLDERS' EQUITY

A. Share issuance

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

B. Share Option Plan

In April 1998, the Board of Directors adopted a share option plan (the "1998 Share Option Plan") pursuant to which 620,000 Ordinary Shares were reserved for issuance upon the exercise of options to be granted to Directors, officers, employees and consultants of the Company. The 1998 Share Option Plan is administrated by the Board, which designates the optionees and dates of grant. 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 option committee, 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 in the best interest of the grantee.

As of December 31, 2006, none of these options were outstanding. These options are exercisable commencing two years after the date of grant at a rate of 25% per year, subject to the continued employment of each employee. The grantee will be responsible for all personal tax consequences of the grant and the exercise thereof.

In March 2000, the board adopted new guidelines for the options to purchase Ordinary Shares reserved for issuance under the 1998 Share Option Plan upon the exercise of options to be granted to Directors, officers, employees and consultants of the Company. Such options are 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. As of December 31, 2005, options to purchase 18,750 of such shares were outstanding at a price of $4.50 per share.

In August 2003 the Company's Board of Directors 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 in the Company. These options are 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. 50,000 of such options were outstanding at December 31, 2006.

NOTE 11 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plan (Cont.)

In October 2004, the 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 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 the option is granted. The options may be exercised over a 10-year term unless determined otherwise by the Board. The grantees will be responsible for all personal tax consequences of the grant and the exercise thereof. In February 2005, 238,500 of such options were granted to employees of the Company at an exercise price of $2.20 per share, and in August 2005, the board of directors approved the grant of 32,000 of such options at an exercise price of $2.00 per share to the Company's Chief Executive Officer. 214,500 of such options were outstanding at December 31, 2005. In December 2005 our Board of Directors increased the 2004 Share Option Plan reserve by an additional 250,000 shares. The Company intends to grant additional options under the 2004 Share Option Plan to various directors, executive officers and employees of the Company. In May 2006 an additional 189,000 options were granted to Company employees under the 2004 Share Option Plan at an exercise price of $1.75-$2.00 and with a term of five years. As of December 31, 2006, 403,500 of such options were outstanding. These options are exercisable pursuant to a three (3) year vesting schedule as follows: (i) thirty three percent (33%) of the shares covered by the options become exercisable on the first anniversary of the grant date; and (ii) sixteen and one-half percent (16.5%) of the shares covered by the options become exercisable at the end of each subsequent six months period over the course of the following two (2) years, subject to the continued employment of each employee. The Company intends to grant additional options under the 2004 Share Option Plan to various of our directors, executive officers and employees.

At December 31, 2006 options to purchase 686,250 of Company shares were available for grants to Directors, officers, employees and consultants of the Company.

The grantee will be responsible for all personal tax consequences of the grant and the exercise thereof. The Company intends to grant additional options to various Directors, executive officers and employees of the Company.

A summary of the status of the Company's stock option plan as of December 31, 2006, 2005 and 2004, and changes during the years ending on those dates, is presented below:

	Year ended December 31,					
	2006		2005		2004	
	(in thousands)					
	Shares	Weighted average exercise price	Shares	Weighted average exercise price	Shares	Weighted average exercise price
Outstanding at beginning of year	375,750	$ 2.75	488,250	$ 3.04	635,000	$ 3.33
Granted	189,000	$ 1.82	270,500	$ 2.18	-	-
Cancelled	(92,500)	$ 2.69	(383,000)	$ 2.72	(146,750)	$ 4.28
Outstanding at year end	472,250	$ 2.16	375,750	$ 2.75	488,250	$ 3.04
Options exercisable at year end	158,167	$ 2.53	111,250	$ 4.06	392,417	$ 3.18
Weighted average fair value of options granted during the year	$ 0.59		$ 0.88		-	

NOTE 11 – SHAREHOLDERS' EQUITY (Cont.)

B. Share Option Plan (Cont.)

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

	Options outstanding			Option exercisable	
Range of exercise prices	Number of shares outstanding at December 31, 2006	Weighted average remaining contractual life (years)	Weighted average exercise price	Number of shares exercisable at December 31, 2006	Weighted average exercise price
$1.75 to $3.00	453,500	8.55	2.06	139,417	2.27
$4.01 to $5.00	18,750	3.3	4.5	18,750	4.5
	472,250			158,167	

NOTE 12 – INCOME TAXES

A. The Law for Encouragement of Capital Investments, 1959 (hereafter: "the law")

Since 1994, the Company's operations have "approved enterprise" status under the law. Reduced tax rates apply to the Company's income from the approved enterprise (which is determined in accordance with the increase in the Company's revenue during the first year of its having the abovementioned status as compared to the year before).

In April 2001 the Company was granted an "approved enterprise" status, subject to the following terms:

Tax exemption for 2 years, commencing in the first year the Company generates taxable income. For the remainder of the benefit period – 5 years – a reduced tax rate of 25%.

The period of tax benefits for this approved enterprise will expire in 2015 or earlier, depending on whether the Company generates taxable income from this approved enterprise.

Income derived from sources other than "approved enterprise" is taxable at the ordinary corporate tax rate of 34% in 2006 ("regular Company Tax"). The regular Company Tax rate is to be gradually reduced to 25% until 2010 (31% in 2006, 29% in 2007, 27% in 2008 and 26% in 2009).

In the event of a distribution of cash dividends to shareholders of earnings subject to the exemption, the Company will be liable to tax at a rate of 25%. 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.

The tax benefits and grants described above are subject to fulfillment of the conditions stipulated by the Law for Encouragement of Capital Investments, 1959, as amended, the regulations promulgated thereunder and the criteria set forth in the certificate of approval. The entitlement to the benefits is subject to completion and final approval by the Investment Center, such approval being subject to fulfillment of all terms of the approved program. In the event of failure by an enterprise to comply with these conditions, the tax benefits could be cancelled, in whole or in part, and the enterprise would be required to refund the amount of cancelled benefits, including interest. The completion of the Company's first, second and third approved enterprises has received final approval by the Investment Center.

NOTE 12 – INCOME TAXES (Cont.)

On April 1, 2005, a significant amendment to the Law for Encouragement of Capital Investments, 1959 (the "Investment Law") became effective. The Investment Law provides that 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 they were 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 the Approved Enterprise's income will be derived from export.

In February 2007 the Company received a letter from the investment center stating that its approved enterprise from April 2001 is about to be terminated if the Company does not submit a final performance report. The Company has decided not to pursue the completion of this investment plan, as it has not had any tax benefits from it, and it intends to apply for tax benefits pursuant the amended law as described above, if and when relevant

B. Comprised as follows:

	Year ended December 31,		
	2006	2005	2004
Income (loss) before taxes on income:			
Domestic	$ 372	$ (3,285)	$ 807
Foreign	245	(1,337)	(1,172)
	$ 617	$ (4,622)	(365)
Current taxes	$ (27)	$ (2)	$ (12)
Tax in respect of prior years	-	-	(11)
	$ (27)	$ (2)	$ (23)

NOTE 12 – INCOME TAXES (Cont.)

C. Deferred income taxes

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.

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

	December 31,	
	2006	2005
Deferred tax assets:		
Loss carryforwards	$ 6,135	$ 5,838
Other reserve and allowances	277	223
Total deferred tax assets	6,412	6,061
Valuation allowance	(6,364)	(5,995)
	$ 48	$ 66
Deferred tax liabilities:		
Software development costs	(48)	(66)
	$ -	$ -

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

NOTE 12 – INCOME TAXES (Cont.)

D. Under the Income Tax Law (Adjustments for Inflation) 1985, income for tax purposes is measured in terms of earnings in NIS, adjusted for the changes in the C.P.I. Following is a reconciliation of income taxes calculated at the statutory tax rate in Israel to the actual income tax in the financial statements:

	Year ended December 31,		
	2006	2005	2004
Net Income (loss) as reported in the consolidated statements of operations	$ 617	$ (4,622)	$ (365)
Income taxes under statutory tax rate	$ 117	$ (1,571)	$ (128)
Increase (decrease) in taxes:			
Increase in valuation allowance	369	1,439	99
Increase in taxes resulting from permanent differences and non deductible expenses	26	278	41
Tax in respect of prior year	-	-	11
Differences in taxes arising from differences between Israeli currency income and dollar income, net *	(126)	-	-
Other	(359)	(144)	-
Income taxes in the statements of operations	$ 27	$ 2	$ 23

* Resulting from the differences between the changes in the Israeli CPI (the basis for computation of taxable income of the Company and its Israeli Subsidiary) and the exchange rate of Israeli currency relative to the dollar

E. Tax assessments

The Company has been issued final tax assessments by the Israeli income tax authorities through tax year ended December 31, 2000.

Certain subsidiaries of the Company in Europe received tax assessments through the tax year ended December 31, 2004.

NOTE 13 – 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"), by which they acquired all of Ordinary Shares of the Company previously held by ZCT.

NOTE 13 – TRANSACTIONS WITH RELATED PARTIES (Cont.)

B. The following transactions with Koonras and DBSI are included in the financial statements:

	Year ended December 31,		
	2006	2005	2004
Management fees	$ 318	$ 349	$ 353

NOTE 14 – SELECTED STATEMENTS OF OPERATIONS DATA

A. Revenues

	Year ended December 31,		
	2006	2005	2004
Revenue by geographical region:			
Israel	$ 1,509	$ 1,639	$ 1,939
Europe	11,120	10,776	13,255
Far East	5,036	4,624	4,407
North America	3,631	3,715	3,409
Others	163	171	153
	$ 21,459	$ 20,925	$ 23,163
Revenue through major distributors, as a percentage of total revenues:			
Distributor (A)	10%	12%	12%
Distributor (B)	11%	10%	9%

B. Cost of revenues

	Year ended December 31,		
	2006	2005	2004
Hardware and software	$ 1,424	$ 1,442	$ 1,731
Salaries and employee benefits	970	1,051	1,120
Amortization of capitalized software development cost	39	1,204	401
Royalties to the Chief Scientist	692	721	791
Depreciation	33	24	27
Other	468	504	524
	3,626	4,946	4,594
Decrease in inventory	(3)	(11)	7
	$ 3,623	$ 4,935	$ 4,601

C. Selling, general and administrative expenses

	Year ended December 31,		
	2006	2005	2004
Marketing costs	$ 435	$ 417	$ 664
Selling expenses	10,274	11,674	10,668
General and administrative expenses	2,482	3,356	2,442
Depreciation	171	203	188
	$ 13,362	$ 15,650	$ 13,962

CIMATRON LIMITED

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

SCHEDULE

VALUATION AND QUALIFYING ACCOUNTS

	Year ended December 31,		
	2006	2005	2004
Allowance for doubtful account at beginning of year	$ 1,694	$ 1,317	$ 1,420
Provision (*)	297	497	101
Translation adjustments	6	14	5
Accounts receivable written off	(372)	(134)	(209)
Allowance for doubtful accounts at end of year	$ 1,625	$ 1,694	$ 1,317

(*) In 2006, including a balance of $183 provision for doubtful debts in a newly consolidated subsidiary, as of the acquisition date

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Exhibit 4.2

REGISTRATION RIGHTS AGREEMENT

BY AND AMONG

CIMATRON LTD.

AND

KOONRAS TECHNOLOGIES LTD.
D.B.S.I. INVESTMENTS LTD.

DATED JUNE 3, 2007

REGISTRATION RIGHTS AGREEMENT

THIS REGISTRATION RIGHTS AGREEMENT (the "**Agreement**") is entered into as of the 3rd day of June, 2007, by and among **CIMATRON LTD.**, a company incorporated under the laws of the State of Israel (the "**Company**"), **KOONRAS TECHNOLOGIES LTD**., a company incorporated under the laws of the State of Israel ("**Koonras**") and **D.B.S.I. INVESTMENTS LTD**., a company incorporated under the laws of the State of Israel ("**DBSI**").

WHEREAS, Koonras and DBSI are holders of the Company's Ordinary Shares, par value NIS 0.1 each **("Ordinary Shares**");

WHEREAS, the parties wish to set provisions governing the registration of the Company's Ordinary Shares held by the Holders, as set forth herein.

NOW, THEREFORE, the parties agree as follows:

1. DEFINITIONS.

As used in this Agreement the following terms shall have the following respective meanings:

1.1. "**Board**" means the Board of Directors of the Company.

1.2. "**Exchange Act**" means the Securities Exchange Act of 1934, as amended.

1.3. "**Form F-1**" means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC.

1.4. "**Form F-3**" means such form under the Securities Act as in effect on the date hereof or any successor or similar registration form under the Securities Act subsequently adopted by the SEC, which permits inclusion or incorporation of substantial information by reference to other documents filed by the Company with the SEC.

1.5. "**Holder(s)**" means Koonras and/or DBSI so long as they own of record of Registrable Securities or any assignee of record of such Registrable Securities in accordance with the provisions of this Agreement.

1.6. "**Prospectus**" means the prospectus included in the registration statement, as amended or supplemented by any prospectus supplement and by all other amendments thereto and all material incorporated by reference in such prospectus.

1.7. "**Register**," "**registered**," and "**registration**" refer to a registration effected by preparing and filing a registration statement in compliance with the Securities Act, and the declaration or ordering of effectiveness of such registration statement or document.

1.8. "**Registrable Securities**" means all Ordinary Shares owned of record now or in the future by the Holders, and any and all securities issued or issuable with respect thereto upon any stock split or stock dividend, or into which such Ordinary Shares have been or may be converted to or exchanged into in connection with any merger, consolidation, recapitalization or similar event, until the earliest of (i) its effective registration under the Securities Act and resale in accordance with the registration statement covering it, or (ii) or its sale to the public pursuant to Rule 144.

1.9. "**Registration Expenses**" shall mean all expenses incurred by the Company in complying with Sections 2.2, 2.3 and 2.4 hereof, including, without limitation, all registration and filing fees, printing expenses, fees and disbursements of counsel for the Company, reasonable fees and disbursements of a single special counsel for the Holders (selected by Holders of the majority of the Registrable Securities requesting such registration), blue sky fees and expenses and the expense of any special audits incident to or required by any such registration, but excluding Selling Expenses.

1.10. “**Rule 144**” means Rule 144 under the Securities Act, as such Rule may be amended from time to time.

1.11. “**SEC**” or “**Commission**” means the United States Securities and Exchange Commission.

1.12. “**SecuritiesAct**” shall mean the Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder.

1.13. “**SellingExpenses**” shall mean, with respect to each Holder, its underwriting discounts and/or commissions, placement agent or broker fees and commissions and transfer taxes, if any, in connection with the sale of securities by such Holder.

2. DEMAND REGISTRATION.

2.1. Request for Registration. Subject to the conditions of this Section 2, if the Company shall receive a written request from Holders of 70% of the Registrable Securities (the “**Initiating Holders**”) that the Company file a registration statement on Form F-1 covering the registration of Registrable Securities having an anticipated aggregate offering proceeds for the Registrable Shares to be registered, net of underwriting discounts and commissions, exceeding $1,000,000, then the Company shall, within thirty (30) days of the delivery thereof, give written notice of such request to all Holders, and subject to the limitations of this Section 2, and use its best efforts to effect, as promptly as reasonably possible, the registration under the Securities Act of the Registrable Securities that the Holders as are specified in the Initiating Holders’ request, together with the Registrable Securities of any Holder(s) joining in such request as are specified in a written request received by the Company within the above 30-day period.

2.2. Underwritten Offering.

2.2.1. If the Initiating Holders intend to distribute the Registrable Securities covered by their request by means of an underwriting, they shall so advise the Company as a part of their request made pursuant to this Section 2 or any request pursuant to Section 4 and the Company shall include such information in the written notice referred to in Section 2.1 or Section 4.1, as applicable. In such event, the right of any Holder to include its Registrable Securities in such registration shall be conditioned upon such Holder’s participation in such underwriting and the inclusion of such Holder’s Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their securities through such underwriting shall enter into an underwriting agreement in customary form with an internationally recognized underwriter(s) designated for such underwriting as the lead or managing underwriter(s) by the Initiating Holders, who shall be acceptable to the Company, its acceptance not to be unreasonably withheld.

2.2.2. Notwithstanding any other provision of this Section 2 or Section 4, if the underwriter advises the Company that marketing factors require a limitation of the number of securities to be underwritten (including Registrable Securities) then the Company shall so advise all Holders of Registrable Securities which would otherwise be underwritten pursuant hereto, and the number of shares that may be included in the underwriting shall be allocated to the Holders of such Registrable Securities so requested to be registered on a pro rata basis based on the number of Registrable Securities held by all such Holders (including the Initiating Holders); provided, however, that the number of shares of Registrable Securities to be included in such underwriting and registration shall not be reduced unless all other securities of the Company are first entirely excluded from the underwriting and registration. Any Registrable Securities excluded or withdrawn from such underwriting shall be withdrawn from the registration.

2.3. Exclusions. The Company shall not be required to effect a registration pursuant to this Section 2 (without limiting any other provisions of this Section 2 to that effect):

2.3.1. After the Company has effected two (2) registrations pursuant to this Section 2, and such registrations have been declared or ordered effective;

2.3.2. During the period starting with the date of filing of, and ending on the date one hundred eighty (180) days following the effective date of the registration statement pertaining to the Company's securities; provided that the Company makes reasonable good faith efforts to cause such registration statement to become effective;

2.3.3. If within ten (10) days of receipt of a written request from Initiating Holders pursuant to Section 2.1, the Company gives notice to the Holders of the Company's good faith intention to file a registration statement for a public offering for a sale of the Company's shares for its own account within ninety (90) days, provided that the Company actually files such registration statement within such ninety (90) days and makes reasonable good faith efforts to cause such registration statement to become effective;

2.3.4. If the Company shall furnish to Holders requesting a registration statement pursuant to this Section 2, an officer's certificate signed by order of the Board stating that in the good faith judgment of the Board, it would be seriously detrimental to the Company and its shareholders for such registration statement to be effected at such time, in which event the Company shall have the right to defer such filing for a period of not more than one hundred and twenty (120) days after receipt of the request of the Initiating Holders; provided that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period; or

3. PIGGYBACK REGISTRATIONS.

3.1. Notice of Registration. The Company shall notify all Holders of Registrable Securities in writing at least thirty (30) days prior to the filing of any registration statement under the Securities Act for purposes of a public offering of securities of the Company for cash (but other than registration relating solely to employee benefit plans on Form F-8 or similar forms that may be promulgated in the future, or a registration relating solely to a Commission Rule 145 transaction on Form F-4 or similar forms that may be promulgated in the future) and will afford each such Holder requesting to be included in such registration, in accordance with this Section 3.1, an opportunity to include in such registration statement all or part of such Registrable Securities held by such Holder. Each Holder desiring to include in any such registration statement all or any part of the Registrable Securities held by it shall, within twenty (20) days after delivery of the above-described notice by the Company, so notify the Company in writing specifying the number of Registrable Shares requested to be included. If a Holder decides not to include all of its Registrable Securities in any registration statement thereafter filed by the Company, such Holder shall nevertheless continue to have the right to include any Registrable Securities in any subsequent registration statement or registration statements as may be filed by the Company with respect to offerings of its securities, all upon the terms and conditions set forth herein.

3.2. Underwritten Offering**.**

3.2.1. If the registration statement under which the Company gives notice under this Section 3 is for an underwritten offering, the Company shall so advise the Holders of Registrable Securities as part of its notice made pursuant to Section 3.1. In such event, the right of any such Holder to be included in a registration pursuant to this Section 3 shall be conditioned upon such Holder's participation in such underwriting and the inclusion of such Holder's Registrable Securities in the underwriting to the extent provided herein. All Holders proposing to distribute their Registrable Securities through such underwriting shall enter into an underwriting agreement in customary form with the underwriter or underwriters selected for such underwriting by the Company.

3.2.2. Notwithstanding any other provision of this Agreement, if the underwriter determines in good faith that marketing factors require a limitation of the number of shares to be underwritten, the number of shares that may be included in the underwriting shall be allocated, first, to the Company; second, to the Holders pro-rata, based on the total number of Registrable Securities held by the Holders; and third, to any shareholder of the Company (other than a Holder) on a pro rata basis. Any Registrable Securities excluded or withdrawn from such underwriting shall be excluded and withdrawn from the registration.

3.3. Right to Terminate Registration. The Company shall have the right to terminate or withdraw any registration initiated by it under this Section 3 prior to the effectiveness of such registration, whether or not any Holder has elected to include securities in such registration. The Registration Expenses of such withdrawn registration shall be borne by the Company in accordance with Section 5 hereof.

4. SHELF REGISTRATION STATEMENT REGISTRATION.

4.1. Subject to the conditions of this Section 4, if the Company shall receive a written request(s) from any Holder(s) of Registrable Securities that the Company file a registration statement for an offering to be made on a delayed or continuous basis pursuant to Rule 415 of the Securities Act registering the resale from time to time by the Holders thereof of all of the relevant Registrable Securities (the "**Shelf Registration Statement**"), then the Company shall, within thirty (30) days of the delivery thereof, give written notice of such request to all Holders, which may elect to join in such request, as specified in a written request given within fifteen (15) days after delivery of the Company's written notice. The Shelf Registration Statement shall be on Form F-3 or another appropriate registration statement permitting registration of such Registrable Securities for resale by the Holders in accordance with the methods of distribution elected by them and set forth in such Shelf Registration Statement. The Company shall use its best efforts to cause the Shelf Registration Statement to be declared effective under the Securities Act within 3 months after the Holders initial request in accordance with this Section and to keep such Shelf Registration Statement continuously effective under the Securities Act until the expiration of five (5) years (the "**Registration Period**") from the date the Shelf Registration is declared effective by the SEC.

4.2. Exclusions. The Company shall not be required to effect a registration pursuant to this Section 4 (without limiting any other provisions of this Section 4 to that effect):

4.2.1. After the Company has effected four (4) registrations pursuant to this Section 4, and such registrations have been declared or ordered effective;

4.2.2. If Form F-3 is not available for such offering by the Holders, or

4.2.3. If it is requested to effect more than two (2) registrations under this Section 4 in any twelve (12) month period;

4.2.4. If within ten (10) days of receipt of a written request from any Holder or Holders pursuant to this Section 4, the Company gives notice to such Holder or Holders of the Company's good faith intention to file a registration statement for a public offering within ninety (90) days, provided that the Company actually files such registration statement within such ninety (90) days and makes reasonable good faith efforts to cause such registration statement to become effective;

4.2.5. If the Company shall furnish to the Holders requesting a registration statement pursuant to this Section 2, an officer's certificate signed by order of the Board stating that in the good faith judgment of the Board, it would be seriously detrimental to the Company and its shareholders for such Shelf Registration Statement to be effected at such time, in which event the Company shall have the right to defer the filing of the Shelf Registration Statement for a period of not more than one hundred and twenty (120) days after receipt of the request of the Holder or Holders under this Section 4; provided, that such right to delay a request shall be exercised by the Company not more than once in any twelve (12) month period, or

4.2.6. In any particular jurisdiction in which the Company would be required to qualify to do business or to execute a general consent to service of process in effecting such registration, qualification or compliance.

4.3. Suspension.

4.3.1. In addition to any suspension rights under subsection 4.3.2 below, upon the happening of any pending corporate development, public filing with the SEC or similar event, that, in the judgment of the Company's Board, renders it advisable to suspend the use of the Prospectus or upon the request by an underwriter in connection with an underwritten public offering of the Company's securities, the Company may, on not more than two (2) occasions for not more than thirty (30) days on each such occasion, suspend use of the Prospectus, on written notice to each Holder (which notice will not disclose the content of any material non-public information and will indicate the date of the beginning and end of the intended period of suspension, if known), in which case each Holder shall discontinue disposition of Registrable Securities covered by the registration statement or Prospectus until copies of a supplemented or amended Prospectus are distributed to the Holders or until the Holders are advised in writing by the Company that sales of Registrable Securities under the applicable Prospectus may be resumed and have received copies of any additional or supplemental filings that are incorporate or deemed incorporated by reference in any such Prospectus. The suspension and notice thereof described in this Section 4.3 shall be held by each Holder in strictest confidence and shall not be disclosed by such Holder.

4.3.2. Subject to subsection 4.3.3 below, in the event of: (i) any request by the SEC or any other federal or state governmental authority during the Registration Period for amendments or supplements to a registration statement or related prospectus or for additional information, (ii) the issuance by the SEC or any other federal or state governmental authority of any stop order suspending the effectiveness of a registration statement or the initiation of any proceedings for that purpose, (iii) the receipt by the Company of any notification with respect to the suspension of the qualification or exemption from qualification of any of the Registrable Securities for sale in any jurisdiction or the initiation of any proceeding for such purpose, or (iv) any event or circumstance which necessitates the making of any changes in the registration statement or Prospectus, or any document incorporated or deemed to be incorporated therein by reference, so that, in the case of the registration statement, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein not misleading, and that in the case of the Prospectus, it will not contain any untrue statement of a material fact or any omission to state a material fact required to be stated therein or necessary to make the statements therein, in the light of the circumstances under which they were made, not misleading, then the Company shall deliver a certificate in writing to the Holders (the **"Suspension Notice"**) to the effect of the foregoing (which notice will not disclose the content of any material non-public information and will indicate the date of the beginning and end of the intended period of suspension, if known), and, upon receipt of such Suspension Notice, the Holders will discontinue disposition of Registrable Securities covered by the registration statement or Prospectus (a "**Suspension**") until the Holders' receipt of copies of a supplemented or amended Prospectus prepared and filed by the Company, or until the Holders are advised in writing by the Company that the current Prospectus may be used, and have received copies of any additional or supplemental filings that are incorporated or deemed incorporated by reference in any such prospectus. In the event of any Suspension, the Company will use its commercially reasonable efforts to cause the use of the Prospectus so suspended to be resumed as soon as possible after delivery of a Suspension Notice to the Holders. The Suspension and Suspension Notice described in this Section 4.3 shall be held by each Holder in strictest confidence and shall not be disclosed by such Holder.

4.3.3. Provided that a Suspension is not then in effect, the Holders may sell Registrable Securities under the registration statement, provided that the selling Holder arranges for delivery of a current Prospectus to the transferee of such Registrable Securities to the extent such delivery is required by applicable law.

4.4. Registrations effected pursuant to this Section 4 shall not be counted as demands for registration or registrations effected pursuant to Sections 2 or 3, respectively.

5. EXPENSES OF REGISTRATION.

5.1. Except as specifically provided herein, all Registration Expenses incurred in connection with any registration, qualification or compliance pursuant to Sections 2, 3 or 4 herein shall be borne by the Company. All Selling Expenses incurred in connection with any registrations hereunder, shall be borne by the holders of the securities so registered, pro rata on the basis of the number of shares so registered.

6. OBLIGATIONS OF THE COMPANY.

6.1. Whenever required to effect the registration of any Registrable Securities, the Company shall, as expeditiously as reasonably possible:

6.1.1. Prepare and file with the SEC a registration statement with respect to such Registrable Securities and use its commercially reasonable best efforts to cause such registration statement to become effective, and, upon the request of the Holders of a majority of the Registrable Securities registered thereunder, keep such registration statement effective for up to thirty (30) days (and in the case of registration pursuant to Section 4 one hundred during the Registration Period) or, if earlier, until the Holder or Holders have completed the distribution related thereto.

6.1.2. Prepare and file with the SEC such amendments and supplements to such registration statement and the prospectus used in connection with such registration statement as may be necessary to comply with the provisions of the Securities Act with respect to the disposition of all securities covered by such registration statement for the period set forth in paragraph (a) above.

6.1.3. Furnish to the Holders such number of copies of a prospectus, including a preliminary prospectus, in conformity with the requirements of the Securities Act, and such other documents as they may reasonably request in order to facilitate the disposition of Registrable Securities owned by them.

6.1.4. Use its reasonable efforts to register and qualify the securities covered by such registration statement under such other securities or Blue Sky laws of such jurisdictions as shall be reasonably requested by the Holders; provided that the Company shall not be required in connection therewith or as a condition thereto to qualify to do business or to file a general consent to service of process in any such states or jurisdictions.

6.1.5. In the event of any underwritten public offering, enter into and perform its obligations under an underwriting agreement, in usual and customary form, with the managing underwriter(s) of such offering. Each Holder participating in such underwriting shall also enter into and perform its obligations under such an agreement.

6.1.6. Notify each Holder of Registrable Securities covered by such registration statement at any time when a prospectus relating thereto is required to be delivered under the Securities Act of the happening of any event as a result of which the prospectus included in such registration statement, as then in effect, includes an untrue statement of a material fact or omits to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing. The Company will use reasonable efforts to amend or supplement such prospectus in order to cause such prospectus not to include any untrue statement of a material fact or omit to state a material fact required to be stated therein or necessary to make the statements therein not misleading in the light of the circumstances then existing.

6.1.7. Use its reasonable efforts to furnish, on the date that such Registrable Securities are delivered to the underwriters for sale, if such securities are being sold through underwriters, (i) an opinion, dated as of such date, of the counsel representing the Company for the purposes of such registration, in form and substance as is customarily given to underwriters in an underwritten public offering, addressed to the underwriters, if any, and (ii) a letter, dated as of such date, from the independent certified public accountants of the Company, in form and substance as is customarily given by independent certified public accountants to underwriters in an underwritten public offering addressed to the underwriters.

6.1.8. Cause all such Registrable Securities registered pursuant hereunder to be listed on each securities exchange on which similar securities issued by the Company are then listed.

7. DELAY OF REGISTRATION; FURNISHING INFORMATION.

7.1. It shall be a condition precedent to the obligations of the Company to take any action pursuant to Section 2, 3 or 4 that the selling Holders shall furnish to the Company such information regarding themselves, the Registrable Securities held by them and the intended method of disposition of such securities as shall be reasonably required to effect the registration of their Registrable Securities and so requested in writing by the Company.

7.2. The Company shall have no obligation with respect to any registration requested pursuant to Section 2 if, due to the operation of subsection 2.2, the number of shares or the anticipated aggregate offering price of the Registrable Securities to be included in the registration does not equal or exceed the number of shares or the anticipated aggregate offering price required to originally trigger the Company's obligation to initiate such registration as specified in Section 2.

8. INDEMNIFICATION.

In the event any Registrable Securities are included in a registration statement under Sections 2, 3 or 4:

8.1. To the extent permitted by law, the Company will indemnify and hold harmless each Holder, its affiliates, the partners, officers, directors and shareholders of each Holder, legal counsel and accountants for each Holder, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages, or liabilities (joint or several) to which they may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereof) arise out of or are based upon any of the following statements, omissions or violations (collectively a "**Violation**") by the Company: (i) any untrue statement or alleged untrue statement of a material fact contained in such registration statement, including any preliminary prospectus or final prospectus contained therein or any amendments or supplements thereto, (ii) the omission or alleged omission to state therein a material fact required to be stated therein, or necessary to make the statements therein not misleading, or (iii) any violation or alleged violation by the Company of the Securities Act, the Exchange Act, any state securities law or any rule or regulation promulgated under the Securities Act, the Exchange Act or any state securities law in connection with the offering covered by such registration statement; and the Company will pay as incurred to each such Holder, its affiliates, partners, officers, directors, any underwriter (as defined in the Securities Act) for such Holder and each person, if any, who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, for any legal or other expenses reasonably incurred by them in connection with investigating or defending any such loss, claim, damage, liability or action; provided however, that the indemnity agreement contained in this Section 8.1 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Company, which consent shall not be unreasonably withheld, nor shall the Company be liable in any such case for any such loss, claim, damage, liability or action to the extent that it arises out of or is based upon a Violation which occurs in reliance upon and in conformity with written information furnished expressly for use in connection with such registration by such Holder, partner, officer, director, underwriter or controlling person of such Holder.

8.2. To the extent permitted by law, each Holder will, if Registrable Securities held by such Holder are included in the securities as to which such registration qualifications or compliance is being effected, indemnify and hold harmless the Company, each of its directors, its officers, directors, shareholders, legal counsel and accountants for the Company and each person, if any, who controls the Company within the meaning of the Securities Act, any underwriter and any other Holder selling securities under such registration statement or any of such other Holder's its affiliates, partners, directors, shareholders or officers, legal counsel and accountants for each Holder, any underwriter (as defined in the Securities Act) for such Holder or any person who controls such Holder or underwriter within the meaning of the Securities Act or the Exchange Act, against any losses, claims, damages or liabilities (joint or several) to which the Company or any such director, officer, controlling person, underwriter or other such Holder, or partner, director, officer or controlling person of such other Holder may become subject under the Securities Act, the Exchange Act or other federal or state law, insofar as such losses, claims, damages or liabilities (or actions in respect thereto) arise out of or are based upon any Violation, in each case to the extent (and only to the extent) that such Violation occurs in reliance upon and in conformity with written information furnished by such Holder under an instrument duly executed by such Holder and stated to be specifically for use in connection with such registration; and each such Holder will pay as incurred any legal or other expenses reasonably incurred by the Company or any such director, officer, controlling person, underwriter or other Holder, or partner, officer, director or controlling person of such other Holder in connection with investigating or defending any such loss, claim, damage, liability or action if it is judicially determined that there was such a Violation; provided, however, that the indemnity agreement contained in this Section 8.2 shall not apply to amounts paid in settlement of any such loss, claim, damage, liability or action if such settlement is effected without the consent of the Holder, which consent shall not be unreasonably withheld; provided further, that in no event shall any indemnity under this Section 8.2 exceed the net proceeds from the offering received by such Holder.

8.3. Promptly after receipt by an indemnified party under this Section 8 of notice of the commencement of any action (including any governmental action), such indemnified party will, if a claim in respect thereof is to be made against any indemnifying party under this Section 8, deliver to the indemnifying party a written notice of the commencement thereof and the indemnifying party shall have the right to participate in, and, to the extent the indemnifying party so desires, jointly with any other indemnifying party similarly noticed, to assume the defense thereof with counsel mutually satisfactory to the parties; provided, however, that an indemnified party shall have the right to retain its own counsel, with the fees and expenses to be paid by the indemnifying party, if representation of such indemnified party by the counsel retained by the indemnifying party would be inappropriate due to actual or potential differing interests between such indemnified party and any other party represented by such counsel in such proceeding. The failure to deliver written notice to the indemnifying party within a reasonable time of the commencement of any such action, shall, to the extent materially prejudicial to its ability to defend such action, relieve such indemnifying party of its liability to the indemnified party under this Section 8, but the omission so to deliver written notice to the indemnifying party will not relieve it of any liability that it may have to any indemnified party otherwise than under this Section 8.

8.4. If the indemnification provided for in this Section 8 is held by a court of competent jurisdiction to be unavailable to an indemnified party with respect to any losses, claims, damages or liabilities referred to herein, the indemnifying party, in lieu of indemnifying such indemnified party thereunder, shall to the extent permitted by applicable law contribute to the amount paid or payable by such indemnified party as a result of such loss, claim, damage or liability in such proportion as is appropriate to reflect the relative fault of the indemnifying party on the one hand and of the indemnified party on the other in connection with the Violation(s) that resulted in such loss, claim, damage or liability, as well as any other relevant equitable considerations. The relative fault of the indemnifying party and of the indemnified party shall be determined by a court of law by reference to, among other things, whether the untrue or alleged untrue statement of a material fact or the omission to state a material fact relates to information supplied by the indemnifying party or by the indemnified party and the parties' relative intent, knowledge, access to information and opportunity to correct or prevent such statement or omission; provided, that in no event shall any contribution by a Holder hereunder exceed the net proceeds from the offering received by such Holder.

8.5. The obligations of the Company and Holders under this Section 8 shall survive completion of any offering of Registrable Securities in a registration statement and the termination of this Agreement. No indemnifying party, in the defense of any such claim or litigation, shall, except with the consent of each indemnified party, consent to entry of any judgment or enter into any settlement which does not include as an unconditional term thereof the giving by the claimant or plaintiff to such Indemnified Party of a release from all liability in respect to such claim or litigation.

8.6. The indemnification provisions of this Section 8 shall not be in limitation of any other indemnification provisions included in any other agreement.

9. ASSIGNMENT OF REGISTRATION RIGHTS; TRANSFER OF REGISTRABLE SECURITIES.

9.1. The rights to cause the Company to register Registrable Securities pursuant to this Agreement may be assigned by a Holder to any transferee or assignee of all or part of the Registrable Securities held by such Holder, that acquires at least 100,000 Registrable Securities (as adjusted for stock splits, combinations and other recapitalization events); provided, however, (i) the transferor shall, within ten (10) days after such transfer, furnish to the Company written notice of the name and address of such transferee or assignee and the securities with respect to which such registration rights are being assigned, and (ii) such transferee shall agree to be subject to all provisions and restrictions set forth in this Agreement.

9.2. In the event of a sale of Registrable Securities by a Holder, such Holder must also deliver to the Company's transfer agent, with a copy to the Company, a certificate of subsequent sale reasonably satisfactory to the Company, so that ownership of the Registrable Securities may be properly transferred. The Company will cooperate to facilitate the timely preparation and delivery of certificates (unless otherwise required by applicable law) representing Registrable Securities sold.

10. AGREEMENT TO FURNISH INFORMATION.

Each Holder of Registrable Securities shall furnish to the Company such information regarding such Holder and the distribution proposed by such Holder as the Company may reasonably request in writing and as shall be reasonably required in connection with any registration, qualification or compliance referred to in this Agreement.

11. RULE 144 REPORTING.

11.1. With a view to making available to the Holders the benefits of certain rules and regulations of the SEC which may permit the sale of the Registrable Securities to the public without registration, the Company (at any time after it has become subject to such reporting requirements) agrees to use its best efforts to:

11.1.1. Make and keep public information available, as those terms are understood and defined in SEC Rule 144 or any similar or analogous rule promulgated under the Securities Act, at all times after the effective date of the first registration filed by the Company for an offering of its securities to the general public;

11.1.2. File with the SEC, in a timely manner, all reports and other documents required of the Company under the Exchange Act; and

11.1.3. So long as a Holder owns any Registrable Securities, furnish to such Holder forthwith upon request: a written statement by the Company as to its compliance with the reporting requirements of said Rule 144 of the Securities Act, and of the Exchange Act (at any time after it has become subject to such reporting requirements); a copy of the most recent annual or quarterly report of the Company; and such other reports and documents as a Holder may reasonably request in availing itself of any rule or regulation of the SEC allowing it to sell any such securities without registration.

12. MISCELLANEOUS.

12.1. Entire Agreement**.** This Agreement constitute the full and entire understanding and agreement between the parties with regard to the subject matters hereof and supersede all prior negotiations, agreements and understandings of the parties of any nature, whether oral or written, relating thereto.

12.2. Amendment of Registration Rights. Any provision of this Agreement may be amended and the observance thereof may be waived (either generally or in a particular instance and either retroactively or prospectively), with the written consent of the Company (subject to the required corporate approval) and Holders of 70% of the Registrable Securities. Any amendment or waiver effected in accordance with this Section 12.1 shall be binding upon each Holder and the Company. By acceptance of any benefits under this Agreement, Holders of Registrable Securities hereby agree to be bound by the provisions hereunder.

12.3. Governing Law; Venue. This Agreement shall be governed by and construed under the laws of the State of Israel, without regard to the conflicts of law principles of such State. The parties hereto irrevocably submit to the exclusive jurisdiction of the Courts of the district of Tel Aviv-Jaffa in respect of any dispute or matter arising out of or connected with this Agreement.

12.4. Successors and Assigns. Subject to the provisions of Section 9, the provisions hereof shall inure to the benefit of, and be binding upon, the successors, assigns, heirs, executors, and administrators of the parties hereto and shall inure to the benefit of and be enforceable by each person who shall be a holder of Registrable Securities from time to time.

12.5. Severability. In the event one or more of the provisions of this Agreement should, for any reason, be held to be invalid, illegal or unenforceable in any respect, such invalidity, illegality, or unenforceability shall not affect any other provisions of this Agreement, and this Agreement shall be construed as if such invalid, illegal or unenforceable provision had never been contained herein.

12.6. Delays or Omissions. It is agreed that no delay or omission to exercise any right, power, or remedy accruing to any Holder, upon any breach, default or noncompliance of the Company under this Agreement shall impair any such right, power, or remedy, nor shall it be construed to be a waiver of any such breach, default or noncompliance, or any acquiescence therein, or of any similar breach, default or noncompliance thereafter occurring. It is further agreed that any waiver, permit, consent, or approval of any kind or character on any Holder's part of any breach, default or noncompliance under the Agreement or any waiver on such Holder's part of any provisions or conditions of this Agreement must be in writing and shall be effective only to the extent specifically set forth in such writing. All remedies, either under this Agreement, by law, or otherwise afforded to Holders, shall be cumulative and not alternative.

12.7. Aggregation of Shares. All shares of the Company held or acquired by any Holder and any entity or person which controls, is controlled by or is under common control with such Holder (for the purpose of this Section, "*control*" shall mean the holdings directly or indirectly of a majority of the voting securities), shall be aggregated together for the purpose of determining the availability of any rights under this Agreement, the applicability of any limitation under this Agreement, or calculating such Holder's pro rata share.

12.8. Notices. All notices required or permitted hereunder shall be in writing and shall be deemed effectively given: (i) upon personal delivery to the party to be notified, (ii) when sent by confirmed electronic mail or facsimile if sent during normal business hours of the recipient; if not, then on the next business day, (iii) five (5) days after having been sent by registered or certified mail, return receipt requested, postage prepaid, or (iv) two (2) days after deposit with an internationally recognized courier, specifying two day delivery, with written verification of receipt. All communications shall be sent to the party to be notified at the address as set forth below or at such other address as such party may designate by ten (10) days advance written notice to the other parties hereto.

If to the Company:
Cimatron Ltd.
11 Gush Etzion Street
Givat Shmuel 54030, Israel
Fax: +972-3-5312097
Attn: Dan Haran, Chief Executive Officer

With a mandatory copy to:
Meitar, Liquornik, Geva & Leshem, Brandwein - Law Offices
16 Abba Hillel Road
Ramat Gan 52506, Israel
Fax: 972-3-6103111
Attn: Asaf Harel, Advocate

If to Koonras:
21 Ha'arba'a St.

Tel Aviv, Israel

If to DBSI:
85 Medinat Ha'yehudim St.

Herzlia, Israel

12.9. Counterparts. This Agreement may be executed in any number of counterparts (including by facsimile transmission), all of which together shall constitute one instrument.

– Signature page follows –

IN WITNESS WHEREOF, the parties have duly signed this Registration Rights Agreement as of the Effective Date.

THE COMPANY:

/s/ Dan Haran

CIMATRON LTD.
Name: Dan Haran
Title: CEO

THE HOLDERS:

/s/ Rimon Ben-Shaoul /s/ Ken lalo

KOONRAS TECHNOLOGIES LTD.
Name: Rimon Ben-Shaoul Ken Lalo

/s/ Yossi Ben-Shalom /s/ Barak Dotan

D.B.S.I. INVESTMENTS LTD.
Name: Yossi Ben-Shalom Barak Dotan

Filename:	exhibit_8-1.htm
Type:	EX-8.1
Comment/Description:	

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EXHIBIT 8.1

Subsidiaries

ENTITY	PLACE OF INCORPORATION
Cimatron Technologies, Inc.	United States
Cimatron Technologies Inc.	Canada
Cimatron GmbH	Germany
Cimatron Sarl	France
Cimatron UK Ltd.	United Kingdom
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

* As of July 1st, 2005 we hold 27.5% of the outstanding share capital of Microsystem, pursuant to the agreements we signed with Microsystem and its shareholders. In May 2007 our board of directors approved the exercise of our option to increase our holdings in our Italian distributor to 51%, which increase is scheduled to take effect during the first week of July 2007.

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

Filename:	exhibit_12-1.htm
Type:	EX-12.1
Comment/Description:	

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Exhibit 12.1

CERTIFICATION

I, Dan Haran, certify that:

I have reviewed this annual report on Form 20-F of Cimatron Ltd.;

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;

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;

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 15(d)-15(e)) 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) 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

(c) 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

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: June 28, 2007

By /s/ Dan Haran

Dan Haran
President and Chief Executive Officer

Filename:	exhibit_12-2.htm
Type:	EX-12.2
Comment/Description:	

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Exhibit 12.2

CERTIFICATION

I, Ilan Erez, certify that:

I have reviewed this annual report on Form 20-F of Cimatron Ltd.;

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;

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;

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 15(d)-15(e)) for the company and have:

(d) 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;

(e) 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

(f) 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

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):

(c) 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

(d) 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: June 28, 2007

By /s/ Ilan Erez

Ilan Erez
Chief Financial Officer

Filename: exhibit_13.htm
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Comment/Description:
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Exhibit 13

CERTIFICATION OF THE CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER

**CERTIFICATION PURSUANT TO
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, 2006 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 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: June 28, 2007

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

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

Filename: exhibit_15-1.htm
Type: EX-15.1
Comment/Description:
(this header is not part of the document)

EXHIBIT 15.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We hereby consent to the incorporation by reference in the registration statement of Cimatron Ltd. on Form S-8, File number 333-12458, and on Form S-8, File number 333-140809, of our report dated June 17, 2006 on the consolidated financial statements of Cimatron Ltd. included in the Annual Report on Form 20-F for the year ended December 31, 2006.

Brightman Almagor & Co.
Certified Public Accountants

A member firm of Deloitte Touche Tohmatsu

Tel Aviv, Israel
June 27, 2007