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

Form 20-F

(Mark One)

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

OR

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

For the fiscal year ended December 31, 2014

OR

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

For the transition period from ______ to ______

OR

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

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

Commission File Number 001-35464

CAESARSTONE SDOT-YAM LTD.
(Exact Name of Registrant as specified in its charter)

ISRAEL
(Jurisdiction of incorporation or organization)

Kibbutz Sdot-Yam
MP Menashe, 3780400
Israel
(Address of principal executive offices)

Yosef Shiran
Chief Executive Officer
Caesarstone Sdot-Yam Ltd.
MP Menashe, 3780400
Israel
Telephone: +972 (4) 636-4555
Fascimile: +972 (4) 636-4400
(Name, telephone, email and/or facsimile number and address of company contact person)

Securities registered or to be registered pursuant to Section 12(b) of the Securities Act of 1933:

| Title of each class | Name of each exchange on which registered |
|---|---|
| Ordinary Shares, par value NIS 0.04 per share | Nasdaq Global Select Market |

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

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

Indicate the number of outstanding shares of each of the issuer's classes of capital or common stock as of December 31, 2014: 35,132,127 ordinary shares, NIS 0.04 par value per share

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

Yes x No o

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

Yes £ No T

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

Yes T No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (section 229.405 of this chapter), and (2) has been subject to such filing requirements for the past 90 days:

Yes T No ¨

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of "accelerated filer and large accelerated filer" in Rule 12b-2 of the Exchange Act (Check one):

| | | |
|---|---|---|
| Large accelerated filer x | Accelerated filer o | Non-accelerated filer ¨ |

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

| | | |
|---|---|---|
| U.S. GAAP x | International Financial Reporting Standards as issued by the International Accounting Standards Board ¨ | Other ¨ |

If "Other" has been checked in response to the previous question, indicate by check mark which financial statement item the registrant has elected to follow:

Item 17 ¨ Item 18 ¨

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

Yes £ No T

## PRELIMINARY NOTES

### Introduction

As used herein, and unless the context suggests otherwise, the terms “Caesarstone,” “Company,” “we,” “us” or “ours” refer to Caesarstone Sdot-Yam Ltd. and its consolidated subsidiaries. In this document, references to “NIS” or “shekels” are to New Israeli Shekels, and references to “dollars,” “USD” or “$” refer to U.S. dollars.

Our reporting currency is the U.S. dollar. Our functional currency through June 30, 2012 was the NIS. For the periods in which our functional currency was the NIS, our consolidated financial statements were translated into U.S. dollars using the current rate method as follows: assets and liabilities were reflected using the exchange rate at the balance sheet date; revenues and expenses were reflected at the average exchange rate for the relevant period; and equity accounts were reflected using the exchange rate at the relevant transaction date. Translation gains and losses were reported as a component of shareholders’ equity. Starting on July 1, 2012, our functional currency became the U.S. dollar. The functional currency of each of our non-U.S. subsidiaries is the local currency in which it operates. These subsidiaries’ financial statements are translated into the U.S. dollar, the parent company’s functional currency, using the current rate method.

Other financial data appearing in this annual report that is not included in our consolidated financial statements and that relate to transactions that occurred prior to December 31, 2014 are reflected using the exchange rate on the relevant transaction date. With respect to all future transactions, U.S. dollar translations of NIS amounts presented in this annual report are translated at the rate of $1.00 = NIS 3.889, the representative exchange rate published by the Bank of Israel as of December 31, 2014.

### Market and Industry Data and Forecasts

This annual report 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 annual report 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 “—Forward-Looking Statements” and “ITEM 3: Key Information—Risk Factors” in this annual report.

Unless otherwise noted in this annual report, Freedonia Custom Research, Inc. (“Freedonia”) is the source for third-party industry data and forecasts. The Freedonia Report, dated February 19, 2015, represents data, research opinion or viewpoints developed independently on our behalf and does not constitute a specific guide to action. In preparing the report, Freedonia used various sources, including publically 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. Growth rates in the Freedonia Report are based on many variables, such as currency exchange rates, raw material costs and pricing of competitive products, and such variables are subject to wide fluctuations over time. The Freedonia Report speaks as of its final publication date (and not as of the date of this filing), 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 that as of the date of this filing, there has been no change in the Freedonia Report, and Freedonia has not reviewed such report from the date of its publication by Freedonia.

Special Note Regarding Forward-Looking Statements

This annual report contains forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended (the "Securities Act"), Section 21E of the Securities Exchange Act of 1934, as amended (the "Exchange Act") and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995, that are based on our management's beliefs and assumptions and on information currently available to our management. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, financing plans, competitive position, industry environment, potential growth opportunities, potential market opportunities and the effects of competition. Forward-looking statements include all statements that are not historical facts and can be identified by terms such as "anticipates," "believes," "could," "seeks," "estimates," "expects, "intends," "may," "plans," "potential," "predicts," "projects," "should," "will," "would" or similar expressions that convey unc future events or outcomes and the negatives of those terms. These statements may be found in several sections of this annual report on Form 20-F, including, but not limited to "ITEM 3: Key Information—Risk Factors", "ITEM 4: Information on Caesarstone", "ITEM 5: Operating and Financial Review and Prospects", "ITEM 10: Additional Information—Taxation—United States Federal Income Taxation—passive foreign investment company considerations." These statements include, but are not limited to, statements regarding:

- 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, manufacturing and offering innovative products;
- our plans to finalize the building of a manufacturing facility with capacity for two production lines in the State of Georgia, United States, with the first production line planned to be operational during the second quarter of 2015 and the second production line planned to be operational in the fourth quarter of 2015;
- our plans to establish a second manufacturing facility in the State of Georgia and install production lines in addition to the above-referenced two production lines, a process toward which we have already taken initial steps;
- our plans to invest in the promotion and strengthening of our brand;
- 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 successfully compete with other quartz surfaces manufacturers, suppliers and distributors, and with suppliers and distributors of other materials used in countertops;
- our ability to acquire third-party distributors, manufacturers and raw material suppliers;
- our plans to continue our international presence;
- our expectations regarding future prices of quartz, polyester and pigments;
- future foreign exchange rates, particularly the NIS, Australian dollar, Canadian dollar and the Euro;
- our expectations regarding our future product mix;
- our expectations regarding the outcome of litigation or other legal proceedings in which we are involved, and our ability to use our insurance policy to cover damages; and
- our expectations regarding regulatory matters applicable to us.

The preceding list is not intended to be an exhaustive list of all of our forward-looking statements. Forward-looking statements reflect our current views with respect to future events and are based on assumptions and are subject to risks and uncertainties, including those described in "ITEM 3.D. Key Information—Risk Factors."

You should not put undue reliance on any forward-looking statements. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors described in this annual report, including factors beyond our ability to control or predict. 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 annual report, to conform these statements to actual results or to changes in our expectations.

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PART I

ITEM 1: Identity of Directors, Senior Management and Advisers

Not applicable.

ITEM 2: Offer Statistics and Expected Timetable

Not applicable.

ITEM 3: Key Information

A. Selected Financial Data

You should read the following selected consolidated financial data in conjunction with "ITEM 5: Operating and Financial Review and Prospects" and our consolidated financial statements and the related notes included elsewhere in this annual report on Form 20-F. The consolidated income statement data for the years ended December 31, 2012, 2013 and 2014 and the consolidated balance sheet data as of December 31, 2013 and 2014 are derived from our audited consolidated financial statements included in "ITEM 18: Financial Statements", which have been prepared in accordance with generally accepted accounting principles in the United States. The consolidated income statement data for the years ended December 31, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2010, 2011 and 2012 have been derived from our audited consolidated financial statements which are not included in this annual report. The information presented below under the caption "Other Financial Data" and "Dividends declared per share" contains information that is not derived from our financial statements.

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands, except per share data) | | | | |
| Consolidated Income Statement Data: | | | | | |
| Revenues | $ 447,402 | $ 356,554 | $ 296,564 | $ 259,671 | $ 198,791 |
| Cost of revenues | 257,751 | 194,436 | 169,169 | 155,377 | 120,503 |
| Gross profit | 189,651 | 162,118 | 127,395 | 104,294 | 78,288 |
| Operating expenses: | | | | | |
| Research and development, net (1) | 2,628 | 2,002 | 2,100 | 2,487 | 2,273 |
| Marketing and selling | 55,870 | 51,209 | 46,911 | 34,043 | 16,048 |
| General and administrative | 36,111 | 32,904 | 28,423 | 30,018 | 20,896 |
| Total operating expenses | 94,609 | 86,115 | 77,434 | 66,548 | 39,217 |
| Operating income | 95,042 | 76,003 | 49,961 | 37,746 | 39,071 |
| Finance expenses, net | 1,045 | 1,314 | 2,773 | 4,775 | 2,370 |
| Income before taxes on income | 93,997 | 74,689 | 47,188 | 32,971 | 36,701 |
| Taxes on income | 13,738 | 10,336 | 6,821 | 3,600 | 7,399 |
| Income after taxes on income | 80,259 | 64,353 | 40,367 | 29,371 | 29,302 |
| Equity in losses of affiliate (2) | — | — | — | 67 | 296 |
| Net income | $ 80,259 | $ 64,353 | $ 40,367 | $ 29,304 | $ 29,006 |
| Net income attributable to non-controlling interest | 1,820 | 1,009 | 735 | 252 | 348 |

| | | | | | |
|---|---|---|---|---|---|
| Net income attributable to controlling interest | 78,439 | 63,344 | 39,632 | 29,052 | 28,658 |
| Dividend attributable to preferred shareholders | — | — | — | (8,376 ) | (8,312 ) |
| Net income attributable to the Company's ordinary shareholders | 78,439 | 63,344 | 39,632 | 20,676 | 20,346 |
| Basic net income per ordinary share | 2.25 | 1.83 | 1.21 | 1.06 | 1.04 |
| Diluted net income per ordinary share | 2.22 | 1.80 | 1.21 | 1.06 | 1.04 |
| Weighted average number of ordinary shares used in computing basic income per share | 34,932 | 34,667 | 32,642 | 19,565 | 19,565 |
| Weighted average number of ordinary shares used in computing diluted income per share | 35,394 | 35,210 | 32,700 | 19,565 | 19,565 |
| Dividends declared per share | | | | | |
| Shekels* | NIS -- | NIS — | NIS 3.78 | NIS 0.50 | NIS 2.32 |
| Dollars* | $ 0.57 | $ 0.58 | $ 1.02 | $ 0.14 | $ 0.65 |

| | At December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Consolidated Balance Sheet Data: | | | | | |
| Cash, cash equivalents and short term bank deposits | $54,327 | $92,248 | $72,733 | $11,950 | $43,737 |
| Working capital (3) | 124,306 | 145,702 | 117,712 | 28,592 | 40,201 |
| Total assets | 439,000 | 377,556 | 321,049 | 246,317 | 236,403 |
| Total liabilities | 109,274 | 104,333 | 90,026 | 103,661 | 115,450 |
| Redeemable non-controlling interest | 8,715 | 7,624 | 7,106 | 6,205 | 5,662 |
| Shareholders' equity | 321,011 | 265,599 | 223,917 | 136,451 | 115,291 |

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Other Financial Data: | | | | | |
| Adjusted EBIDTA (4) | $116,553 | $91,711 | $69,445 | $58,774 | $50,489 |
| Adjusted net income attributable to controlling interest (4) | 82,498 | 63,959 | 44,008 | 34,765 | 29,763 |
| Capital expenditures | 86,373 | 27,372 | 13,481 | 8,785 | 5,486 |
| Depreciation and amortization | 17,176 | 14,994 | 14,368 | 14,615 | 10,034 |

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* Prior to 2012, the Company declared and paid its dividends in NIS. Conversion to USD appears herein for reporting purposes. Starting in 2013, dividends were declared and paid in USD. Therefore, no conversion is required.

(1) Research and development expenses are presented net of grants that we received from the Office of the Chief Scientist ("OCS") of the Ministry of Economy of the State of Israel between 2009 and 2013.

(2) Reflects our proportionate share of the net loss of our U.S. distributor, Caesarstone USA, Inc. ("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) Working capital is defined as total current assets minus total current liabilities.

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

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Reconciliation of Net Income to Adjusted EBIDTA: | | | | | |
| Net income | $80,259 | $64,353 | $40,367 | $29,304 | $29,006 |
| Finance expenses, net | 1,045 | 1,314 | 2,773 | 4,775 | 2,370 |
| Taxes on income | 13,738 | 10,336 | 6,821 | 3,600 | 7,399 |
| Depreciation and amortization | 17,176 | 14,994 | 14,368 | 14,615 | 10,034 |
| Equity in losses of affiliate, net(a) | — | — | — | 67 | 296 |
| Excess cost of acquired inventory(b) | 231 | 188 | 885 | 4,021 | — |
| Share-based compensation expense(c) | 2,642 | 2,514 | 3,007 | 1,259 | 1,384 |
| Inventory–change of estimate (d) | — | (3,458) | — | — | — |
| Follow–on expenses (e) | 657 | 1,470 | — | — | — |
| IPO bonus(f) | — | — | 1,970 | — | — |

| | | | | | |
|---|---|---|---|---|---|
| CaesarStone USA contingent consideration adjustment(g) | — | — | 255 | — | — |
| Litigation gain(h) | — | — | (1,001) | (1,783) | — |
| Provision for employee fringe benefits (i) | 939 | — | — | — | — |
| Settlement with tax authorities (j) | (134) | — | — | — | — |
| Microgil loan and inventory write down(k) | — | — | — | 2,916 | — |
| Adjusted EBITDA | $116,553 | $91,711 | $69,445 | $58,774 | $50,489 |

(a) Consists of our portion of the results of operations of Caesarstone USA prior to its acquisition by us in May 2011.

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(b) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its sub-distributors, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.

(c) 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 2012, share-based compensation consisted primarily of expenses related to stock options granted to our employees as well as changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer. In 2013, share-based compensation consisted of expenses related to stock options granted to our employees. In 2014, share-based compensation consists of expenses related to stock options granted to our employees as well as expenses related to share-based bonus rights granted during 2014.

(d) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.

(e) In 2013, follow-on expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene Investment Fund ("Tene"), to certain of our employees that under US GAAP we are required to expense against paid-in capital. In 2014, follow-on expenses consist of direct expenses related to a follow-on offering that closed in June 2014.

(f) Consists of the payment of $1.72 million to certain of our employees and $0.25 million to our Chairman for their contribution to the completion of our initial public offering ("IPO").

(g) Relates to the change in fair value of the contingent consideration that was part of the consideration transferred in connection with the acquisition of Caesarstone USA.

(h) In 2011, litigation gain consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited. In 2012, litigation gain resulted from a settlement agreement with the former chief executive officer of Caesarstone Australia Pty Limited related to litigation that had been commenced in 2010. Pursuant to the settlement, he transferred to us the ownership of all his shares in Caesarstone Australia Pty Limited received in connection with his employment. We did not make any payments in connection with such transfer or other payments to the former chief executive officer. As a result of the settlement, we reversed the liability provision in connection with the litigation and the adjustment is presented net of the related litigation expenses incurred in connection with the settlement.

(i) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the Israeli National Insurance Institute ("NII").

(j) Relates to a refund of Israeli value added tax ("VAT") associated with a bad debt from 2007.

(k) 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 "ITEM 8: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings".

| | Year ended December 31, | | | | |
|---|---|---|---|---|---|
| | 2014 | 2013 | 2012 | 2011 | 2010 |
| | (in thousands) | | | | |
| Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income Attributable to Controlling Interest: | | | | | |
| Net income attributable to controlling interest | $78,439 | $63,344 | $39,632 | $29,052 | $28,658 |
| Excess cost of acquired inventory(a) | 231 | 188 | 885 | 4,021 | — |
| Litigation gain(b) | — | — | (1,001) | (1,783) | — |

| | | | | | |
|---|---|---|---|---|---|
| Inventory – change of estimate(c) | — | (3,458) | — | — | — |
| Follow-on expenses(d) | 657 | 1,470 | — | — | — |
| IPO bonus(e) | — | — | 1,970 | — | — |
| Caesarstone USA contingent consideration adjustment(f) | — | — | 255 | — | — |
| Microgil loan and inventory write down(g) | — | — | — | 2,916 | — |
| Share-based compensation expense(h) | 2,642 | 2,514 | 3,007 | 1,259 | 1,384 |
| Provision for employee fringe benefits (i) | 939 | — | — | — | — |
| Settlement with tax authorities (j) | (134) | — | — | — | — |
| Tax adjustment (k) | 342 | — | — | — | — |
| Total adjustments before tax | 4,677 | 714 | 5,116 | 6,413 | 1,384 |
| Less tax on above adjustments | 618 | 99 | 740 | 700 | 279 |
| Total adjustments after tax | 4,059 | 615 | 4,376 | 5,713 | 1,105 |
| Adjusted net income attributable to controlling interest | $82,498 | $63,959 | $44,008 | $34,765 | $29,763 |

(a) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its distributor, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.

(b) In 2011, litigation gain consists of a mediation award in our favor pursuant to two trademark infringement cases brought by Caesarstone Australia Pty Limited. In 2012, litigation gain resulted from a settlement agreement with the former chief executive officer of Caesarstone Australia Pty Limited related to litigation that had been commenced in 2010. Pursuant to the settlement, he transferred to us the ownership of all his shares in Caesarstone Australia Pty Limited received in connection with his employment. We did not make any payments in connection with such transfer or other payments to the former chief executive officer. As a result of the settlement, we reversed the liability provision in connection with the litigation and the adjustment is presented net of the related litigation expenses incurred in connection with the settlement.

(c) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.

(d) In 2013, follow-on expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene, to certain of our employees that under US GAAP we are required to expense against paid-in capital. In 2014, follow-on expenses consist of direct expenses related to a follow-on offering that closed in June 2014.

(e) Consists of the payment of $1.72 million to certain of our employees and $0.25 million to our Chairman for their contribution to the completion of our IPO.

(f) Relates to the change in fair value of the contingent consideration that was part of the consideration transferred in connection with the acquisition of Caesarstone USA.

(g) 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 "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings."

(h) 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 2012, share-based compensation consisted primarily of expenses related to stock options granted to our employees as well as changes in the value of share-based rights granted in January 2009 to our Chief Executive Officer. In 2013, share-based compensation consisted of expenses related to stock options granted to our employees. In 2014, share-based compensation consists of expenses related to stock options granted to our employees as well as expenses related to share-based bonus rights granted during 2014.

(i) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the NII.

(j) Relates to a refund of Israeli VAT associated with a bad debt from 2007.

(k) Relates to an adjustment in taxes as a result of a tax settlement we reached with Israeli tax authorities.

Adjusted EBITDA and adjusted net income attributable to controlling interest 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, excess cost of acquired inventory, share-based compensation expense, IPO bonus, Caesarstone USA contingent consideration adjustment, litigation gain and Microgil loan, inventory write down, follow-on offering expenses, provision for employee fringe benefits, settlement with the tax authorities and inventory change of estimate. Adjusted net income attributable to controlling interest represents net income attributable to controlling interest excluding the Tene option revaluation, excess cost of acquired inventory, litigation gain, IPO bonus, Caesarstone USA contingent consideration adjustment, Microgil loan and inventory write down, share-based compensation expense, follow-on offering expenses, provision for employee fringe benefits, settlement with the tax authorities, tax adjustment and inventory change of estimate 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 attributable to controlling interest exclude the impact of share-based compensation and a number of items that we do not believe reflect the underlying performance of our business. Because adjusted EBITDA and adjusted net income attributable to controlling interest facilitate internal comparisons of operating performance on a more consistent basis, we also use adjusted EBITDA and adjusted net income attributable to controlling interest in measuring our performance relative to that of our competitors. Adjusted EBITDA and adjusted net income attributable to controlling interest 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 attributable to controlling interest 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 attributable to controlling interest do not reflect our cash expenditures or future requirements for capital expenditures or contractual commitments;
- adjusted EBITDA and adjusted net income attributable to controlling interest 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 attributable to controlling interest differently than we do, limiting its usefulness as a comparative measure.

## B. Capitalization and Indebtedness

Not applicable.

C. Reasons for the Offer and Use of Proceeds

Not applicable.

D. Risk Factors

Our business faces significant risks. You should carefully consider all of the information set forth in this annual report and in our other filings with the United States Securities and Exchange Commission (the "SEC"), including the following risk factors which we face and which are faced by our industry. Our business, financial condition and results of operations could be materially and adversely affected by any of these risks. In that event, the trading price of our ordinary shares would likely decline and you might lose all or part of your investment. This report also contains forward-looking statements that involve risks and uncertainties. Our results could materially differ from those anticipated in these forward-looking statements, as a result of certain factors including the risks described below and elsewhere in this report and our other SEC filings. See also "Special Note Regarding Forward-Looking Statements" on page iv of this annual report.

Risks related to our business and 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 could cause our revenues and net income to decrease.

Our products are primarily used as countertops in residential kitchens. As a result, our sales depend significantly on home renovation and remodeling spending, as well as new residential construction spending. Our products are also used in commercial applications. Spending in each of the above-mentioned sectors declined significantly in 2009 compared to 2008 in most of the markets in which we operate and, to date, many of these markets, including Europe, the United States, Canada and Australia, did not recover or recovered only to a certain 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. Such factors also affect spending on commercial projects. 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. Although a certain recovery has occurred in the U.S., Australian and Canadian economies, the European economy continues to be significantly impacted today. If the housing market in each of our main markets is negatively impacted, or if significant negative trends occur in other markets, 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 2014, sales in the United States, Australia, Canada and Israel accounted for 41.5%, 24.0%, 12.9% and 9.2% of our revenues, respectively. 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 the United States, Australia, Canada or Israel, in particular, could adversely affect our revenues and net income.

Home starts in the United States, which was estimated to account for approximately 25% of our sales in this country in 2014, increased by 8.8% in 2014, following a 18.4% increase in 2013. Renovation and remodeling spending, which accounted for approximately 60% of our sales in the United States in 2014, is estimated to have grown in the United States by 4.9% in 2014 according to the Joint Center for Housing Studies, Harvard University. This followed a 6.7% increase in 2013. Renovation and remodeling activities in Australia, our second largest market, which are estimated to account for approximately 60% of our total sales in the country in 2014, estimated to increase by 0.3% from July 2013 to June 2014, following a decrease of 8.7% from July 2012 to June 2013. Housing starts, which is estimated to account for approximately 35% of our sales in Australia, increased by 11.6% from July 2013 to June 2014 following an increase of 11.4% from July 2012 to June 2013. In Canada, our third largest market, housing starts, which is estimated to account for approximately 35% of our sales in 2014, were estimated to increase by 0.7% in 2014, after a 12.5% decrease in 2013. Renovation and remodeling activities in Canada, which are estimated to account for approximately 60% of our total sales in the country in 2014, are estimated to have increased by approximately 3.5% in 2014 compared to 2013, after an increase of approximately 2% in 2013, according to Scotiabank. Our sales could be adversely impacted by other general economic conditions, including an increase in imports from Asian manufacturers into our main markets, especially the United States, Australia and Canada. Stronger local currencies could make lower-priced and lower-quality imported goods more competitive than our products. Future increases in interest rates placing pressure on the affordability of home renovation and remodeling and new residential construction projects could also slow down the demand for our products.

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, wood and ceramic. Large surfaces made of ceramic, a durable material, with sizes similar to our products' sizes, are manufactured using a relatively new technology. We compete with these surface materials and other quartz surfaces on a range of factors, including brand awareness and brand position, product quality, product differentiation, new product development and time to market, technological innovation, pricing, availability of inventory on demand, 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 and other players in our products’ value chain of the quality of our products is a key competitive differentiator. In addition, to maintain our price levels, margins, competitive position and increase demand for our quartz surface products, we must continue to develop and introduce new product designs supported by proprietary manufacturing knowledge that meets consumer preferences. Some of our competitors may be able to adapt to changes in consumer preferences and demand more quickly, devote greater resources to creating innovative designs and establishing brand recognition, manufacture more versatile slab sizes, implement processes to lower costs, acquire complementary businesses, such as raw material suppliers, and expand more rapidly or adopt more aggressive pricing policies than we can. For example, some of our competitors who manufacture quartz surfaces also market and sell ceramic surfaces for countertops. Additionally, 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, and may have more diversified product offerings involving materials in addition to quartz surfaces. Our revenues, margins and net income may be adversely affected if:

- manufacturers of other surface materials or other quartz surface manufacturers successfully brand their products as premium products;
- consumers place less value on premium branded quartz surfaces;
- we are unable to develop new product designs based on consumer demand that are supported by new technologies and know-how developed by us;
- we are unable to respond rapidly or at all to changes in consumers’ preferences, such as in the size of quartz surfaces;
- we are unable to maintain the strength of the Caesarstone brand and its reputation for high quality, innovation, emphasis on design and excellent service;
- we are unable to place sufficient inventory to fulfill the demand in the markets;
- we are unable to complete our additional manufacturing capabilities as planned;
- new products of similar or better characteristics are marketed by competitors;
- we are unable to compete with lower-priced products perceived as comparable to ours and produced by manufacturers of other surface materials or other quartz surface manufacturers; or
- our manufacturing efficiency declines as a result of decreasing capacity and/or increased expenses to meet quality standards in connection with the use of new product development technologies.

In addition, changes in any of these competitive factors may be sufficient to cause a distributor, retailer, contractor or fabricator to change manufacturers, which would harm our sales in a particular market.

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—especially for our differentiated products—at a higher level than alternate surfaces and quartz surfaces provided by other manufacturers. We face competition in all of our key markets, primarily from manufacturers located in the Asia-Pacific region and in Europe that market quartz surface products at lower price points, including quartz surface products which imitate our products and designs. 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 customers, as well as the prices that our distributors and fabricators 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 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.

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 U.S. dollar (our functional currency since July 1, 2012) and other currencies in which we conduct business. In 2014, 43.3% of our revenues were denominated in U.S. dollars, 24.0% in Australian dollars, 12.9% in Canadian dollars, 10.5% in Euros and 9.2% in NIS. In 2014, the majority of our expenses were denominated in U.S. dollars, NIS and Euros, and a smaller proportion in Australian and Canadian dollars. As a result, a weakening of the Australian and Canadian dollars and a strengthening of the NIS and Euro against the U.S. dollar presents a significant risk to us and may impact our business significantly. For example, the Australian dollar depreciated 7.0% against the U.S. dollar in 2014 compared to 2013 on an annual average basis, which resulted in our operating income decreasing by $6.4 million, or 1.4% of our revenues in 2014, compared to 2013. Although we currently engage in derivatives transactions, such as forward and option contracts, to minimize our currency risk, we do not hedge all of the exposure. We have been using a dynamic hedging strategy to hedge our cash flow exposures. This strategy involves consistent hedging of exchange rate risk in variable ratios ranging to up to 100% of the exposure over rolling 12 months. As of December 31, 2014, our average hedging ratio was approximately 50%. Therefore, future currency exchange rate fluctuations against which we have not adequately hedged could adversely affect our profitability. Moreover, our currency derivatives, except for our U.S. dollar/NIS forward contracts, are currently not designated as hedging accounting instruments under Accounting Standards Codification ("ASC") 815, Derivatives and Hedging (originally issued as SFAS 133). Hedging results are charged to finance expenses, net, and therefore, do not offset the impact of currency fluctuations on our operating income. As an exception, starting from middle of May 2014, our USD/NIS forward contracts are charged to operating expenses. See "ITEM 11: Quantitative and Qualitative Disclosure About Market Risk."

Changes in the prices of our raw materials 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.

Quartz, which includes quartz, quartzite and other dry minerals (together referred to in this annual report as “quartz,” unless otherwise specifically stated), is the main raw material component used in our products. Quartzite represents approximately 60% of our total quartz consumption, but it is contained in all of our products. Quartz accounted for approximately 31% of our raw materials cost in 2014.

Our cost of sales and overall results of operations are impacted significantly by fluctuations in quartz prices. For example, if the cost of quartz 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 0.9% in our gross profit margin. We do not have long-term supply contracts with our suppliers of quartz. The price of quartz was relatively stable during the last few years, but in 2014 and recently when renewing our annual supply terms for 2015 with certain Turkish quartzite suppliers, we experienced an increase of approximately 4% in quartzite prices each year, which we believe was driven by increasing global demand for quartz. Any future increases in quartz prices may adversely impact our margins and net income. We acquire quartzite from four suppliers in Turkey. Although quartz for our U.S. manufacturing facility, if imported from Turkey, involves higher transportation costs, we intend to continue to rely on our Turkish suppliers for our U.S. manufacturing facility during 2015 and to review alternative suppliers in the meantime.

Polyester, which acts as a binding agent in our products, accounted for approximately 43% of our raw materials costs in 2014. Accordingly, our cost of sales and overall results of operations are impacted significantly by fluctuations in polyester prices. For example, if the price of polyester 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 1.2% in our gross profit margin. The cost of polyester is a function of, among other things, manufacturing capacity, demand and the price of crude oil. We acquire polyester on a purchase order basis based on our projected needs for the subsequent one to three months. We have found that increases in their prices may be difficult to pass on to our customers. In 2010, average polyester prices increased by approximately 20% followed by a further increase of approximately 12% in 2011. In 2012, polyester prices stabilized with an approximately 1% decrease in average prices during this period. In 2013, polyester prices remained stable with an approximately 2% increase in average price. In 2014, average polyester prices decreased by 1.0%. In the past, we managed to offset a portion of these cost increases through purchase orders up to one quarter in advance. However, manufacturers are currently unwilling to agree to preset prices for periods lasting longer than one quarter. Any future 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, fluctuations in pigment prices may also adversely impact our margins and net income. For example, the price of titanium dioxide, our principal white pigmentation agent, increased by 36% approximately in 2011. However, in the following year, average titanium dioxide prices decreased by approximately 5%. In 2013, the price of titanium dioxide continued decreasing by additional 25%. In 2014, the price of titanium dioxide further decreased by 4.0%.

We are working to increase our production capacity for our quartz surface products in the United States in order to meet anticipated demand through expanding our manufacturing facilities. If we fail to achieve this further expansion, we may be unable to grow our business and revenue, maintain our competitive position or improve our profitability.

We are working to expand our existing production capacity to meet anticipated demand through the construction of a new manufacturing facility with capacity for two production lines in Richmond Hill, the State of Georgia in the United States. The first production line in the new U.S. facility is planned to be operational in the second quarter of 2015 and the second production line is planned to be operational in the fourth quarter of 2015. In addition to this investment, we have started initial steps towards establishing a second building (the "second U.S. facility") in Richmond Hill to accommodate additional manufacturing capacity in the future as needed to satisfy potential demand. Although we are experienced in constructing manufacturing facilities for our quartz surfaces, we have never established or operated manufacturing facilities outside of Israel and cannot assure you that we will be able to successfully establish the second U.S. facility or operate either U.S. facilities in a timely or profitable manner, or at all. We depend on third party construction companies to assist in the design, construction and validation of our new facilities. In addition, we will need to implement our quartz surface manufacturing proprietary technology and know-how in our U.S. facility. Our investment related to our first facility in the United States, which has two production lines (the "first U.S. facility"), is estimated to be approximately $115 million in total, of which $40 million remained to be invested as of December 31, 2014. However, the actual costs related to this production capacity increase may be materially different from what we are currently estimating. In addition, the time it takes to complete these projects may be significantly longer than we currently expect due to reasons that may be outside of our control. In addition, we will need to obtain a number of permits and regulatory approvals with respect to the new manufacturing facility in the United States and with respect to the production lines operation.

Our ability to operate our newly established first U.S. manufacturing facility successfully will greatly depend on our ability to hire, train and retain an adequate number of employees, in particular employees with the appropriate level of knowledge, background and skills. Should we be unable to hire and engage such employees, and an adequate number of them, our business and financial results could be negatively impacted. If we are unable to establish and/or operate these facilities or successfully transfer or continue to transfer our manufacturing processes, technology and know-how in a timely and cost-effective manner, or at all, then we may experience disruptions in our operations and be unable to meet demand for our products, which could have a negative impact on our business and financial results. Moreover, to meet our capacity expansion timeline, we are dependent on certain capital equipment manufacturers, third party contractors and machinery suppliers, such as Breton S.p.A. ("Breton"), a manufacturer of lines for the production of engineered stone slabs, from which we have purchased the majority of our production lines, including three of our most recently acquired production lines. Pursuant to our agreement with Breton, dated October 18, 2012, we acquired and installed our fifth production line at our Bar-Lev manufacturing facility. That agreement also included an option to purchase an additional line, which we subsequently exercised in 2013 in connection with our acquisition of the first production line for our facility in the State of Georgia, United States. We entered into an agreement with Breton for the acquisition of our second production line for the same facility on June 5, 2014. Breton's lines include technological improvements and specifications that may not be currently available at other relevant machinery suppliers. If Breton ceases its operations, at all or in part, or does not have sufficient capacity, it could materially delay or prevent our ability to complete the establishment of additional production lines.

In addition, we believe that each of these new investments will cause temporary inefficiencies that will adversely impact our margins. We expect that our margins in 2015 will be materially and adversely impacted by temporary inefficiencies in the performance of the first two production lines in our first U.S. facility and as a result of costs we expect to incur before we begin to generate revenue from these lines. We believe that our efficiency in our first U.S. facility will improve and that in 2016, margins will be impacted to a much lesser extent. If the demand for our products increases and we are unable to expand our manufacturing capabilities because of our reliance on a limited number of third party suppliers, our business, operating results and financial condition may be materially adversely affected. Conversely, if the demand for our products decreases or if we do not produce the number of products that we plan to after the expansion projects are complete and operational, we may not be able to spread a significant amount of our fixed costs over the production volume, thereby increasing our per unit fixed cost, which would have a negative impact on our financial condition and results of operations.

We have entered into a bond purchase loan agreement with the Development Authority of Bryan County, dated December 1, 2014, pursuant to which we are granted a property tax abatement with respect to our U.S manufacturing facility for ten years at 100% and an additional five years at 50%, subject to our satisfaction of certain qualifying terms with respect to headcount, average salaries paid to our employees and the total capital investment amount in our U.S manufacturing facility. If we do not meet the qualifying terms of the bond, we will bear the applicable property tax, which will be recognized in our operating costs and which would adversely impact our projected margins and results of operations.

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

We are party to 60 pending bodily injury lawsuits that have been filed against us directly since 2008 in Israel or that have named us as third-party defendants by fabricators or their employees in Israel, by the injured successors, by the State of Israel or by others. Such lawsuits include, among others, one lawsuit filed by three fabricators, one lawsuit filed by the National Insurance Institute (“NII”), an appeal which was filed in connection with a judgment granted in one of the lawsuits and a lawsuit filed against us where the claimants applied for its certification by the court as a class action. As of today, we have also received ten letters threatening to file claims against us on behalf of certain fabricators and their employees in Israel. The plaintiffs claim that they contracted illnesses, including silicosis, through exposure to silica particles during cutting, polishing, sawing, grinding, breaking, crushing, drilling, sanding or sculpting our products. 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 poorly protected and controlled, or unprotected and uncontrolled, exposure, while working in different occupations, including among other things, processing quartz, granite, marble and other materials and working with quartz, can cause silicosis and other diseases. Silica comprises approximately 90% of engineered stones such as our products, and smaller concentrations of silica are present in natural stones. Therefore, fabrication of engineered stones may create higher exposure to silica dust and, accordingly, may cause a higher risk of silicosis. Recently the Occupational Safety and Health Administration "OSHA" and the National Institute for Occupational Safety and Health "NIOSH" have published a hazard alert, according to which they identified exposure to silica as a health hazard to workers involved in manufacturing, finishing and installing natural and manufactured (engineered) stone countertop products, both in fabrication shops and during in-home finishing/installation.

Most of the claims do not specify a total amount of damages sought and the plaintiffs' future damages, if any, will be determined at trial. Although we intend to vigorously contest the claims, we cannot provide any assurance that we will be successful. We currently estimate that our total potential exposure with respect to the 47 pending lawsuits is approximately $12.1 million, although the actual result of such lawsuits may vary significantly from such estimate. We cannot make an estimate with respect to the other pending lawsuits. As of today, only one claim was resolved in court proceedings with an Israeli district court, finding that the self-employed plaintiff was 40% at fault and dividing the remaining 60% of liability between the State of Israel and us, with 55% imposed on us and 45% imposed on the State of Israel. This judgment is currently on appeal in Israel to the Supreme Court.

In April 2014, a lawsuit by a single plaintiff and a motion for the recognition of this lawsuit as a class action were filed against us in the Central District Court in Israel. The plaintiff alleges that, if the lawsuit is recognized as a class action, the claim against us is estimated to be for NIS 216 million (approximately $56 million). In addition, the claim includes an unstated sum in compensation for special and general damages. We intend to vigorously contest recognition of the lawsuit as a class action and to defend the lawsuit on its merits, although, considering the preliminary stage of this lawsuit, there can be no assurance as to the probability of success or the range of potential exposure, if any. We may be subject to putative class action lawsuits in the future in Israel and abroad and we cannot be certain whether such claims will succeed in being certified.

We are exposed in Israel to potential future subrogation claims by the NII, providing for reimbursement of its payments related to damages paid or that will be paid to plaintiffs, if we are found liable for the plaintiffs' damages. As of today, one of the 60 pending claims against us was brought by the NII, for payments the NII had made or will make in the future with respect to three fabricators who allegedly contracted silicosis. The amount of damages to which we may be liable to the NII in such a subrogation claim may not exceed the actual amount of an injured person's damages for which we are liable after deducting any compensation which we would pay to such injured pursuant to his/her direct or indirect claim against us.

Any pending or future litigation 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 claims are often numerous, the contraction of the alleged illness or its degree of severity is unclear, 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, even though they are rare in Israel. 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. Our fabricator customers may also face engineering and compliance costs related to the fabrication of our products and similar products, which could cause them to resort to fabricating alternative products that do not carry the same risks associated with silica dust generated from the fabrication of our products. OSHA is currently considering lowering the permissible exposure limit to silica dust. Any damages to which we are subject in litigation, the cost of defending any claims, compliance costs, and the loss of business from fabricators who no longer find it practical to fabricate our products may have a materially adverse impact on our profitability. Moreover, because Israeli law and the laws of several other jurisdictions recognize joint and several liability among co-defendants in civil suits, even if we are found only partially liable to a plaintiff's damages, the plaintiff may seek to collect all his damages from us, requiring us to collect separately from our co-defendants their allocated portion of the damages and there can be no assurance that we will succeed in such collection.

We currently have product liability insurance in Israel, which applies to claims that may be submitted against us worldwide during the insurance policy term and our Australian and U.S. subsidiaries have product liability insurance in Australia and the United States, respectively, that covers silicosis. We believe that our current insurance in Israel covers the pending individual product liability claims; however with respect to the claim brought in April 2014 where the plaintiff applied for class certification, our insurer has notified us that our product liability insurance covers such claim only partially. While we believe such class action is fully covered by our product liability insurance policy, there is no certainty that our insurance would also cover the class action. In addition, as discussed in “ITEM 8.A: Financial Information—Legal Proceedings,” the amount claimed in the currently pending class action exceeds our insurance coverage by a material amount.

In the scenario that we are unable to renew our insurance at all or in part, from our current insurers or from others, we are unable to obtain coverage from other insurance providers, we cannot obtain insurance on as favorable terms as previously, our insurance is terminated early, our insurance coverage is decreased, our insurance coverage inadequately covers damages for which we are found liable, 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. Such events might 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 different jurisdictions, including Israel, the United States, Canada, Australia and other markets where our products are distributed and sold and could result in significant legal expenses and damages. Although we believe that claimants in any future silica-related claims involving us should be limited to persons involved in the fabrication of our products and those in the immediate vicinity of fabrication activities, claimants may potentially include our employees or end consumers, seeking compensation for bodily or emotional/non-physical damages. Four employees currently employed in our plants have been diagnosed with suspected cases of silicosis.

For more information, see “ITEM 8.A: Financial Information— Legal Proceedings—Claims related to alleged silicosis injuries.”

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

Four 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, and one of our directors is an immediate relative of a Kibbutz Sdot-Yam member. Kibbutz Sdot-Yam is our controlling shareholder and beneficially owned 32.6% of our shares as of February 28, 2015. Certain of these individuals also serve in different positions in the Kibbutz, including one member of the Economic Council of Kibbutz Sdot-Yam (the “Economic Council”). Such individuals have fiduciary duties to both us and Kibbutz Sdot-Yam. As a result, these five directors may have real or apparent conflicts of interest on matters affecting both us and Kibbutz Sdot-Yam and, in some circumstances such individuals may have interests adverse to us. See “ITEM 6.A: Directors, Senior Management and Employees—Directors and Senior Management.”

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.

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 due to 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 2014, we generated 30.6% more revenue and a 62.4% higher adjusted EBITDA than the first quarter of 2014. Adverse weather in a particular quarter or a prolonged winter period can also impact our quarterly results. Our future results of operations may experience substantial fluctuations from period to period as a consequence of such adverse weather. 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.

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 surface 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 surface 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 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.

We may encounter significant 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 pigments. We acquire quartz from quartz manufacturers from Turkey, India, Israel and a number of European countries. We do not have long-term supply contracts with our suppliers of quartz and execute purchase orders from time to time. 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 67% of our quartz was imported from suppliers in Turkey in 2014 and we expect a similar scope in 2015. 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.

We acquired approximately 67% of our quartz from four suppliers in Turkey in 2014, with the major part acquired from Mikroman Madencilik San ve TIC.LTD.STI ("Mikroman") and Polat Maden Sanayi ve Ticaret A.S ("Polat"). Our current supply arrangements with Mikroman is based on verbal agreements, while our arrangement with Polat is memorialized in an unsigned written draft letter agreement sent to Polat. We expect our agreements with Mikroman and Polat with respect to prices and quantities to remain unchanged through the end of 2015. However, if they fail to perform in accordance with these arrangements, we may not be successful in enforcing them. If we are unable to agree upon prices with such suppliers or effectively enforce the terms of these verbal or written agreements, our suppliers could cease supplying us with quartzite and quartz, which are used across all of our products. If our supply of quartzite from Turkey is adversely impacted or if, for any other reason, any of our Turkish quartzite suppliers does not perform in accordance with our agreements with them or ceases supplying us with quartzite, for any reason, we would need to locate and qualify alternate suppliers. This could result in substantial delays in manufacturing, increase our costs, negatively impact the quality of our products or require us to adjust our products and our manufacturing processes. Any such delays in or disruptions to the manufacturing process could materially and adversely impact our reputation, revenues and results of operations as well as other business aspects, such as our ability to serve our customers and meet their order requests.

We are subject to litigation, disputes or other proceedings, which could result in unexpected expenses and 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. ("Kfar Giladi"), and Microgil Agricultural Cooperative Society Ltd. ("Microgil"), an entity we believe is controlled by Kfar Giladi, initiated arbitration proceedings against us that commenced in April 2012. We refer to Kfar Giladi and Microgil as the claimants. The claimants filed a complaint with the arbitrator against us seeking damages of NIS 232.8 million ($59.9 million), and in August 2012, we filed a complaint with the arbitrator against the claimants seeking damages of NIS 76.6 million ($19.7 million). The arbitration, which is currently pending, arises out of a dispute related to the quartz processing agreement entered into by us in 2006 (the "Processing Agreement") pursuant to which Kfar Giladi (which assigned its rights and obligations under the Processing Agreement to Microgil) 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 Agreement. Our positions are disputed by the claimants.

· In December 2007, we terminated our agreement in principle 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. In January 2008, WOMAG filed suit in South Africa seeking EURO 15.7 million ($19.1 million). In September 2013, the South African Court determined that since a proceeding on the same facts was pending before another court (lis alibi pendens), the South African Court will stay the matter until the conclusion of the Israeli action. In December 2013, the magistrate's court in Israel held that we were not entitled to terminate the agreement with WOMAG as it was not breached by WOMAG. We have filed an appeal to the district court which was dismissed and therefore the case is expected to be heard in the South African Court. It is our position that, as a detailed agreement was not entered into following the agreement in principle, the agreement in principle could be terminated upon reasonable notice, which we believe was provided. Although we intend to vigorously defend the case in the South African court, we believe that we recorded an adequate reserve for this claim.

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 "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings" for more information regarding the material legal proceeding to which we are a party.

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. In 2014, according to Freedonia, engineered quartz surfaces represented only 8% of the total countertops by volume installed in the United States. We face several challenges in achieving consumer acceptance and adoption of our products in the United States, Canada or other markets, including driving consumers' desire to use quartz 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. 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. We may also seek to expand into additional markets in the future.

In connection with our growth strategy, in May 2013, Caesarstone USA entered into an agreement with IKEA U.S. East LLC ("IKEA"), pursuant to which Caesarstone USA will serve as IKEA's exclusive non-laminate countertop vendor in the United States. Pursuant to the agreement, Caesarstone USA, sources, fabricate and install the countertop products, primarily from our quartz surfaces, all of which are not marketed under our brand. Furthermore, we are responsible thereunder for fabricating and installing countertops for end customers. In October 2014, Caesarstone Canada entered into a similar agreement with IKEA Canada Limited Partnership ("IKEA Canada"), and since December 2014, Caesarstone Canada has been acting as IKEA Canada's exclusive non-laminate countertop vendor in Canada. In line with that same strategy, we may enter into similar agreements with other third parties.

Entering into arrangements with such third parties for the supply of surface materials and fabrication and installation services may impact our supply of countertops, inventory levels, quality and service level standards and ability to manage the installation and fabrication of countertops to meet customers' demands and at reasonable prices. In addition, our gross profit margins related to products sold pursuant to our agreement with IKEA are lower than our average margins due to a volume discount and primarily because we provide non-quartz product and fabrication and installation, which are not our core business. Our operating margins related to products sold pursuant to our agreement with IKEA are similar to our model given the minimal marketing and selling expenses related to such collaboration; however we cannot assure that this will be the case upon performance of the agreement with IKEA Canada.

The agreements with IKEA and IKEA Canada will terminate at the end of 2015 and the beginning of 2017, respectively, unless terminated earlier in accordance with their terms. There is no assurance that these agreements will be renewed.

Due to short-term challenges, that we are facing today and may face in the future, in meeting demand for our products prior to the expansion of our manufacturing facilities and possibly for an additional period thereafter, we expect to acquire a limited number of our basic slab models from third-party engineered stone manufacturers.

During the period until the expansion of our manufacturing facilities is complete, and possibly an additional period thereafter, we expect to acquire a limited number of our basic slab models from third-party engineered stone manufacturers which we will re-qualify, to meet demand for our products. We cannot assure that we will be able to acquire basic slab models from third parties in the amounts necessary to meet the demand for our products or at all. The delivery of our products may also be delayed as a result of obtaining basic slab models from third parties or the quality of such basic slab models may not meet our prior quality standards, which may negatively impact our brand and reputation or result in increased warranty claims from end-customers. In addition, obtaining basic slab models from third-party engineered stone manufacturers may adversely impact our margins in 2015 and 2016. If we experience demand for our products that exceeds our manufacturing capacity and we fail to acquire basic slab models from third parties, we may not have sufficient inventory to meet our customers' demands, which would negatively impact our revenues and potentially cause us to lose market share.

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

Our manufacturing facilities and operations in Israel and our manufacturing facility in the State of Georgia, United States (our first U.S. facility), whose first and second production lines are expected to be operational by the second and fourth quarters of 2015, respectively, are subject to numerous Israeli and U.S. laws and regulations, respectively. For information on our facilities, see "ITEM 4.D: Information on Caesarstone—Property, Plants and Equipment." Applicable U.S. laws and regulations include federal, state and local environmental laws and regulations, specifically of the State of the State of Georgia. Laws and regulations in both countries deal with pollution and the protection of the environment, standards for emissions, discharges into the environment or to water, the disposal of effluents, soil and water contamination, product specifications, the generation, treatment, import, purchase, use, storage and transport of hazardous materials, the storage, treatment and disposal and remediation of solid and hazardous waste, including sludge, and the protection of worker health and safety. Liability under these laws involves inherent uncertainties. Violations of environmental, health and safety laws and regulations may lead to civil and criminal sanctions against us, our directors, officers or our employees, Caesarstone Technologies, Inc., our subsidiary which is to operate our first U.S. facility, and our subsidiary's officers and employees. In some cases, liability under such laws and regulations may result in compelling installation of additional controls and substantial penalties, injunctive orders and facility shutdowns. If our operations are enjoined because of failure to comply with environmental regulations, the decrease in production could adversely affect our results of operations. Violations of environmental laws could also result in obligations to investigate or remediate contamination, third-party property damage or personal injury claims allegedly due to the migration of contaminants off-site.

In addition, the operation of our manufacturing facilities in Israel and in the United States is subject to applicable permits, standards, licenses and approvals, such as business permits, poisons permits in Israel, building permits, and sewer-water disposal approval in Richmond hill, the State of Georgia. Currently, we are also seeking to obtain, building permits with respect to improvements made to our manufacturing facilities in Israel. Our ability to obtain necessary permits and approvals for our manufacturing facilities in Israel and in the United States may be subject to additional costs and possible delays beyond our initial projections. All of these permits, licenses, approvals, limits and standards require a considerable amount of monitoring, record-keeping and reporting in order for us to demonstrate compliance with the underlying permit, license, approval, limit or standard. If we fail to comply with the styrene emission standard in our Bar-Lev manufacturing facility, our business license for this facility may not be renewed after June 30, 2015. Generally, non-compliance with permits, licenses and approvals, their absence or incomplete documentation of our compliance status with license, permits and approvals may result in the imposition of fines, penalties and injunctive relief. We may not have been, or may not be, at all times, in complete compliance with all applicable legal requirements and we may incur material costs or liabilities in connection with such violations, 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 or be unable to renew our permits to operate our manufacturing facilities and expand the buildings at our manufacturing facilities to accommodate capacity increases.

From time to time, we face environmental compliance issues related to our two manufacturing facilities in Israel.

- At present, we have presented a plan to the Israeli Ministry of the Protection of the Environment (the "IMPE") to address environmental regulatory issues related to the emission of styrene gas. While we have applied and continue to apply measures to correct the styrene ambient air standards, our constant controlling of styrene emission levels requires strict maintenance and compliance with work processes, and there is no assurance that we will succeed in complying with the required standards on a continuous basis. For further discussion of the IMPE's allegations that we exceeded the ambient air standards at our manufacturing facilities in Israel and our subsequent response, see "ITEM 4.B: Information on Caesarstone—Business Overview—Environmental and Other Regulatory Matters—Environmental Regulations—styrene gas emissions."

- We are currently implementing measures in order to comply with dust emission environmental and occupational health standards. There is no assurance that we will be successful in employing these measures, and an ultimate failure to comply could have a material adverse effect on our business and results of operations.
- We are reviewing certain aspects of new standards adopted by the IMPE with respect to classification of sludge waste and its disposal, which impose on us higher disposal costs. We are in the process of discussing this matter with the IMPE, with the aim of obtaining its agreement that no change in our sludge-waste classification is required or that our sludge can be otherwise used for certain applications, in a manner that will reduce its disposal costs. However, there is no assurance that we will be successful in such discussions. For a discussion of the IMPE's 2013 analysis of our sludge waste disposal, see "ITEM 4.B: Information on Caesarstone—Business Overview—Environmental and Other Regulatory Matters—Environmental Regulations—sludge waste disposal."
- With respect to waste water treatment, we currently dispose of our waste water from our Bar-Lev manufacturing facility in a treatment plant pursuant to a permit obtained from the IMPE that was recently extended until December 31, 2015. We currently dispose of wastewater at our Sdot-Yam manufacturing facility pursuant to a permit obtained from the IMPE that is valid until December 31, 2016. Furthermore, in October 2014 we obtained an additional special permit, which allows us to dispose our wastewater deriving from both our manufacturing facilities into an alternative disposal facility, which may be used according to our needs. If any of these permits is not renewed, we will have to find an alternative solution to waste water disposal at some or all of our facilities in Israel, and the accompanying increase in costs may have adverse effect on our business, financial condition or 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, 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. Other than as described above, 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.

New environmental laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement of laws and regulations or other developments in Israel and in the United States could require us to make additional unforeseen expenditures. The requirements to be met, as well as the technology and length of time available to meet those requirements, continue to develop and change. These expenditures or costs for environmental compliance could have a material adverse effect on our business's results of operations, financial condition and profitability. The range of reasonably possible losses from our exposure to environmental liabilities in excess of amounts accrued to date cannot be reasonably estimated at this time.

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 11.8% of our revenues in 2014. In indirect markets where we rely on third-party distributors, we depend on the success of their selling and marketing efforts. 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.

Our initial engagements with some of our distributors are pursuant to agreement or terms of sale, as applicable, granting such distributor one year of exclusivity in that market in consideration for meeting minimum sales targets. After the initial one-year period, we may enter into a distribution agreement for a longer period of several years.

However, in the majority of cases we continue to operate on the basis of the initial agreement or terms of sale, 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 "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—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 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 period. 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 our subsidiaries and distributors in over 50 countries. Our operating results may suffer if we are unable to manage our international operations effectively.

Our products are sold in over 50 countries throughout the world and we are therefore subject to risks associated with having international operations. In 2014, 90.8% of our revenues were derived from sales outside 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 land and sea transportation costs, as well as delays in transportation and other time-to-market delays, including as a result of strikes;
- unpredictability of foreign currency exchange controls;
- compliance with unexpected changes in regulatory requirements;
- compliance with a variety of regulations and laws in each of the jurisdictions we operate or where our products are sold;
- difficulties in collecting accounts receivable and longer collection periods;
- changes in tax laws and interpretation of those laws; and
- difficulties enforcing intellectual property and contractual rights in certain jurisdictions.

In addition, certain jurisdictions could impose taxes, tariffs, quotas, custom duties, trade barriers and other similar restrictions on our sales and exports. 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, strikes and other economic or political uncertainties. For example, a labor slowdown from June 2014 through February 2015 at a seaport in California affected our ability to timely supply our products in part of the U.S. market and may have a further negative effect on our operations should it persist. 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 where 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.

If we fail to effectively upgrade our information technology systems globally, our business and operations could be disrupted.

We believe that an appropriate information technology infrastructure is important in order to support our daily operations and the growth of our business. Our enterprise resources planning ("ERP") software provides us with accessible quality data, allowing us to accurately enter, price and configure valid products in a made-to-order, demand-driven manufacturing environment. Carefully maintained infrastructure is critical, given that our products can be built in a number of combinations of sizes, colors, textures and finishes, and our production control software enables us to carefully monitor the quality of our slabs. Given our recent global expansion, in 2014 we completed implementation of a new global ERP system based on an Oracle platform. Our management information systems will require modification and refinement as we grow and as our business needs change, which could prolong difficulties we experience with system transitions, and we may not always employ the most effective systems for our purposes. If we experience difficulties in implementing new or upgraded information systems or experience significant system failures, or if we are unable to successfully modify our management information systems or respond to changes in our business needs, we may not be able to effectively manage our business, and we may fail to meet our reporting obligations. Moreover, although we are developing back-up storage for our stored data, there can be no assurance that our back-up storage arrangements are effective. Furthermore, we can provide no assurance that our current IT system is fully protected against third-party intrusions, viruses, hacker attacks, information or data theft or other similar threats.

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. 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. From 2015 onward, our U.S. manufacturing operations will also carry inter-company transactions at transfer prices and arrangements set by us. We cannot be certain that tax authorities will not disfavor our inter-company arrangements and transfer prices in the relevant jurisdictions. Taxing authorities outside of Israel 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 adjustment in one country while not followed by counter-adjustment in the other country may lead naturally to double taxation for the group. 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.

Our facilities in Israel receive different tax benefits as "Preferred Enterprises" under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"), with our production lines qualifying to receive different grants and/or reduced company tax rates. 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. In Israel, there are no tax benefits to production outside of the country. As such, our portion of taxable income in Israel that relates to the U.S. manufacturing facility will have no tax benefits. The ITA could challenge the allocation of income related to production in Israel and income related to production outside of Israel, which may result in significantly higher taxes. There are currently no legal regulations governing this allocation and certain of the ITA's internal guidelines have ambiguities. Moreover, we may lose all of our tax benefits in Israel in the event that our manufacturing operations outside of Israel exceed certain production levels (currently set at 50% of the overall production and subject to future changes by the ITA). We do not foresee such circumstances as probable in the coming years.

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" (previously reported as FIN 48 "Accounting for Uncertainty in Income Taxes") in determining our accrued liability for unrecognized tax benefits, which totaled approximately $0.4 million as of December 31, 2014. 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 installing 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 or prefer other brands, 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 due to its design, superior quality, price, technical parameters, level of service, availability, branding, trend or other factors may also result in a loss of market share and our results of operations may suffer. For example, technical ceramic surfaces have been offered in different markets as countertops recently and may in the future be a strong competitor of quartz surface products; however, it is not yet known if they will pose such a threat. If we are unsuccessful in competing against new surface materials, we could lose future sales and market share, which would have an adverse impact on our business, 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 also obtained trademark registrations for additional marks related to our product collections, including SUPREMO® and MOTIVO®. In many of our markets, we also use trademarks (registered and unregistered) for the various colors of our products. 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, in all or parts of our markets, including without limitation, for flooring and wall cladding. 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, including Caesarstone™, 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.

We have 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, Canada, China 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 have chosen and may further choose not to pursue patents for innovations that are 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 and the offering of them under our trademarks 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 costs 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 strategic, managerial, sales, marketing, operational, manufacturing, logistical, financial and administrative skills that are important to the operation of our business. The loss of any of these individuals and the inability to attract, retain and maintain additional personnel, each 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 and key personnel or to attract additional qualified personnel when needed.

In addition, according to an amendment to our articles of association, effective as of February 21, 2014, the approval of equity compensation to our executive officers requires, in addition to the approvals required under the Israeli Companies Law, 5759-1999 (the "Companies Law"), a vote of 75% of our directors in office. Accordingly, if we fail to receive the requisite approval, we may not be able to grant options or other equity compensation to our senior management, including our Chief Executive Officer. Therefore, we cannot assure you that we will be able to retain all of our existing senior management personnel and key personnel or to attract additional qualified personnel when needed.

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, manufacturers of quartz surfaces and other surfaces like ceramic, 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 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. In connection with any acquisition, 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. Acquisitions which may include the expansion of our business into new products, like ceramic, and new applications, could distract our management attention, impose high expenses and investments and expose our business to additional risks. Such acquisitions carry further risks associated with the entry into new business lines in which we do not have previous experience, and there can be no assurance that any such business expansion would be successful. In addition, future combinations or acquisitions could require the use of substantial portions of our available cash or result in dilutive issuances of securities.

Any difficulties with, damage to, or interruptions of, our manufacturing could impair or delay our output of products and harm our relationships with our customers and suppliers. If we are unable to continue to manufacture our existing products as planned and to increase our manufacturing capacity, 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. Currently, 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 to date had so far limited ability to outsource any part of our manufacturing to third parties. Our manufacturing production lines are comprised mainly of machinery from Breton, currently a leading global supplier for many companies which sell engineered stone manufacturing equipment. We depend on Breton for certain spare parts for our production line equipment and new production lines, which we may decide to acquire in order to increase our manufacturing capacity to meet the growing demand for our product, and anticipate we will continue to do so in the future. Delays in obtaining machinery or specialty machine components and spare parts from Breton could delay our output of products and any future production line expansion plans.

Damage to our manufacturing facilities or products caused by human error or negligence, 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 materials, equipment or transportation could interrupt or delay our manufacturing or other operations. We may also encounter difficulties or interruptions as a result of the application of enhanced manufacturing technologies or changes to production lines to improve our throughput, construction of our new manufacturing lines, or to upgrade or repair our existing manufacturing 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 interruptions. 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 of our control, could result in delays or failure in meeting contractual obligations and could have a material adverse effect on our relationships with our distributors and customers, and on our financial results.

Risks related to our relationship with Kibbutz Sdot-Yam

Our headquarters and one of our two manufacturing facilities in Israel 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 lease such lands from Kibbutz Sdot-Yam, our business and future business prospects may suffer.

As of February 28, 2015, Kibbutz Sdot-Yam beneficially owned approximately 32.6% of our issued and outstanding ordinary shares. Our two manufacturing facilities (as well as our headquarters and our research and development facilities) are located on lands leased by Kibbutz Sdot-Yam pursuant to two lease agreements between Kibbutz Sdot-Yam and the Israel Lands Administration (“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 these underlying lease agreements with the ILA and with the Caesarea Development Corporation, each of the ILA and the Caesarea Development Corporation may terminate their respective lease in certain circumstances, including if Kibbutz Sdot-Yam commences proceedings to disband or liquidate, or in the event that Kibbutz Sdot-Yam ceases to be organized as a “kibbutz” as defined in the lease (i.e., a registered cooperative society classified as a kibbutz). If either of the leases is terminated, we may be unable to use the land where our headquarters and one of our two manufacturing facilities are located, which would adversely affect our business.

The first lease agreement between Kibbutz Sdot-Yam and the ILA expired in 2011 and has been extended 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 and Kibbutz Sdot-Yam is currently negotiating a long-term lease agreement with the ILA to replace this agreement. 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.

The lease 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 April 2014 Kibbutz Sdot-Yam and the Caesarea Development Corporation entered into a new agreement pursuant to which Kibbutz Sdot-Yam leases the relevant premises (including such premises which are leased by the Kibbutz to us) from the Caesarea Development Corporation until year 2037. This agreement is subject to a public recording procedure. If the rights of Kibbutz Sdot-Yam to use the property terminate, we may be unable to maintain our operations on these lands, which would have a material adverse effect on our results of operations. In addition, 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 certain agreements between us and Kibbutz Sdot-Yam, we depend on Kibbutz Sdot-Yam with respect to leasing the buildings and areas of our manufacturing facilities in Israel, acquiring new land as well as building additional facilities should we need them.

Our Bar-Lev manufacturing facility is leased from Kibbutz Sdot-Yam. Such land is leased to Kibbutz Sdot Yam pursuant to a long-term lease agreement with the ILA entered into on June 6, 2007, to use the premises for an initial period of 49 years as of February 6, 2005, with an option to renew for an additional term of 49 years as of the end of the initial period. Pursuant to the land purchase and leaseback agreement signed on March 31, 2011, effective as of September 1, 2012, between Kibbutz Sdot-Yam and us, we have agreed that Kibbutz Sdot-Yam will acquire from us our rights in the lands and facilities of the site in consideration for NIS 43.7 million ($10.9 million). The land purchase agreement was simultaneously executed with a land use agreement pursuant to which Kibbutz Sdot-Yam permits us to use the site for a period of ten years with an automatic renewal for an additional ten years unless we provide Kibbutz Sdot-Yam two years' advance notice that we do not wish to renew the lease.

The lease of our Sdot-Yam facility, also located in Kibbutz Sdot-Yam, is made pursuant to the land use agreement with Kibbutz Sdot-Yam that became effective in March 2012. We may not terminate the operation of either of the two production lines at our Sdot-Yam plant as long as we continue to operate production lines elsewhere in Israel. Additionally, 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.

Pursuant to the land use agreements between us and Kibbutz Sdot-Yam, with respect to both our Sdot-Yam and Bar-Lev manufacturing facilities, subject to certain exceptions, if we need additional facilities on the land that we are permitted to use under such land use agreements, then, subject to obtaining the 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, we 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 an additional agreement with Kibbutz Sdot-Yam that became effective in March 2012 and remains effective through October 2017 (“Agreement For Arranging For Additional Accord”), if we wish to acquire or lease any additional lands, whether on the grounds of our Bar-Lev manufacturing facility, or elsewhere in Israel, for the purpose of establishing new manufacturing facilities 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, we 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 “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions”.

Pursuant to the Agreement For Arranging For Additional Accord, we have entered into an agreement with Kibbutz Sdot-Yam dated August 6, 2013 (“Agreement For Additional Land”), pursuant to which Kibbutz Sdot-Yam acquired additional land of approximately 12,800 square meters on the grounds near our Bar-Lev manufacturing facility (“Additional Bar-Lev Land”), which we required in connection with the construction of the fifth production line at our Bar-Lev manufacturing facility and leased it to us at market value, in accordance with the terms of the Agreement For Arranging For Additional Accord. Under the agreement, Kibbutz Sdot-Yam committed to (i) acquire the long-term leasing rights of the Additional Bar-Lev Land from the ILA, (ii) acquire all permits and approvals required for performing the preparation work of the Additional Bar-Lev Land and for the building of the warehouse, and (iii) perform such preparation work and construction, in conjunction with the administrative body of Bar-Lev industry park and other contractors according to our plans. The warehouse in Bar-Lev will be situated both on the current and new land. The financing of the building of the warehouse will be made through a loan that will be granted by us to Kibbutz Sdot-Yam, in the amount of the total cost related to the building of the warehouse, and such loan, including principal and interest, shall be repaid by setoff of the lease due to Kibbutz Sdot-Yam by us for our use of the warehouse. The principal amount of the loan will bear interest at a rate of 5.3% a year. We have encountered delays in the performance of this agreement, and as a result, we are incurring costs for storage at third parties’ facilities.

Regulators and other third parties may question whether 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 our two manufacturing facilities in Israel are located on lands leased by Kibbutz Sdot-Yam, which beneficially owns 32.6% 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. We believe that such services are rendered to us in the normal course of business and they represent terms no less favorable than those that would have been obtained from an unaffiliated third party. Nevertheless, a determination with respect to such matters requires subjective judgments regarding valuations, and regulators and other third parties may question whether our agreements with Kibbutz Sdot-Yam are in the ordinary course of our business and are no less favorable to us than if they had been negotiated with unaffiliated third parties. As a result, the tax treatment for these transactions may be called into question. See “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions.”

Under Israeli law, our board, audit committee and shareholders may be required to reapprove certain of our agreements with Kibbutz Sdot-Yam every three years, and their failure to do so may expose us to liability and cause significant disruption to our business.

The Companies Lawrequires that 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 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. Our implementation of this requirement with respect to the agreements entered into between us and Kibbutz Sdot-Yam may be challenged by regulators and other third parties.  See “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam.”

Our audit committee has determined that the terms of all the agreements entered into between us and Kibbutz Sdot-Yam are reasonable under the relevant circumstances, except for the manpower agreement entered into between Kibbutz Sdot-Yam and us on January 1, 2011, as it relates to office holders, and the services agreement entered into between Kibbutz Sdot-Yam and us on July 20, 2011 (as amended). See “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions.” Accordingly, our manpower agreement, as it relates to office holders, and our services agreement, both with Kibbutz Sdot-Yam, will have to be reapproved in 2015 subject to the Companies Law requirements. We are currently negotiating with Kibbutz Sdot-Yam the renewal of these agreements, which are subject to approval as required by the Companies Law. If the approval of our shareholders is required, it 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 two percent (2%) of the voting rights in the company.

If our audit committee, board and shareholders do not re-approve the manpower agreement and the services agreement, or if it is determined that re-approval of our other agreements with Kibbutz Sdot-Yam is required every three years and the re-approval is not obtained, we will be required to terminate the agreements, 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. In addition, we would be required to find suitable replacements for the services provided to us by Kibbutz Sdot-Yam under the manpower agreement and the service agreement, which may take time, and we can provide no assurance that we can obtain the same or better terms with a third party than those we have agreed to with Kibbutz Sdot-Yam.

Risks related to our ordinary shares

We cannot provide any assurance regarding the amount or timing of dividend payments.

Prior to our IPO, our controlling shareholders, at that time, received periodic dividends. In connection with our IPO, we determined not to pay any dividends until at least March 21, 2013, one year following such offering. We distributed a dividend in the amount of $20.1 million in December 2013 and in the amount of $20.0 million in December 2014. We currently expect that 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, growth plans and contractual limitations under our credit agreements, and other factors that our board of directors may deem relevant. At this time, we do not have a declared dividend policy, although we may adopt one in the future, and we cannot provide assurances regarding the amount or timing of any dividend payments and may decide not to pay dividends in the future.

The price of our ordinary shares may be volatile.

Our ordinary shares were first offered publicly in our IPO in March 2012, at a price of $11.00 per share. In April 2013 and June 2014, pursuant to follow-on offerings, our shareholders registered and sold additional amounts of our ordinary shares at a price of $23.25 and $45.5 per share, respectively. Since the pricing of our June 2014 offering, our ordinary shares have traded as high as $65.70 per share and as low as $44.10 per share through February 28, 2015.

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.

Although our ordinary shares are listed on the Nasdaq Global Select Market, an active trading market on the Nasdaq Global Select Market may not be sustained. If an active market for our ordinary shares is not sustained, it may be difficult or even impossible to sell ordinary shares in the United States.

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 business 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.

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 relies 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 one or more of those analysts issue other unfavorable commentary or cease publishing reports about us or our business.

The substantial share ownership position of Kibbutz Sdot-Yam will limit your ability to influence corporate matters.

As of February 28, 2015, Kibbutz Sdot-Yam beneficially owned 32.6% of our ordinary shares. As a result of this concentration of share ownership, Kibbutz Sdot-Yam acting on its own will continue to have significant voting power on all matters submitted to our shareholders for approval, 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 may not always coincide with the interests of our other shareholders. This concentration of ownership may also adversely affect our share price.

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

As a foreign private issuer whose shares are 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. As permitted under the Israeli Companies Law, our articles of association 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. At an adjourned meeting, any number of shareholders constitutes a quorum. We also approve the adoption of, and material changes to, equity incentive plans in accordance with the 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 choose to follow Israeli corporate governance practice instead of Nasdaq requirements to obtain shareholder approval for certain dilutive events (such as for 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 U.S. company listed on the Nasdaq Global Select Market, may provide less protection than is accorded to investors of domestic issuers. See "ITEM 16G: Corporate Governance".

As a foreign private issuer, we are not subject to the provisions of Regulation FD or U.S. proxy rules and are exempt from filing certain Exchange Act reports.

As a foreign private issuer, we are exempt from the rules and regulations under the Exchange Act related to the furnishing and content of proxy statements, and our officers, directors and principal shareholders are exempt from the reporting and short-swing profit recovery provisions contained in Section 16 of the Exchange Act. In addition, we are not required under the Exchange Act to file annual and current reports and financial statements with the SEC as frequently or as promptly as U.S. domestic companies whose securities are registered under the Exchange Act, we are permitted to disclose limited compensation information for our executive officers on an individual basis and we are generally exempt from filing quarterly reports with the SEC under the Exchange Act. Moreover, we are not required to comply with Regulation FD, which restricts the selective disclosure of material nonpublic information to, among others, broker-dealers and holders of a company's securities under circumstances in which it is reasonably foreseeable that the holder will trade in the company's securities on the basis of the information. These exemptions and leniencies reduce the frequency and scope of information and protections to which you may otherwise have been eligible in relation to a U.S. domestic issuer.

We would lose our foreign private issuer status if (a) a majority of our outstanding voting securities were either directly or indirectly owned of record by residents of the United States and (b)(i) a majority of our executive officers or directors were United States citizens or residents, (ii) more than 50 percent of our assets were located in the United States or (iii) our business were administered principally outside the United States. Our loss of foreign private issuer status would make U.S. regulatory provisions mandatory. The regulatory and compliance costs to us under U.S. securities laws as a U.S. domestic issuer may be significantly higher. If we are not a foreign private issuer, we will be required to file periodic reports and registration statements on U.S. domestic issuer forms with the SEC, which are more detailed and extensive than the forms available to a foreign private issuer. We would also be required to follow U.S. proxy disclosure requirements, including the requirement to disclose, under U.S. law, more detailed information about the compensation of our senior executive officers on an individual basis. We may also be required to modify certain of our policies to comply with accepted governance practices associated with U.S. domestic issuers. Such conversion and modifications will involve additional costs. In addition, we would lose our ability to rely upon exemptions from certain corporate governance requirements on U.S. stock exchanges that are available to foreign private issuers.

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 U.S. 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 U.S. holders, and having interest charges apply to distributions by us and the proceeds of share sales. See "ITEM 10.E: Additional Information—Taxation—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.

As of February 28, 2015, we had 35,133,568 ordinary shares outstanding, including approximately 11,440,000 ordinary shares, or 32.6% of our ordinary shares, beneficially owned by Kibbutz Sdot-Yam, which can be resold into the public markets in accordance with the requirements of Rule 144, including volume limitations. Sales by us or by Kibbutz Sdot-Yam of a substantial number of our ordinary shares in the public market, 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.

Kibbutz Sdot-Yam may require us to effect a registered offering of up to an additional 11,440,000 shares under the Securities Act for resale into the public markets. All shares sold pursuant to an offering covered by such registration statement or statements will be freely transferable. See "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Registration rights agreement."

In addition to these registration rights, as of February 28, 2015, 1,206,580 ordinary shares were reserved for issuance under our 2011 Incentive Compensation Plan of which options to purchase 399,825 ordinary shares were outstanding with a weighted average exercise price of $10.09 per share. On March 23, 2012, we filed a registration statement on Form S-8 registering up to 2,375,000 ordinary shares that we may issue under our stock incentive plans, out of which we have granted options for 1,545,200 ordinary shares. Shares included in such registration statement may be freely sold in the public market upon issuance, except for shares held by affiliates who have certain restrictions on their ability to sell.

Risks relating to our incorporation and location in Israel

If we fail to comply with Israeli law restrictions concerning employment of Jewish employees on Saturdays, we and our office holders may be exposed to administrative and criminal liabilities and our operational and financial results may be adversely impacted.

We are subject to the Israeli Hours of Work and Rest Law, 1951 (the "Rest Law"), which prohibits the employment of Jewish employees on Saturdays and Jewish holidays, unless a permit is obtained from the Israeli Ministry of Economy. Our employees, including Jewish and other employees, work in three separate eight-hour shifts a day seven days a week. We currently do not have a permit for the employment of Jewish employees on Saturdays and Jewish holidays. Such employment of Jewish employees on Saturdays without a permit constitutes an infringement of the Rest Law. Although there is no assurance that we will be able to obtain a permit to employ Jewish employees on Saturdays, we recently submitted an application with the Israeli Ministry of Economy for such permit. In September 2014, the Israeli Ministry of Economy conducted an inspection at our Bar-Lev plant and identified several of our Jewish employees working on Saturday. Following such inspection, we were summoned by the Israeli Ministry of Economy to clarify the circumstances. The Israeli Ministry of Economy has not yet indicated which measures, if any, would be taken with respect to that matter. If we are deemed to be in violation of the Rest Law, we and our officers may be exposed to administrative and criminal liabilities, including fines, and our operational and financial results could be materially adversely impacted.

Concurrently, we are in the process of implementing certain operational steps and changes in our headcount so that we can comply with the Rest Law over time. If we are unable to obtain a permit to employ Jewish employees on Saturdays and Jewish holidays and if we are unsuccessful in employing only non-Jewish employees on Saturdays, we may be compelled to cease or halt operations of our manufacturing facilities in Israel during Saturdays and Jewish holidays, and as a result, we may have less production capacity which could have a material adverse effect on our revenues and profitability.

Conditions in Israel could adversely affect our business.

We are incorporated under Israeli law and our principal offices and two of our 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 neighboring countries. 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 is continuing today with varying levels of severity. 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. An armed conflict between Israel and Hamas in the Gaza Strip occurred again in November 2012 and July and August 2014. These conflicts involved missile strikes against civilian targets in various parts of Israel including most recently, central Israel, and negatively affected business conditions in Israel as well as home starts and the building industry in Israel. Recent popular uprisings in various countries in the Middle East and North Africa have affected the political stability of those countries. Such instability may lead to deterioration in the political and trade relationships that exist between the State of Israel and these countries, such as Turkey, from which we import a significant amount of our raw materials. Any armed conflicts, terrorist activities or political instability in the region could adversely affect our business, financial condition and results of operations.

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 armed conflict between Israel and Hamas in Gaza Strip in July and August 2014, rockets from Gaza Strip reached the area of our Sdot-Yam plant. 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. In addition, our commercial insurance in Israel does not cover losses that may occur as a result of acts of war; however, losses as a result of terrorist attacks are covered by our insurance for damages of up to $20 million to our facilities, as are losses due to a disruption to the ongoing operations, if such damages are not covered by the Israeli government. Although the Israeli government currently covers the reinstatement value of direct damages that are caused by terrorist attacks or acts of war, we cannot assure you that this government coverage will be maintained and will be adequate in the event we submit a claim. Even if maintained and adequate, we cannot assure you that it will reduce or prevent any losses that may occur as a result of such actions or will be exercised in a timely manner to meet our contractual obligations with customers and vendors.

Some countries around the world 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 and customers in these countries. Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or a 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, 2014, we had 1,108 employees worldwide of whom 635 were based in Israel. Our employees in Israel, generally males, including executive officers, may be called upon to perform up to 54 days in each three-year period until they reach the age of 40. In the case of officers and certain reservists with specific military professions, the duty may extend up to 84 days in each three-year period and continue until they reach the age of 45 (and in some cases, up to 49). In emergency circumstances, these employees and executives could be called to immediate and prolonged active duty. In response to increased tension and hostilities, there have been occasional call-ups of military reservists, including in connection with the mid-2006 war in Lebanon and the conflicts with Hamas that occurred in December 2008, November 2012 and summer 2014, 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 employees 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, in Israel or in other countries where we, our subsidiaries, suppliers and distributors operate, may prevent us from shipping raw materials and equipment required for our production and shipping our products by sea or otherwise to our customers, which could have a material adverse effect on our results of operations.

Since none of our employees work under any collective bargaining agreements, extension orders issued by the Israeli Ministry of Economy apply to us and affect matters such as cost of living adjustments to salaries, length of working hours and work week, recuperation pay, travel expenses, and pension rights. Any labor disputes over such matters could result in a work stoppage or strikes by employees that could delay or interrupt our output of products. Any strike, work stoppages or interruption in manufacturing could result in a failure to meet contractual obligations or in delays, including in our ability to manufacture and deliver products to our customers in a timely manner, and could have a material adverse effect on our relationships with our distributors and on our financial results.

Recently, some of our employees in Israel have acted to form a workers' union to be represented by the Histadrut, the Israeli workers' union association. Following objections from other employees to the formation of a workers' union, the Histadrut filed a claim in an Israeli court, in which the Histadrut argued that such objections were directed by our management in an attempt to deprive our employees of their right to unionize. The Histadrut applied for the grant of a declaratory order to prevent us from resisting our employees' efforts to unionize and such temporary order was granted by the court with our consent. In addition, the Histadrut applied to impose on us damages in the amount of approximately NIS 2 million ($0.5 million) for seeking to disrupt our employees' initiations to unionize.

It is our position that the Histadrut's claim is unsubstantiated and that we have never tried to impair our employees' right to unionize, and we intend to vigorously defend ourselves against the Histadrut's claims. If a union of our employees is formed, we may enter into a collective agreement with our employees, which may increase our costs and limit our managerial freedom, and if we are unable to reach a collective agreement, we may become subject to strikes and work stoppages, all of which may adversely affect our business.

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 Economy (the "Investment Center") or have the status of a "Beneficiary Enterprise" or "Preferred Enterprise" which provides us with investment grants (in respect of certain Approved Enterprise programs) and makes us eligible for tax benefits under 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, and in certificates of approval issued by the Investment Center (in respect of Approved Enterprise programs), which may include, among other things, selling more than 25% of our products to markets of over 14 million residents in a specific tax year, 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 ITA. If we do not meet these requirements, the tax benefits could 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 was 25% in 2012 and 2013 and rose to 26.5% in 2014 and thereafter.

Effective January 1, 2011, the Investment Law was amended ("Amendment No. 68"). Under Amendment No. 68, 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 to be included in future Israeli tax benefit programs. We may lose all of our tax benefits in Israel in the event that our manufacturing operations outside of Israel exceed certain production levels (currently set at 50% of the overall production and subject to future changes by the ITA). We do not foresee such circumstances as probable in the coming years.

Finally, in the event of a distribution of a dividend from the tax-exempt income described above, 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 that would have been applied had we not relied on the exemption—tax rate of no more than 25%. In addition to the reduced tax rate, a distribution of income attributed to an "Approved Enterprise" and a "Beneficiary Enterprise" will be subject to 15% withholding tax. As for a "Preferred Enterprise," dividend is subject to 20% withholding tax from 2014 (or a reduced rate under an applicable double tax treaty). However, because we announced our election to apply the provisions of Amendment No. 68 prior to July 30, 2015, we will be entitled to distribute exempt income generated by any Approved/Beneficiary Enterprise to our Israeli corporate shareholders tax free (See "ITEM 10.E: Additional Information—Taxation—Israeli tax considerations and government programs—Law for the Encouragement of Capital Investments, 1959").

In November 2012, amendment No. 69 to the Investment Law (the "Trapped Earnings Law") came into effect. The amendment provides temporary, partial, relief from corporate taxation on distributions of dividends from exempt income for companies that elect the "relief option" through November 2013. The Trapped Earnings Law allows a company to qualify a portion of its exempt income ("Elected Earnings") for a reduced tax rate ranging between 6% and 17.5%, instead of corporate tax rate of up to 25%. We decided not to use the relief option. As such, our exempt income may be subject to an argument by the ITA, as described below.

The amendment to the Investment Law stipulated that investments in subsidiaries, including in the form of acquisitions of subsidiaries from an unrelated party, may also be considered as a deemed dividend distribution event, increasing the risk of triggering a deemed dividend distribution event and potential tax exposure. The ITA’s interpretation is that this provision applies retroactively to investments and acquisitions made prior to the amendment.

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

We are incorporated in Israel. None of our directors or our independent registered public accounting firm is a resident 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.

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 U.S.-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 "ITEM 6.C: Directors, Senior Management and Employees—Board Practices— Board Practices—Fiduciary duties and approval of specified related party transactions under Israeli law—Duties of shareholders." The Israeli corporate law underwent extensive revisions in past years. The parameters and implications of the provisions that govern shareholder behavior have not been clearly determined by the Israeli courts. 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 a merger transaction, or an acquisition of all or a significant portion of our shares.

Israeli corporate law regulates mergers by mandating certain procedures and voting requirements, and requires that a tender offer be affected 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 "ITEM 10.B: Additional

Information—Memorandum and Articles of Association—Acquisitions under Israeli law."

Under Israeli law, our two external directors have terms of office of three years. These directors have been elected by our shareholders to serve for an additional three-year term to commence March 21, 2015.

These provisions of Israeli law 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 could be 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 9.2% of our revenues in 2014. 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 sold 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 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 we are a monopoly or 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 outside of Israel 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.

## ITEM 4: Information on Caesarstone

### A. History and Development of Caesarstone

#### Our History

Caesarstone Sdot-Yam Ltd. Was founded in 1987 and incorporated in 1989 in the State of Israel. We are a leading manufacturer of high quality engineered quartz surfaces sold under our premium Caesarstone brand. Caesarstone is a pioneer in the engineered quartz surfaces industry. Our products consist of engineered quartz slabs that are currently sold in over 50 countries through a combination of direct sales in certain markets performed by our subsidiaries and indirectly through a network of independent distributors in other markets. Our products accounted for approximately 12% of global engineered quartz by volume in 2014. In 2008 and 2010, we acquired the business of our former Australian and Canadian distributors, respectively, and established such businesses within our own subsidiaries in such countries. In 2011, we acquired our former U.S. distributor and now generate a substantial portion of our revenues in the United States from direct distribution of our products. Our products are primarily used as kitchen countertops. Other applications include vanity tops, wall panels, back splashes, floor tiles, stair 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, offers 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.

In March 2012, we listed our shares on the Nasdaq Global Select Market.  We are a company limited by shares organized under the laws of the State of Israel. We are registered with the Israeli Registrar of Companies in Jerusalem. Our registration number is 51-143950-7. Our principal executive offices are located at Kibbutz Sdot-Yam, MP Menashe, 3780400, Israel, and our telephone number is +972 (4) 636-4555. We have irrevocably appointed Caesarstone USA as our agent to receive service of process in any action against us in any United States federal or state court. The address of Caesarstone USA is 6840 Hayvenhurst Ave., Suite 100, Van Nuys, California 91406. For more information about us, our website is www.caesarstone.com. The information contained therein or connected thereto shall not be deemed to be incorporated by reference in this annual report.

Principal Capital Expenditures

Our capital expenditures for fiscal years 2012, 2013, and 2014 amounted to $13.5 million, $27.4 million, and $86.4 million respectively. The majority of our investment activities have historically been related to the purchase of manufacturing equipment and components for our production lines, as well as the acquisition of the business of our former Australian distributor and Caesarstone USA and in 2014 the construction of a new manufacturing facility with capacity for two production lines in Richmond Hill, the State of Georgia, United States. In order to support our overall business expansion, we will continue to invest in manufacturing equipment and components for our production lines. Moreover, we may spend additional amounts of cash on acquisitions from time to time, if and when such opportunities arise. We anticipate that our major capital expenditures in 2015 will be related to the completion of our new U.S. manufacturing facility and is estimated to be approximately $40 million. Our investments related to this production capacity increase in the United States from start to completion are currently estimated to be approximately $ 115.0 million.  We currently anticipate our capital expenditures in 2015 and 2016 will be financed from cash generated from operations and our current cash position.

## B. Business Overview

The global countertop industry generated approximately $81 billion in sales to end consumers in 2014, based on average installed price, which includes installation and other related costs. Sales to end-consumers include sales to end-consumers of countertops as opposed to sales at the wholesale level from manufacturers to fabricators and distributors.

2014 Global Countertop Demand

2014 Global Countertop Demand by Material

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 2014, global engineered quartz sales to end-consumers grew at a compound annual growth rate of 15.7% compared to a 4.4% compound annual growth rate in total global countertop sales to end-consumers during the same period. In recent years, quartz penetration rate increased in our key markets, as detailed in the following chart:

Quartz penetration in our key markets

| | For the year ended December 31, | | |
|---|---|---|---|
| Region | 2014 | 2012 | 2010 |
| United States | 8 % | 6 % | 5 % |
| Australia | 39 % | 35 % | 32 % |
| Canada | 18 % | 12 % | 9 % |
| Israel | 86 % | 85 % | 82 % |

Our products consist of engineered quartz slabs that are currently sold in over 50 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 and residential construction 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, offers superior scratch, stains and heat resistance, making them durable and ideal for kitchen and other applications relative to competing products such as granite, manufactured solid surfaces and laminate. Through our design and manufacturing processes we are able to offer a wide variety of colors, styles, designs and textures. In 2014, our products accounted for approximately 12% of global engineered quartz by volume and we have captured approximately 19%, 55%, 36% and 84% of the countertop market share in the United States, Australia, Canada and Israel, by volume, respectively.

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 2009, at a compound annual growth rate of 11.5%. From 2009 to 2014, our revenue grew at a compound annual growth rate of 22.4%. In 2014, we generated revenue of $447.4 million, net income attributable to controlling interest of $78.4 million, adjusted EBITDA of $116.6 and adjusted net income attributable to controlling interest of $82.5 million. See "ITEM 3.A: Key Information—Selected Financial Data" for a description of how we define adjusted EBITDA and adjusted net income attributable to controlling interest and reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest.

Our Products

Our products to date are generally marketed under the Caesarstone brand. The substantial majority of our products are installed as countertops in residential kitchens. Other applications of our products include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces. Our engineered quartz slabs generally measure 120 inches long by 56 1/2 inches wide with a thickness of 1/2 of an inch, 3/4 of an inch or 1 1/4 inches. With our fifth line in the Bar-Lev plant and the sixth and seventh lines which we intend to start operating in 2015 at our U.S. manufacturing facility, we have the ability to manufacture engineered quartz slabs measuring 130 inches long by 65 inches wide. Engineered quartz surfaces are typically comprised of approximately 90% natural crushed quartz and approximately 10% polyester and pigments. Our products' quartz composition gives them superior strength and resistance to heat, scratches, cracks and chips. Polyester, which acts as a binding agent in our products, make our products non-porous and highly resistant to stains. Pigments act as a dyeing agent to vary our products' colors and patterns.

We engineer our products with a wide range of colors, finishes, textures, thicknesses and physical properties, which help us meet the different functional and aesthetic demands of end-consumers. We offer a wide spectrum of design options in the engineered quartz surface industry with different colors, textures and finishes designed to appeal to end-consumers' preferences. Our designs range from fine-grained patterns to coarse-grained color blends with a variegated visual texture. Through offering new designs, we capitalize on Caesarstone's brand name and foster our image as a leading innovator in the engineered quartz surface industry.

Our product offerings include four collections, each of which is designed to have a distinct aesthetic appeal. We use a multi-tiered pricing model across our products and within each product collection ranging from highly granulated color and pattern varieties at lower price points to specialty, finely granulated or high demand varieties at higher price points. Each product collection is designed, branded and marketed with the goal of reinforcing our products' premium quality.

We introduced our original product collection, Classico, in 1987, and today, this collection accounts for the substantial majority of our sales. Within this product collection, we offer approximately 70 different colors, with four textures and three thicknesses generally available for each of the collection's colors. We have since introduced three additional product collections, Concetto, Motivo and Supremo, which are marketed as specialty high-end product collections. The Concetto product collection, launched in 2003, features engineered quartz surfaces with hand-incorporated semi-precious stones. We launched our Motivo product collection in 2009, which features a range of patterned textures that can be customized. In 2010, we launched our Supremo product collection that is characterized by unique designs inspired by semi-precious stones. In 2012, we launched five new products under our super natural collection, whose design was inspired by natural stone and which are manufactured using proprietary technology. We regularly introduce new colors and designs to our product collections based on consumer trends. In 2013, we introduced seven new colors to our Classico and super natural collections. In 2014, we introduced eight new colors to our Classico collection, including the Calacatta Nuvo product, which is inspired by the natural calacatta stone, and other products inspired by natural granite and marble.

A key focus of our product development is a commitment to substantiating our claim of our products' superior quality, strength and durability. Our products undergo regular tests for durability and strength internally by our laboratory operations group and by external accreditation organizations. Many of our products are accredited by the National Sanitation Foundation (NSF), a U.S. non-profit, non-governmental organization overseeing standards development and product safety certifications. Our NSF Standard 51 certification certifies our products as safe for use in food preparation and easy to clean and sanitize. In addition, our products are certified as a low volatile organic compound product by GREENGUARD Indoor Air Quality, an independent, non-profit accreditation organization. Our products have been consistently highly ranked by the United States Green Building Council for their compliance with environmental standards, which allows contractors to receive Leadership in Energy and Design (LEED) points for projects incorporating our products.

Distribution

Our four largest markets based on sales are currently the United States, Australia, Canada and Israel. In 2014, sales of our products in these markets accounted for 41.5%, 24.0%, 12.9% and 9.2% of our revenues, respectively. Sales in these markets accounted for 87.7% of our revenues in 2014. For a breakdown of revenues by geographic market for the last three fiscal years, see "ITEM 5.A: Operating Results and Financial Review and Prospects—Operating Results."

Direct Markets

We currently have direct sales channels in the United States, Australia, Canada, Israel and Singapore. Our direct sales channels allow us to maintain greater control over our entire sales channel within a market. As a result, we gain greater insight into market trends, receive feedback more readily from end-consumers, architects and designers regarding new developments in tastes and preferences, and have greater control over inventory management. Our subsidiaries' warehouses in each of these countries maintain inventories of our products and are connected to each subsidiary's sales department. We supply our products primarily to fabricators, who in turn resell them to contractors, developers, builders and consumers, who are generally advised by architects and designers to use Caesarstone products for a project.

In Israel, where our headquarters and manufacturing operations are located, we distribute our products directly to several local distributors who in turn sell them to fabricators. This arrangement minimizes our financial exposure to end-consumers and provides us with significant depth of coverage in the Israeli market. Although we sell our products to distributors in this market, we consider this a direct market due to the warranty we provide to end-consumers, as well as our fabricator technical and health and safety instruction programs and our robust local sales and marketing activities. In the United States, Australia, Canada and Singapore we have established direct distribution channels with distribution locations in major urban centers complemented by arrangements with various third parties sub-distributors or stone suppliers in certain areas of the United States. In 2014, in Australia, Canada and the United States, the adoption rate of the engineered quartz surfaces was approximately 39%, 18% and 8%, respectively, of the overall countertop market by volume in 2014, and we have captured approximately 55%, 36% and 19% of countertop market share in Australia, Canada and the United States, respectively.

In the United States, our Caesarstone USA subsidiary entered into an agreement with IKEA in May 2013. Pursuant to that agreement, we exclusively supply all non-laminate slabs to IKEA customers in the United States, in addition to fabricating and installing the slabs. The surfaces provided under this agreement are then marketed by IKEA without a brand name. We have engaged several third-parties fabricators to provide us with the fabrication and installation services designated for IKEA customers. In 2014, we primarily supplied to IKEA customers our quartz surfaces.

In October 2014 Caesarstone Canada entered into a similar agreement with IKEA Canada, and since December 2014 we have been acting as IKEA's exclusive non-laminate countertop vendor in Canada, and fabricating and installing the slabs. We have engaged several third-party fabricators to provide us with the fabrication and installation services designated for IKEA customers.

The agreements with IKEA and IKEA Canada will terminate at the end of 2015 and the beginning of 2017, respectively, unless terminated earlier in accordance with these agreements. There is no assurance that these agreements will be renewed.

Indirect Markets

We distribute our products in other territories in which we do not have a direct sales channel through third-party distributors, who generally distribute our products on an exclusive or non-exclusive basis in a specific country or region to fabricators. Fabricators sell our products to contractors, developers, builders and consumers. In most cases, we engage one distributor to serve a country or region. Today, we sell our products in over 40 countries through third-party distributors. Sales to third-party distributors accounted for 11.8% of our revenues in 2014, after our shift to direct distribution in the United States and Canada in the first half of 2011. This strategy often allows us to accelerate our penetration into multiple new markets. Our distributors typically have prior stone surface experience and close relationships with fabricators, builders and contractors within their respective territory.

We work closely with our distributors to assist them in preparing and executing a marketing strategy and comprehensive business plan; however, our distributors are responsible for the sales and marketing of our products and providing technical support to their customers within their respective territories. To assist our distributors in the promotion of our brand in these markets, we provide our distributors with marketing materials and in certain cases, monetary participation in marketing activities. Our distributors devote significant effort and resources to generating and maintaining demand for our products along all levels of the product supply chain in their territory. To this end, distributors use our marketing products and strategies to develop relationships with local builders, contractors, developers, architects and designers.

Sales and Marketing

Sales

In our direct markets, we primarily sell directly to fabricators with remainder of sales to sub-distributors and resellers, such as stone suppliers, in the United States, and excluding our sales to IKEA in the United States and Canada within which we also provide fabricating and installation services, through third-party fabricators engaged by us), such as in Australia, where we sell our products through our Australian subsidiary, in Canada, where we sell our products through our joint venture, in the United States, where we sell our products through our U.S. subsidiary, and in Singapore, where we sell our products through our Singaporean subsidiary. Like in our indirect markets, in Israel, we sell to a limited number of distributors who sell our products to fabricators; however, we consider this a direct market due to our warranty program, our fabricator technical and health and safety instruction program and our sales and marketing operations in this country. In our indirect markets we sell to third-party distributors who in turn sell our products to fabricators and installers. For our direct sales, we manufacture engineered quartz slabs based upon our rolling projections about the demand for our products, and for our indirect sales, we manufacture our products on a purchase order basis. In both cases, we ship our products from our two manufacturing facilities in Israel, and, beginning in the second quarter of 2015, we plan to serve the North American market also from our manufacturing facility in the United States.

In our indirect sales markets, we sell our products to distributors who are responsible for selling our products to fabricators. In some cases, our distributors sell to sub-distributors located within the territory who in turn sell to fabricators. Unlike distributors, sub-distributors do not engage in brand promotion activities and their activities are limited to sales promotion, warehousing and distributing to fabricators or other customers. We do not control the pricing terms of our distributors’ or sub-distributors’ sales to fabricators. As a result, prices for our products for fabricators may vary among markets.

In recent years, our sales department, responsible for our global sales to third parties, which is based in Israel, has focused on penetrating new markets, as well as further developing our key growth indirect sales markets. We have developed a comprehensive methodology for evaluating and entering new markets. In particular, we analyze several factors within a market, including existing demand for stone products, supported by stone installation capabilities, gross domestic product per capita, the competitive landscape and the economic growth rate. We focus our efforts on those markets that we believe offer significant growth opportunity for our products. Potential distributors are evaluated based on their experience in the surface products industry, logistics and distribution capabilities and suitability to market our products. In recent years, we significantly increased the number of countries where we conduct indirect sales by appointing distributors in several new countries on an exclusive or non-exclusive basis, including Brazil, Russia, and countries in Eastern Europe. We intend to continue to penetrate new markets in collaboration with distributors.

In recent years, we have also significantly increased our revenues within our existing key direct markets in the United States, Australia, Canada and Israel. We believe our products still have significant growth opportunities in the United States, Australia and Canada. We intend to continue to invest resources to further strengthen and increase our penetration in each of these markets.

Marketing

We position our engineered quartz surfaces as premium branded products in terms of their designs, quality and pricing. Through our marketing, we seek to convey our products’ ability to elevate the overall quality of an entire kitchen or other interior setting. Our marketing strategy is to deliver this message every time our customers (including end-customers), fabricators, architects and designers come in contact with our brand. We also aim to communicate our position as a global leader in engineered quartz surface innovation and technology.

The goal of our marketing activities is to drive marketing and sales efforts through our subsidiaries and our distributors, while creating demand for our products from end-consumers, fabricators, contractors, architects and designers, which we refer to as a “push-and-pull demand strategy.” We believe that the combination of both pushing our products through all levels of the product supply chain while generating demand from end-consumers differentiates us from our competitors in the engineered quartz and surface material industries.

We believe that by localizing our marketing activities at the distributor level, we increase the global exposure of our brand while tailoring marketing activities to the individual needs, tastes and preferences of a particular country. As such, marketing activities across our markets differ as we aim to promote sales among those who have the greatest influence on public perception in each market.

We and our distributors implement a multi-channel marketing strategy in each of our territories and market not only to our direct customers, but to the entire product supply chain, including fabricators, developers, contractors, kitchen retailers, builders, architects and designers. We use multiple marketing channels, including advertisements in home interior magazines and websites, the placement of our display stands and sample books in kitchen retails stores and our company website. Through our “Caesarstone University” program we educate fabricators about our products and their capabilities and installation methods through manuals and seminars. As a result, our markets benefit from highly trained fabricators with a comprehensive understanding of our products and the ability to install our products in a variety of applications.

Our marketing materials are developed by our global marketing department in Israel and are used by our distributors and subsidiaries globally. These materials may be slightly adjusted in their respective local markets, which helps in combining the special needs of each market and the global consistency of the Caesarstone brand. We offer our distributors a refund of a small percentage of their total purchases from us to buy our marketing materials, such as product brochures, promotional packages, print and online advertising materials, sample books, exhibition infrastructure, signage and stationary and display stands. This provides our distributors with significant flexibility to choose the best marketing strategy to implement in their particular territory. Occasionally, our local marketing departments in Canada, Australia and in the United States develop their own tactical marketing materials in accordance with our global brand guidelines, in addition to using our marketing materials, due to the size and particular characteristics of these territories. In 2014, we spent $18.6 million on direct advertising and promotional activities.

Our websites are a key part of our marketing strategy. We operate a global company website that serves as an international website for our distributors. Certain of our third-party distributors and our Australian subsidiary maintain their own websites, which are in accordance with our brand guidelines and linked to our website. Our websites enable fabricators and end-consumers to view currently available designs, photo galleries of installations of our products in a wide range of settings, and read product success stories, which feature high profile individuals' and designers' use of our products, as well as instructions with respect to the correct usage of our products. We also conduct marketing activity in the social media arena mainly to increase our brand awareness among end-consumers, architects and designers.

We also seek to increase awareness of our brand and products through a range of other methods, such as home design shows, design competitions, media campaigns and through our products' use in high profile projects and iconic buildings. In recent years, we have collaborated with renowned designers, who created exhibitions and particles from our products. Our design initiatives attracted press coverage around the world.

Research and Development

Our research and development department is located in Israel. The department is comprised of 14 employees and works closely with employees from other departments, all of whom have extensive experience in engineered quartz surface manufacturing, polymer science, engineering, product design and engineered quartz surface applications. Between 2009 and 2013, a small portion of our research and development efforts had benefited from grants from the OCS in the Israeli Ministry of Economy. In 2014, research and development costs accounted for approximately 0.6% of our total revenues.

The strategic mission of our research and development team is to develop and maintain innovative and leading technologies and top quality designs, develop new and innovative products according to our marketing department's roadmap, increase the cost-effectiveness of our manufacturing processes and raw materials, and generate and protect company intellectual property in order to enhance our position in the engineered quartz surface industry. We also study and evaluate consumer trends by attending industry exhibitions and hosting international design workshops with market and design specialists from various regions.

We introduced our Supremo collection in July 2010. In 2012, we introduced our super natural designs, which form part of our Classico collection, and launched five products under the super natural collection. These products are designed to reflect our interpretation of natural stone. In 2013, we introduced seven new colors under our Classico collection, including super natural designs. In 2014, we introduced eight new colors under our Classico collection, including our Calacatta Nuvo, which is our interpretation of natural calacatta stone, and other products inspired by natural granite and marble, all of which were the result of new proprietary technologies developed by our research and development department.

Customer Service

We believe that our ability to provide outstanding customer service is a strong competitive differentiator. Our relationships with our customers are established and maintained through the coordinated efforts of our sales, marketing, production and customer service personnel. In our indirect markets, we provide all of our distributors a limited direct manufacturing defect warranty and our distributors are responsible for providing warranty coverage to end-customers. The warranties provided by our distributors vary in term with a three-year warranty provided in Europe and warranties lasting up to 20 years in other regions. In our direct markets, the warranty period also varies. We provide end-consumers with limited lifetime warranties in the United States and Canada, a ten-year warranty in Australia, and a three-year warranty in Israel. For end-consumers, warranty issues on our products are addressed by our local distributor. In our direct markets, following an end-consumer call, our technicians are sent to the product site within a short time. We train our distributors to handle local warranty issues through our "Caesarstone University" program. The Caesarstone University program includes readily accessible resources and tools regarding the fabrication, installation, care and maintenance of our products. We believe our comprehensive global customer service capabilities and the sharing of our service related know-how differentiate our company from our competitors.

Raw Materials and Service Provider Relationships

Quartz, pigment and polyester are the primary raw materials used in the production of our products. We acquire our raw materials from third-party suppliers. Suppliers ship our raw materials to our manufacturing facilities in Israel, primarily by sea. All of our raw materials are inspected at the suppliers' facilities and upon arrival at our manufacturing facilities in Israel. We believe our strict raw material quality control procedures differentiate our products from those of our competitors because they limit the number of product defects and contribute to the superior quality and appearance of our products.

Quartz, which includes quartz, quartzite and other dry minerals, is the main raw material component used in our products, and is acquired from manufacturers generally in Turkey, India, Israel, and a number of European countries. We require supplies of particular grades of quartz, including quartzite, for our products. Approximately 67% of our quartz was imported from four suppliers in Turkey in 2014, with the major part acquired from Mikroman and Polat. Our current supply arrangements with Mikroman is based on verbal agreements, while our arrangement with Polat is memorialized in an unsigned written draft letter agreement sent to Polat. We expect our agreements with Mikroman and Polat with respect to prices and quantities to remain unchanged through the end of 2015. However, if they fail to perform in accordance with these arrangements, we may not be successful in enforcing them. If we are unable to agree upon prices with such suppliers or effectively enforce the terms of these verbal or written drafts arrangements, our suppliers could cease supplying us with quartzite, which are used across all of our products. If our supply of quartzite from Turkey is adversely impacted or if, for any other reason, any of our Turkish quartzite suppliers does not perform in accordance with our agreements with them or ceases supplying us with quartzite, for any reason, we would need to locate and qualify alternative suppliers. This could result in substantial delays, increase our costs, negatively impact quality of our products or require us to adjust our products and our manufacturing processes. Any such delays in or disruptions to the manufacturing process could materially and adversely impact our reputation, revenues and results of operations as well as other business aspects, such as our ability to serve our customers and meet their order requests.

Aside from our arrangements with Mikroman and Polat described above, we typically transact business with our quartz suppliers on an annual framework agreement basis, under which we execute purchase orders from time to time. Other than with respect to the quartzite that we obtain from our Turkish suppliers, we believe that the raw materials we use are available from additional sources within a relatively short period of time. Although quartz for our U.S. manufacturing facility, if imported from Turkey, would entail higher transportation costs, we intend to acquire quartz for our U.S. manufacturing facility in 2015 mainly from Turkey and to review alternative suppliers in the meantime.

Raw quartz must be processed into finer grades of sand and powder before we use it in our manufacturing process. We purchase quartz from our quartz suppliers already processed by them. The price of quartz was relatively stable until 2013. However, given increasing global demand for quartz, quartzite prices increased by approximately 4% in 2014 and have increased at approximately the same rate in 2015. Any future increases in quartz prices may adversely impact our margins and net income.

In most cases, we acquire polyester on a purchase order basis with several suppliers outside of Israel based on our projected needs for the subsequent one to three months. However, currently, suppliers are unwilling to agree to preset prices for periods longer than a quarter. The cost of polyester, which generally correlates with oil prices, has fluctuated significantly. Average polyester prices increased by 20% and 12% in 2010 and 2011, respectively. In 2012, however, polyester prices stabilized with an approximately 10% decrease in average prices during this period. In 2013, polyester prices continued to be stable with an approximately 2% increase in average price. In 2014, polyester prices decreased by approximately 1.0%. In the past, we have minimized the impact of these fluctuations on our results of operations through advance purchases of inventory whenever possible and through implementing cost control measures and programs to enhance the efficiency of other elements of our manufacturing operations.

Our pigments are purchased in Israel and from suppliers abroad. We are exposed, although to a lesser extent than with polyester, to fluctuations in the prices of pigments. Our strategy is to maintain, whenever practicable, multiple sources for the purchase of our raw materials to achieve competitive pricing, provide flexibility and protect against supply disruption.

Manufacturing and Facilities

Our products are manufactured at our two manufacturing facilities located in Kibbutz Sdot-Yam in central Israel and Bar-Lev Industrial Park in northern Israel. We completed our Bar-Lev manufacturing facility in 2005, which included our third production line, and we established our fourth production line at this facility in 2007 and our fifth production line at this facility in 2013. Finished slabs are shipped from our facilities to distributors and customers worldwide. We maintain two fully automated production lines at our Sdot-Yam facility and three such full lines at our Bar-Lev manufacturing facility. We began to partially operate the fifth production line at our Bar-Lev facility in the fourth quarter of 2013, and to fully operate it in the second quarter of 2014. We are working to expand our production capacity to meet anticipated demand through the construction of a new manufacturing facility with capacity for two production lines in the State of Georgia, United States. The first production line in the new U.S. facility is planned to be operational in the second quarter and the second production line is planned to be operational in the fourth quarter of 2015. In addition to this investment, we have taken initial steps towards establishing our second building in the State of Georgia, to accommodate additional manufacturing capacity in the future as needed to satisfy potential demand. Until the expansion projects are complete, we have been acquiring and expect to further acquire a limited portion of our basic slab models from third-party-engineered stone manufacturers which we re-qualify to meet demand for our products. For further discussion of our facilities, see "ITEM 4.D: Information on Caesarstone—Property, plants, and equipment."

The manufacturing process for our products involves blending approximately 90% natural crushed quartz with approximately 10% polyester and pigments. Using machinery acquired primarily from Breton, the leading supplier of engineered stone manufacturing equipment, together with our proprietary manufacturing enhancements, this mixture is compacted into slabs by a vacuum and vibration process. The slabs are then moved to a curing kiln where the cross-linking of the polyester is completed. Lastly, the slabs are gauged, calibrated and polished to enhance shine.

We maintain strict quality control and safety standards for our products and manufacturing process. As a result, we believe that utilizing in-house manufacturing facilities are the most effective way to ensure that our end-consumers receive high quality products. Our manufacturing facilities have several safety certifications from third-party organizations, including an OHSAS 18001 safety certification from the International Quality Network for superior manufacturing safety operations.

Seasonality

For a discussion of seasonality, please refer to "ITEM 5.A: Operating and Financial Review and Prospects—Operating Results—Quarterly results of operations and seasonality."

Competition

We believe that we compete principally based upon product quality, new product development, brand awareness, pricing, customer service and breadth of product offerings. We believe that we differentiate ourselves from competitors on the basis of our signature product designs, our ability to offer our products in major markets globally, our focus on the quality of our product offerings, our customer service oriented culture, our high involvement in the product supply chain and our leading distribution partners.

The dominant surface materials used by end-consumers in each market vary. Our engineered quartz surface products compete with a number of other surface materials such as granite, laminate, marble, manufactured solid surface, concrete, stainless steel, wood and ceramic large slabs, a new countertop surface material entrant. The manufacturers of these products consist of a number of regional and global competitors. Some of our competitors may have greater resources than we have, and as a result, may 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 and implement processes to lower costs.

The engineered quartz surface market is highly fragmented and is also served by a number of regional and global competitors. We also face competition from low-cost manufacturers in Asia and Europe, particularly in Australia, and the United States. Large multinational companies have also invested in their engineered quartz surface production capabilities. We believe that we are likely to encounter strong competition from these competitors as a result of consolidation that may take place in the industry in the future. Such consolidation is likely to occur as a result of the economies of scale associated with engineered quartz manufacturing that are becoming important to remain competitive in an increasingly global engineered quartz surface market and will be increasingly important as the engineered quartz market matures in the future.

Information Technology Systems

We believe that an appropriate information technology infrastructure is important in order to support our daily operations and the growth of our business. Our ERP software provides us with accessible quality data and allows us to accurately enter, price and configure valid products in a made-to-order, demand-driven manufacturing environment. Carefully maintained infrastructure is critical, given that our products can be built in a number of combinations of sizes, colors, textures and finishes, and our production control software enables us to carefully monitor the quality of our slabs. Given our recent global expansion, we implemented a global ERP based on an Oracle platform, in 2013 and 2014.

Intellectual Property

Our Caesarstone brand is central to our business strategy, and we believe that maintaining and enhancing the Caesarstone brand is critical to expanding our business.

We have obtained trademark registrations in certain jurisdictions that we consider material to the marketing of our products, all of which are used under the trade name Caesarstone, including CAESARSTONE®, CONCETTO®, and our Caesarstone logo. We have obtained trademark registrations for additional marks that we use to identify certain product collections, including SUPREMO® and MOTIVO®, as well as other marks used for certain of our products. While we expect our applications to mature into registrations, we cannot be certain that we will obtain such registrations. In many of our markets we also have trademarks, including registered and unregistered marks, on the colors of our products. 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, in all or parts of our markets, including without limitation, for flooring and wall cladding. We are currently subject to opposition proceedings with respect to applications for registration of our trademarks, including Caesarstone™, in certain jurisdictions.

To protect our know-how and trade secrets, we customarily require our employees and managers 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.

We began to pursue a strategy of seeking patent protection for some of our latest technologies. We have obtained patents for certain of our technologies and have pending patent applications that were filed in various jurisdictions, including the United States, Europe, Australia, Canada, China and Israel, which relate to our manufacturing technology and certain products. No patent application is material to the overall conduct of our business. 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 have chosen and may further choose not to pursue patents for innovations that are material to our business.

Environmental and Other Regulatory Matters

Environmental Regulations

Our manufacturing facilities and operations in Israel and our manufacturing facility in the State of Georgia, United States (our first U.S. facility), whose first and second production lines are expected to be operational by the second and fourth quarters of 2015, respectively, are subject to numerous Israeli and U.S. environmental laws and regulations, respectively. Applicable U.S. laws and regulations include federal, state and local environmental laws and regulations, and specifically of the State of Georgia. Laws and regulations in both countries deal with pollution and the protection of the environment, setting standards for emissions, discharges into the environment or to water, soil and water contamination, product specifications, generation, the treatment, import, purchase, use, storage and transport of hazardous materials, and the storage, treatment and disposal and remediation of solid and hazardous waste, including sludge and protection of worker health and safety. Violations of environmental, health and safety laws, regulations and permit conditions may lead to civil, and criminal sanctionsagainst us, our directors, officers or our employees, Caesarstone Technologies, Inc., our subsidiary which is to operate our U.S. facility, and our subsidiary's officers and employees, and, in some cases, may result in compelling installation of additional controls and substantial penalties, injunctive orders as well as permit revocations and facility shutdowns. Violations of environmental laws could also result in obligations to investigate or remediate contamination, third-party property damage or personal injury claims allegedly due to the migration of contaminants off-site. New Israeli and U.S. environmental laws and regulations, new interpretations of existing laws and regulations, increased governmental enforcement of laws and regulations or other developments in Israel and in the U.S. could also require us to make additional expenditures. Many of these laws and regulations are becoming increasingly stringent, and the cost of compliance with these requirements can be expected to increase over time.

Beyond being subject to regulatory and legal requirements, our manufacturing facilities in Israel and in the United States may operate under applicable permits, licenses and approvals with terms and conditions containing a significant number of prescriptive limits and performance standards. The business licenses for our facilities each contain conditions related to a number of requirements, including with respect to dust emissions, air quality, the disposal of effluents and process sludge, and the handling of waste, chemicals and hazardous materials.In particular, our manufacturing facilities in Israel are subject to specific conditions set forth in the business licenses and permits related to the use, storage and discharge of hazardous materials granted by national and municipal authorities. All of these permits, licenses, approvals, limits and standards require a significant amount of monitoring, record-keeping and reporting in order for us to demonstrate compliance with the underlying permit, license, approval, limit or standard. Non-compliance or incomplete documentation of our compliance status may result in the imposition of fines, penalties and injunctive relief, or the stripping of our license to operate our business.

From time to time, we face environmental compliance issues related to our two manufacturing facilities in Israel.

- Sludge waste disposal

  - In January 2010, the IMPE ordered us to remove sludge waste that was disposed of in 2009 in a number of locations in northern Israel claiming that such disposal was unlawful. We have engaged in discussions with the IMPE with respect to which sites will require waste removal. We performed a feasible and practical clean-up project but have yet to receive any acknowledgement by the IMPE that no further actions are necessary in relation with such sludge.

  - In April 2013, the IMPE analyzed our sludge waste and alleged that such sludge waste, which had been classified as construction waste, should be reclassified as hazardous waste due to several ingredients included therein. After reexamining our sludge, the IMPE decided in May 2014 to classify our sludge as solid industrial waste. Such reclassification results in the need to dispose the waste at different disposal sites, which involves much higher expenses compared to our previous disposal costs. We are in the process of discussing this matter with the IMPE, with the aim of obtaining its agreement that no change in our sludge-waste classification is required or that our sludge can be otherwise used for certain applications, in a manner that will reduce its disposal costs; however, there is no assurance that we will be successful in such discussions. As of December 31, 2014, we had reserves of approximately $0.7 million, which we believe to be adequate for anticipated future clean-up expenditures if required by the IMPE.

- Styrene gas emissions. The IMPE has required us to comply with the applicable obligations under the law and regulations related to styrene gas emission at both of our manufacturing facilities in Israel. In December 2013, we completed the installation of a system in our Bar-Lev manufacturing facility to reduce styrene emission, which has provided us better control of the styrene emission in our Bar-Lev manufacturing facility. We subsequently presented to IMPE a plan to further improve our control of styrene emission and comply with the styrene gas emission standards. With respect to our Sdot-Yam manufacturing facility, we were summoned before the IMPE for a January 2014 hearing, which addressed allegations that, based on the IMPE's gas samplings, we exceeded the ambient air standards. Although the IMPE acknowledged that we were in the process of installing measures to comply with the styrene gas emission standards, the IMPE recommended an investigation to look into the allegation that we exceeded the styrene ambient air standard for styrene during 2013. If we fail to comply with the styrene emission standard in our Bar-Lev manufacturing facility, our business license for this facility may not be renewed following June 30, 2015.We applied measures to correct the styrene ambient air standards throughout 2014 at our Sdot-Yam manufacturing facility, and, in November 2014, we installed a new system which we believe should help to remediate the excess emission of styrene gas. Our constant controlling of styrene emission levels requires strict maintenance and compliance with work processes, and there is no assurance that we will succeed in complying with the required standards on a continuous basis.

- Waste water disposal. We currently dispose of our waste water from our Bar-Lev manufacturing facility in a treatment plant pursuant to a permit obtained from the IMPE that was recently extended until December 31, 2015. In addition, we currently dispose of waste water at our Sdot-Yam manufacturing facility pursuant to a permit obtained from the IMPE that is valid until December 31, 2016. Furthermore in October 2014, we obtained an additional special permit, which allows us to dispose our waste water deriving from both our manufacturing facilities into an alternative disposal facility, which may be used according to our needs.

- Dust emissions. With respect to dust emissions both into the environment and inside our manufacturing facilities in Israel, we are implementing measures in order to achieve compliance with dust emission environmental standards and meet the health and safety standards with respect to permissible exposure limits.

- Fire protection measures. In May 2011, we received a letter from the Israeli fire regulation authorities detailing fire protection measures required at our facility in Kibbutz Sdot-Yam to obtain the necessary fire regulatory approval for such facility. We have established a program with the fire regulation authorities to adjust our fire protection measures to comply with their requirements and we are implementing the measures in accordance with such program. In December 2014, we received the fire regulation authorities' approval as required to obtain a business license, which is subject to our implementation of the required fire protection measures through December 2015.

In addition, we operate in Israel under Poison Permits that regulate our use of poisons and hazardous materials. Our current Poison Permits are valid until February 2016 and impose on us certain requirements. Our inability to maintain each of such Poison Permits or to renew them could negatively impact our financial condition and result of operations. Failing to comply with such Poison Permits conditions may also expose us and our officers to criminal liability.

Other than as described above, we believe that we operate our facilities in compliance in all material respects with applicable environmental requirements. However, there can be no guarantee that these or newly discovered matters will not result in material costs or investments.

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. Our ability to obtain necessary permits and approvals may be subject to additional costs and possible delays beyond what we initially plan for. We are seeking to obtain building-permits with respect to buildings and installations that we have added at our manufacturing facilities in Israel, although we cannot assure that we will be able to obtain such building permits.

Other Regulation

We are subject to the Israeli Rest Law, which, among other things, prohibits the employment of Jewish employees on Saturdays and Jewish holidays, unless a permit is obtained from the Israeli Ministry of Economy. Our employees, including Jewish and other employees, work in three separate eight-hours on average shifts a day, seven days a week. We currently do not have a permit for the employment of Jewish employees on Saturdays and Jewish holidays. Such employment of Jewish employees on Saturdays without a permit constitutes an infringement of the Rest Law. Although there is no assurance that we will be able to obtain a permit to employ Jewish employees on Saturdays, we recently submitted an application with the Israeli Ministry of Economy for such permit. In September 2014, the Israeli Ministry of Economy conducted an inspection at our Bar-Lev plant and identified several of our Jewish employees working on Saturday. Following such inspection, we were summoned by the Israeli Ministry of Economy to clarify the circumstances. The Israeli Ministry of Economy has not yet indicated which measures, if any, would be taken with respect to that matter. If we are deemed to be in violation of the Rest Law, we and our officers may be exposed to administrative and criminal liabilities, including fines, and our operational and financial results could be materially adversely impacted.

Concurrently, we are in the process of implementing certain operational steps and change in our headcount so that we can comply with the Rest Law over time. If we are unable to obtain a permit to employ Jewish on Saturdays and we are unsuccessful in employing only non-Jewish employees on Saturdays, we may be compelled to cease operation or partially operate our manufacturing facilities in Israel during Saturdays, and as a result, we may have less production capacity which could have a materially adverse effect on our revenues and profitability.

Legal proceedings

See "ITEM 8.A: Financial Information—Consolidated Financial Statements and Other Financial Information—Legal proceedings."

C. Organizational Structure

The legal name of our company is Caesarstone Sdot-Yam Ltd. Caesarstone was organized under the laws of the State of Israel. We have four wholly-owned subsidiaries: Caesarstone Australia Pty Limited, which is incorporated in Australia, Caesarstone South East Asia PTE LTD, which is incorporated in Singapore, Caesarstone USA, Inc. and Caesarstone Technologies USA, Inc. (which is wholly-owned by Caesarstone USA, Inc.), both of which are incorporated in the United States. Furthermore, we own the majority of the shares of our subsidiary, Caesarstone Canada Inc., which is incorporated in Canada. We sell our products in over 50 countries through our subsidiaries and distributors.

D. Property, Plants and Equipment

Our manufacturing facilities are located on the following properties in Israel and the United States:

| Properties | Owner's rights | Location | Purpose | Size |
|---|---|---|---|---|
| Kibbutz Sdot-Yam(1) | Short-Term Renewing Lease | Caesarea, Central Israel | Headquarters, manufacturing facility, research and development center | 31,644 square meters of facility and 64,207 square meters of un-covered yard** |
| Bar-Lev Industrial Park manufacturing facility (2) | 98-Year Lease | Carmiel, Northern Israel | Manufacturing facility | 22,137 square meters of facility and 40,461 square meters of un-covered yard* |
| Bar-Lev Industrial Park warehouse (3) | N/A | Carmiel, Northern Israel | Storage | 1,900 square meters of un-covered yard |
| Bar-Lev Industrial Park warehouse (4) | N/A | Carmiel, Northern Israel | Storage | 700 square meters of un-covered yard |
| Belfast Industrial Center(5) | Ownership | Richmond Hill, Georgia, United States | Manufacturing facility under construction | 26,400 square meters of facility and 159,351 square meters of un-covered yard |

* Square-meter figures with respect to properties in Israel are based on data measured by the relevant municipalities used for local tax purposes
** Square-meter figures based on data used by Israeli municipalities for local tax purpose is adjusted to reflect the property leased from Kibbutz Sdot-Yam as agreed between us and the Kibbutz during year 2014

(1) Leased pursuant to a land use agreement with Kibbutz Sdot-Yam entered into in March 2012 with a term of 20 years, which replaced the former land use agreement. Starting from September 2014 we use an additional 9,000 square meters pursuant to Kibbutz Sdot-Yam's consent under the same terms as the land use agreement. However, we have the right to return these premises to Kibbutz Sdot Yam at any time upon 90 days' prior written notice. We are currently negotiating the terms of a written addendum to the land lease agreement. The lands on which these facilities are located are held by the ILA and leased or subleased by Kibbutz Sdot-Yam pursuant to the following agreements: (i) a lease from the ILA signed in July 1978 that commenced in 1962 and expired in 2011 and has been extended pursuant to an option in the lease agreement for an additional 49 years through 2060; (ii) a lease from the ILA to Kibbutz Sdot-Yam that expired in 2009 (Kibbutz Sdot-Yam is currently negotiating a long-term lease agreement with the ILA to replace this agreement) and (iii) a lease entered into between Kibbutz Sdot-Yam and the Caesarea Development Corporation in April 2014 pursuant to which the Kibbutz leases the relevant premises (including such premises leased by the Kibbutz to us) from the Caesarea Development Corporation until the year 2037. In the case of the third lease mentioned above, the agreement is subject to public recording procedure. To date, the expirations of the first and second lease agreements referred to above have not had any impact on our ability to use the facilities located on the property subject to the leases and we do not currently

believe that they will have a material impact in the future pending completion of the negotiations for the lease extension or new long-term lease, respectively. See “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam—Land use agreement."

(2) Leased pursuant to a long-term lease agreement with the ILA entered into on June 6, 2007 to use the premises for an initial period of 49 years as of February 6, 2005, with an option to renew for an additional term of 49 years as of the end of the initial period. Pursuant to the land purchase and leaseback agreement signed on March 31, 2011, effective as of September 1, 2012, between Kibbutz Sdot-Yam and us, we have agreed that Kibbutz Sdot-Yam will acquire from us our rights in the lands and facilities of the Bar-Lev manufacturing facility in consideration for NIS 43.7 million ($10.9 million). The land purchase agreement was simultaneously executed with a land use agreement pursuant to which Kibbutz Sdot-Yam permits us to use the Bar-Lev Grounds for a period of ten years with an automatic renewal for an additional ten years unless we notify Kibbutz Sdot-Yam that we do not wish to renew at least two years before the termination of the initial ten-year period. Pursuant to the Agreement For Arranging For Additional Accord, we have entered into the Agreement For Additional Land, pursuant to which Kibbutz Sdot-Yam acquired additional land on the grounds near our Bar-Lev manufacturing facility, which we required for the extension of our Bar-Lev manufacturing facility in connection with the construction of the fifth production line and leased it to us at market value. Once the warehouse is fully constructed, we will lease the additional land and warehouse from Kibbutz Sdot-Yam. For more information, see “ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam—Land purchase agreement and leaseback.”

(3) On September 11, 2013, we entered into a lease agreement to use the premises near our Bar-Lev manufacturing facility solely for the purpose of storing quartz slabs manufactured by us for an initial period of 12 months, with an option to renew the lease for an additional two periods of 12 months each. We continued to use these premises and increased the leased area up to a total of 1,900 square meters for storing quartz slabs manufactured by us. The extended term of such lease is yet to be finalized. However, the Company may terminate the lease at any time by providing 30 days' prior notice.

(4) On September 17, 2013, we entered into a purchase agreement for the purchase of approximately 46 acres of land in Richmond Hill, the State of Georgia, United States, comprising approximately 36.9 acres of upland and approximately 9 acres of wetland for our new U.S. manufacturing facility which is currently under construction. According to the purchase agreement, we have an option to purchase additional land situated adjacent to the purchased land encompassing approximately 19.4 acres of land, comprised of approximately 17.9 acres of upland and approximately 1.5 acres of wetland. We are currently discussing the exercise of such option.

(5) In December 2014, we entered into a bond purchase loan agreement and were issued a taxable revenue bond on December 1, 2014, and executed a corresponding lease agreement, pursuant to which the Development Authority of Bryan County, an instrumentality of the State of Georgia and a public corporation ("DABC"), has acquired legal title of our facility in Richmond Hill, in the State of Georgia, USA, and in consideration leased such facilities back to us. In addition, the facility was pledged by DABC in favor of us and DABC has committed to re-convey title to the facility to us upon the maturity of the bond or at any time at our request, upon our payment of $100 to DABC. Therefore, we consider such facilities to be owned by us. This arrangement was structured to grant us property tax abatement for ten years at 100% and additional five years at 50%, subject to our satisfying certain qualifying conditions with respect to headcount, average salaries paid to our employees and the total capital investment amount in our U.S plant. For a discussion of our ongoing expansion of this facility, including its financing and its related expenses, see "ITEM 4.A: Information on Caesarstone—History and Development of Caesarstone—Principal Capital Expenditures" and "ITEM 3.D: Key Information—Risk Factors—We are working to increase our production capacity for our quartz surface products in the United States in order to meet anticipated demand through expanding our manufacturing facilities."

Various environmental issues may affect our utilization of the above-mentioned facilities. For a further discussion, see "—Environmental Regulations" above.

## ITEM 4A: Unresolved Staff Comments

Not applicable.

## ITEM 5: Operating and Financial Review and Prospects

### A. Operating Results

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial information presented in "ITEM 3: Key Information," our audited consolidated balance sheets as of December 31, 2014 and 2013, the related consolidated income statements and cash flow statements for each of the three years ended December 31, 2014, 2013, and 2012, and related notes and the information contained elsewhere in this annual report. Our financial statements have been prepared in accordance with U.S. generally accepted accounting principles. See "ITEM 3.D: Risk Factors" and "Special Note Regarding Forward Looking Statements."

### Company overview

We are a leading manufacturer of high-quality engineered quartz surfaces sold under our premium Caesarstone brand. The substantial majority of our quartz surfaces are used as countertops in residential kitchens and sold primarily into the renovation and remodeling end markets. Other applications for our products include vanity tops, wall panels, back splashes, floor tiles, stairs and other interior surfaces that are used in a variety of residential and commercial applications.

Founded in 1987, Caesarstone is a pioneer in the engineered quartz surface industry. We have grown to become the largest provider of quartz surfaces in Australia, Canada, Israel, France and South Africa, and have significant market share in the United States and Singapore. Our products accounted for approximately 12% of global engineered quartz by volume in 2014. Our sales in the United States, Australia, Canada and Israel, our four largest markets, accounted for 41.5%, 24%, 12.9% and 9.2% of our revenues in 2014, respectively. We believe that our revenues will continue to be highly concentrated among a relatively small number of geographic regions for the foreseeable future.

We have direct sales channels in the United States, Australia, Canada, Israel and Singapore. Since acquiring our U.S. distributor in May 2011, we now generate the substantial majority of our revenues in the United States from direct distribution of our products, including in the Mid-Atlantic and Midwest, where we commenced direct distribution in January 2012 and November 2012, respectively. In Australia, we distribute directly to fabricators, and in January 2012, we expanded our direct distribution to Southern and Western Australia thereby expanding our direct distribution to all of Australia. In Israel, we distribute our products directly to several local distributors who in turn sell to fabricators. In October 2010, we began selling our products in Eastern Canada through a joint venture in which we hold a 55% interest. We commenced selling our products through the joint venture in Western Canada in May 2011. In October 2011, following the acquisition of our former Singaporean distributor's business, we began selling our products directly in Singapore. In our remaining markets, we distribute our products through third-party distributors. In each of these indirect markets, fabricators typically sell our products to end consumers, contractors, developers and builders who are generally advised by architects and designers regarding the use of our products. Our strategy is to generate demand from all groups in our product supply chain.

Despite the global economic downturn that began in 2008 and continues to impact European markets, we experienced annual compound revenue growth of 11.5% from 2007 to 2009, 22.2% from 2009 to 2012, 20.2% from 2012 to 2013, and 25.5% from 2013 to 2014. Our growth from 2007 to 2012 was impacted significantly by the acquisition of the distribution channels in Australia, the United States and Canada, while 2013 and 2014 growth represented only organic growth. From 2007 to 2014, our gross profit margins improved from 27.4% to 42.4%, adjusted EBITDA margins increased from 18.4% to 26.1%, and adjusted net income increased from 9.2% to 18.4% over the same period. We attribute this sales and margin growth to the acquisition of the business of our former Australian and U.S. distributors, our transition to direct distribution in Canada, our penetration of new markets, increased operational efficiencies and a change in product mix towards an increased differentiated offering.

Our strategy is to continue to be a global market leader in quartz surface products. We continue to invest in developing our premium brand worldwide and to further expand our differentiated product offering. We intend to continue to expand our sales network by further penetrating our existing markets as well as entering new markets. We believe that a significant portion of our future growth will come from continued penetration of our U.S. market, —particularly with the additional manufacturing capacity we intend to use as we begin operations at our facility in the State of Georgia in 2015—as well as from our markets in Australia and Canada. We believe our expansion into new markets that exhibit an existing demand for stone products and stone installation capabilities will contribute to our future growth in the long term. We believe there will be consolidation in the quartz surface industry in the future and to remain competitive in the long term, we will need to grow our business both organically and through the acquisition of third-party distributors, manufacturers and/or raw material suppliers.

Our functional currency has been the U.S. dollar since July 1, 2012. Until June 30, 2012, our functional currency was the NIS and our reporting currency was the U.S. dollar. For a further discussion of the change of functional currency, see "ITEM 18: Financial Statements." For the periods in which our functional currency was the NIS, the financial data presented in the following discussion has been translated into U.S. dollars using the method of conversion used to translate our financial statements, the current rate method.

Factors impacting our results of operations

We consider the following factors to be important in analyzing our results of operations:

- Our sales are impacted by home renovation and remodeling and new residential, and to a lesser extent, commercial and construction spending trends. We estimate that approximately 60% of our revenue is related to renovation and remodeling activities in the United States, Australia and Canada, while 25% to 35% is related to housing starts. Spending in each of these sectors declined significantly in 2009 compared to 2008 in most of the markets in which we operate and, to date, many of these markets, including Europe, the United States, Australia and Canada, did not recover or recovered only to a certain degree. U.S. housing starts recovered, growing 81.6% from 2009 to 2014 but are still 25.5% below levels from 2007. Home renovation and remodeling spending is estimated to recover by 21.4% from its recent bottom in 2010 but is still 4.8% below its 2007 level according to the Joint Center for Housing Studies, Harvard University. In Australia, housing starts recovered completely from their 2009 low and reached a new peak after increasing 24.3% from July 2012 to July 2014, reversing an aggregate 16.3% decrease between July 2010 and June 2012. Home renovation and remodeling spending in Australia, however, were estimated to grow by only 0.3% from July 2013 to June 2014 and are still 8.5% below their 2008 peak. Housing starts in Canada were estimated to grow by only 0.7% in 2014 and are still 17.1% below 2007 level. Home renovation and remodeling spending in Canada is estimated to have grown 3.5% in 2014, but in that period was still approximately 12% below its 2007 peak, according to Scotiabank. Despite the 2007 to 2009 global downturn, prevailing weak economic conditions in Europe and mixed economic conditions in the United States, Australia and Canada as described above, we experienced compound annual revenue growth of 19.2% between 2007 and 2014 through increased penetration of quartz in kitchen countertop applications, market share gains in some of our key markets, and an increase in average selling prices associated with our establishment of new direct distribution channels and the expansion of our differentiated product offering. In 2013, our revenue increased in all regions, with the most significant growth in sales in the United States, growing by over 40% leveraging our increased distribution footprint, the successful introduction of the super natural collection, supported by a positive housing market. In 2014, our revenues increased in all regions except Israel. The most significant growth in sales occurred in the United States, where revenues increased by 50.4%, in part due to the continued quartz recognition, the collaboration with IKEA, improved product offerings, and a positive-trending housing market. Significant growth was achieved also in Australia and Canada, which grew 27.4% and 26.2%, respectively, on a constant currency basis.

- Our gross profit margins have improved significantly over recent years, with 42.4% margin in 2014, compared to 45.5% in 2013, 43.0% in 2012, and 40.2% in 2011. The primary reasons for these gross profit margin improvements from 2011 to 2014 were the improved product offerings associated with the introduction of our super natural products and the impact of scale benefits. In 2014, gross profit margins decreased mainly due to unfavorable exchange rates, increased IKEA business related to fabrication and installation activities, which comes with lower gross margin and a non-recurring $3.5 million credit to cost of revenues from 2013.

- Our operating income margins were 16.8% in 2012, 21.3% in 2013, and 21.2% in 2014. The increase from 2012 to 2014 resulted primarily from economies of scale benefits on operating expenses that we started to leverage in 2013, mainly in the United States and Canada. Operating income margins remained substantially the same in 2014, but grew by 90 basis points excluding the 2013 non-recurring credit mentioned above. The improvement in operating income margin each year was achieved despite a significant negative impact from exchange rate fluctuations.

- In 2005, we commenced operations with a third manufacturing line at a new manufacturing facility in the Bar-Lev Industrial Park in northern Israel. We subsequently established a fourth production line in 2007 with the addition of a second production line at our Bar-Lev manufacturing facility. The operation of the fifth production line in the Bar-Lev manufacturing facility included two phases and was completed in the second quarter of 2014. The first production line in the new U.S. facility is planned to be operational in the second quarter of 2015 and the second production line is planned to be operational in the fourth quarter of 2015. Our investments related to the fifth production line at our Bar-Lev manufacturing facility was $24 million and the investment related to the production capacity increase in the United States is estimated to be approximately $115 million.

- As an increasing portion of our products are sold through direct channels, our revenues and results of operations exhibit some quarterly fluctuations as a result of seasonal influences which impact construction and renovation cycles. Due to the fact that certain of our operating costs are fixed, the impact on our adjusted EBITDA, adjusted net income and net income of a change in revenues is magnified. We believe that the third quarter tends to exhibit higher sales volumes than other quarters because demand for quartz surface products is generally higher during the summer months in the northern hemisphere with the effort to complete new construction and renovation projects before the new school year. Conversely, the first quarter is impacted by the winter slowdown in the northern hemisphere in the construction industry 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 in Australia during the first quarter are negatively impacted by fewer construction and renovation projects. The fourth quarter is susceptible to being impacted from the onset of winter in the northern hemisphere.

- We conduct business in multiple countries in North America, South America, Europe, Asia-Pacific, Australia and the Middle East and as a result, we are exposed to risks associated with fluctuations in currency exchange rates between the U.S. dollar and certain other currencies in which we conduct business. A significant portion of our revenues is generated in U.S. and Australian dollars, and to a lesser extent the Canadian dollar, the euro and the new Israeli shekel. In 2014, 43.3% of our revenues were denominated in U.S. dollars, 24.0% in Australian dollars, 12.9% in Canadian dollars, 10.5% in euros and 9.2% in NIS. As a result, devaluations of the Australian dollars, and to a lesser extent, the Canadian dollar relative to the U.S. dollar may unfavorably impact our profitability. Our expenses are largely denominated in U.S. dollars, NIS and euro, with a smaller portion in the Australian dollars and Canadian dollars. As a result, appreciation of the NIS, and to a lesser extent, the euro relative to the U.S. dollar may unfavorably impact our profitability. We attempt to limit our exposure to foreign currency fluctuations through forward and option contracts, which, except for USD/NIS forward contracts, are not designated as hedging accounting instruments under ASC 815, Derivatives and Hedging (originally issued as SFAS 133). As of December 31, 2014, we had outstanding contracts with a notional amount of $98.6. These transactions were for a period of up to 12 months. The fair value of these foreign currency derivative contracts was $(0.4) million, which is included in current assets and current liabilities, at December 31, 2014. For further discussion of our foreign currency derivative contracts, see “ITEM 11: Quantitative and Qualitative Disclosures About Market Risk.”

Components of statements of income

Revenues

We derive our revenues from sales of quartz surfaces, mostly to fabricators in our direct markets and to third-party distributors in our indirect markets. In Australia (as of March 2008), Eastern Canada (as of October 2010), Western Canada (as of May 2011), the United States (as of May 2011) and Singapore (as of October 2011) the initial purchasers of our products are fabricators. Direct sales accounted for 86.6%, 87.0%, and 88.2% for the years ended December 31, 2012, 2013, and 2014, respectively. In Israel, the initial purchasers are local distributors who in turn sell to fabricators. In the United States, we also sell our products to a small number of sub-distributors, stone resellers and to IKEA. We consider Israel to be a direct market due to the warranty we provide to end-consumers, our local fabricator technical instruction programs and our robust local sales and marketing activities. The initial purchasers of our products in our other markets are our third-party distributors who in turn sell to sub-distributors and fabricators.

We recognize revenues upon sales to an initial purchaser when persuasive evidence of an agreement exists, delivery of the product has occurred, the fee is fixed or determinable and collection is probable. Delivery occurs when title is transferred under the applicable international commerce terms, or Incoterms, to the purchaser.

The warranties that we provide vary by market. In our indirect markets, we provide all of our distributors with a limited direct manufacturing defect warranty. In all of our indirect markets, distributors are responsible for providing warranty coverage to end-customers. In Australia, Canada, the United States and Singapore, we provide end-consumers with a limited warranty on our products for interior countertop applications. In Israel, we typically provide end-consumers with a direct limited manufacturing defect warranty on our products. Based on historical experience, warranty issues are generally identified within one and a half years after the shipment of the product and a significant portion of defects are identified before installation. We record a reserve on account of possible warranty claims, which increases our cost of revenues. Historically, warranty claims have been low, accounting for approximately 0.4% of our total goods sold in 2014.

The following table sets forth the geographic breakdown of our revenues during the periods indicated:

| | Year ended December 31, 2014 | | | 2013 | | | 2012 | | |
|---|---|---|---|---|---|---|---|---|---|
| Geographical Region | % total revenues | | Revenues in thousands of USD | % of revenues | | Revenues in thousands of USD | % total revenues | | Revenues in thousands of USD |
| United States | 41.5 | % | $185,583 | 34.6 | % | $123,399 | 29.2 | % | $86,759 |
| Australia | 24.0 | | 107,539 | 25.2 | | 89,894 | 30.0 | | 88,935 |
| Canada | 12.9 | | 57,898 | 13.8 | | 49,214 | 13.6 | | 40,322 |
| Israel | 9.2 | | 41,286 | 11.8 | | 42,024 | 12.3 | | 36,373 |
| Europe | 5.2 | | 23,109 | 6.4 | | 22,973 | 7.0 | | 20,749 |
| Rest of world | 7.2 | | 31,987 | 8.2 | | 29,050 | 7.9 | | 23,426 |
| Total | 100.0 | % | 447,402 | 100.0 | % | 356,554 | 100.0 | % | 296,564 |

Revenues in the United States totaled $86.8 million in 2012, a 45.2% increase from 2011. It represents 21.3% of organic growth from executing our direct distribution strategy in this market, positive building industry trends, along with the benefits associated with operating for a full year following the acquisition of Caesarstone USA. U.S. revenues increased 42.2% in 2013, leveraging continued quartz conversion, successful introduction of our super natural collection, and positive housing trends.  Our U.S. revenues saw an increase of 50.4% in 2014, despite a milder housing market improvement, leveraging continued quartz conversion, increased portion of our wider super natural collection along with a major growth in our business with IKEA, which also includes a significant portion of fabrication and installation component. In Australia, we were able to resume significant growth in 2014 after two prior years of only slight growth associated with a weak housing market. In 2014, revenue in Australia grew by 19.6%, 27.4% on a constant-currency-basis, as a result of our improved product offering (primarily super natural with our new Calacatta and Granite-inspired designs) and backed by housing market improvements. In Canada, we continued our strong growth. Revenue grew 17.6% in 2014, representing a 26.2% increase on a constant-currency-basis compared to 22.1% growth, 25.9% on a constant-currency-basis in 2013, leveraging increased quartz penetration, improved product offering with the super natural collection. This growth was backed by increased renovation activities, despite weaker housing starts. Compared to 2007 and 2008, our revenues in Europe in 2011, 2012, 2013, and 2014 have declined and have not recovered since then, due to challenging macroeconomic conditions in Europe. In 2014, revenues in Israel declined by 1.8% due to a weak housing market. The rate of revenue growth in Israel is generally less than other regions given the significant and more longstanding penetration of quartz in Israel and our large market share. Our revenues for the rest of the world increased by 24.0% between 2012 and 2013, and continued growing in 2014 by 10.1%, due to our stronger presence in existing markets and our expansion into new markets.

We did not have any customer in 2012, 2013 and 2014 that accounted for more than 10% of our revenues.

Some of our initial engagements with distributors are pursuant to an agreement or terms of sale, as applicable, granting that 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 several-year period. However, in the majority of cases, we continue to operate on the basis of the agreement or terms of sale, or without any operative agreement. Some distributors operate on nonexclusive terms of sale agreements or entirely without agreements. In all cases, we only supply our products to distributors upon the receipt of a purchase order from the distributor.

Cost of revenues and gross profit margin

Approximately 48% of our cost of revenues is raw material costs. Our principal raw materials are quartz, polyester 74% of our total raw material cost. The balance of our cost of revenues consists primarily of manufacturing costs and related overhead. Cost of revenues in our direct distribution channels also includes the cost of delivery from our manufacturing facilities to our warehouses, warehouse operational costs, as well as additional delivery costs associated with the shipment of our products to customer sites in certain markets. In the case of our indirect distribution channels, we bear the cost of delivery to the Israeli seaport and our distributors bear the cost of delivery from the seaport to their warehouses.

One of our principal raw materials, quartz, is acquired from quartz manufacturers primarily in Turkey, India, Portugal and Israel. Our products incorporate a number of types of quartz, including quartzite. We acquire quartzite from four suppliers in Turkey, with the major part acquired from Mikroman and Polat. Our current supply arrangements with Mikroman is based on a verbal agreement, while our arrangement with Polat is memorialized in an unsigned written draft letter agreement sent to Polat. We typically transact business with our other suppliers on an annual framework agreement basis, under which we execute purchase order from time to time. Prior to the manufacturing process, boulder quartz and processed crushed quartz must be processed into finer grades of fractions, granules and powder. Until January 2012, we received quartz processing services from our quartz suppliers and from Microgil, a third-party processor in Israel, although our quartz suppliers now exclusively perform this service for us. Quartz accounted for approximately 31% of our raw materials cost in 2014. Accordingly, our cost of sales and overall results of operations are impacted significantly by fluctuations in quartz prices. For example, if the cost of quartz 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 0.9% in our gross profit margin. We do not have long-term supply contracts with our suppliers of quartz. The price of quartz was relatively stable between 2011 and 2013, but in 2014 and 2015 we experienced increases of prices, and may experience additional increases in the future. Any future increases in quartz prices may adversely impact our margins and net income.

We acquire polyester on a purchase order basis with several suppliers outside of Israel based on our projected needs for the subsequent one to three months. Given the significance of polyester costs relative to our total raw material expenditures, our cost of sales and overall results of operations are impacted significantly by fluctuations in their price, which generally correlates with oil prices and had fluctuated significantly between 2008 and 2011, but stabilized during 2012, 2013 and 2014 on a constant currency basis. If the price of polyester 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 realize a decrease of approximately 1.2% in our gross profit margins. We have found that increases in prices are difficult to pass on to our customers. The price of polyester had risen significantly from June 2009 through April 2011, although prices have subsequently declined moderately.

The gross profit margins on sales in our direct markets are generally higher than in our indirect markets in which we use third-party distributors, due to the elimination of the third-party distributor's margin. In many markets, our expansion strategy is to work with third-party distributors who we believe will be able to increase sales more rapidly in their market than if we distributed our products directly. However, in several markets we distribute directly, including the United States, Australia and Canada. In the future, we intend to evaluate other potential markets to distribute directly.

Research and development, net

Our research and development expenses consist primarily of salaries and related personnel costs, as well as costs for subcontractor services and costs of materials consumed in connection with the design and development of our products. We expense all of our research and development costs as incurred. Our research and development expenses were partially offset through 2013 by financing through grants from the OCS of the Ministry of Economy of the State of Israel. We recognized such participation grants at the time at which we were entitled to such grants on the basis of the costs incurred and included those grants as a deduction from research and development expenses. This OCS program ended during 2013.

The Israeli law under which OCS grants were made requires royalty payments and limited our ability to manufacture products, or transfer technologies developed using these grants outside of Israel. If we were to seek approval to manufacture products, or transfer technologies developed using these grants, outside of Israel, we could be subject to additional royalty requirements or be required to pay certain redemption fees. If we were to violate these restrictions, we could be required to refund any grants previously received, together with interest and penalties, and may be subject to criminal charges. We believe the ongoing construction of a new production facility in the United States will not subject us to any royalty payment obligations or require us to refund any grants because our OCS grants financed our development of a product that has not been commercialized yet and are not planned to be manufactured at the U.S. production facility. In addition, based on OCS statements, we believe that our OCS funding is exempted from royalty payment obligations. Our development project operated under the OCS funding arrangement began in August 2009. We recognized OCS funding of $0.3 million in 2012 and $0.01 million in 2013.

Marketing and selling

Marketing and selling expenses consist primarily of compensation and associated costs for personnel engaged in sales, marketing, distribution and advertising and promotional expenses. As we had invested significantly in 2011 and 2012 in building our acquired direct distribution channels in the U.S. and Canadian markets, marketing and selling expenses in general, and advertising expenses in particular, increased in both absolute and percentage terms in both years, when we increase the number of sales and marketing professionals and expand our marketing activities. In 2013 and 2014, our absolute spending increased but decreased as a percentage of revenues.

General and administrative

General and administrative expenses consist primarily of compensation and associated costs for personnel engaged in finance, human resources, information technology, legal and other administrative activities, as well as fees for legal and accounting services. General and administrative expenses also included management fees paid, until the IPO, to Kibbutz Sdot-Yam in the amount of $0.5 million in 2012, and to Tene in the amount of $0.2 million in 2012. The management service agreement expired in March 2012 following our IPO. See "—Other factors impacting our results of operations—Agreements with Kibbutz Sdot-Yam" and "ITEM 7: Major Shareholders and Related Party Transactions—Related Party Transactions."

We expect our general and administrative expenses to increase in absolute dollars as we continue to increase our direct distribution operations in the United States and Canada, incur additional costs related to the growth of our business, open a production facility in the United States, generate expenses related to maintaining and improving further our ERP system and incur legal expenses associated with our open lawsuits.

Finance expenses, net

Finance expenses, net, consist primarily of borrowing costs, losses on derivative instruments and exchange rate differences arising from changes in the value of monetary assets and monetary liabilities stated in currencies other than the functional currency of each entity. These expenses are partially offset by interest income on our cash balances and gains on derivative instruments. Our bank interest expenses have decreased since 2011 as we paid our commercial debt, while our bank charges increased due to our increased business volume. Interest income increased as we accumulated cash generated by our March 2012 IPO and on-going cash flow and decreased in 2014 given our reduced deposit balances, our increased capital expenditures and the 2013 dividend payout. However, the main reason for the year-over-year reduction in finance expenses between 2011 and 2014 was the reduction in expenses related to foreign exchange rates as our exchange rates trended favorably in 2011 relative to 2010, were relatively neutral in 2012 and trended significantly unfavorably during 2013, with our derivatives generated an offsetting impact.

Corporate taxes

As we operate in a number of countries, our income is subject to taxation in different jurisdictions with a range of tax rates. Our effective tax rate was 14.5% in 2012, 13.8% in 2013, and 14.6% in 2014.

The standard corporate tax rate for Israeli companies was 25% in 2012 and 2013 and increased to 26.5% in 2014 onward. Our non-Israeli subsidiaries are taxed according to the tax laws in their respective country of organization.

Effective January 1, 2011, with the enactment of Amendment No. 68 to the Israeli Tax Law, both of our Israeli facilities operate under a consolidated “Preferred Enterprise” status. The “Preferred Enterprise” status provides the portion related to the Bar-Lev manufacturing facility with the potential to be eligible for grants of up to 20% of the investment value in approved assets and a reduced flat corporate tax rate, which applies to the industrial enterprise’s entire preferred income, as follows: 2011-2012—10%, 2013-2014—7%, and 2015 and thereafter—6%. Subsequently, on August 5, 2013, the 2014 and onwards tax bracket was increased by the Knesset to 9%. For the portion related to the Kibbutz Sdot-Yam facility, this status provides us with a reduced flat corporate tax rate, which applies to the industrial enterprise’s entire preferred income, as follows: 2011-2012—15%, 2013-2014—12.5%, and 2015 and onwards—12%. Subsequently, on August 5, 2013, the 2014 and onwards tax bracket was increased by the Knesset to 16%.

For more information about the tax benefits available to us as an Approved Enterprise or as a Beneficiary Enterprise or as Preferred Enterprise, see “ITEM 10.E: Additional Information—Taxation—Israeli tax considerations and government programs.”

We have entered into a transfer pricing arrangement that establishes transfer prices for our inter-company operations.

Because of our multi-jurisdictional operations, we apply significant judgment to determine our consolidated income tax position. We estimate our effective tax rate for the coming years based on our planned future financial results in existing and new markets and the key factors affecting our tax liability, particularly our transfer pricing policy. Accordingly, we estimate that our effective tax rate will range between 16% and 20% of our income before income tax in 2015, increasing further in 2016, when we expect to conduct significant manufacturing operations in the United States. In the long-term, we anticipate that our effective tax rate will further increase as the portion of our income attributed to the United States manufacturing and to the distribution subsidiaries grows. We cannot provide any assurance that our plans will be realized and that our assumptions with regard to the key elements affecting tax rates will be accepted by the tax authorities. Therefore, our actual effective tax rate may be higher than our estimate.

Equity in losses of affiliate, net

In January 2007, we acquired a 25% equity interest in our U.S. distributor, Caesarstone USA. We accounted for this investment using the equity method. Consequently, the results of operations of the distributor directly impacted our net income during the period we accounted for this investment using the equity method. We did not record any equity income or losses beginning May 18, 2011 as a result of our acquisition of Caesarstone USA on such date. The results of operations and financial position of Caesarstone USA have been fully consolidated in our financial statements since May 18, 2011.

Net income attributable to non-controlling interest

In October 2010, we closed a transaction for the establishment of a joint venture with our former third-party distributor in Eastern Canada, Canadian Quartz Holdings Inc. (“Ciot”). Ciot acquired a 45% ownership interest in the new subsidiary, Caesarstone Canada Inc., and 45% of Caesarstone Canada Inc.’s net income is attributed to Ciot.

Other factors impacting our results of operations

Payment of compensation and grant of options upon the pricing of the IPO

We paid the following amounts immediately following our IPO in March 2012: (1) $3.0 million to our Chief Executive Officer in connection with 350,000 of our shares granted to him in January 2009 with 175,000 exercised in October 2011 and 175,000 shares automatically exercised upon the closing of the IPO based on the increase in value of our company at the date of the IPO (see “ITEM 6.B: Directors, Senior Management and Employees—Compensation of Officers and Directors”), and (2) $1.72 million to certain of our employees and $0.25 million to our Chairman for their contribution to our success. The $1.72 million and $0.25 million amounts were recorded as an expense in the first quarter of 2012 when the offering closed.

In addition, following the IPO in March 2012, we granted certain of our key employees, including our executive officers, options to purchase 1,505,200 ordinary shares with an exercise price equal to the IPO price per share of $11.00 and additional options to purchase 40,000 ordinary shares with an exercise price of $15.84. We recorded share-based compensation expenses related to this grant of $1.2 million in 2014, $2.5 million in 2013, $3.7 million in 2012 and will record $0.4 over approximately the following year from January 2015.

Agreements with Kibbutz Sdot-Yam

We are party to a series of agreements with our largest shareholder, Kibbutz Sdot-Yam, which govern different aspects of our relationship. Pursuant to these agreements, in consideration for using facilities leased to us or for services provided by Kibbutz Sdot-Yam, we paid to the Kibbutz an aggregate of $12.2 in 2014, $10.8 million in 2013, and $10.3 million in 2012 (excludes VAT). The increase in the amount paid in 2014 is mainly as a result of payments timing.

Certain of our prior agreements with Kibbutz Sdot-Yam were terminated in March 2012 and, other than with respect to our former management services agreement, which was not renewed, a new set of agreements became effective in March 2012. The new agreements provide for similar services to those that were previously provided to us by Kibbutz Sdot-Yam, except that following the closing of our IPO as disclosed in "ITEM 7: Major Shareholders and Related Party Transactions—Related Party Transactions—Relationship and agreements with Kibbutz Sdot-Yam—Land purchase agreement and leaseback", we agreed to Kibbutz Sdot-Yam acquiring from us our rights in the lands and facilities of the Bar-Lev Industrial Center, (the "Bar-Lev Grounds") in consideration for NIS 43.7 million ($10.9). Following the completion of the transfer in September 2012, Kibbutz Sdot-Yam agreed to permit us to use the Bar-Lev Grounds for a period of ten years thereafter. Our right to use the Bar-Lev Grounds will be automatically renewed unless we give two years prior notice, for a ten-year term in consideration for an annual fee of NIS 4.1 million ($1.2) to be linked to increases in the Israeli consumer price index, which may be updated by an appraiser. See "ITEM 7.B: Major Shareholders and Related Party Transactions—Related Party Transactions."

The new agreements entered into with Kibbutz Sdot-Yam along with the IPO resulted in an overall reduction of approximately $3.0 million in payments to Kibbutz Sdot-Yam and Tene in 2012 compared to 2011, primarily as a result of the elimination of the management fee. Operating income was impacted by an additional approximately $0.2 million due to the Bar-Lev manufacturing facility sale-leaseback arrangement, which was accounted for as a financing arrangement, generating approximately $0.2 million in annual interest expense in 2012, which was applicable only with respect to a four-month period. Interest expense related to this agreement was $0.7 million each year in 2013 and 2014.

In addition, in 2012, we committed to fund the cost of the construction, up to a maximum of NIS 3.3 million ($0.8) plus value added tax (VAT), required to change the access road leading to Kibbutz Sdot-Yam and our facilities, such that the entrance to our facilities will be separated from the entrance into Kibbutz Sdot-Yam. The current rate of VAT in Israel is 18%.

Comparison of period-to-period results of operations

The following table sets forth our results of operations as a percentage of revenues for the periods indicated:

| | Year ended December 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2014 | | 2013 | | 2012 | |
| | Amount | % of Revenue | Amount | % of Revenue | Amount | % of Revenue |
| | (in thousands of U.S. dollars) | | | | | |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| Consolidated Income Statement Data: | | | | | | | | | |
| Revenues: | $447,402 | 100.0 | % | $356,554 | 100.0 | % | $296,564 | 100.0 | % |
| Cost of revenues | 257,751 | 57.6 | | 194,436 | 54.5 | | 169,169 | 57.0 | |
| Gross profit | 189,651 | 42.4 | | 162,118 | 45.5 | | 127,395 | 43.0 | |
| Operating expenses: | | | | | | | | | |
| Research and development, net(1) | 2,628 | 0.6 | | 2,002 | 0.6 | | 2,100 | 0.7 | |
| Marketing and selling | 55,870 | 12.5 | | 51,209 | 14.4 | | 46,911 | 15.8 | |
| General and administrative | 36,111 | 8.1 | | 32,904 | 9.2 | | 28,423 | 9.6 | |
| Total operating expenses | 94,609 | 21.2 | | 86,115 | 24.2 | | 77,434 | 26.1 | |
| Operating income | 95,042 | 21.2 | | 76,003 | 21.3 | | 49,961 | 16.9 | |
| Finance expenses, net | 1,045 | 0.2 | | 1,314 | 0.4 | | 2,773 | 1.0 | |
| Income before taxes on income | 93,997 | 21.0 | | 74,689 | 20.9 | | 47,188 | 15.9 | |
| Taxes on income | 13,738 | 3.1 | | 10,336 | 2.9 | | 6,821 | 2.3 | |
| Income after taxes on income | 80,259 | 17.9 | | 64,353 | 18.0 | | 40,367 | 13.6 | |
| Net income | $80,259 | 17.9 | % | $64,353 | 18.0 | % | $40,367 | 13.6 | % |
| Net income attributable to non-controlling interest | 1,820 | 0.4 | | 1,009 | 0.2 | | 735 | 0.2 | |
| Net income attributable to controlling interest | $ 78,439 | 17.5 | % | $ 63,344 | 17.8 | % | $ 39,632 | 13.4 | % |

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Year ended December 31, 2014 compared to year ended December 31, 2013

Revenues

Revenues increased by $90.8 million, or 25.5%, to $447.4 million in 2014 from $356.6 million in 2013. The increase in revenues resulted from an approximately 15% increase in volume of sales, most notably in the United States, Australia, Canada and the rest of the world, along with increased average selling prices and considerable growth in business from IKEA, which includes a significant component of revenues derived from installation and fabrication. Higher average selling prices were attributable to the introduction of more differentiated products, including the new Calacatta and Granite-inspired designs, continued leverage of the super natural design, and selective regional price increases. All those factors were partially offset by unfavorable exchange rates, primarily related to a weakening of the Australian and the Canadian dollar against the U.S. dollar. On a constant currency basis, revenue grew by $101.4 million in 2014, an increase of 28.4% from 2013.

Our revenues increased in 2014 in all regions except Israel. The most significant growth in sales occurred in the United States, where revenues increased by 50.4%, in part due to continued quartz recognition, our collaboration with IKEA, improved product offerings, and a positive-trending housing market. Significant growth also occurred in Australia and Canada where sales increased by 27.4% and 26.2%, respectively, on a constant currency basis.

Cost of revenues and gross profit margins

Cost of revenues increased by $63.3 million, or 32.6%, to $257.8 million in 2014 from $194.4 million in 2013. Cost of revenues in 2014 included a non-recurring unfavorable provision adjustment related to retroactive taxable employee fringe benefits. This adjustment increased our cost of revenues by $0.8 million. Cost of revenues in 2013 included a one-time credit of $3.5 million related to inventory adjustment.

Beyond the adjustment noted above, cost of revenues increased primarily due to volume increases and, to a lesser extent, due to the IKEA installation and fabrication component. Also contributing to the increased cost of revenues were the elevated production levels of our differentiated super natural collection, which, despite incurring a premium in price from consumers, carries higher manufacturing costs, and an increase in quartz raw material prices.

Gross margin decreased by 190 basis points in 2014, excluding the above-mentioned non-recurring items. The margin decrease was driven primarily by a negative exchange rate impact and increased business with IKEA, which brings lower gross margins due to the installation and fabrication component. These factors were partially offset by a positive differentiated product mix and scale benefits.

Operating expenses

Research and development, net. Research and development expenses, net of grants received during prior years, increased by $0.6 million, or 31.3%, to $2.6 million in 2014 from $2.0 million in 2013. The increase was mainly driven by accelerated development activities, increased depreciation costs, expenses related to share-based rights granted during 2014.

Marketing and selling. Marketing and selling expenses increased by $4.7 million, or 9.1%, to $55.9 million in 2014 from $51.2 million in 2013. This increase resulted primarily from the need to support our growing business in the United States. During 2014 we grew our marketing and sales organization by 45 employees globally, primarily in the United States. We also increased our direct advertising and promotion activities in 2014.

General and administrative. General and administrative expenses increased by $3.2 million, or 9.7%, to $36.1 million in 2014 from $32.9 million in 2013. This increase was driven primarily by an increase in our operations in the United States, higher legal expenses related to our ongoing litigation and, to a lesser extent, growing audit fees mainly related to compliance with the requirements of the Sarbanes-Oxley Act of 2002 (the “Sarbanes-Oxley Act”), and an increase in expenses related to our ERP support and improvement activities.

Finance expenses, net

Finance expenses, net decreased by $0.3 million, or 20.2% to $1.0 million in 2014 from $1.3 million in 2013. This decrease resulted primarily from higher net income related to the impact of exchange rates on our derivatives and net monetary assets and liabilities re-valuation, given that unfavorable exchange rate fluctuations were higher in 2014 than in 2013. Lower interest expenses were offset by lower interest income given our reduced bank deposit levels.

Taxes on income

Taxes on income increased by $3.4 million to $13.7 million in 2014 from $10.3 million in 2013, primarily as a result of $19.3 million increase in income before taxes compared with that in 2013. The effective tax rate increased from 13.8% of income before taxes in 2013 to 14.6% in 2013, given the increased tax rates associated with our “Preferred Enterprise” status. See “—Components of our statements of income—Corporate taxes” above. Those local tax rates went up in 2014 compare to 2013 from 12.5% to 16% on income generated by the Sdot-Yam facility and from 7% to 9% on income generated by the Bar-Lev manufacturing facility.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by $0.8 million from $1.0 million in 2013 to $1.8 million in 2014. This increase was due to higher income generated by Caesarstone Canada Inc. in 2014 compared to 2013 given its revenue growth.

Year ended December 31, 2013 compared to year ended December 31, 2012

Revenues

Revenues increased by $60.0 million, or 20.2%, to $356.6 million in 2013 from $296.6 million in 2012. The increase in revenues primarily resulted from a 14.9% increase in volume of sales, most notably in the United States, Canada and the rest of the world. The introduction of our new super natural designs in late 2012 in Australia, Israel and Canada and in March 2013 in the United States, along with favorable customer mix, significantly improved average selling prices, which was partially offset by unfavorable exchange rates, primarily related to a weakening of the Australian dollar and the Canadian dollar against the U.S. dollar. On a constant currency basis, revenue grew by $63.9 million in 2013, a growth of 21.6%.

In 2013, our revenue increased in all regions, with the most significant growth in sales in the United States, which increased by over 40% leveraging our increased distribution footprint, the successful introduction of the super natural collection, supported by a positive housing market.

Cost of revenues and gross profit margins

Cost of revenues increased by $25.3 million, or 14.9%, to $194.4 million in 2013 from $169.2 million in 2012. Cost of revenues included a one-time positive inventory adjustment that reduced our cost of revenues by $3.5 million (See ITEM 5: "Application of critical accounting policies and estimates—Inventory valuation"). Cost of revenues increased primarily due to volume increases. Other factors that contributed to the increase include unfavorable exchange rates, related to the strengthening of the NIS and the Euro against the U.S. dollar and unit cost increase, driven by raw material price increase and product mix. Gross margin increased in 2013 to 45.5% from 43.0% in 2012. Excluding the one-time positive inventory adjustment, gross margin was 44.5%. The margin improvement was achieved primarily due to increased average selling price, related to the super natural designs and due to scale benefits. This was partially offset by unfavorable exchange rates, most notably the weakening of the Australian and Canadian dollar and the strengthening of the NIS against the U.S. dollar.

Operating expenses

Research and development, net. Research and development expenses, net of grants received, decreased by $0.1 million, or 4.7%, to $2.0 million in 2013 from $2.1 million in 2012. The decrease was mainly due to our efficiency improvement program to realign functions between our research and development department and our operations department partially offset by decreased OCS grants, which amounted to $0.01 million in 2013 compared to $0.31 million in 2012.

Marketing and selling. Marketing and selling expenses increased by $4.3 million, or 9.2%, to $51.2 million in 2013 from $46.9 million in 2012. This increase resulted primarily from the need to support a growing business, especially in North America, and from marketing and selling expenses incurred by us as a result of our expanded direct distribution operations in the mid-West and Phoenix regions of the United States.

General and administrative. General and administrative expenses increased by $4.5 million, or 15.8%, to $32.9 million in 2013 from $28.4 million in 2012. This increase was driven by primarily by higher labor cost related to an increase of 31 employees worldwide and the follow-on offering related expenses of $1.3 million. Other increases resulted from the implementation costs of our ERP system, bad debt provisions and the cost of operating as a public company.

Finance expenses, net

Finance expenses, net decreased by 52.6% to $1.3 million in 2013 from $2.8 million in 2012. This decrease resulted primarily from net foreign exchange income, related to gains on our derivatives given the unfavorable exchange rates fluctuations during 2013, mainly in the Australian dollar. Our interest expenses and bank charges, net increased by $0.3 million. Despite the increase in our net cash balance due to the introduction of interest expense on the 2012 sale lease back arrangement at the Bar-Lev manufacturing facility and increased volume-related bank charges.

Taxes on income

Taxes on income increased by $3.5 million to $10.3 million in 2013 from $6.8 million in 2012, primarily as a result of an increase of $27.5 million in income before taxes compared with 2012. The effective tax rate applicable to us dropped from 14.5% of income before taxes in 2012 to 13.8% in 2013, given the lower local Israeli tax rates associated with our “Preferred Enterprise” status. Those local tax rates went down from 15% in 2012 to 12.5% in 2013, as applied to income generated by the Sdot-Yam facility, and from 10% in 2012 to 7% in 2013, as applied to income generated by the Bar-Lev manufacturing facility. The decreased rates of taxable income were offset by higher income attributable to our subsidiaries, which are located in jurisdictions where tax rates are higher, and a $0.6 million deferred tax liability adjustment associated with a newly levied increase in our Israeli tax rate. Beginning in 2014, this deferred tax liability adjustment comprises a 16% increase in local taxes on income generated by the Sdot-Yam facility and a 9% increase in local taxes on income generated by the Bar-Lev manufacturing facility.

Net income attributable to non-controlling interest

Net income attributable to non-controlling interest increased by $0.3 million from $0.7 million in 2012 to $1.0 million in 2013. This increase was due to higher income generated by Caesarstone Canada Inc. in 2013 compared to 2012.

Quarterly results of operations and seasonality

The following table presents our unaudited condensed consolidated quarterly results of operations for the eight quarters in the period from January 1, 2013 to December 31, 2014. We also present reconciliations of net income to adjusted EBITDA and net income attributable to controlling interest to adjusted net income attributable to controlling interest for the same periods. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this annual report. We have prepared the unaudited condensed consolidated quarterly financial information for the quarters presented below on the same basis as our audited consolidated financial statements. The historical quarterly results presented below are not necessarily indicative of the results that may be expected for any future quarters or periods.

Three months ended

| | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sept. 30, 2013 | June 30, 2013 | Mar. 31, 2013 |
|---|---|---|---|---|---|---|---|---|
| | (in thousands) | | | | | | | |
| Consolidated Income Statement Data: | | | | | | | | |
| Revenues: | $113,640 | $123,284 | $116,064 | $94,414 | $96,813 | $94,320 | $88,977 | $76,444 |
| Revenues as a percentage of annual revenue | 25.4 % | 27.6 % | 25.9 % | 21.1 % | 27.2 % | 26.5 % | 25.0 % | 21.4 % |
| Gross profit | $48,916 | $53,926 | $47,622 | $39,187 | $41,583 | $41,998 | $44,320 | $34,217 |
| Operating income | 22,990 | 31,228 | 23,557 | 17,267 | 19,773 | 20,917 | 22,242 | 13,071 |
| Net income | 20,591 | 27,419 | 18,776 | 13,473 | 17,017 | 16,461 | 20,165 | 10,710 |
| Other financial data: | | | | | | | | |
| Adjusted EBIDTA | $28,126 | $35,937 | $30,361 | $22,130 | $24,216 | $25,231 | $24,621 | $17,643 |
| Adjusted EBIDTA as a percentage of annual adjusted EBIDTA | 24.1 % | 30.8 % | 26.1 % | 19.0 % | 26.4 % | 27.5 % | 26.8 % | 19.2 % |
| Adjusted net income attributable to controlling interest | $ 21,023 | $ 26,968 | $ 20,708 | $ 13,800 | $17,479 | $16,545 | $18,620 | $11,315 |
| Adjusted net income attributable to controlling interest as a percentage of annual adjusted net income | 25.5 % | 32.7 % | 25.1 % | 16.7 % | 27.3 % | 25.9 % | 29.1 % | 17.7 % |

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sept. 30, 2013 | June 30, 2013 | Mar. 31, 2013 |
| | (as a % of revenue) | | | | | | | |
| Consolidated Income Statement Data: | | | | | | | | |
| Revenues: | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % | 100.0 % |
| Gross profit | 43.0 | 43.7 | 41.0 | 41.5 | 43.0 | 44.5 | 49.8 | 44.8 |
| Operating income | 20.2 | 25.3 | 20.3 | 18.3 | 20.4 | 22.2 | 25.0 | 17.1 |
| Net income | 18.0 | 21.5 | 15.7 | 14.1 | 17.6 | 17.4 | 22.6 | 14.0 |

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sept. 30, 2013 | June 30, 2013 | Mar. 31, 2013 |
| | (in thousands of U.S. dollars) | | | | | | | |
| Reconciliation of Net Income to Adjusted EBITDA: | | | | | | | | |
| Net income | $20,591 | $27,419 | $18,776 | $13,473 | $17,017 | $16,461 | $20,165 | $10,710 |
| Finance expenses (income), net | (911 ) | (1,029 ) | 1,420 | 1,565 | 416 | 1,113 | (404 ) | 189 |
| Taxes on income | 3,310 | 4,838 | 3,361 | 2,229 | 2,340 | 3,343 | 2,481 | 2,172 |
| Depreciation and amortization | 4,436 | 4,196 | 4,299 | 4,245 | 3,894 | 3,803 | 3,684 | 3,613 |
| Excess cost of acquired inventory(a) | — | 123 | 108 | — | 15 | 31 | 72 | 70 |
| Share-based compensation expense (b) | 700 | 524 | 801 | 618 | 534 | 480 | 611 | 889 |
| Inventory - change of estimate (c) | — | — | — | — | — | — | (3,458 ) | — |
| Follow-on expense(d) | — | — | 657 | — | — | — | 1,470 | — |
| Taxable employees fringe benefits settlement (e) | — | — | 939 | — | — | — | — | — |
| Settlement with the tax authorities (f) | — | (134 ) | — | — | — | — | — | — |
| Adjusted EBITDA | $28,126 | $35,937 | $30,361 | $22,130 | $24,216 | $25,231 | $24,621 | $17,643 |

(a) Consists of charges to cost of goods sold for the difference between the higher carrying cost of the inventory of two of our subsidiaries, Caesarstone USA's inventory at the time of its acquisition and inventory that was purchased from its sub-distributors, and Caesarstone Australia Pty Limited's inventory that was purchased from its distributor, and the standard cost of our inventory, which adversely impacts our gross margins until such inventory is sold. The majority of the acquired inventory from Caesarstone USA was sold in 2011, and the majority of the inventory purchased from the Australian distributor was sold in 2012.

(b) In 2013, share-based compensation consisted of expenses related to stock options granted to our employees. In 2014, share-based compensation consisted primarily of expenses related to stock options granted to our employees as well as expenses related to Share based rights granted during 2014.

(c) Relates to a change in estimate for the value of inventory following the implementation of our new ERP system in April 2013.

(d) In 2014, follow-on offering expenses consist of direct expenses related to a follow-on offering that closed in April 2013, including a bonus paid by our former shareholder, Tene to certain of our employees that under US GAAP we are required to expense against paid-in capital. In 2014, follow-on offering expenses consist of direct expenses related to a follow-on offering that closed in June 2014.

(e) Relates to an adjustment of provision for taxable employee fringe benefits as a result of a settlement with the Israel Tax Authority and with the NII.

(f) Relates to a refund of Israeli VAT associated with a bad debt from 2007.

| | Three months ended | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Dec. 31, 2014 | Sept. 30, 2014 | June 30, 2014 | Mar. 31, 2014 | Dec. 31, 2013 | Sept. 30, 2013 | June 30, 2013 | Mar. 31, 2013 |
| | (in thousands of U.S. dollars) | | | | | | | |
| Reconciliation of Net Income Attributable to Controlling Interest to Adjusted Net Income Attributable to Controlling Interest: | | | | | | | | |
| Net income attributable to controlling interest | $ 20,418 | $ 26,545 | $ 18,206 | $ 13,270 | $ 17,005 | $ 16,103 | $ 19,718 | $ 10,518 |
| Excess of acquired inventory(a) | — | 123 | 108 | — | 15 | 31 | 72 | 70 |
| Share-based compensation expense(b) | 700 | 524 | 801 | 618 | 534 | 480 | 611 | 889 |
| Inventory – Change of estimate(c) | — | — | — | — | — | — | (3,458 ) | — |
| Follow-on expenses(d) | — | — | 657 | — | — | — | 1,470 | — |
| Provision for employees fringe benefits(e) | — | — | 939 | — | — | — | — | — |
| Settlement with the tax authorities(f) | | | | | | | | |