

CaesarStone Sdot-Yam Ltd.  
Form 424B4  
March 22, 2012  
**Table of Contents**

**Filed Pursuant to Rule 424(b)(4)**  
**Registration No. 333-179556**

Prospectus

***6,660,000 shares***

## ***Ordinary shares***

This is the initial public offering of ordinary shares by Caesarstone Sdot-Yam Ltd. Caesarstone is selling 6,660,000 ordinary shares. The initial public offering price is \$11.00 per share.

Our ordinary shares have been approved for listing on the Nasdaq Global Select Market under the symbol **CSTE** .

	<b>Per share</b>	<b>Total</b>
Initial public offering price	\$ 11.00	\$ 73,260,000
Underwriting discounts and commissions	\$ 0.715	\$ 4,761,900
Proceeds to Caesarstone, before expenses	\$ 10.285	\$ 68,498,100

Caesarstone has granted the underwriters an over-allotment option for a period of 30 days to purchase up to 999,000 additional ordinary shares at the initial public offering price.

**Investing in our ordinary shares involves a high degree of risk. See Risk factors beginning on page 14.**

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

The underwriters expect to deliver the ordinary shares to purchasers on March 27, 2012.

**J.P. Morgan**

**Barclays**

**Credit Suisse**

**Baird**

March 21, 2012

**Stifel Nicolaus Weisel**

**Table of Contents**

**Table of Contents**

**Table of Contents**

**Table of Contents****Table of contents**

	<b>Page</b>
<u>Prospectus summary</u>	1
<u>Risk factors</u>	14
<u>Special note regarding forward-looking statements</u>	43
<u>Functional currency and exchange rate information</u>	44
<u>Use of proceeds</u>	45
<u>Dividend policy</u>	46
<u>Capitalization</u>	47
<u>Dilution</u>	49
<u>Selected consolidated financial and other data</u>	51
<u>Management's discussion and analysis of financial condition and results of operations</u>	57
<u>Business</u>	92
<u>Management</u>	113
<u>Principal shareholders</u>	138
<u>Certain relationships and related party transactions</u>	140
<u>Description of share capital</u>	150
<u>Shares eligible for future sale</u>	157
<u>Taxation and government programs</u>	159
<u>Underwriting</u>	172
<u>Legal matters</u>	179
<u>Experts</u>	179
<u>Enforceability of civil liabilities</u>	180
<u>Where you can find additional information</u>	182
<u>Index to consolidated financial statements</u>	F-1

Neither we nor any of the underwriters have authorized anyone to provide information different from that contained in this prospectus, any amendment or supplement to this prospectus or in any free writing prospectus prepared by us or on our behalf. When you make a decision about whether to invest in our ordinary shares, you should not rely upon any information other than the information in this prospectus and any free writing prospectus prepared by us or on our behalf. Neither the delivery of this prospectus nor the sale of our ordinary shares means that information contained in this prospectus is correct after the date of this prospectus. This prospectus is not an offer to sell or solicitation of an offer to buy these ordinary shares in any circumstances under which the offer or solicitation is unlawful.

Our functional currency is the New Israeli Shekel (NIS); however, our reporting currency is the U.S. dollar. Our consolidated financial statements have been translated into U.S. dollars using the current rate method as follows: assets and liabilities are reflected using the exchange rate at the balance sheet date; revenues and expenses are reflected at the average exchange rate for the

## **Table of Contents**

relevant period; and equity accounts are reflected using the exchange rate at the relevant transaction date. All other balance sheet accounts are reflected using the exchange rate at the balance sheet date. Translation gains and losses are reported as a component of shareholders' equity. Other financial data appearing in this prospectus that are not included in our consolidated financial statements and that relate to transactions that occurred prior to December 31, 2011 are reflected using the exchange rate on the relevant transaction date. With respect to all future transactions, U.S. dollar translations of New Israeli Shekel amounts presented in this prospectus are translated at the rate of \$1.00 = NIS 3.821, the representative exchange rate published by the Bank of Israel as of December 30, 2011.

## **Market and industry data and forecasts**

This prospectus includes data, forecasts and information obtained from industry publications and surveys and other information available to us. Some data is also based on our good faith estimates, which are derived from management's knowledge of the industry and independent sources. Forecasts and other metrics included in this prospectus to describe the countertop industry are inherently uncertain and speculative in nature and actual results for any period may materially differ. We have not independently verified any of the data from third-party sources, nor have we ascertained the underlying assumptions relied upon therein. While we are not aware of any misstatements regarding the industry data presented herein, estimates and forecasts involve uncertainties and risks and are subject to change based on various factors, including those discussed under the headings "Special note regarding forward-looking statements" and "Risk factors" in this prospectus. We believe our internal research is reliable, even though such research has not been verified by any independent sources. Unless otherwise noted in this prospectus, Freedonia Custom Research, Inc. ("Freedonia") is the source for third-party industry data and forecasts. The Freedonia Report, dated June 29, 2011, that we commissioned for this offering, represents data, research opinion or viewpoints developed on our behalf and does not constitute a specific guide to action. In preparing the Freedonia Report, Freedonia used various sources, including publicly available third-party financial statements; government statistical reports; press releases; industry magazines; and interviews with manufacturers of related products (including us), manufacturers of competitive products, distributors of related products, and government and trade associations. The Freedonia Report speaks as of its final publication date and not as of the date of this prospectus, and the opinions and forecasts expressed in the Freedonia Report are subject to change by Freedonia without notice. We have inquired of Freedonia, and been informed by Freedonia that as of the date of this prospectus, there has been no change in the Freedonia Report.

**Table of Contents**

## **Prospectus summary**

*This summary highlights selected information contained elsewhere in this prospectus. This summary does not contain all the information that you should consider before deciding to invest in our ordinary shares. You should read the entire prospectus carefully, including Risk factors and our consolidated financial statements and notes to those consolidated financial statements, before making an investment decision.*

### **Caesarstone overview**

We are a leading manufacturer of high quality engineered quartz surfaces sold under our premium Caesarstone brand. Although the use of quartz is relatively new, it is the fastest growing material in the countertop industry and continues to take market share from other materials, such as granite, manufactured solid surfaces and laminate. Between 1999 and 2010, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 16.4% compared to a 4.4% compound annual growth rate in total global countertop sales to end-consumers during the same period. We believe that our strong brand awareness, leading market position, broad and innovative product offering and comprehensive market support provide us with substantial competitive advantages.

Founded in 1987, Caesarstone is a pioneer in the engineered quartz surfaces industry. Our products consist of engineered quartz slabs that are currently sold in 42 countries through a combination of direct sales in certain markets and indirectly through a network of independent distributors in other markets. In 2011, we acquired our former U.S. distributor and now generate the substantial majority of our revenues in the United States from direct distribution of our products. Our products are primarily used as kitchen countertops in the renovation and remodeling end markets. Other applications include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces that are used in a variety of residential and non-residential applications. Our products' hardness, as well as their non-porous characteristics, offer superior scratch, stain and heat resistance, making them extremely durable and ideal for kitchen and other applications relative to competing products such as granite, manufactured solid surfaces and laminate. Through our innovative design and manufacturing processes we are able to offer a wide variety of colors, styles, designs and textures.

From 2005 to 2007, our revenue grew at a compound annual growth rate of 37.9%, and during the more challenging global economic environment from 2007 to 2011, at a compound annual growth rate of 18.7%. In 2011, we generated revenue of \$259.7 million, net income attributable to controlling interest of \$29.1 million, adjusted EBITDA of \$58.8 million and adjusted net income of \$34.8 million. See Summary consolidated financial and other data for a description of how we define adjusted EBITDA and adjusted net income and reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income. In 2011, our three largest markets, Australia, the United States and Israel, accounted for 34.0%, 23.0% and 14.9% of our total revenue, respectively.

## Table of Contents

### **Industry overview**

The global countertop industry generated \$68.0 billion in sales to end-consumers in 2010 based on average installed price, which includes installation and other related costs. Sales to end-consumers include sales to the end-consumers of countertops as opposed to sales at the wholesale level from manufacturers to fabricators and/or distributors. The largest countertop markets by sales are Asia Pacific, Western Europe and North America, each with sales to end-consumers of between \$16.2 billion and \$17.6 billion in 2010. Laminate accounted for the largest portion of global countertop sales by volume in 2010, followed by manufactured solid surfaces and granite. Countertops have both residential and non-residential applications. We believe they are primarily installed in residential kitchens and bathrooms in new construction and home renovation and remodeling projects. In 2010, the majority of countertops were used in residential applications.

The strength, durability and appearance of engineered quartz, as well as the low maintenance it requires, make it ideal for kitchen and bathroom applications, as well as for other applications such as floors, sinks, stairs and walls. In July 2011, quartz received the highest overall score among countertop materials from Consumer Reports Magazine, a leading provider of third-party consumer product reviews, based on performance in several tests, including resistance to staining, heat, cutting and abrasions, as well as price. Between 1999 and 2010, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 16.4%. In comparison, global countertop sales to end-consumers grew at a compound annual growth rate of 4.4% during the same period. As of 2010, engineered quartz had penetrated only 4.3% of the global countertop market by volume and is in the early stages of penetration in most markets compared to other countertop materials, such as granite, manufactured solid surfaces and laminate. Engineered quartz penetration of the global countertop market by sales increased from 2% in 1999 to 7% in 2010. We believe that growth in the engineered quartz surfaces market is being driven by increasing awareness of the material's superior quality and characteristics.

Current penetration of engineered quartz surfaces by geographic region varies considerably. For example, in the United States, which accounted for 20% of global countertop sales to end-consumers in 2010, engineered quartz surfaces have penetrated approximately 5% of the countertop market by volume. In certain markets, including Australia and Israel, engineered quartz surfaces have already significantly penetrated the market and represented 32% and 82% of the total countertop market by volume in these countries in 2010, respectively. These levels highlight the penetration opportunity available to engineered quartz.

The engineered quartz surface manufacturing industry is highly fragmented. Engineered quartz surface manufacturers usually sell quartz slabs to a network of distributors that resell primarily to fabricators. Typically, fabricators are hired by contractors, developers and end-consumers to install the slabs at a project site. The engineered quartz surfaces manufacturing industry is characterized by limited vertical integration with few manufacturers controlling their own distribution or pursuing a global brand strategy.

Demand for countertops is primarily driven by the renovation and remodeling of existing homes and the construction of new homes, which are affected by changes in national and local economic conditions, demographics and unemployment levels. Despite the recent economic downturn, we believe that the home building and renovation and remodeling market will



## **Table of Contents**

recover and drive long-term demand for countertops. We also believe that rising incomes in developing areas such as China and Latin America will contribute to growing long-term demand for countertops.

## **Competitive strengths**

Our competitive strengths include:

*Global market leader in the high growth engineered quartz surfaces market.* In 1987, we introduced the first engineered quartz surface to the countertop marketplace. We have grown to become the largest provider of engineered quartz surfaces for countertops in Australia, Canada, Israel, France and South Africa, and have significant market share in the United States and Singapore. Our products accounted for approximately 13% of global engineered quartz sales by volume in 2010. As a leading global manufacturer, we believe that we are well positioned to benefit from attractive growth and substantial penetration opportunities in the engineered quartz countertop segment.

*Premium global brand with superior product characteristics.* We have invested considerable resources to position Caesarstone as a premium brand and our products as the ultimate surface within the global countertop market. We developed our premium brand through our product's innovative designs, aesthetics, quality and strength. By regularly offering new designs and frequently being the first to introduce them to the marketplace, we have fostered our brand image as a leading design innovator in the global engineered quartz surfaces industry. The installation of a Caesarstone surface is often viewed as a statement about the quality of an entire kitchen or home, thereby adding value beyond the Caesarstone surface itself.

*Proven ability to enter, develop and lead markets.* We have a proven track-record of achieving leading positions in our key markets, Australia, the United States, Israel and Canada, and entering new markets. We have accelerated the penetration and growth of Caesarstone products by specifically targeting markets with an existing demand for stone products with stone installation capabilities. We are implementing our business model in key growth markets, including the United States and Canada. We have a successful track record of penetrating our markets. For example, when we entered the Australian market in 1998 engineered quartz surfaces represented a de minimis share of the overall countertop market. We have helped increase engineered quartz surfaces to approximately 32% of the Australian countertop market by volume and achieved a 59% share by volume of the Australian engineered quartz market in 2010.

*Strong global distribution platform.* We have developed a strong global distribution platform in 42 countries worldwide. Our sales strategy is tailored to the dynamics of each market in which we operate. In select markets, we have pursued a third-party distribution strategy to accelerate our entry into, and penetration of, multiple markets more rapidly. As a result of our investments in our distribution platform and our success in penetrating markets, we have a significant number of product displays globally, including displays at over 8,000 locations in the United States. We believe that our market infrastructure and significant experience are difficult for competitors to replicate.

## **Table of Contents**

*Superior manufacturing capabilities.* With 25 years of manufacturing experience, we have established our position as a leading manufacturer recognized for quality, innovation and design. We have customized our manufacturing processes in order to maximize the consistency, durability, flexibility and crack resistance of our products, while increasing the efficiency of our production lines. Together with our research and development capabilities, our manufacturing expertise has enabled us to develop a number of aesthetically distinct product collections.

*Attractive financial profile.* We have enjoyed strong growth metrics, margins and free cash flow as a result of our proven business model, the success of our Caesarstone branded products, attractive market dynamics for quartz surfaces, our diverse geographic presence and our efficient manufacturing facilities. Despite the challenging global economic conditions, our revenues grew at a compound annual growth rate of 18.7% from 2007 to 2011. According to Freedonia, the global countertop market remained flat from 2007 to 2010. From 2007 to 2011, our gross profit margins grew from 27.4% to 40.2%, adjusted EBITDA margins grew from 18.4% to 22.6% and adjusted net income margins grew from 9.2% to 13.4%. We attribute this sales and margin growth to the acquisition of the business of our former Australian and U.S. distributors, and our transition to direct distribution in Canada, our penetration of new markets, increasing operational efficiencies and a change in our product mix. While our margins are subject to short-term pressure due to recent raw material price increases, we believe we have an attractive long-term financial profile.

*Experienced management team.* Our senior management has extensive experience in manufacturing and global product branding and has an average of 18 years of executive management experience. In addition to substantial operational, marketing and research and development experience, many of our senior executives, including our Chief Executive Officer, Yosef Shiran, have significant experience leading public companies with a global presence.

## **Our strategy**

We intend to pursue the following strategies in order to enhance our product brand and market share, build economies of scale in our business, and grow our revenues and net income:

*Expand awareness of our premium brand.* We intend to continue to strengthen our brand primarily through continued investment in product innovation supported by strong research and development initiatives, marketing activities and the establishment of long-term relationships with distribution partners around the world. Since 2003, we have launched multiple new product collections, including Concetto, Motivo and Supremo, in order to further enhance the profile of our brand and expand our product line within the high end consumer segment. We intend to continue developing engineered quartz surfaces with new and innovative characteristics related to color, design, texture and thickness as well as promoting other applications for our products, such as high-end flooring and bathroom wall cladding.

*Focus on key markets.* We believe that a significant portion of our future growth will come from continued penetration in our key growth markets, particularly the United States and Canada, which together accounted for 34.4% of our total sales in 2011 and which we have prioritized as key growth markets. We are considering expanding our direct distribution coverage to the remaining regions of the United States. We also intend to continue focusing on Australia, our largest market, which accounted for 34.0% of our total sales in 2011. In 2010,

## **Table of Contents**

engineered quartz countertops represented 32%, 9% and 5% of the overall countertop market by volume in Australia, Canada and the United States, respectively. We believe that we are a leader in these markets with approximately 59%, 29% and 14% market share based on volume in 2010, respectively. We believe the penetration rates of engineered quartz in these key growth markets and our market share in the United States and Canada can reach considerably higher levels in the future.

*Expand our global presence.* We currently distribute our products in 42 countries worldwide. In addition to our key existing markets of Australia, the United States, Israel and Canada we plan to continue to further penetrate existing markets where we have already developed a presence. We have also identified new markets for future growth that meet our criteria, which may include an existing demand for stone products supported by stone installation capabilities, strong economic growth rates and a high gross domestic product per capita. We intend to continue to invest in educating end-consumers on the benefits of engineered quartz surfaces and strengthening the Caesarstone brand to support our growth.

*Pursue selective acquisitions.* Given the highly fragmented nature of the global engineered quartz surfaces market, we intend to continue to evaluate strategic acquisitions. For example, we may seek to acquire manufacturers, raw material suppliers or third-party distributors. As demonstrated by the acquisition of the business of our former Australian distributor in 2008, the business combination with our Eastern Canada distributor in 2010, the acquisition of the business of our former Western Canada distributor, the acquisition of the remaining 75% equity interest in our U.S. distributor and the acquisition of the business of our former Singaporean distributor in 2011, there may be an advantage to us obtaining control over the distribution of our products in existing markets. Acquiring a distributor gives us a higher degree of control over sales operations, which may enable us to accelerate penetration of our products and increase our growth and margin profile. These acquisitions could also extend our existing sales channels, help us accelerate our global expansion, increase our market share or give us access to new products or technologies as a platform for growth.

## **Risk factors**

Investing in our ordinary shares involves risks. You should carefully consider the risks described in **Risk factors** before making a decision to invest in our ordinary shares. If any of these risks actually occurs, our business, financial condition or results of operations would likely be materially adversely affected. In such case, the trading price of our ordinary shares would likely decline, and you may lose all or part of your investment. The following is a summary of some of the principal risks we face:

Downturns in the home renovation and remodeling and new residential construction sectors or the economy generally and a lack of availability of consumer credit could adversely impact end-consumers and lower demand for our products, which in turn could cause our revenues and net income to decrease.

Our revenues are subject to significant geographic concentration and any disruption to sales within one of our key existing markets could materially and adversely impact our results of operations and prospects.

## **Table of Contents**

We face intense competition and competitive pressures, which could adversely affect our results of operations and financial condition.

Changes in the prices of our raw materials, particularly polyester and other polymer resins and pigments, have increased our costs and decreased our margins and net income in the past and may do so again in the future.

We have experienced quarterly fluctuations in revenues and net income as a result of seasonal factors and building construction cycles which are hard to predict with certainty. We expect that such quarterly fluctuations will increase in the future as we shift to selling through direct channels, which may increase the volatility of our share price and cause declines in our share price.

Silicosis claims and other legal proceedings could have a material adverse effect on our business, operating results and financial condition.

Our results of operations may be adversely affected by fluctuations in currency exchange rates and we may not have adequately hedged against them.

We may encounter delays in manufacturing if we are required to change the suppliers for the quartz used in the production of our products.

## **Our principal shareholders**

Kibbutz Sdot-Yam is a communal society located in Israel that was established in 1940 and founded our company in 1987. Kibbutz Sdot-Yam beneficially owns 70.1% of our outstanding shares. Affiliates of Tene Investment Funds, an Israeli private equity firm ( Tene ), invested in our company in 2006 and beneficially own 29.9% of our outstanding shares.

Following the completion of this offering, Kibbutz Sdot-Yam will beneficially own approximately 56.1% of our outstanding ordinary shares, or 54.5% if the underwriters exercise their over-allotment option in full, and Tene will beneficially own approximately 24.0% of our outstanding ordinary shares, or 23.3% if the underwriters exercise their over-allotment option in full.

## **Corporate information**

Our principal executive offices are located at Kibbutz Sdot-Yam, MP Menashe, Israel and our telephone number is +972 (4) 636-4555. Our website address is [www.caesarstone.com](http://www.caesarstone.com). The information contained therein or connected thereto shall not be deemed to be incorporated into this prospectus or the registration statement of which it forms a part.

Throughout this prospectus, we refer to various trademarks, service marks and trade names that we use in our business. Caesarstone® is one of our registered trademarks. Supremo is one of our trademarks. We also have several other registered trademarks, service marks and pending applications relating to our products. Other trademarks and service marks appearing in this prospectus are the property of their respective holders.

In this prospectus, the terms Caesarstone, we, us, our and the company refer to Caesarstone Sdot-Yam Ltd. and its consolidated subsidiaries.

Table of Contents

## The offering

**Ordinary shares offered by us** 6,660,000 shares

**Ordinary shares to be outstanding after this offering** 33,366,250 shares

**Use of proceeds**

We estimate that we will receive net proceeds, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, of approximately \$65.4 million from the sale by us of ordinary shares in this offering.

We intend to use \$25.6 million of the net proceeds of this offering to pay a special dividend to our existing shareholders immediately following the closing of this offering. See Dividend policy.

We intend to use \$6.5 million of the net proceeds of this offering to pay the balance of the acquisition price for the remaining 75% equity interest in our U.S. distributor, Caesarstone USA, in which we acquired a 25% interest in January 2007. We acquired the remaining interest in May 2011 and the balance of the purchase price is payable following the closing of this offering.

We may use a portion of the net proceeds to expand our production capacity during the next one to two years. We estimate that an additional production line would require an investment of approximately \$30 million. We may choose to expand our production capacity by several means, including an acquisition, and the funds required may be greater or less.

We intend to use the balance of the net proceeds of this offering for working capital and other general corporate purposes. We may also use all or a portion of the remaining net proceeds to acquire or invest in complementary companies, products or technologies. We are not currently a party to, or involved with, discussions regarding any other material acquisition that is probable, although we routinely engage in discussions with distributors and suppliers regarding potential acquisitions.

**Table of Contents**

**Dividend policy**

We do not intend to declare or pay any cash dividends on our ordinary shares until at least one year following this offering. After that time, payments of dividends may be made from time to time, based on the recommendation of our board of directors, after taking into account legal limitations and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant.

In addition to the special dividend described above, we also intend to pay to our preferred shareholders an additional dividend of \$0.8 million prior to the closing of this offering. Investors in this offering will not receive any portion of the foregoing dividends to our existing shareholders.

See Dividend policy.

**Risk factors**

See Risk factors and other information included in this prospectus for a discussion of factors you should carefully consider before deciding to invest in our ordinary shares.

**Nasdaq Global Select Market  
symbol**

CSTE

The number of ordinary shares to be outstanding after this offering excludes 2,375,000 ordinary shares reserved for issuance under our equity incentive plan. This amount includes options to purchase 1,461,442 of our ordinary shares that we granted to our key employees, including our executive officers, immediately following the pricing of this offering with an exercise price equal to the initial public offering price. If we issue additional shares pursuant to the underwriters' exercise of their over-allotment option, we will further adjust the amount so that it represents 4.38% of our ordinary shares outstanding following the exercise of the over-allotment option.

Unless otherwise indicated, this prospectus:

reflects the conversion of all outstanding preferred shares into 7,141,250 ordinary shares, which will occur automatically immediately prior to the closing of this offering;

assumes no exercise of the underwriters' option to purchase up to an additional 999,000 ordinary shares from us to cover over-allotments; and

gives effect to a share dividend of nine ordinary shares for every one outstanding ordinary share and preferred share distributed on February 27, 2012, immediately followed by a one-for-25 share split of our ordinary shares and preferred shares (with an overall effect of a one-for-250 share split and resulting par value per ordinary and preferred share of NIS 0.04).

Table of Contents

## **Summary consolidated financial and other data**

The following tables set forth our summary consolidated financial and other data. You should read the following summary consolidated financial and other data in conjunction with Selected consolidated financial and other data, Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes included elsewhere in this prospectus. Historical results are not indicative of the results to be expected in the future.

The summary consolidated statements of income data for each of the years in the three-year period ended December 31, 2011 and the consolidated balance sheet data as of December 31, 2011 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus.

Our functional currency is the New Israeli Shekel (NIS); however, our reporting currency is the U.S. dollar. As a result, our financial statements have been translated into U.S. dollars using the current rate method. Under the current rate method, assets and liabilities are translated using the exchange rate at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the fiscal year or other applicable period. Equity accounts are translated using the historical exchange rate at the relevant transaction date. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Gains and losses resulting from the translation of financial statements are reported as a component of shareholders' equity.

**Table of Contents**

(in thousands, except dividends declared and per share data)	2009	Year Ended December 31,	
		2010	2011
<b>Consolidated Income Statement Data:</b>			
Revenues	\$ 162,634	\$ 198,791	\$ 259,671
Cost of revenues	108,853	120,503	155,377
Gross profit	53,781	78,288	104,294
Operating expenses:			
Research and development, net(1)	1,964	2,273	2,487
Marketing and selling	12,960	16,048	34,043
General and administrative	18,729	20,896	30,018
Total operating expenses	33,653	39,217	66,548
Operating income	20,128	39,071	37,746
Finance expenses, net	8,693	2,370	4,775
Income before taxes on income	11,435	36,701	32,971
Taxes on income	3,752	7,399	3,600
Income after taxes on income	7,683	29,302	29,371
Equity in losses of affiliate(2)	293	296	67
Net income	\$ 7,390	\$ 29,006	\$ 29,304
Net income attributable to non-controlling interest		348	252
Net income attributable to controlling interest	7,390	28,658	29,052
Dividend attributable to preferred shareholders	\$ (2,337)	\$ (8,312)	\$ (8,376)
Net income attributable to the Company's ordinary shareholders	\$ 5,053	\$ 20,346	\$ 20,676
Basic and diluted net income per ordinary share	\$ 0.26	\$ 1.04	\$ 1.06
Weighted average number of shares used in computing basic and diluted income per ordinary share	19,565	19,565	19,565
Dividends declared per share:			
Shekels	NIS 1.42	NIS 2.32	NIS 0.50
Dollars	\$ 0.38	\$ 0.65	\$ 0.14

(in thousands)	Actual	As of December 31, 2011	
		Pro Forma(3)	Pro Forma As Adjusted(4)
<b>Consolidated Balance Sheet Data:</b>			
Cash and cash equivalents	\$ 11,950	\$	\$ 42,531
Working capital(5)	28,592	2,192	66,006
Total assets	246,317	234,367	275,552
Total debt	23,632	38,082	23,632
Total liabilities	103,661	118,111	95,482



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Redeemable non-controlling interest	6,205	6,205	6,205
Shareholders' equity	136,451	110,051	173,865

**Table of Contents**

(in thousands)	2009	Year Ended December 31,	
		2010	2011
<b>Consolidated Cash Flow Data:</b>			
Net cash provided by operating activities	\$ 42,066	\$ 46,649	\$ 28,224
Net cash provided by (used in) investing activities	635	(5,920)	(27,367)
Net cash used in financing activities	(26,970)	(20,969)	(31,833)
<b>Other Financial Data:</b>			
Adjusted EBITDA(6)	\$ 34,397	\$ 50,489	\$ 58,774
Adjusted net income(6)	16,013	29,763	34,765
Capital expenditures	4,765	5,486	8,785
Depreciation and amortization	9,497	10,034	14,615

- (1) Research and development expenses are presented net of grants that we receive from the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel.
- (2) Reflects our proportionate share of the net loss of our U.S. distributor, Caesarstone USA, in which we acquired a 25% equity interest on January 29, 2007. We accounted for our investment using the equity method. In 2011, the amount represents a loss through May 18, 2011, the date on which we acquired the remaining 75% equity interest in Caesarstone USA and began to consolidate its results of operations.
- (3) Pro forma gives effect to the payment of a special dividend to our existing shareholders of \$25.6 million immediately following the closing of this offering and an additional dividend to our preferred shareholders of \$0.8 million that we intend to pay prior to the closing of this offering.
- (4) Pro forma as adjusted additionally gives effect to (i) our receipt of the net proceeds from the sale by us of 6,660,000 ordinary shares in this offering, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and the application of such proceeds as described in Use of proceeds, (ii) the payment of \$1.3 million to our Chief Executive Officer in connection with the automatic exercise upon the closing of this offering of his right to receive payment with respect to the increase in value of 175,000 of our shares granted to him in January 2009 based on the increase in value of our company at the date of this offering (see Management's discussion and analysis of financial condition and results of operations Equity incentive plan Grant of stock options to chief executive officer ) and (iii) the payment of \$1.7 million to certain of our employees and \$0.25 million to our Chairman for their contribution to our success. Pro forma as adjusted does not reflect the receipt of \$11.4 million from Kibbutz Sdot-Yam in connection with the anticipated sale and leaseback of our facilities in the Bar-Lev Industrial Park, which we expect to occur following the closing of this offering subject to receipt of approvals from certain Israeli governmental authorities (see Certain relationships and related party transactions Relationship and agreements with Kibbutz Sdot-Yam Land purchase agreement and leaseback ). The adjustments to our as adjusted cash and cash equivalents are calculated as follows (in thousands):

<b>Net Proceeds:</b>	
Gross company proceeds	\$ 73,260
Less underwriting discounts and commissions	4,762
Less estimated offering expenses(a)	1,754
	\$ 66,744
<b>Use of Proceeds:</b>	
Less dividend to existing shareholders	\$ 26,400
Less payment to Caesarstone USA for the remaining balance of the acquisition price(b)	6,500
	\$ 33,844
<b>Additional Reductions in Cash and Cash Equivalents:</b>	
Less payment to the Chief Executive Officer in connection with the increase in value of 175,000 of the Company's shares granted to him in January 2009(c)	\$ 1,313
Less payment of bonus to our employees and our former Chairman	1,950

- (a) While offering expenses are estimated to total \$3,100, \$1,346 of such expenses were pre-paid through December 31 2011.
  - (b) \$6,242 of the payment to Caesarstone USA for the remaining balance of the acquisition price was accrued in our accounts payable balance as of December 31, 2011.
  - (c) \$1,937 of the payment to our Chief Executive Officer was accrued in our accounts payable balance as of December 31, 2011.
- (5) Working capital is defined as total current assets minus total current liabilities.

**Table of Contents**

- (6) The following tables reconcile net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income for the periods presented and are unaudited:

(in thousands)	Year Ended December 31,		
	2009	2010	2011
<b>Reconciliation of Net Income to Adjusted EBITDA:</b>			
Net income	\$ 7,390	\$ 29,006	\$ 29,304
Finance expenses, net	8,693	2,370	4,775
Taxes on income	3,752	7,399	3,600
Depreciation and amortization	9,497	10,034	14,615
Equity in losses of affiliate, net(a).	293	296	67
Excess cost of acquired inventory(b) .			4,021
Litigation gain(c).			(1,783)
Microgil loan and inventory write down(d) .			2,916
Share-based compensation expense(e).	4,772	1,384	1,259
Adjusted EBITDA	\$ 34,397	\$ 50,489	\$ 58,774

- (a) Consists of our portion of the results of operations of Caesarstone USA prior to its acquisition by us in May 2011.
- (b) Consists of the difference between the higher carrying cost of Caesarstone USA's inventory at the time of acquisition and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory was sold in 2011.
- (c) Consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited.
- (d) Relates to our writing down to zero the cost of inventory provided to Microgil Agricultural Cooperative Society Ltd. ( Microgil ), our former third-party quartz processor in Israel, in 2011 in the amount of \$1.8 million and our writing down to zero our \$1.1 million loan to Microgil, in each case, in connection with a dispute. See Business Legal proceedings.
- (e) Share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer, as well as changes in the value of share-based rights granted in March 2008 to the former chief executive officer of Caesarstone Australia Pty Limited.

(in thousands)	Year Ended December 31,		
	2009	2010	2011
<b>Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income:</b>			
Net income attributable to controlling interest	\$ 7,390	\$ 28,658	\$ 29,052
Tene option revaluation(a) .	8,062		
Excess cost of acquired inventory(b) .			4,021
Litigation gain(c).			(1,783)
Microgil loan and inventory write down(d) .			2,916
Share-based compensation expense(e).	4,772	1,384	1,259
Total adjustments before tax	12,834	1,384	6,413
Less tax on above adjustments(f)	4,211	279	700

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Total adjustments after tax	8,623	1,105	5,713
Adjusted net income	\$ 16,013	\$ 29,763	\$ 34,765

- (a) Represents the change in the fair value of an option to purchase preferred shares representing 5% of our share capital that we granted to Tene in December 2006. See Management's discussion and analysis of financial condition and results of operations Application of critical accounting policies and estimates Fair value measurements.

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**Table of Contents**

- (b) Consists of the difference between the higher carrying cost of Caesarstone USA's inventory at the time of acquisition and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory was sold in 2011.
- (c) Consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited.
- (d) Relates to our writing down to zero the cost of inventory provided to Microgil, our former third-party quartz processor in Israel, in 2011 in the amount of \$1.8 million and our writing down to zero our \$1.1 million loan to Microgil, in each case, in connection with a dispute. See Business Legal proceedings.
- (e) Share-based compensation consists primarily of changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer, as well as changes in the value of share-based rights granted in March 2008 to the former chief executive officer of Caesarstone Australia Pty Limited.
- (f) Tax adjustments reflect the increase in taxes on income that would have been reflected in our consolidated income statement for the applicable period if the adjustments set forth in the table were not applied in computing net income. The tax effect is based on effective tax rate for each relevant year.

Adjusted EBITDA and adjusted net income are metrics used by management to measure operating performance. Adjusted EBITDA represents net income excluding finance expenses, net, taxes on income, depreciation and amortization, equity in losses of affiliate, net, share-based compensation expenses and other unusual income or expenses. Adjusted net income represents net income attributable to controlling interest excluding share-based compensation expenses and other unusual income or expenses, plus adjustment for the related tax impact. We present adjusted EBITDA as a supplemental performance measure because we believe it facilitates operating performance comparisons from period to period and company to company by backing out potential differences caused by variations in capital structures (affecting interest expenses, net), changes in foreign exchange rates that impact financial asset and liabilities denominated in currencies other than our functional currency (affecting finance expenses, net), tax positions (such as the impact on periods or companies of changes in effective tax rates) and the age and book depreciation of fixed assets (affecting relative depreciation expense). Adjusted EBITDA also excludes equity in losses of affiliate, net, because we believe it is helpful to view the performance of our business excluding the impact of our U.S. distributor, which we did not control, and because our share of the net income (loss) of the U.S. distributor includes items that have otherwise been excluded from adjusted EBITDA (such as finance expenses, net, tax on income and depreciation and amortization). In addition, adjusted EBITDA and adjusted net income exclude the non-cash impact of share-based compensation and a number of unusual items that we do not believe reflect the underlying performance of our business. Because adjusted EBITDA and adjusted net income facilitate internal comparisons of operating performance on a more consistent basis, we also use adjusted EBITDA and adjusted net income in measuring our performance relative to that of our competitors. Adjusted EBITDA and adjusted net income are not measures of our financial performance under GAAP and should not be considered as alternatives to net income, operating income or any other performance measures derived in accordance with GAAP or as alternatives to cash flow from operating activities as measures of our profitability or liquidity. We understand that although adjusted EBITDA and adjusted net income are frequently used by securities analysts, lenders and others in their evaluation of companies, adjusted EBITDA and adjusted net income have limitations as analytical tools, and you should not consider them in isolation, or as substitutes for analysis of our results as reported under GAAP. Some of these limitations are:

adjusted EBITDA and adjusted net income do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;

adjusted EBITDA and adjusted net income do not reflect changes in, or cash requirements for, our working capital needs;

although depreciation is a non-cash charge, the assets being depreciated will often have to be replaced in the future, and adjusted EBITDA does not reflect any cash requirements for such replacements; and

other companies in our industry may calculate adjusted EBITDA and adjusted net income differently than we do, limiting its usefulness as a comparative measure.



**Table of Contents**

## **Risk factors**

*This offering and an investment in our ordinary shares involve a high degree of risk. You should consider carefully the risks described below and all other information contained in this prospectus, before you decide to buy our ordinary shares. If any of the following risks actually occurs, our business, financial condition and results of operations could be materially and adversely affected. In that event, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment.*

### **Risks related to our business and our industry**

*Downturns in the home renovation and remodeling and new residential construction sectors or the economy generally and a lack of availability of consumer credit could adversely impact end-consumers and lower demand for our products, which in turn could cause our revenues and net income to decrease.*

Our products are primarily used as countertops in residential kitchens and are mostly sold into the home renovation and remodeling end markets. As a result, our sales depend significantly on home renovation and remodeling spending, as well as new residential construction spending, and to a lesser degree, on non-residential construction spending. Spending in each of these sectors declined significantly in 2009 compared to 2008 in most of the markets in which we operate and, in 2010 and 2011, many of these markets, including the United States and Europe, did not recover or recovered only to a small degree. Spending on home renovation and remodeling and new residential construction depends significantly on the availability of consumer credit, as well as other factors such as interest rates, consumer confidence, government programs and unemployment. Any of these factors could result in a tightening of lending standards by financial institutions and reduce the ability of consumers to finance renovation and remodeling expenditures or home purchases. Consumers' ability to access financing varies across our operating markets. Declining home values, increased home foreclosures and tightening of credit standards by lending institutions in certain markets have negatively impacted the home renovation and remodeling and the new residential construction sectors in several of our key existing markets since 2008. The European and the U.S. economies continue to be significantly impacted today. If these trends continue, we may be unable to grow our business and our revenues and net income may be adversely affected.

*Our revenues are subject to significant geographic concentration and any disruption to sales within one of our key existing markets could materially and adversely impact our results of operations and prospects.*

Our sales are currently subject to significant geographic concentration. In 2011, sales in Australia accounted for 34.0% of our revenues, sales in the United States accounted for 23.0% of our revenues and sales in Israel accounted for 14.9% of our revenues. Our operations depend significantly upon general economic and other conditions in these countries. Each country has different characteristics and our results of operations could be adversely impacted by a range of factors, including local competitive changes, changes in consumers' quartz surface or countertop preferences, and regulatory changes that specifically impact these markets. A downturn in levels of home renovation and remodeling or new residential construction spending in Australia, the United States or Israel, in particular, could adversely affect our revenues and net income. In Australia, our largest market, the renovation and remodeling market accounted for



## **Table of Contents**

approximately 48% of our total sales in this country in 2010. General economic conditions and our sales in Australia could be adversely impacted by an increase in imports from Asian manufacturers into Australia, future increases in interest rates placing pressure on the affordability of home renovation and remodeling and new residential construction projects, and the strength of the Australian dollar making lower priced and lower quality imported goods more competitive than our products, which may not be offset by any increased profitability we may experience from a stronger Australian dollar. In the United States, our second largest market, consumers are continuing to experience difficulty in securing financing for home renovation and remodeling projects and the purchase of new homes. According to CoreLogic, a provider of consumer, financial and property information, it is estimated that as of the end of the third quarter of 2011, 22.1% of all U.S. residential properties with mortgages were underwater, meaning that the home is worth less than the amount owed by the homeowner on the mortgage. This could result in a disincentive to invest in renovation and remodeling projects in such homes. Although we face different challenges and risks in each of these markets, due to the existence of a high level of geographic concentration, should an adverse event occur in any of these jurisdictions, our results of operations and prospects could be impacted disproportionately.

***We face intense competition and competitive pressures, which could adversely affect our results of operations and financial condition.***

Our quartz surface products compete with a number of other surface materials such as granite, laminate, marble, manufactured solid surface, concrete, stainless steel and wood. We compete with these surface materials and other quartz surfaces on a range of factors, including brand awareness, product quality, new product development and time to market, pricing, customer service and breadth of product offerings. Since we seek to position our products as a premium alternative to other surface materials and other quartz surfaces, the perception among end-consumers of the quality of our products is a key competitive differentiator. Our revenues and net income may be adversely affected if manufacturers of other surface materials or other quartz manufacturers successfully brand their products as premium products or consumers place less value on premium branded quartz surfaces. In addition, changes in any of these competitive factors may be sufficient to cause a distributor to change manufacturers, which would harm our sales in that jurisdiction.

The manufacturers of other surface products consist of a number of regional and global competitors. The quartz surface market is highly fragmented and is also comprised of a number of regional and global competitors. Large multinational companies have also invested in quartz surface production capabilities. We believe that we are likely to encounter strong competition from these multinational companies and other larger manufacturers as a result of consolidation in the industry in the future. Such consolidation is likely to occur as a result of the economies of scale associated with quartz manufacturing that are becoming important to remain competitive in an increasingly global quartz surface market and will be increasingly important as the quartz market matures in the future.

The number of our direct competitors and the intensity of competition may increase as we expand into other markets or applications, or as other companies expand into our operating markets or applications. Some of our competitors may be able to adapt to changes in consumer preferences and demand more quickly, devote greater resources to design innovation and establishing brand recognition, manufacture more versatile slab sizes, implement processes to

## **Table of Contents**

lower costs, acquire complementary businesses, such as raw material suppliers, and expand more rapidly or adopt more aggressive pricing policies than we can. Competitors may have incorporated or may in the future incorporate more advanced technology in their manufacturing processes, including more advanced automation techniques. A number of our competitors have greater financial and capital resources than we do and continue to invest heavily to achieve increased production efficiencies and brand recognition. Competitors may also be in a better position to access emerging sales channels in various markets. Our inability to meet these challenges could result in a loss of distributors, customers, end-consumers and/or market share, and pricing pressures caused by such competition could reduce the sales of our products, our revenues and margins thereby adversely affecting our business, financial condition and results of operations.

***We face competition from providers of quartz surfaces that set prices considerably lower than the prices of our premium products, which could adversely impact our sales and margins.***

We have invested considerable resources to position our quartz surface products as premium branded products. Due to our products' high quality and positioning, we generally set our prices at a higher level than alternate surfaces and quartz surfaces provided by other manufacturers. We face competition in several markets, particularly in Australia and the United States, primarily from manufacturers located in the Asia-Pacific region that market quartz surface products at lower price points. Manufacturers in China, Vietnam and other countries in the Asia-Pacific region frequently benefit from labor and energy costs that are significantly lower than our costs and enable them to price their products lower than our products. Under these circumstances, we can face direct competition that significantly undercuts the prices that we are able to charge and that we seek to charge our distributors, as well as the prices that our distributors and stonemasons are able to charge consumers. Even if we seek to lower the prices that we charge for our products in certain markets, we may be unable to achieve the same labor and energy costs in order to maintain current margins on our products. Some of these competitors have developed know-how and technical capabilities to manufacture products similar to our products and other competitors may do so in the future. We have also experienced instances, particularly in Australia, of our competitors marketing products with similar appearances and similar model names to some of our products. Competition of this nature may increase in the markets in which we operate and may develop in new markets. Even if these competitors are unable to compete with us in all markets in which we sell, the introduction of similar products may result in lowering or eliminating the value that distributors and end-consumers place on our premium brand and products. Such competition or change in perception could result in significantly lower sales and reduced profit margins.

***Changes in the prices of our raw materials, particularly polyester and other polymer resins and pigments, have increased our costs and decreased our margins and net income in the past and may increase our costs and decrease our margins in the future.***

Polyester and other polymer resins, which act as a binding agent in our products, accounted for approximately 42% of our raw material costs in 2011. Accordingly, our cost of sales and overall results of operations are impacted significantly by fluctuations in resin prices. For example, if the price of polyester and other polymer resins was to rise by 10%, and we were not able to pass along any of such increase to our customers or achieve other offsetting savings, we would experience a decrease of approximately 1.3% in our gross profit margin. The cost of polyester and other polymer resins is a function of, among other things, manufacturing capacity, demand

## **Table of Contents**

and the price of crude oil. The cost of polyester and other polymer resins has fluctuated significantly over the past two years. We do not have long-term supply contracts with our suppliers of polyester and other polymer resins. We generally purchase polyester and other polymer resins on a quarterly basis and have found that increases in their prices are difficult to pass on to our customers. The cost of these resins has risen significantly since December 2009. During 2010, polyester prices increased by 33%, and, even though prices decreased overall by 1.3% in 2011, our average cost of polyester in 2011 increased by approximately 18%. In the past, we managed to offset a portion of these cost increases through advance purchase orders up to one quarter ahead. However, manufacturers are currently unwilling to agree to preset prices for periods longer than one or two months. These increases adversely impacted our margins in 2011. Any such further increases in polyester prices may adversely impact our margins and net income.

Pigments are also used to manufacture our quartz surface products. Although pigments account for a significantly lower percentage of our raw material costs than polyester and other polymer resins, fluctuations in pigments prices may also adversely impact our margins and net income. For example, the price of titanium dioxide, our principal white pigmentation agent increased by 38% during 2010. Such increases began to impact our margins in 2011. In 2011, titanium dioxide prices increased by an additional 42%, and currently, we anticipate further increases in the future due to an ongoing supply shortage, which may impact our margins. If the price of titanium dioxide were to increase by 10% and we were unable to pass along such increase to our customers or achieve other offsetting savings, we estimate that we would experience a decrease of approximately 0.3% in our margins.

***We have experienced quarterly fluctuations in revenues and net income as a result of seasonal factors and building construction cycles which are hard to predict with certainty. We expect that such quarterly fluctuations will increase in the future as we shift to selling through direct channels, which may increase the volatility of our share price and cause declines in our share price.***

Our results of operations are impacted by seasonal factors, including construction and renovation cycles. We believe that the third quarter of the year exhibits higher sales volumes than other quarters because demand for quartz surface products is generally higher during the summer months in the northern hemisphere when the weather is more favorable for new construction and renovation projects, as well as the impact of efforts to complete such projects before the beginning of the new school year. Conversely, the first quarter is impacted by a slowdown in new construction and renovation projects during the winter months as a result of adverse weather conditions in the northern hemisphere, and, depending on the date of the spring holiday in Israel in a particular year, the first or second quarter is impacted by a reduction in sales in Israel due to such holiday. Similarly, sales during the first quarter in Australia are negatively impacted by fewer construction and renovation projects due to public holidays. In the third quarter of 2010, we generated 10.3% more revenues than the average revenue generated in the first and second quarters of 2010. In the third quarter of 2011, we generated 22.2% more revenue than in the first quarter of 2011, excluding the impact of the Caesarstone USA acquisition. Our adjusted EBITDA was 29.8% higher in the third quarter of 2011 than in the first quarter of 2011, excluding the impact of the Caesarstone USA acquisition.

We expect that seasonal factors will have a greater impact on our revenue, adjusted EBITDA and adjusted net income in the future due to our recent shift to direct distribution in the United States and Canada, and as we continue to increase direct distribution as a percentage of our total revenues in the future. This is because we generate higher average selling prices in the markets

## **Table of Contents**

in which we have direct distribution channels and, therefore, our revenues are more greatly impacted by changes in demand in these markets. Direct sales accounted for 59.4% of our total sales for the year ended December 31, 2010 and 86.8% of our total sales in the second half 2011, after our shift to direct distribution in the United States and Western Canada. At the same time, our fixed costs have also increased as a result of our shift to direct distribution and, therefore, the impact of seasonal fluctuations in our revenues on our profit margins, adjusted EBITDA and adjusted net income will likely be magnified in future periods. In addition, adverse weather in a particular quarter or a prolonged winter period could further impact our quarterly results. Our future results of operations may experience substantial fluctuations from period to period as a consequence of these factors. Increased or unexpected quarterly fluctuations in our results of operations may increase the volatility of our share price and cause declines in our share price even if they do not reflect a change in the overall performance of our business.

***We recently acquired our U.S. distributor and formed a joint venture in Canada to distribute our products, and may face challenges as we integrate these entities and implement our sales strategies in these markets. In addition, as a result of these changes, our historical results may not be indicative of our future results.***

Our direct markets historically included Australia and Israel, while our indirect markets included, among others, Canada and the United States. In October 2010, we began to distribute our products exclusively in Eastern Canada through a joint venture in which we own a 55% interest. In May 2011, we acquired our U.S. distributor and expanded our Canadian joint venture to exclusively distribute our products throughout Canada. We must successfully integrate and manage both of these operations in order to successfully implement our growth strategies. For example, in Canada under a joint venture arrangement with our former third-party distributor in Eastern Canada, we share certain rights and benefits, including board nomination rights. There can be no assurance that we will be successful in our efforts to integrate our recent acquisitions in the United States and Canada.

The results of operations of our U.S. subsidiary and Canadian joint venture are fully consolidated in our results of operations for a portion of 2011. While this impacted our revenue and gross margins favorably, it also increased our operating expenses significantly as we added each entity's cost of operations to our costs. Prior to May 2011 and, in the case of Eastern Canada, October 2010, our historical financial information reflects our results of operations prior to the establishment of these direct distribution channels. Consequently, it may also be difficult for investors to compare our future results to our historical results or to evaluate our relative performance or trends in our business.

***Consolidation in our industry may increase the competitive pressures to which we are subject and may enhance our competitors manufacturing, sales and marketing capabilities.***

Due to the highly fragmented nature of the quartz surface market, we believe that consolidation is likely and a smaller number of large companies may take leading market positions. We believe we would encounter strong competition from any such larger companies following their consolidation. Larger companies are likely to benefit from economies of scale associated with quartz manufacturing that are becoming important to remain competitive in an increasingly global quartz surface market. Such economies of scale will be increasingly important as the quartz market matures in the future. In addition, larger companies may have significantly greater resources than we do to penetrate markets, in particular, by investing significant sums in raising awareness for their brand among end-consumers in order to drive sales of their products, as well as by operating manufacturing facilities closer to customers

## **Table of Contents**

and end-consumers in various regions worldwide. If we are unable to grow our business organically or undertake our own acquisitions, we may lose market share, which could adversely affect our business, financial condition and results of operations.

### ***Silicosis and related claims could have a material adverse effect on our business, operating results and financial condition.***

Since 2008, fifteen lawsuits have been filed against us or named us as third party defendants in Israel and we have received a number of additional letters threatening lawsuits on behalf of certain fabricators of our products in Israel or their employees in Israel alleging that they contracted illnesses, including silicosis, through exposure to fine silica particles when cutting, polishing, sawing, grinding, breaking, crushing, drilling, sanding or sculpting our products. Each of the lawsuits which has been filed names defendants in addition to us, including, in certain cases, fabricators that employed the plaintiff, the Israeli Ministry of Industry, Trade and Employment, distributors of our products and insurance companies. Silicosis is an occupational lung disease that is progressive and sometimes fatal, and is characterized by scarring of the lungs and damage to the breathing function. Inhalation of dust containing fine silica particles as a result of not well protected and not well controlled, or unprotected and uncontrolled, exposure while processing quartz, granite, marble and other materials can cause silicosis. Various types of claims are raised in these lawsuits and in the letters submitted to us, including product liability claims such as claims related to failure to provide warnings regarding the risks associated with silica dust. We believe that we have valid defenses to the lawsuits pending against us and to potential claims and intend to contest them vigorously. Damages totaling \$6.3 million are specified in the lawsuits currently filed; however, the amount of general damages, which includes items such as pain and suffering and loss of future earnings, has not yet been specified in most of the lawsuits. As a result, there is uncertainty regarding the total amount of damages that may ultimately be sought. At present, we do not believe that it is reasonably possible that the lawsuits filed against us to date will have a material adverse effect on our financial position, results of operations, or cash flows, in part due to the current availability of insurance coverage. Nevertheless, all but one of the lawsuits are at a preliminary stage and no material determinations, including those relating to attribution of fault or amount of damages, have been made. There can also be no assurance that our insurance coverage will be adequate or that we will prevail in these cases. We are party to a settlement agreement that is pending court approval with respect to one of the lawsuits filed. In that instance, the total settlement is for NIS 275,000 (\$71,970) of which we have agreed to pay NIS 10,000 (\$2,617) without admitting liability. Substantially all of the balance is payable by the fabricator that employed the individual in question and insurance companies. We can provide no assurance that other lawsuits will be settled in this manner or at all.

Our current liability insurance provider renewed our product liability insurance policy in October 2011 through November 2012. However, there is no assurance that we will be able to obtain product liability insurance in the future on the same terms, including with the premium under our current policy, or at all. If our current insurance provider does not renew our product liability insurance policy in the future, it is uncertain at this time whether we will be able to obtain insurance coverage from other insurance providers in the future. We are not currently subject to any claims from our employees related to silicosis; however, we may be subject to such claims in the future. Our employer liability insurance policy excludes silicosis claims by our employees and, to the extent we become subject to any such claims, we may be liable for claims in excess of the portion covered by the National Insurance Institute of Israel. If our insurance providers refuse to

## **Table of Contents**

renew our insurance, we are unable to obtain coverage from other providers, our policy is terminated early or we become subject to silicosis claims excluded by our employer liability insurance policy, we may incur significant legal expenses and become liable for damages, in each case, that are not covered by insurance, and our management could expend significant time addressing such claims. These events could have a material adverse effect on our business and results of operations.

Consistent with the experience of other companies involved in silica-related litigation, there may be an increase in the number of asserted claims against us. Such claims could be asserted by claimants in jurisdictions other than Israel, including the United States where we recently acquired our former U.S. third-party distributor, Canada where we recently established a joint venture for the distribution of products there and Australia and could result in significant legal expenses and damages. Existing or future claimants against us, in Israel or elsewhere, may seek to have their claims certified as class actions on behalf of a defined group. We believe that claimants in future silica-related claims involving us, if any, should be limited to persons involved in the fabrication of our products, including, but not limited to, cutting, polishing, sawing, grinding, breaking, crushing, drilling, sanding or sculpting, and those in the immediate vicinity of fabrication activities, but may potentially include our employees. Any pending or future litigation, including any future litigation in the United States, where in May 2011 we acquired our former third-party distributor, Caesarstone USA, formerly known as U.S. Quartz Products, Inc., is subject to significant uncertainty. We cannot determine the amount of potential damages, if any, in the event of an adverse development in a pending or future case, in part because the defendants in these types of lawsuits are often numerous, the claims generally do not specify the amount of damages sought, our product's involvement may be speculative, and the degree to which our product may have caused the alleged illness may be unclear. In addition, punitive damages may be awarded in certain jurisdictions.

Furthermore, we may face future engineering and compliance costs to enhance our compliance with existing standards relating to silica, or to meet new standards if such standards are heightened. Such costs may adversely impact our profitability.

***Our results of operations may be adversely affected by fluctuations in currency exchange rates and we may not have adequately hedged against them.***

We conduct business in multiple countries, which exposes us to risks associated with fluctuations in currency exchange rates between the NIS (our functional currency), the U.S. dollar (our reporting currency) and the other currencies in which we conduct business. In 2011, 34.0% of our revenues were denominated in Australian dollars, 24.7% in U.S. dollars, 15.0% in Euros, 14.8% in NIS and 11.4% in Canadian dollars. Conversely, in 2011, the majority of our expenses were denominated in NIS, U.S. dollars and Euros, and a smaller proportion in Australian and Canadian dollars. As a result, fluctuations of the Australian, U.S. and Canadian dollar against the NIS present the most significant risk to us if these currencies weaken relative to the NIS. Fluctuations in currency exchange rates may impact our business significantly; for example, the Australian dollar appreciated 7.6% against the NIS in 2011 compared to 2010, which resulted in our operating profit increasing by \$4.6 million, or 1.8% of our revenues, compared to 2010. Although we currently engage in derivatives transactions such as forward contracts to minimize our currency risk, future currency exchange rate fluctuations that we have not adequately hedged could adversely affect our profitability. See Management's discussion and analysis of financial condition and results of operations. Quantitative and qualitative disclosure about market risk.

## **Table of Contents**

*We may encounter delays in manufacturing if we are required to change the suppliers for the quartz used in the production of our products.*

Our principal raw materials are quartz, polyester and other polymer resins and pigments. We acquire quartz from quartz manufacturers, primarily in Turkey, India, Portugal and Israel. We typically transact business with our quartz suppliers on a purchase order basis. We cannot be certain that any of our current suppliers will continue to provide us with the quantities of quartz that we require or satisfy our anticipated specifications and quality requirements. We may also experience a shortage of quartz if, for example, demand for our products increases. Approximately two-thirds of our quartz is imported from suppliers in Turkey. There have recently been significant tensions between Turkey and the State of Israel that have raised questions as to whether commercial arrangements between companies in these countries would be adversely impacted. If tensions between Turkey and Israel continue or worsen, our Turkish suppliers may not provide us with quartz shipments. In addition, our products incorporate a number of types of quartz, including quartzite. One supplier in Turkey, Mikroman Madencilik San ve TIC.LTD.STI ( Mikroman ), supplies approximately 76% of our quartzite. Mikroman has committed to supply us at agreed upon prices through the end of 2012 and, thereafter, at prices that will be agreed upon based on then effective market prices through the end of 2014. If Mikroman ceases supplying us with quartzite or if our supply of quartz generally from Turkey is adversely impacted, we would need to locate and qualify alternate suppliers, which could take time, increase costs and require adjustments to the appearance of our products. As a result, we may experience a delay in manufacturing, which could materially and adversely impact our reputation and results of operations.

*We are subject to litigation, disputes or other proceedings, which could result in unexpected expense of time and resources that could have a material adverse impact on our results of operation, profit margins, financial condition and liquidity.*

In the past, claims have arisen from our relationships with distributors, service providers and employees. We are currently involved in the following material disputes:

In November 2011, Kfar Giladi Quarries Agricultural Cooperative Society Ltd., or Kfar Giladi, and Microgil Agricultural Cooperative Society Ltd., or Microgil, an entity we believe is controlled by Kfar Giladi, initiated arbitration proceedings against us that are scheduled to commence in April 2012. We refer to Kfar Giladi and Microgil as the claimants. The arbitration arises out of a dispute related to a quartz processing agreement (the Processing Agreement ) pursuant to which Kfar Giladi committed to establish a production facility at its own expense within 21 months of the date of the agreement. Pursuant to the Processing Agreement, we committed to pay fixed prices for quartz processing services related to agreed upon quantities of quartz over a period of ten years from the date set for the claimants to commence operating the production facility. We estimate that the total amount of such payments would have been approximately \$55 million. It is our position that the production facility established by the claimants was not operational until approximately two years after the date required by the Processing Agreement, and as a result, we were unable to purchase minimum quantities set forth in the Processing Agreement. It is also our position that the Processing Agreement was terminated by us following its breach by the claimants. In addition, we contend that once production began, the claimants failed to consistently deliver the required quantity and quality of ground quartz as agreed by the parties following the termination of the Processing

## **Table of Contents**

Agreement. Our positions are disputed by the claimants. To date, the claimants have not specified the amount of their claim against us; however, we expect that they may seek significant damages that may amount to tens of millions of dollars that, in their view, represent the entire cost of the production facility and the profits that they would have realized but for our alleged breach. The claimants could also seek damages for other losses. The claimants previously informed us that the amount they had invested in establishing their production facility was more than NIS 40 million (\$10.5 million). We cannot currently estimate the profits, if any, that the claimants would have made based on the purchase commitment contemplated by the Processing Agreement.

In July 2010, the former chief executive officer of Caesarstone Australia ( CSA ) commenced legal proceedings against us in the Supreme Court of Victoria in Australia regarding an agreement to grant him restricted shares of CSA. The former executive claims that the conduct of the business of CSA was oppressive or unfairly prejudicial to, or unfairly discriminatory against, him as a minority shareholder. As of September 30, 2009, the last date on which we performed a valuation analysis prior to termination of the former executive, for financial reporting purposes, we determined that the fair value of the restricted stock that would have been granted to him under the agreement was \$1.9 million. The former chief executive officer has not specified the amount that he is claiming.

In December 2007, we terminated our agency agreement with our former South African agent, World of Marble and Granite ( WOMAG ) on the basis that it had breached the agreement. In the same month, we filed a claim for NIS 1.0 million (\$0.3 million) in the Israeli District Court in Haifa based on such breach. WOMAG has contested jurisdiction of the Israeli District Court, but subsequent appellate courts have dismissed WOMAG 's contest. In January 2008, WOMAG filed suit in South Africa seeking 15.7 million (\$22.3 million). A court session was held in February 2012 to determine whether the South African Court had jurisdiction over the proceedings. The South African Court has held that it has jurisdiction to hear WOMAG 's claim, but we are appealing this decision.

An adverse ruling in these proceedings could have a material adverse effect on us. If we are unsuccessful in defending a claim or elect to settle a claim, we could incur material costs that could have a material adverse effect on our business, results of operations and financial condition. See Business Legal proceedings.

***A key element of our strategy is to expand our sales in certain markets, such as the United States and Canada, which will require a substantial effort to build awareness and develop the quartz surface market, and our failure to do so would have a material adverse effect on our future growth and prospects.***

A key element of our strategy is to grow our business by expanding sales of our products in certain existing markets that we believe have high growth potential, but in which we have a limited presence, as well as in select new markets. In particular, we intend to focus our growth efforts on the United States and Canada. Our success will depend, in large part, upon consumer acceptance and adoption of our products in these markets. Consumer tastes and preferences differ in the markets into which we are expanding as compared to those in which we already have substantial sales. In particular, quartz surfaces in Australia and Israel account for a significantly larger percentage of total countertops sold in these markets than in the United States or Canada. In 2010, we estimate that engineered quartz surfaces represented only 5% of the total countertops by volume installed in the United States. We may also seek to expand into additional markets in the future. We will face several challenges in achieving consumer acceptance and adoption of our products in the United States, Canada or other markets, including consumers' desire to use quartz.



## **Table of Contents**

surfaces for their kitchen countertops and other interior settings. If the market for quartz surfaces does not develop as we expect or develops more slowly than we expect, our future growth, business, prospects, financial condition and operating results will be harmed.

***We face risks of litigation and liability claims on environmental, product liability and other matters, the extent of such exposure can be difficult or impossible to estimate and which can negatively impact our financial condition and results of operations.***

Our manufacturing facilities and operations are subject to numerous laws and regulations of the State of Israel relating to pollution and the protection of the environment, including those governing emissions to air, discharges to water, soil and water contamination, import, purchase, use, storage and transport of hazardous materials, storage, treatment and disposal of waste and protection of worker health and safety. Liability under these laws involves inherent uncertainties. Violations of environmental, health and safety laws are subject to civil, and, in some cases, criminal sanctions. We may not have been, or may not be, at all times, in complete compliance with all requirements, and we may incur material costs or liabilities in connection with such requirements, or in connection with remediation at sites we own, or third-party sites where it has been alleged that we have liability, in excess of the amounts we have accrued. We may also incur unexpected interruptions to our operations, administrative injunctions requiring operation stoppages, fines and other penalties. From time to time, we face environmental compliance issues related to our two manufacturing facilities in Israel. At present, we are reviewing plans to address environmental regulatory issues related to the emission of styrene gas, disposal of waste, waste water treatment and discharge and fire protection measures. Continued government and public emphasis on environmental issues can be expected to result in increased future investments for environmental controls at ongoing operations, which could negatively impact our financial condition and results of operations.

From time to time, we are involved in other legal proceedings and claims in the ordinary course of business related to a range of matters, including environmental, contract, employment claims, product liability and warranty claims, and claims related to modification and adjustment or replacement of product surfaces sold. We use various substances in our products and manufacturing operations which have been or may be deemed to be hazardous or dangerous. We cannot predict whether we may become liable under environmental and product liability statutes, rules, regulations and case law of the countries in which we operate. The amount of any such liability in the future could be significant and may adversely impact our financial condition and results of operations.

***A significant portion of our revenues is derived from the distribution of our products by third-party distributors, and our distributors' actions may have an adverse effect on our business and results of operations.***

Sales to third-party distributors accounted for 13.2% of our revenues in the second half of 2011 after our transition to direct distribution in the United States and Western Canada. In indirect markets where we rely on third-party distributors, we depend on the success of their selling and marketing efforts and we may be unable to devote adequate resources to selling, marketing and servicing our products through our distributors. In addition, we have less control in markets where we sell through distributors than in markets where we distribute directly. The actions of our distributors could also harm our brand and company reputation in the marketplace. Any disruption in our distribution network could have a negative effect on our ability to sell our products or market our brand, which could materially and adversely affect our business and results of operations.

## **Table of Contents**

Some of our initial engagements with our distributors are pursuant to a memorandum of understanding granting such distributor one year of exclusivity in consideration for meeting minimum sales targets. After the initial one-year period, we may enter into a distribution agreement for a three- to five-year period. However, in the majority of cases, we continue to operate on the basis of the memorandum of understanding, with or without its extension in writing, or without an operative agreement. We supply our products to distributors upon the receipt of a purchase order. Some of our distributors operate on nonexclusive terms of sale agreements or without any written agreements. The lack of a written agreement with many of our distributors may lead to ambiguities, costs and challenges in enforcing our rights. Our distribution agreements generally include annual sales targets, and if any distributor fails to meet its sales targets, we may attempt to terminate our distribution agreement with that distributor. Unless otherwise indicated in a specific agreement, if we terminate a distribution engagement without cause, we may be required to provide reasonable prior notice, although the exact period may not be specified. We have experienced difficulties, including litigation, in connection with the termination of certain of our distributors due to disputes regarding their terms of engagement. See Business Legal proceedings. We may be unable to distribute our products through another distributor within the territory during the notice period, which may have an adverse effect on our business and results of operations, our relationships with our customers and end-consumers, and our brand reputation. This may also result in our loss of market share to competitors. Upon termination, we may experience difficulties in identifying and retaining new distributors. Distributors may generally terminate a distribution agreement with us upon reasonable notice (although our written agreements and memorandums of understanding with distributors, where applicable, provide for termination without cause only after the initial period). As a result, distributors may distribute a competitor's quartz surfaces or other surface materials, which may cause us to lose market share. We may be unable to develop an alternative distribution network in a region. The termination of distribution arrangements may result in litigation. We may have to incur significant legal fees and management may have to devote significant effort, time and resources to defending litigation-related issues, which may detract from their ability to run our business.

***We depend on our third-party distributors for the timely and accurate reporting of information related to the distribution of our products.***

Generally, our distributors disclose to us sales volumes and other information on a monthly or quarterly basis. Among other things, the purpose of these disclosures is to enable us to monitor the level of sales to end-consumers and ensure that our distributors are not accumulating excessive quantities of our products in their inventory. We do not have audit rights with respect to these reports by our third-party distributors and, therefore, cannot verify their accuracy. An inaccurate report as to sales volumes could result in a significant and unexpected decline in sales to a distributor during a particular quarter. Even if the reports are accurate, a distributor may make subsequent revisions to the information it has provided or we may fail to understand the future sales prospects of a distributor. Either of these events could result in the accumulation of excess inventory by that distributor and unexpected fluctuations in our sales. Any of these events could adversely affect or cause unexpected fluctuations in our results of operations.

***We sell our products through subsidiaries and distributors in 42 countries. Our operating results may suffer if we are unable to manage our international operations effectively.***

We sell products in 42 countries throughout the world, and we therefore are subject to risks associated with having international operations. In 2011, 71.8% of our revenues were derived

## **Table of Contents**

from sales in Australia, the United States and Israel. We anticipate that sales from operations outside of Israel will continue to represent a significant portion of our total sales. Our sales and operations outside of Israel are subject to risks and uncertainties, including:

- fluctuations in exchange rates;
- fluctuations in transportation costs and transportation and time-to-market delays;
- unpredictability of foreign currency exchange controls;
- compliance with unexpected changes in regulatory requirements;
- compliance with a variety of local regulations and laws;
- difficulties in collecting accounts receivable and longer collection periods;
- changes in tax laws and the interpretation of those laws; and
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions.

In addition, certain jurisdictions could impose tariffs, quotas, custom duties, trade barriers and other similar restrictions on our sales. Moreover, our business operations could be interrupted and negatively affected by economic changes, geopolitical regional conflicts, terrorist activity, political unrest, civil strife, acts of war, and other economic or political uncertainties. All of these risks could also result in increased costs or decreased revenues, either of which could adversely affect our profitability. Our business is also expected to subject us and our representatives, agents and distributors to laws and regulations of the jurisdictions in which we operate or our products are sold. We may depend on distributors and agents outside of Israel for compliance and adherence to local laws and regulations. As we continue to expand our business globally, we may have difficulty anticipating and effectively managing these and other risks that our global operations may face, which may adversely affect our business outside of Israel and our financial condition and results of operations.

### ***We may have exposure to greater than anticipated tax liabilities.***

We have entered into transfer pricing arrangements that establish transfer prices for our inter-company operations. However, our transfer pricing procedures are not binding on the applicable taxing authorities. No official authority in any country has made a determination as to whether or not we are operating in compliance with its transfer pricing laws. The amount of income tax that we pay could be adversely affected by earnings being lower than anticipated in jurisdictions where we have lower statutory rates and higher than anticipated in jurisdictions where we have higher statutory rates. Our facilities in Israel receive different tax benefits as Approved Enterprises, Beneficiary Enterprises or Preferred Enterprise under the Israeli Law for the Encouragement of Capital Investments, 1959, referred to as the Investment Law, with our production lines qualifying to receive different grants and/or reduced company tax rates and/or tax exemption periods. Therefore, some of our production lines also receive tax benefits based on our revenues and the allocation of those revenues between the two facilities in Israel. As a result, the Israeli taxing authorities could challenge our allocation of income between these two facilities and contend that a larger portion of our income is subject to higher tax rates. Taxing authorities outside of Israel, particularly in Australia, could challenge our allocation of income between us and our subsidiaries and contend that a larger portion of our income is subject to tax in their jurisdictions, which may have higher tax rates than the rates applicable to such income in Israel. Any change to the allocation of our income as a result of review by such taxing authorities could have a negative effect on our operating results and financial condition.

The determination of our worldwide provision for income taxes and other tax liabilities requires significant judgment and there are many transactions and calculations where the ultimate tax determination is uncertain. We have applied the guidance in ASC 740, Income Taxes

## **Table of Contents**

(previously reported as FIN 48 Accounting for Uncertainty in Income Taxes ) in determining our accrued liability for unrecognized tax benefits, which totaled \$0.8 million as of December 31, 2011. Although we believe our estimates are reasonable, the ultimate outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the period or periods for which such determination is made.

### ***Our business may be affected by changes in consumer preferences or the development of alternative surface products.***

The majority of our end-consumers are those refacing or replacing kitchen countertops, and to a lesser extent, bathroom countertops and surfaces and other applications. Factors that strongly affect consumer purchasing decisions include popular home interior design trends, product quality, price, slab width, product line breadth, design leadership, time to market, customer service and distribution coverage. If we are unable to anticipate or react quickly to changes in consumer preferences in these areas, we may lose market share and our results of operations may suffer. In the future, consumers may not place as much value on branded quartz surfaces, which could reduce our market share or require us to lower our prices. End-consumers preferences may change in response to poor installations of our products by third parties, including fabricators and installers, which we do not control. Widespread or publicized inferior installations of our products could have a material adverse impact on our brand. End-consumers demand for our products could change if a serial manufacturing defect is identified in our products, which could harm our reputation in the marketplace. The development of a new surface material that decreases consumers demand for quartz products may also result in a loss of market share and our results of operations may suffer. If we are unsuccessful in competing against a new surface material, we could lose future sales and market share, which would have an adverse impact on our revenues, profitability and cash flows.

### ***The steps that we have taken to protect our brand and other intellectual property may not be adequate and we may not succeed in preventing others from appropriating our intellectual property.***

We have obtained trademark registrations that we consider material to the marketing of our products, all of which are marketed under the trade name Caesarstone, including CAESARSTONE®, CONCETTO®, and our Caesarstone logo. We have filed trademark applications for additional marks related to our product collections, including SUPREMO and MOTIVO . We believe that our trademarks are important to our brand, success and competitive position. In the past, some of our trademark applications for certain classes of applications of our products have been rejected or opposed in certain markets and may be rejected for certain application classes in the future. This may result in our inability to use our brand for certain applications of products, which could harm our competitive position and adversely impact our results of operations. We anticipate that, as the quartz surface market becomes increasingly competitive, maintaining and enhancing our brand may become more difficult and expensive. If we are unsuccessful in challenging a party s products on the basis of trademark infringement, continued sales of these products could adversely affect our sales and our brand and result in the shift of consumer preference away from our products. We are currently subject to opposition proceedings with respect to applications for registration of our trademarks in certain jurisdictions with respect to certain trademark classifications. We have also in the past been, and may in the future be, subject to opposition proceedings with respect to applications for registration of our intellectual property, including but not limited to our trademarks. Barriers to registering our brand names and trademarks in various countries may restrict our ability to promote and maintain a cohesive brand throughout our key markets.

## **Table of Contents**

We have recently started to seek patent protection for some of our technologies. We have obtained a patent for certain of our technologies and have several pending patent applications that were filed in various jurisdictions, including the United States, Europe, Australia and Israel, which relate to our manufacturing technology and certain products. There can be no assurance that pending applications will be approved in a timely manner or at all, or that such patents will effectively protect our intellectual property. There can be no assurance that we will develop patentable intellectual property in the future, and we may choose not to pursue patents or other protection for innovations that subsequently become material to our business.

To protect our know-how and trade secrets, we customarily require our senior management and certain key employees to execute confidentiality agreements or otherwise agree to keep our proprietary information confidential when their relationship with us begins. Typically, our employment contracts also include clauses requiring these employees to assign to us all inventions and intellectual property rights they develop in the course of their employment and agree not to disclose our confidential information. Despite our efforts, our know-how and trade secrets could be disclosed to third parties, which could cause us to lose any competitive advantage resulting from such know-how or trade secrets, as well as related intellectual property protections in certain cases.

The actions we take to establish and protect trademarks may not be adequate to prevent imitation of our products by others or to prevent others from seeking to block sales of our products as violations of proprietary rights. In addition, the laws of certain foreign countries may not protect intellectual property rights to the same extent as the laws of the United States. For example, historically, China has not protected intellectual property rights to the same extent as the United States and infringement of intellectual property rights continues to pose a serious risk to doing business in China. We may face significant expenses and liability in connection with the protection of our intellectual property rights outside the United States. Any litigation could be unsuccessful, may result in substantial cost and require significant attention by our management and technical personnel. If we are unable to successfully protect our rights or resolve intellectual property conflicts with others, our business or financial condition may be adversely affected.

Third parties have claimed and may from time to time claim that our current or future products infringe their patent or other intellectual property rights. Under such circumstances, we may be required to expend significant resources in order to contest such claims and, in the event that we do not prevail, we may be required to seek a license for certain technologies, develop non-infringing technologies or stop the sale of some of our products. In addition, any future intellectual property litigation, regardless of its outcome, may be expensive, divert the efforts of our personnel, and disrupt or damage relationships with our customers.

***We depend on our senior management team and other skilled and experienced personnel to operate our business effectively, and the loss of any of these individuals could adversely affect our business and our future financial condition or results of operations.***

We are dependent on the skills and experience of our senior management team and other skilled and experienced personnel. These individuals possess managerial, sales, marketing, manufacturing, logistical, financial and administrative skills that are important to the operation of our business. The loss of any of these individuals or an inability to attract, retain and maintain additional personnel could prevent us from implementing our business strategy and could adversely affect our business and our future financial condition or results of operations. We do not carry key man insurance with respect to any of our executive officers or other employees. We cannot assure you that we will be able to retain all of our existing senior management personnel or to attract additional qualified personnel when needed.

## **Table of Contents**

***Our limited resources and significant competition for business combination or acquisition opportunities may make it difficult for us to complete a combination or acquisition, and any combination or acquisition that we complete may disrupt our business and fail to achieve our intended objectives.***

We expect to encounter intense competition from other participants in our industry, including quartz surface manufacturers, suppliers and distributors, for business combination or acquisition opportunities in the highly fragmented global quartz surfaces market. Many of these participants are well-established and have significant experience identifying and effecting acquisitions of companies. These participants may possess greater technical, human and other resources, or more local industry knowledge than we do, and our financial resources may be relatively limited compared to many of them. In addition, while we believe there are a number of target businesses we might consider acquiring, including, in certain instances, our distributors, we may be unable to persuade those targets of the benefits of a combination or acquisition. Our ability to compete with respect to a combination with or acquisition of certain larger target businesses will be determined by, among other factors, our available financial resources. This inherent competitive limitation may give others an advantage in pursuing such combinations or acquisitions.

Any combination or acquisition that we effect, such as our recent acquisition of Caesarstone USA, formerly known as U.S. Quartz Products, Inc., will be accompanied by a number of risks, including the difficulty of integrating the operations and personnel of the acquired business, the potential disruption of our ongoing business, the potential distraction of management, expenses related to the acquisition and potential unknown liabilities associated with acquired businesses. For example, in connection with our recent acquisition of Caesarstone USA, we may encounter liabilities in the future associated with its business that we did not experience prior to the acquisition or that were unknown at the time of acquisition that could have an adverse impact on our results of operations. Any inability to integrate completed combinations or acquisitions in an efficient and timely manner could have an adverse impact on our results of operations. In addition, we may not recognize the expected synergies or benefits in connection with a future combination or acquisition. If we are not successful in completing combinations or acquisitions that we pursue in the future, we may incur substantial expenses and devote significant management time and resources without a successful result. In addition, future combinations or acquisitions could require use of substantial portions of our available cash or result in dilutive issuances of securities.

***Any difficulties with, or interruptions of, our manufacturing could delay our output of products and harm our relationships with our customers. If we are unable to continue to manufacture our existing products, our results of operations and future prospects will suffer.***

Any difficulties with or interruptions of our manufacturing operations could delay our output of products and harm our relationships with our customers. We manufacture all of our products at our two facilities in Israel. Due to the specialized nature of our manufacturing equipment and the quartz surface industry, we have limited ability to outsource any part of our manufacturing to third parties. Our manufacturing production lines are comprised almost entirely of machinery from Breton S.p.A., the largest supplier of a limited number of companies that sell engineered stone manufacturing equipment. We depend on Breton S.p.A. for certain spare parts for our production line equipment and anticipate we will continue to do so in the future. Delays in obtaining machinery or specialty machine components from Breton S.p.A. could delay our output of products and any future production line expansion plans.

## **Table of Contents**

Damage to our manufacturing facilities caused by human error, software or hardware failures, physical or electronic security breaches, power loss or other failures or circumstances beyond our control, including acts of God, fire, explosion, flood, war, insurrection or civil disorder, acts of, or authorized by, any government, terrorism, accident, labor trouble or shortage, or inability to obtain material, equipment or transportation could interrupt or delay our manufacturing or other operations. We may also encounter difficulties or interruption as a result of the application of enhanced manufacturing technologies or changes to production lines to improve our throughput, or to upgrade or repair our production lines. Labor disputes could result in a work stoppage or strikes by employees that could delay or interrupt our output of products. Our insurance policies have limited coverage in case of significant damage to our manufacturing facilities and may not fully compensate us for the cost of replacement and any loss from business interruption. As a result, we may not be adequately insured to cover losses in the case of significant damage to our manufacturing facilities. Any damage to our facilities or interruption in manufacturing, whether due to limitations in manufacturing capacity or arising from factors outside our control, could result in delays in meeting contractual obligations and could have a material adverse effect on our relationships with our distributors and on our revenues.

***We have not yet determined whether our existing internal controls over financial reporting systems are compliant with Section 404 of the Sarbanes-Oxley Act.***

We will be required to comply with the internal control, evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act in our Annual Report on Form 20-F for the year ending December 31, 2013. We have not yet commenced the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. This process will require the investment of substantial time and resources, including by our Chief Financial Officer and other members of our senior management. As a result, this process may divert internal resources and take a significant amount of time and effort to complete. In addition, we cannot predict the outcome of this determination and whether we will need to implement remedial actions in order to implement effective control over financial reporting. The determination and any remedial actions required could result in us incurring additional costs that we did not anticipate. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors.

## **Risks related to our relationship with Kibbutz Sdot-Yam**

***Our headquarters and principal manufacturing facility are located on lands leased by Kibbutz Sdot-Yam from the Israel Lands Administration and the Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd. If we are unable to continue to use such lands, our results of operations and future prospects will suffer.***

Following the completion of this offering, Kibbutz Sdot-Yam will beneficially own approximately 56.1% of our ordinary shares (54.5% if the underwriters exercise their over-allotment option in full). One of our two manufacturing facilities (as well as our headquarters and our research and development facilities) is located on lands leased by Kibbutz Sdot-Yam pursuant to two lease

## **Table of Contents**

agreements between Kibbutz Sdot-Yam and the Israel Lands Administration, or ILA, and an additional lease agreement between Kibbutz Sdot-Yam and the Edmond Benjamin de Rothschild Caesarea Development Corporation Ltd. ( Caesarea Development Corporation ). Pursuant to underlying lease agreements with the ILA and with the Caesarea Development Corporation, the ILA and the Caesarea Development Corporation may terminate their leases in certain circumstances, including if Kibbutz Sdot-Yam commences proceedings to disband or liquidate. If the leases were terminated, we may be unable to use the land where our headquarters and one of our manufacturing facilities are located, which would adversely affect our operations.

The first lease agreement between Kibbutz Sdot-Yam and the ILA expired in 2011 and Kibbutz Sdot-Yam has requested an extension pursuant to an option in the lease agreement for an additional 49 years through 2060. The second agreement between Kibbutz Sdot-Yam and the ILA was extended on several occasions for three- to five-year periods and most recently expired in late 2009. This agreement permits Kibbutz Sdot-Yam to use the property only for agriculture, residential and other internal community purposes, and previous agreements between Kibbutz Sdot-Yam and the ILA with respect to this property contained similar restrictions. In addition, this agreement required Kibbutz Sdot-Yam to receive the ILA's approval before entering into the land use agreement with us permitting us to use the land and facilities, and no such approval was obtained. Our current use of the property and the rights granted to us by Kibbutz Sdot-Yam to use the land pursuant to the land use agreement may give the ILA the right to terminate the rights of Kibbutz Sdot-Yam to the property. Kibbutz Sdot-Yam is currently negotiating a long-term lease agreement with the ILA to replace the second lease agreement, which, among other things, would formally permit us to use the property in accordance with its present use and would permit Kibbutz Sdot-Yam to transfer its rights in the property to a third party.

The agreements between Kibbutz Sdot-Yam and the Caesarea Development Corporation permit Kibbutz Sdot-Yam to use the property for the community needs of Kibbutz Sdot-Yam. In addition, at least one of the agreements requires Kibbutz Sdot-Yam to receive Caesarea Development Corporation's approval before entering into the land use agreement with us permitting us to use the land and facilities, and no such approval was obtained. Our current use of the property and the rights granted to us by Kibbutz Sdot-Yam to use the land pursuant to the land use agreement may give the Caesarea Development Corporation the right to terminate the rights of Kibbutz Sdot-Yam to the property. If the rights of Kibbutz Sdot-Yam to use the property were terminated, we may be unable to maintain our operations on these lands, which would have a material adverse effect on our results of operations. However, Caesarea Development Corporation charges Kibbutz Sdot-Yam based on the use of the relevant portion of the property for industrial purposes, and thus, has provided recognition to Kibbutz Sdot-Yam's use of such portion of the property for industrial purposes.

***Pursuant to new agreements between us and Kibbutz Sdot-Yam that will be effective immediately following this offering, we will depend on Kibbutz Sdot-Yam in the future with respect to acquiring new land as well as building additional facilities should we need them.***

Pursuant to the new land use agreement with Kibbutz Sdot-Yam to be effective immediately following the closing of this offering, we may not terminate the operation of either of the two production lines at our plant in Kibbutz Sdot-Yam as long as we continue to operate production lines elsewhere in Israel, and our headquarters must remain at Kibbutz Sdot-Yam. As a result of these restrictions, our ability to reorganize our manufacturing operations and headquarters in Israel is limited. In addition, pursuant to the new land use agreement, subject to certain exceptions, if we need additional facilities on the land that we are permitted to use, subject to obtaining the



## **Table of Contents**

permits required by law, Kibbutz Sdot-Yam will build such facilities for us by using the proceeds of a loan that we will make to Kibbutz Sdot-Yam, which loan shall be repaid to us by off-setting the additional monthly payment that we would pay for such new facilities and, if not fully repaid during the lease term, upon termination thereof. As a result, in the future we may depend on Kibbutz Sdot-Yam to build such facilities in a timely manner. While Kibbutz Sdot-Yam is responsible under the agreement for obtaining various licenses, permits, approvals and authorizations necessary for use of the property, we have waived any monetary recourse against Kibbutz Sdot-Yam for failure to receive such licenses, permits, approvals and authorizations.

Pursuant to a new agreement with Kibbutz Sdot-Yam to be effective immediately following the closing of this offering through October 2017, if we wish to acquire or lease any additional lands, whether on the grounds of our Bar-Lev facility, or elsewhere in Israel, for the purpose of establishing new plants or production lines: (i) Kibbutz Sdot-Yam will purchase the land and build the required facilities on such land at its own expense in accordance with our needs; (ii) we will perform any necessary building adjustments at our expense; and (iii) Kibbutz Sdot-Yam will lease the land and the facility to us under a long-term lease agreement with terms to be negotiated in accordance with the then prevailing market price. As a result, in the future we may depend on Kibbutz Sdot-Yam to act in connection with the expansion of our facilities. We may also incur greater costs associated with the purchase of additional land or the construction of additional facilities than we could obtain from a third-party due to our arrangement with Kibbutz Sdot-Yam. For more information with respect to these agreements, see [Principal shareholders](#) and [Certain relationships and related party transactions](#).

***Regulators and other third parties may challenge the conclusion that our agreements with Kibbutz Sdot-Yam are no less favorable to us than if they had been negotiated with unaffiliated third parties.***

Our headquarters, research and development facilities and one of our two manufacturing facilities are located on lands leased by Kibbutz Sdot-Yam, which beneficially owns a majority of our shares. We have entered into certain agreements with Kibbutz Sdot-Yam pursuant to which Kibbutz Sdot-Yam provides us with, among other things, a portion of our labor force, electricity, maintenance, security and other services as well as management services, including strategic, operational, and technical advisory services, and the use of our land. We believe that they represent terms no less favorable than those that would have been obtained from an unaffiliated third party. Nevertheless, regulators and other third parties may challenge these conclusions. Such conclusions require subjective judgments regarding valuations, and others may consider the terms of these agreements to be less favorable than the terms that would have been included had these agreements been negotiated with unaffiliated third parties. As a result, the accounting and tax treatment for these transactions may be called into question. See [Certain relationships and related party transactions](#).

***Our directors and executive officers who are members of Kibbutz Sdot-Yam may have conflicts of interest with respect to matters involving the company.***

Three members of our board of directors, including our Chairman, one of our executive officers and a number of our key employees are members of Kibbutz Sdot-Yam, which beneficially owns a majority of our shares. Some of these individuals are also members of the management board of Kibbutz Sdot-Yam. These persons will have fiduciary duties to both us and Kibbutz Sdot-Yam. As a result, they may have real or apparent conflicts of interest on matters affecting both us and Kibbutz Sdot-Yam and in some circumstances may have interests adverse to ours. See [Management](#).

## Table of Contents

*Recent changes in Israeli law may require our board, audit committee and shareholders to reapprove certain of our agreements with Kibbutz Sdot-Yam and Tene every three years, and their failure to do so may expose us to liability and cause significant disruption to our business.*

The Israeli Companies Law was recently amended to require the authorized corporate organs of a public company approve every three years any extraordinary transaction in which a controlling shareholder has a personal interest and that has a term of more than three years unless a company's audit committee, constituted in accordance with the Israeli Companies Law, determines, solely with respect to agreements that do not involve compensation to a controlling shareholder or his or her relatives, in connection with services rendered by any of them to the company or their employment with the company, that a longer term is reasonable under the circumstances. This requirement is new and there is uncertainty regarding its implementation. Accordingly, it may also be necessary to obtain the approval of our board and shareholders of any such determination by the audit committee. Our audit committee to be formed upon the pricing of this offering will not be constituted in accordance with the Israeli Companies Law until our external directors are appointed by our general meeting of shareholders no later than three months following the completion of this offering. As a result, we cannot be sure that our audit committee, once constituted, and our board and shareholders, if required, will determine that the terms of our agreements with Kibbutz Sdot-Yam, our controlling shareholder, which are longer than three years, are reasonable under the circumstances. These agreements include our land use agreement (20-year term from the day of the first month following this offering), land purchase agreement and leaseback (10-year term from the date of the closing of this offering), manpower agreement (10-year term from January 1, 2011), services agreement (eight-year term from the date of the closing of this offering) and registration rights agreement between us, Kibbutz Sdot-Yam and Tene (seven-year term from the date of the closing of this offering). Absent such a determination, then our board, audit committee and shareholders will be required to reapprove these agreements every three years. The approval of our shareholders must fulfill one of the following requirements:

a majority of the shares held by shareholders who have no personal interest in the transaction and are voting at the meeting must be voted in favor of approving the transaction, excluding abstentions; or

the shares voted by shareholders who have no personal interest in the transaction who vote against the transaction represent no more than 2.0% of the voting rights in the company.

If our board, audit committee and shareholders do not reapprove the agreements, we will be required to terminate them, which may be considered a breach under the terms of the agreements, and could expose us to damage claims and legal fees, and cause significant disruption to our business since the agreements relate to core aspects of our manufacturing activities and to the uninterrupted operation of our business. In addition, we would be required to find suitable replacements for the services provided to us by Kibbutz Sdot-Yam, which may take time and we can provide no assurance that we will achieve the same or better terms than those we have agreed with Kibbutz Sdot-Yam.

## **Table of Contents**

### **Risks related to our ordinary shares and the offering**

*Our share price may be volatile, and you may lose all or part of your investment.*

The initial public offering price for the ordinary shares sold in this offering was determined by negotiation between us and representatives of the underwriters. This price may not reflect the market price of our ordinary shares following this offering and the price of our ordinary shares may decline. In addition, the market price of our ordinary shares could be highly volatile and may fluctuate substantially as a result of many factors, including:

actual or anticipated fluctuations in our results of operations;

variance in our financial performance from the expectations of market analysts;

announcements by us or our competitors of significant business developments, changes in distributor relationships, acquisitions or expansion plans;

changes in the prices of our raw materials or the products we sell;

our involvement in litigation;

our sale of ordinary shares or other securities in the future;

market conditions in our industry;

changes in key personnel;

the trading volume of our ordinary shares;

changes in the estimation of the future size and growth rate of our markets; and

general economic and market conditions.

In addition, the stock markets have experienced extreme price and volume fluctuations. Broad market and industry factors may materially harm the market price of our ordinary shares, regardless of our operating performance. In the past, following periods of volatility in the market price of a company's securities, securities class action litigation has often been instituted against that company. If we were involved in any similar litigation we could incur substantial costs and our management's attention and resources could be diverted.

*There has been no prior public market for our ordinary shares, and an active trading market may not develop.*

Prior to this offering, there has been no public market for our ordinary shares. An active trading market may not develop following completion of this offering or, if developed, may not be sustained. The lack of an active market may impair your ability to sell your shares at the time you

wish to sell them or at a price that you consider reasonable. The lack of an active market may also reduce the fair market value of your shares. An inactive market may also impair our ability to raise capital by selling shares of capital stock and may impair our ability to acquire other companies by using our shares as consideration.

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**Table of Contents**

*If equity research analysts do not publish research or reports about our business or if they issue unfavorable commentary or downgrade our ordinary shares, the price of our ordinary shares could decline.*

The trading market for our ordinary shares will rely in part on the research and reports that equity research analysts publish about us and our business. The price of our ordinary shares could decline if one or more securities analysts downgrade our ordinary shares or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

*The controlling share ownership position of Kibbutz Sdot-Yam and the significant share ownership position of Tene will limit your ability to influence corporate matters.*

Following the completion of this offering, Kibbutz Sdot-Yam will beneficially own approximately 56.1% of our ordinary shares and Tene will beneficially own 24.0% of our ordinary shares. If the underwriters exercise their over-allotment option, these percentages will decrease to 54.5% and 23.3%, respectively. Kibbutz Sdot-Yam and Tene have entered into an agreement pursuant to which they have agreed to vote for each other nominees for our board of directors. Pursuant to the voting agreement, Kibbutz Sdot-Yam and Tene will vote together for six of the 11 members of our board of directors with Kibbutz Sdot-Yam nominating six nominees, and, for as long as Tene holds more than 8.25% of our outstanding share capital, for a seventh nominee selected by Tene. Our board of directors immediately following this offering will consist of 10 members. Kibbutz Sdot-Yam has the right to propose for nomination an additional member to our board of directors. Once Kibbutz Sdot-Yam proposes such member, and he or she is elected at a general meeting of our shareholders, our board of directors will consist of 11 members. In addition, Tene will vote for such nominees as nominated by Kibbutz Sdot-Yam for the other four positions, provided these nominees are qualified in accordance with applicable law. The voting agreement will terminate if Tene's holdings in our company decrease below 8.25%. As a result of this concentration of share ownership, Kibbutz Sdot-Yam acting on its own has, and in the future, should Kibbutz Sdot-Yam's beneficial ownership of our shares be reduced, acting together with Tene, will have, sufficient voting power to effectively control all matters submitted to our shareholders for approval that do not require a special majority, including:

- the composition of our board of directors (other than external directors);
- approving or rejecting a merger, consolidation or other business combination; and
- amending our articles of association, which govern the rights attached to our ordinary shares.

This concentration of ownership of our ordinary shares could delay or prevent proxy contests, mergers, tender offers, open-market purchase programs or other purchases of shares of our ordinary shares that might otherwise give you the opportunity to realize a premium over then-prevailing market price of our ordinary shares. The interests of Kibbutz Sdot-Yam and Tene may not always coincide with the interests of our other shareholders. This concentration of ownership may also adversely affect our share price.

*We are a controlled company within the meaning of Nasdaq listing standards and, as a result, will qualify for, and intend to rely on, exemptions from certain corporate governance requirements.*

As a result of the number of shares beneficially owned by Kibbutz Sdot-Yam, after the completion of this offering, we will be a controlled company under the Nasdaq corporate governance rules. A controlled company is a company of which more than 50% of the voting power is held by an individual, group or another company. Pursuant to the controlled company exemption, we are not required to comply with the requirements that: (1) a majority

## **Table of Contents**

of our board of directors consist of independent directors, and (2) we have a compensation committee and a nominating committee composed entirely of independent directors with a written charter addressing each committee's purpose and responsibilities. See Management Corporate governance practices. Accordingly, you will not have the same protections afforded to shareholders of companies that are subject to all of the corporate governance requirements of the Nasdaq Stock Market.

*As a foreign private issuer whose shares are listed on the Nasdaq Global Select Market, we may in the future follow certain home country corporate governance practices instead of certain Nasdaq requirements.*

As a foreign private issuer whose shares will be listed on the Nasdaq Global Select Market, we are permitted to follow certain home country corporate governance practices instead of certain requirements of the rules of Nasdaq. This will be the case even if we cease to be a controlled company within the meaning of the Nasdaq listing standards. As permitted under the Israeli Companies Law, our articles of association to be effective following the closing of this offering will provide that the quorum for any ordinary meeting of shareholders shall be the presence of at least two shareholders present in person, by proxy or by a voting instrument, who hold at least 25% of the voting power of our shares instead of 33 1/3% of the issued share capital required under Nasdaq requirements. For an adjourned meeting at which a quorum is not present, the meeting may generally proceed irrespective of the number of shareholders present at the end of half an hour following the time fixed for the meeting. We also intend to approve the adoption of, and material changes to, equity incentive plans in accordance with the Israeli Companies Law, which does not impose a requirement of shareholder approval for such actions. In the future, we may also choose to follow Israeli corporate governance practices instead of Nasdaq requirements with regard to, among other things, the composition of our board of directors, compensation of officers, director nomination procedures and quorum requirements at shareholders' meetings. In addition, we may also choose to follow Israeli corporate governance practice instead of Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as for the establishment or amendment of certain equity-based compensation plans, issuances that will result in a change of control of the company, certain transactions other than a public offering involving issuances of a 20% or more interest in the company and certain acquisitions of the stock or assets of another company). Accordingly, our shareholders may not be afforded the same protection as provided under Nasdaq corporate governance rules. Following our home country governance practices as opposed to the requirements that would otherwise apply to a United States company listed on the Nasdaq Global Select Market may provide less protection than is accorded to investors of domestic issuers. See Management Corporate governance practices.

In addition, as a foreign private issuer, we will be exempt from the rules and regulations under the United States Securities Exchange Act of 1934, as amended, or the Exchange Act, related to the furnishing and content of proxy statements, and our officers, directors, and principal shareholders will be exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we will not be required under the Exchange Act to file annual, quarterly and current reports and financial statements with the Securities and Exchange Commission as frequently or as promptly as domestic companies whose securities are registered under the Exchange Act.

## **Table of Contents**

### ***Our United States shareholders may suffer adverse tax consequences if we are characterized as a passive foreign investment company.***

Generally, if for any taxable year 75% or more of our gross income is passive income, or at least 50% of our assets are held for the production of, or produce, passive income, we would be characterized as a passive foreign investment company for United States federal income tax purposes. There can be no assurance that we will not be considered a passive foreign investment company for any taxable year. If we are characterized as a passive foreign investment company, our United States shareholders may suffer adverse tax consequences, including having gains realized on the sale of our ordinary shares treated as ordinary income, rather than capital gain, the loss of the preferential rate applicable to dividends received on our ordinary shares by individuals who are United States holders, and having interest charges apply to distributions by us and the proceeds of share sales. See Taxation and government programs United States federal income taxation Passive foreign investment company considerations.

### ***The market price of our ordinary shares could be negatively affected by future sales of our ordinary shares.***

After this offering, there will be 33,366,250 ordinary shares outstanding. Sales by us or our shareholders of a substantial number of our ordinary shares in the public market following this offering, or the perception that these sales might occur, could cause the market price of our ordinary shares to decline or could impair our ability to raise capital through a future sale of, or pay for acquisitions using, our equity securities. Of our issued and outstanding shares, all the ordinary shares sold in this offering will be freely transferable, except for shares, if any, purchased by our affiliates, as that term is defined in Rule 144 under the Securities Act of 1933. Following completion of this offering, approximately 80.0% of our outstanding ordinary shares (or 77.7% if the underwriters exercise their over-allotment option in full) will be beneficially owned by Kibbutz Sdot-Yam and Tene, and can be resold into the public markets in the future in accordance with the requirements of Rule 144, including volume. See Shares eligible for future sale.

We and our executive officers, directors, Kibbutz Sdot-Yam and Tene, holding collectively 100% of our outstanding ordinary shares, have agreed with the underwriters that, subject to limited exceptions, for a period of 180 days after the date of this prospectus, we and they will not directly or indirectly offer, pledge, sell, contract to sell, sell any option or contract to purchase or otherwise dispose of any ordinary shares or any securities convertible into or exercisable or exchangeable for ordinary shares, or in any manner transfer all or a portion of the economic consequences associated with the ownership of ordinary shares, or cause a registration statement covering any ordinary shares to be filed, without the prior written consent of J.P. Morgan Securities LLC and Barclays Capital Inc. J.P. Morgan Securities LLC and Barclays Capital Inc., may, in their sole discretion and at any time without notice, release all or any portion of the shares subject to these lock-up agreements.

Starting six months after the closing of this offering, Kibbutz Sdot-Yam and Tene are entitled to require that we register their 26,706,250 shares under the Securities Act of 1933 for resale into the public markets. All shares sold pursuant to an offering covered by such registration statement will be freely transferable. See Certain relationships and related party transactions Registration rights agreement.

In addition to these registration rights, 1,461,442 ordinary shares will be issuable under stock options granted to employees immediately following the pricing of this offering. If we issue additional shares pursuant to the underwriters' exercise of their over-allotment option, we will

## **Table of Contents**

further adjust the amount so that it represents 4.38% of our ordinary shares outstanding following the exercise of the over-allotment option. Following this offering, we intend to file a registration statement on Form S-8 under the Securities Act registering 2,375,000 shares under our stock incentive plans. Shares included in such registration statement will be available for sale in the public market immediately after such filing except for shares held by affiliates who will have certain restrictions on their ability to sell.

*We cannot provide assurances regarding the amount or timing of dividend payments and may decide not to pay dividends in the future.*

We do not intend to declare or pay any cash dividends on our ordinary shares until at least one year following this offering. After that time, payments of dividends will be made from time to time, based on the recommendation of our board of directors, after taking into account legal limitations and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant. Accordingly, we cannot provide assurances regarding the amount or timing of dividend payments and may decide not to pay dividends in the future. As a result, you should not rely on an investment in our ordinary shares to provide dividend income.

*You will experience immediate and substantial dilution in the net tangible book value of the ordinary shares you purchase in this offering.*

The initial public offering price of our ordinary shares substantially exceeds the net tangible book value per share of our ordinary shares immediately after this offering. Therefore, based on the initial public offering price of \$11.00 per share, if you purchase our ordinary shares in this offering, you will suffer, as of December 31, 2011, immediate dilution of \$7.68 per share in net tangible book value after giving effect to (1) the sale of 6,660,000 ordinary shares in this offering at an initial public offering price of \$11.00 per share less underwriting discounts and commissions and the estimated expenses payable by us, and the application of the net proceeds as described in *Use of proceeds* and (2) the payment of a special dividend of \$25.6 million that we intend to pay immediately following the closing of this offering to our existing shareholders prior to this offering and an additional dividend of \$0.8 million that we intend to pay to our preferred shareholders prior to the closing of this offering. As a result of this dilution, as of December 31, 2011, investors purchasing ordinary shares from us in this offering will have contributed 56.8% of the total amount of our total gross funding to date but will own only 20.0% of our equity. If outstanding options to purchase our ordinary shares are exercised in the future, you will experience additional dilution. See *Dilution*.

*We have broad discretion in the use of the significant majority of the net proceeds from this offering and may not use them effectively.*

We intend to use \$25.6 million of the net proceeds of this offering to pay a special dividend to our existing shareholders immediately following the closing of this offering and to use \$6.5 million of the net proceeds of this offering to pay the balance of the acquisition price for the remaining 75% equity interest in our U.S. distributor, Caesarstone USA, formerly known as U.S. Quartz Products, Inc. We may also use a portion of the net proceeds to expand our production capacity during the next one to two years. We estimate that an additional production line would require an investment of approximately \$30 million. See *Use of proceeds* and *Dividend policy*. Our management will have broad discretion in the application of the balance of the net proceeds from this offering, including any amounts not applied to expand our production capacity, and you will be relying on the judgment of our management regarding the application



## **Table of Contents**

of these proceeds. Our management may not apply the net proceeds in ways that ultimately increase the value of your investment. In addition, we may use a portion of the net proceeds to acquire or invest in complementary companies, products or technologies. If we do not invest or apply the net proceeds from this offering in ways that enhance shareholder value, we may fail to achieve expected financial results, which could cause the price of our ordinary shares to decline.

## **Risks relating to our incorporation and location in Israel**

### *Conditions in Israel could adversely affect our business.*

We are incorporated under Israeli law and our principal offices and manufacturing facilities are located in Israel. Accordingly, political, economic and military conditions in Israel directly affect our business. Since the State of Israel was established in 1948, a number of armed conflicts have occurred between Israel and its Arab neighbors. Although Israel has entered into various agreements with Egypt, Jordan and the Palestinian Authority, there has been an increase in unrest and terrorist activity, which began in September 2000 and has continued with varying levels of severity into 2012. In mid-2006, Israel was engaged in an armed conflict with Hezbollah in Lebanon, resulting in thousands of rockets being fired from Lebanon and disrupting most day-to-day civilian activity in northern Israel. Starting in December 2008, for approximately three weeks, Israel engaged in an armed conflict with Hamas in the Gaza Strip, which involved missile strikes against civilian targets in various parts of Israel and negatively affected business conditions in Israel. Our facilities in the Bar- Lev Industrial Park are located in northern Israel and are in range of rockets that were fired during 2006 from Lebanon into Israel. In the event that our facilities are damaged as a result of hostile action or hostilities otherwise disrupt the ongoing operation of our facilities, our ability to deliver products to customers could be materially adversely affected.

Several countries, principally in the Middle East, still restrict doing business with Israel and Israeli companies, and additional countries may impose restrictions on doing business with Israel and Israeli companies if hostilities in Israel or political instability in the region continues or increases. These restrictions may limit materially our ability to obtain raw materials from these countries or sell our products to companies in these countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could adversely affect our operations and product development, cause our revenues to decrease and adversely affect the share price of publicly traded companies having operations in Israel, such as us.

### *Our operations may be disrupted by the obligations of personnel to perform military service.*

As of December 31, 2011, we had 838 employees of whom 533 were based in Israel, including 72 kibbutz members, with whom we do not have a direct employment relationship and who are engaged under a Manpower Agreement with Kibbutz Sdot-Yam. Our employees in Israel, generally males, including executive officers, may be called upon to perform up to 36 days (in some cases more) of annual military reserve duty until they reach the age of 45 (and in some cases, up to 49) and, in emergency circumstances, could be called to active duty. In response to increased tension and hostilities, there have been since September 2000 occasional call-ups of military reservists, including in connection with the mid-2006 war in Lebanon and the December 2008 conflict with Hamas, and it is possible that there will be additional call-ups in the future. Our operations could be disrupted by the absence of a significant number of our male employees

## **Table of Contents**

related to military service or the absence for extended periods of one or more of our key employees for military service. Such disruption could materially adversely affect our business and results of operations. Additionally, the absence of a significant number of the employees of our Israeli suppliers and contract manufacturers related to military service or the absence for extended periods of one or more of their key employees for military service may disrupt their operations, in which event our ability to deliver products to customers may be materially adversely affected.

### ***Our operations may be affected by negative economic conditions or labor unrest in Israel.***

General strikes or work stoppages, including at Israeli sea ports, have occurred periodically or have been threatened in the past by Israeli trade unions due to labor disputes. These general strikes or work stoppages may have an adverse effect on the Israeli economy and on our business, including our ability to deliver products to our customers and to receive raw materials from our suppliers in a timely manner. These general strikes or work stoppages may prevent us from shipping our products by sea or otherwise to our customers, which could have a material adverse effect on our results of operations.

### ***The tax benefits that are available to us require us to continue to meet various conditions and may be terminated or reduced in the future, which could increase our costs and taxes.***

Some of our Israeli facilities have been granted Approved Enterprise status by the Investment Center in the Israeli Ministry of Industry Trade and Labor or have the status of a Beneficiary Enterprise or Preferred Enterprise, which provided us with investment grants (in respect of certain Approved Enterprise programs) and made us eligible for tax benefits under the Israeli Law for the Encouragement of Capital Investments, 1959, referred to as the Investment Law.

In order to remain eligible for the tax benefits of an Approved Enterprise, a Beneficiary Enterprise and/or a Preferred Enterprise, we must continue to meet certain conditions stipulated in the Investment Law and its regulations, as amended, which may include, among other things, making specified investments in fixed assets and equipment, financing a percentage of those investments with our capital contributions, filing certain reports with the Investment Center, complying with provisions regarding intellectual property and the criteria set forth in the specific certificate of approval issued by the Investment Center or the Israel Tax Authority. If we do not meet these requirements, the tax benefits would be canceled and we could be required to refund any tax benefits and investment grants that we received in the past. Further, in the future these tax benefits may be reduced or discontinued. If these tax benefits are cancelled, our Israeli taxable income would be subject to regular Israeli corporate tax rates. The standard corporate tax rate for Israeli companies in 2010 was 25% of their taxable income and was reduced to 24% in 2011. It was scheduled to fall to 23% in 2012 and ultimately to 18% by 2016. However, this scheduled gradual reduction in corporate tax rates was repealed with the enactment of the Law for Changing the Tax Burden in Israel in late 2011 and instead the corporate tax rate will increase to 25% in 2012 and thereafter.

Effective January 1, 2011, the Investment Law was amended. Under the amended Investment Law, the criteria for receiving tax benefits were revised. In the future, we may not be eligible to receive additional tax benefits under this law. The termination or reduction of these tax benefits would increase our tax liability, which would reduce our profits. Additionally, if we increase our activities outside of Israel through acquisitions, for example, our expanded activities might not be eligible for inclusion in future Israeli tax benefit programs. Finally, in the event of a

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**Table of Contents**

distribution of a dividend from the abovementioned tax-exempt income, in addition to withholding tax at a rate of 15% (or a reduced rate under an applicable double tax treaty), we will be subject to tax at the corporate tax rate applicable to our Approved Enterprise s and Beneficiary Enterprise s income on the amount distributed in accordance with the effective corporate tax rate which would have been applied had we not enjoyed the exemption. See Taxation and government programs Israeli tax considerations and government programs Law for the Encouragement of Capital Investments, 1959.

***It may be difficult to enforce a U.S. judgment against us, our officers and directors and the Israeli experts named in this prospectus in Israel or the United States, or to assert U.S. securities laws claims in Israel or serve process on our officers and directors and these experts.***

We are incorporated in Israel. None of our directors nor our independent registered public accounting firm, are residents of the United States. None of our executive officers other than one executive officer is resident in the United States. The majority of our assets and the assets of these persons are located outside the United States. Therefore, it may be difficult for an investor, or any other person or entity, to enforce a U.S. court judgment based upon the civil liability provisions of the U.S. federal securities laws against us or any of these persons in a U.S. or Israeli court, or to effect service of process upon these persons in the United States. Additionally, it may be difficult for an investor, or any other person or entity, to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on a violation of U.S. securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. Even if an Israeli court agrees to hear 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. There is little binding case law in Israel addressing the matters described above. See Enforceability of civil liabilities.

***Your rights and responsibilities as our shareholder will be governed by Israeli law which may differ in some respects from the rights and responsibilities of shareholders of United States corporations.***

Since we are incorporated under Israeli law, the rights and responsibilities of our shareholders are governed by our articles of association and Israeli law. These rights and responsibilities differ in some respects from the rights and responsibilities of shareholders in United States-based corporations. In particular, a shareholder of an Israeli company has a duty to act in good faith and in a customary manner in exercising its rights and performing its obligations towards the company and other shareholders and to refrain from abusing its power in the company, including, among other things, in voting at the general meeting of shareholders on certain matters, such as an amendment to the company s articles of association, an increase of the company s authorized share capital, a merger of the company and approval of related party transactions that require shareholder approval. A shareholder also has a general duty to refrain from discriminating against other shareholders. In addition, a controlling shareholder or a shareholder who knows that it possesses the power to determine the outcome of a shareholders vote or to appoint or prevent the appointment of an office holder in the company or has another power with respect to the company, has a duty to act in fairness towards the company. However, Israeli law does not define the substance of this duty of fairness. See Management Fiduciary duties and approval of specified related party transactions under Israeli law Duties of shareholders. Because Israeli corporate law underwent extensive revisions approximately ten years ago, the parameters and

## **Table of Contents**

implications of the provisions that govern shareholder behavior have not been clearly determined. These provisions may be interpreted to impose additional obligations and liabilities on our shareholders that are not typically imposed on shareholders of United States corporations.

### ***Provisions of Israeli law may delay, prevent or make undesirable an acquisition of all or a significant portion of our shares or assets.***

Israeli corporate law regulates mergers and requires that a tender offer be effected when more than a specified percentage of shares in a company are purchased. Further, Israeli tax considerations may make potential transactions undesirable to us or to some of our shareholders whose country of residence does not have a tax treaty with Israel granting tax relief to such shareholders from Israeli tax. With respect to mergers, Israeli tax law allows for tax deferral in certain circumstances but makes the deferral contingent on the fulfillment of numerous conditions, including a holding period of two years from the date of the transaction during which certain sales and dispositions of shares of the participating companies are restricted. Moreover, with respect to certain share swap transactions, the tax deferral is limited in time, and when such time expires, the tax becomes payable even if no actual disposition of the shares has occurred. See Description of share capital Acquisitions under Israeli law.

Under Israeli law, our two external directors have terms of office of three years. In addition, our board of directors is entitled pursuant to our articles of association to designate two of our independent directors in office at the time of this offering (in addition to our external directors) to have an initial term of three years in office. As a result, four of the 10 members of our board of directors following the IPO will be subject to election after three years (with the two external directors continuing in the future to be subject to election every three years).

These provisions of Israeli law and our articles of association could have the effect of delaying or preventing a change in control and may make it more difficult for a third party to acquire us or our shareholders to elect different individuals to our board of directors, even if doing so would be beneficial to our shareholders, and may limit the price that investors may be willing to pay in the future for our ordinary shares.

### ***Under Israeli law, we could be considered a monopoly and therefore subject to certain restrictions that may limit our ability to freely conduct our business to which our competitors may not be subject.***

Sales in Israel accounted for 14.9% of our revenues in 2011. Our products account for a significant portion of kitchen countertop sales in Israel, but a relatively minor share of sales of all countertops and surface covers in Israel. Under the Israeli Restrictive Trade Practices Law, 1988, (the Israeli Anti-Trust Law ), a company that supplies more than 50% of any product or service in Israel or in a specific area in Israel is deemed to be a monopoly. The determination of monopoly status depends on an analysis of the relevant product or service market.

Depending on the analysis and the definition of the relevant product market in which we operate, we may be deemed to be a monopoly under Israeli law. Under the Israeli Anti-Trust Law, a monopoly is prohibited from participating in certain business practices, including discriminating between customers or charging what are considered to be unfair prices, and from engaging in certain other practices in order to protect against unfair competition. The General Director of the Israeli Antitrust Authority has the right to determine that a company is a monopoly (including a determination that it is a monopoly that has abused its position in the

**Table of Contents**

market) and has the right to intervene by ordering such a company to change its conduct in matters that may adversely affect the public, including imposing business restrictions on a company determined to be a monopoly and giving instructions with respect to the prices charged by the monopoly. If the General Director determines that we are a monopoly and also finds that we have abused our position in the market by taking anti-competitive actions, such as those described above, it would serve as *prima facie* evidence in private actions against the company alleging that we have engaged in anti-competitive behavior. Furthermore, the General Director may order us to take or refrain from taking certain actions, which could limit our ability to freely conduct our business. To date, the General Director has not made a determination that we are a monopoly. We do not believe that our operations constitute a violation of the provisions of the Israeli Anti-Trust Law even if we were found to be a monopoly under the Israeli Anti-Trust Law, but we cannot guarantee this to be the case.

We have a significant market position in certain other jurisdictions and cannot assure you that we are not, or will not become, subject to the laws relating to the use of dominant product positions in particular countries, which laws could limit our business practices and our ability to consummate acquisitions.

**Table of Contents**

## **Special note regarding forward-looking statements**

We make forward-looking statements in this prospectus that are subject to risks and uncertainties. These forward-looking statements include information about possible or assumed future results of our business, financial condition, results of operations, liquidity, plans and objectives. In some cases, you can identify forward-looking statements by terminology such as believe, may, estimate, continue, anticipate, intend, shall, plan, expect, predict, potential, or the negative of these terms or other similar expressions. The statements we make regarding the following subject matters are forward-looking by their nature:

- our ability to respond to new market developments;
- our intent to penetrate further our existing markets and penetrate new markets;
- our belief in the sufficiency of our cash flows to meet our needs for the next year;
- our plans to invest in developing future product families;
- our plans to establish an additional production line;
- our plans to invest in research and development for the development of new quartz products;
- our ability to increase quartz's penetration in our existing markets and new markets;
- our ability to acquire third-party distributors, manufacturers and raw material suppliers;
- our plans to continue to expand our international presence;
- our expectations regarding future prices of polyester and other polymer resins;
- our expectations regarding our future product mix; and
- our intended use of proceeds of this offering.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. The forward-looking statements are based on our beliefs, assumptions and expectations of future performance, taking into account the information currently available to us. These statements are only predictions based upon our current expectations and projections about future events. There are important factors that could cause our actual results, level of activity, performance or achievements to differ materially from the results, level of activity, performance or achievements expressed or implied by the forward-looking statements. In particular, you should consider the numerous risks provided under "Risk factors" in this prospectus.

You should not rely upon forward-looking statements as predictions of future events. Although we believe that the expectations reflected in the forward-looking statements are reasonable, we cannot guarantee that future results, levels of activity, performance and events and circumstances reflected in the forward-looking statements will be achieved or will occur. Except as required by law, we undertake no obligation to update publicly any forward-looking statements for any reason after the date of this prospectus to conform these statements to actual results or to changes in our expectations.

Table of Contents**Functional currency and exchange rate information**

Our functional currency is the New Israeli Shekel (NIS); however, our reporting currency is the U.S. dollar. As a result, our financial statements have been translated into U.S. dollars using the current rate method. Under the current rate method, assets and liabilities are translated using the exchange rate at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the fiscal year or other applicable period. Equity accounts are translated using the historical exchange rate at the relevant transaction date. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Gains and losses resulting from the translation of financial statements are presented as part of shareholders' equity.

The following table sets forth, for each period indicated, the low and high exchange rates for New Israeli Shekels expressed in U.S. Dollars, the exchange rate at the end of such period and the average of such exchange rates on the last day of each month during such period, based upon the representative rate of exchange as published by the Bank of Israel. The exchange rates set forth below demonstrate trends in exchange rates, but the actual exchange rates used throughout this prospectus may vary.

	<b>Year Ended December 31,</b>				
	<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>	<b>2011</b>
High	0.261	0.310	0.271	0.282	0.297
Low	0.230	0.249	0.235	0.257	0.262
Period end	0.260	0.263	0.264	0.282	0.262
Average rate	0.244	0.280	0.255	0.268	0.279

The following table sets forth, for each of the last six months, the low and high exchange rates for New Israeli Shekels expressed in U.S. Dollars, the exchange rate at the end of the month and the average of such exchange rates, based on the daily representative rate of exchange as published by the Bank of Israel.

	<b>September</b>	<b>October</b>	<b>November</b>	<b>December</b>	<b>Last Six Months</b>	
					<b>2011</b>	<b>2012</b>
					<b>January</b>	<b>February</b>
High	0.280	0.278	0.274	0.268	0.268	0.270
Low	0.268	0.266	0.263	0.262	0.259	0.263
End of month	0.269	0.277	0.264	0.262	0.268	0.266
Average rate	0.272	0.273	0.268	0.265	0.263	0.267

As of December 30, 2011, the representative exchange rate last published by the Bank of Israel was \$1.00 = NIS 3.821.

**Table of Contents**

## **Use of proceeds**

We estimate that our net proceeds from this offering will be approximately \$65.4 million, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

We intend to use \$25.6 million of the net proceeds of this offering to pay a special dividend to our existing shareholders immediately following the closing of this offering. See Dividend policy.

We intend to use \$6.5 million of the net proceeds of this offering to pay the balance of the acquisition price for the remaining 75% equity interest in our U.S. distributor, Caesarstone USA, in which we acquired a 25% interest in January 2007. We acquired the remaining interest in May 2011 and the balance of the purchase price is payable following the closing of this offering.

We may use a portion of the net proceeds to expand our production capacity during the next one to two years. We estimate that an additional production line would require an investment of approximately \$30 million. We may choose to expand our production capacity by several means, including an acquisition, and the funds required may be greater or less.

We intend to use the balance of the net proceeds of this offering for working capital and other general corporate purposes. We may also use all or a portion of the remaining net proceeds to acquire or invest in complementary companies, products or technologies. We are not currently a party to, or involved with, discussions regarding any other material acquisition that is probable, although we routinely engage in discussions with distributors and suppliers regarding potential acquisitions.

We will have broad discretion in the way that we use the balance of the net proceeds of this offering. Pending use of the net proceeds, we intend to invest the net proceeds in interest-bearing, investment-grade instruments or deposit the net proceeds in bank accounts.



**Table of Contents**

## **Dividend policy**

We have declared a special dividend of \$25.6 million that we intend to pay immediately following the closing of this offering to our existing shareholders prior this offering, and we also intend to pay to our preferred shareholders an additional dividend of \$0.8 million prior to the closing of this offering. Investors in this offering will not receive any portion of the foregoing dividends to our existing shareholders. See [Use of proceeds](#).

We did not pay any dividends in fiscal years 2006 and 2008. We paid dividends equating to \$2.6 million in fiscal year 2007, \$9.9 million in fiscal year 2009, \$14.0 million in fiscal year 2010 and \$6.9 million in fiscal year 2011. Our dividends were denominated in NIS and have been translated into U.S. dollars at the applicable exchange rate prevailing on the date each dividend was distributed.

We do not intend to declare or pay any cash dividends on our ordinary shares until at least one year following this offering. After that time, payments of dividends may be made from time to time, based on the recommendation of our board of directors, after taking into account legal limitations and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant. We may only pay dividends if we are in compliance with the financial covenants contained in the agreements for our loans and credit lines both before and after payment of any dividend. We are currently in compliance with all such covenants. See [Management's discussion and analysis of financial condition and results of operations](#) [Liquidity and capital resources](#) [Credit facilities](#).

Under Israeli law, we may declare and pay dividends only if, upon the determination of our board of directors, there is no reasonable concern that the distribution will prevent us from being able to meet the terms of our existing and foreseeable obligations as they become due. The distribution of dividends is further limited by Israeli law to the greater of retained earnings and earnings generated over the two most recent years. In the event that we do not have retained earnings or earnings generated over the two most recent years legally available for distribution, we may seek the approval of the court to distribute a dividend. The court may approve our request if it is convinced that there is no reasonable concern that a payment of a dividend will prevent us from satisfying our existing and foreseeable obligations as they become due. See [Description of share capital](#) [Dividend and liquidation rights](#).

To the extent we declare a dividend, we do not intend to distribute dividends from earnings related to our Approved/Beneficiary Enterprise programs. The taxable income exemption provided under the Approved/Beneficiary Enterprise program is valid exclusively for undistributed earnings, and as a result, a distribution of earnings related to our Approved/Beneficiary Enterprise programs would subject us to additional tax payments upon a distribution of these earnings as dividends.

The payment of dividends may be subject to Israeli withholding taxes. See [Taxation and government programs](#) [Israeli tax consideration and government programs](#) [Taxation of our shareholders](#) [Dividends](#).

**Table of Contents**

## **Capitalization**

The following table sets forth our total capitalization as of December 31, 2011, as follows:

on an actual basis;

on a pro forma basis to reflect (1) the automatic conversion of all outstanding preferred shares into ordinary shares upon the closing of this offering, and (2) the payment of a special dividend of \$25.6 million that we intend to pay immediately following the closing of this offering to our existing shareholders and an additional dividend of \$0.8 million that we intend to pay to our preferred shareholders prior to the closing of this offering; and

on a pro forma as adjusted basis to give additional effect to (1) our issuance and sale of ordinary shares in this offering at the initial public offering price of \$11.00 per share, after deducting the underwriting discounts and commissions and estimated offering expenses payable by us, and the application of such proceeds as described in Use of proceeds, (2) the payment of \$1.3 million to our Chief Executive Officer in connection with the automatic exercise upon the closing of this offering of his right to receive payment with respect to the increase in value of 175,000 of our shares granted to him in January 2009 based on the increase in value of our company at the date of this offering (see Management Equity incentive plan Grant of stock options to chief executive officer ), (3) the payment of \$1.7 million to certain of our employees and \$0.25 million to our Chairman for their contribution to our success, and (4) the amendment and restatement of our articles of association as of the closing date of this offering.

**Table of Contents**

You should read this information in conjunction with our consolidated financial statements and the related notes appearing at the end of this prospectus, the Management's discussion and analysis of financial condition and results of operations section and other financial information contained in this prospectus.

	<b>As of December 31, 2011</b>		
	<b>Pro Forma</b>		
<b>(in thousands except share data)</b>	<b>Actual</b>	<b>Pro Forma</b>	<b>As Adjusted(1)</b>
	<b>(unaudited)</b>		
Total debt	\$ 23,632	\$ 38,082	\$ 23,632
Redeemable non-controlling interest(2)	\$ 6,205	\$ 6,205	\$ 6,205
Ordinary shares, par value NIS 0.04 per share; 126,158,750 shares authorized, 19,565,000 shares issued and outstanding, actual; 133,300,000 shares authorized, 26,706,250 issued and outstanding, pro forma; 133,300,000 shares authorized, 33,366,250 shares issued and outstanding, pro forma as adjusted(3)	192	278	348
Preferred shares, par value NIS 0.04 per share; 7,141,250 shares authorized; 7,141,250 shares issued and outstanding, actual; no shares authorized and no shares issued or outstanding, pro forma and pro forma as adjusted(3)	86		
Additional paid-in capital	55,338	55,338	120,666
Accumulated other comprehensive income	6,306	6,306	6,306
Foreign currency translation adjustments	7,376	7,376	7,376
Retained earnings	\$ 67,153	\$ 40,753	\$ 39,169
<b>Total shareholders' equity</b>	<b>\$ 136,451</b>	<b>\$ 110,051</b>	<b>\$ 173,865</b>
<b>Total capitalization</b>	<b>\$ 166,288</b>	<b>\$ 154,338</b>	<b>\$ 203,702</b>

- (1) Pro forma as adjusted does not reflect the receipt of \$11.4 million from Kibbutz Sdot-Yam in connection with the anticipated sale and leaseback of our facilities in the Bar-Lev Industrial Park, which we expect to occur following the closing of this offering subject to receipt of approvals from certain Israeli governmental authorities (see "Certain relationships and related party transactions" Relationship and agreements with Kibbutz Sdot-Yam Land purchase agreement and leaseback ).
- (2) Redeemable non-controlling interest consists of 45% of the common stock of our Canadian joint venture, Caesarstone Canada Inc., in which we own a 55% interest. The 45% interest that we do not own is subject to a put option exercisable by the holder to us. Following the formation of our joint venture in October 2010, we measured all of the assets contributed to Caesarstone Canada Inc. by our former distributor in Eastern Canada, Canadian Quartz Holdings Inc., at their fair value to determine the redeemable non-controlling interest due to the put option granted to Canadian Quartz Holdings Inc. to sell its 45% ownership interest in Caesarstone Canada Inc. to us.
- (3) Our articles of association to be effective following this offering will provide that our authorized share capital will consist of 200,000,000 ordinary shares.

Table of Contents**Dilution**

If you invest in our ordinary shares in this offering, your ownership interest will be immediately diluted to the extent of the difference between the initial public offering price per share and the net tangible book value per ordinary share after this offering. Our pro forma net tangible book value as of December 31, 2011 was \$47.0 million, corresponding to a net tangible book value of \$1.76 per ordinary share. Pro forma net tangible book value per share represents our total tangible assets reduced by the amount of our total liabilities, divided by the total number of ordinary shares outstanding after giving effect to the conversion of all outstanding preferred shares upon the closing of this offering.

After giving effect to (1) the sale of ordinary shares that we are offering at the initial public offering price of \$11.00 per share and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us, and the application of such proceeds as described in Use of proceeds and (2) the payment of a special dividend of \$25.6 million that we intend to pay immediately following the closing of this offering to our existing shareholders and an additional dividend of \$0.8 million that we intend to pay to our preferred shareholders prior to the closing of this offering, our pro forma as adjusted net tangible book value as of December 31, 2011 would have been approximately \$3.32 per ordinary share. This amount represents an immediate increase in pro forma net tangible book value of \$1.56 per ordinary share to our existing shareholders and an immediate dilution in pro forma net tangible book value of approximately \$7.68 per ordinary share to new investors purchasing ordinary shares in this offering. We determine dilution by subtracting the pro forma as adjusted net tangible book value per share after this offering from the amount of cash that a new investor paid for an ordinary share.

The following table illustrates this dilution:

Initial public offering price per share	\$ 11.00
Net tangible book value per share as of December 31, 2011	\$ 2.75
Increase per share attributable to this offering	1.56
Decrease in pro forma net tangible book value per share attributable to the special dividend discussed above	0.99
Pro forma as adjusted net tangible book value per share after this offering	3.32
Dilution per share to new investors	\$ 7.68

If the underwriters exercise their option to purchase additional ordinary shares in full in this offering, the pro forma as adjusted net tangible book value after the offering would be

**Table of Contents**

\$3.32 per share, the increase in pro forma net tangible book value per share to existing shareholders would be \$1.56 and the dilution per share to new investors would be \$7.68 per share.

The following table summarizes, as of December 31, 2011, the differences between the number of shares purchased from us, the total consideration paid to us in cash and the average price per share that existing shareholders and new investors paid. The calculation below is based on the initial public offering price of \$11.00 per share before deducting the underwriting discounts and commissions and estimated offering expenses payable by us.

	Shares purchased		Total consideration		Average price
	Number	Percent	Amount	Percent	per share
Existing shareholders	26,706,250	80.0%	\$ 55,616,000	43.2%	\$ 2.08
New investors	6,660,000	20.0	73,260,000	56.8	11.00
Total	33,366,250	100.0%	\$ 128,876,000	100.0%	

The foregoing tables and calculations exclude 2,375,000 ordinary shares reserved for issuance under our equity incentive plan. We granted to our key employees, including our executive officers, options to purchase 1,461,442 ordinary shares immediately following the pricing of this offering with an exercise price equal to the initial public offering price. Since these options were granted with an exercise price equal to the initial public offering price, there will be no further dilution to investors in this offering upon their exercise. If we issue additional shares pursuant to the underwriters' exercise of their over-allotment option, we will further adjust the amount so that it represents 4.38% of our ordinary shares outstanding following the exercise of the over-allotment option.

If the underwriters exercise their over-allotment option in full the pro forma consolidated net tangible book value after this offering would be \$3.54 per share, and the dilution in pro forma consolidated net tangible book value per share to investors in this offering would be \$7.46 per share.

**Table of Contents**

## **Selected consolidated financial and other data**

The following table sets forth our selected consolidated financial and other data. You should read the following selected consolidated financial and other data in conjunction with Management's discussion and analysis of financial condition and results of operations and our consolidated financial statements and related notes included elsewhere in this prospectus. Historical results are not indicative of the results to be expected in the future. Our financial statements have been prepared in accordance with U.S. Generally Accepted Accounting Principles, or U.S. GAAP.

The consolidated statements of income data for each of the years in the three-year period ended December 31, 2011 and the consolidated balance sheet data as of December 31, 2010 and December 31, 2011 are derived from our audited consolidated financial statements appearing elsewhere in this prospectus. The consolidated balance sheet data as of December 31, 2007, 2008 and 2009 are derived from our audited consolidated financial statements that are not included in this prospectus.

Our functional currency is the New Israeli Shekel (NIS); however, our reporting currency is the U.S. dollar. As a result, our financial statements have been translated into U.S. dollars using the current rate method. Under the current rate method, assets and liabilities are translated using the exchange rate at the balance sheet date. Revenues and expenses are translated at average exchange rates prevailing during the fiscal year or other applicable period. Equity accounts are translated using the historical exchange rate at the relevant transaction date. All other balance sheet accounts are translated using the exchange rates in effect at the balance sheet date. Gains and losses resulting from the translation of financial statements are presented as part of shareholders' equity.

**Table of Contents**

(in thousands of dollars, except dividends declared and per share data)	Year Ended December 31,				
	2007	2008	2009	2010	2011
<b>Consolidated Income Statement Data:</b>					
Revenues	\$ 130,816	\$ 169,203	\$ 162,634	\$ 198,791	\$ 259,671
Cost of revenues	94,998	121,325	108,853	120,503	155,377
Gross profit	35,818	47,878	53,781	78,288	104,294
Operating expenses:					
Research and development, net(1)	956	2,147	1,964	2,273	2,487
Marketing and selling	7,279	12,934	12,960	16,048	34,043
General and administrative	8,267	14,816	18,729	20,896	30,018
Total operating expenses	16,502	29,897	33,653	39,217	66,548
Operating income	19,316	17,981	20,128	39,071	37,746
Finance expenses, net	2,710	6,206	8,693	2,370	4,775
Income before taxes on income	16,606	11,775	11,435	36,701	32,971
Taxes on income	1,948	453	3,752	7,399	3,600
Income after taxes on income	14,658	11,322	7,683	29,302	29,371
Equity in losses of affiliate, net(2)	1,739	3,554	293	296	67
Net income	\$ 12,919	\$ 7,768	\$ 7,390	\$ 29,006	\$ 29,304
Net income attributable to non-controlling interest				348	252
Net income attributable to controlling interest	\$ 12,919	\$ 7,768	\$ 7,390	\$ 28,658	\$ 29,052
Dividend attributable to preferred shareholders	(3,073)	(1,837)	(2,337)	(8,312)	(8,376)
Net income attributable to the Company's ordinary shareholders	\$ 9,846	\$ 5,931	\$ 5,053	\$ 20,346	\$ 20,676
Basic and diluted net income per ordinary share	\$ 0.50	\$ 0.30	\$ 0.26	\$ 1.04	\$ 1.06
Weighted average number of shares used in computing basic and diluted income per ordinary share	19,565	19,565	19,565	19,565	19,565
Dividends declared per share:					
Shekels	NIS 0.41	NIS	NIS 1.42	NIS 2.32	NIS 0.50
Dollars	\$ 0.10	\$	\$ 0.38	\$ 0.65	\$ 0.14

**Table of Contents**

					Actual	Pro Forma (3)	Pro Forma As Adjusted (4)
	2007	2008	2009	2010			As of December 31, 2011
<b>Consolidated Balance Sheet Data:</b>							
Cash and cash equivalents	\$ 535	\$ 2,990	\$ 20,527	\$ 43,737	\$ 11,950	\$	42,531
Working capital(5)	(1,416)	22,411	35,885	40,201	28,592	2,192	66,006
Total assets	150,282	187,426	193,444	236,403	246,317	234,367	275,552
Total debt	42,698	64,923	44,330	40,049	23,632	38,082	23,632
Total liabilities	82,420	110,099	99,025	115,450	103,661	118,111	95,482
Redeemable non-controlling interest				5,662	6,205	6,205	6,205
Shareholders' equity	67,862	77,327	94,419	115,291	136,451	110,051	173,865
							<b>Year Ended December 31,</b>
<b>(in thousands)</b>		<b>2007</b>	<b>2008</b>	<b>2009</b>	<b>2010</b>		<b>2011</b>
<b>Consolidated Cash Flow Data:</b>							
Net cash provided by operating activities		\$ 9,346	\$ 27,221	\$ 42,066	\$ 46,649	\$	\$ 28,224
Net cash provided by (used in) investing activities		(40,530)	(52,845)	635	(5,920)		(27,367)
Net cash provided by (used in) financing activities		22,103	27,007	(26,970)	(20,969)		(31,833)
<b>Other Financial Data:</b>							
Adjusted EBITDA(6)		\$ 24,053	\$ 27,353	\$ 34,397	\$ 50,489		