

CaesarStone Sdot-Yam Ltd.
Form 20-F
March 25, 2013

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

**ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF
^x1934**

For the fiscal year ended December 31, 2012

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

Edgar Filing: CaesarStone Sdot-Yam Ltd. - Form 20-F

(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 ("Securities Act"):

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
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, 2012: **34,365,250 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 No

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

Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the 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 No

Edgar Filing: CaesarStone Sdot-Yam Ltd. - Form 20-F

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 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 Accelerated filer Non-accelerated filer

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

U.S. GAAP International Financial Reporting Standards as issued Other
by the International Accounting Standards Board

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

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, 2012 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 3.733, the representative exchange rate published by the Bank of Israel as of December 31, 2012.

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 March 13, 2013, 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.

Forward-Looking Statements

In addition to historical facts, this annual report on Form 20-F contains forward-looking statements within the meaning of Section 27A of the U.S. Securities Act of 1933, as amended (“Securities Act”), Section 21E of the U.S. Securities Exchange Act of 1934, as amended, (“Exchange Act”) and the safe harbor provisions of the U.S. Private Securities Litigation Reform Act of 1995. We have based these forward-looking statements on our current expectations and projections about future events. These statements include but are not limited to:

• 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 innovative products;
our plans to construct a fifth production line at our Bar-Lev manufacturing facility, to be operational in phases, the first during the fourth quarter of 2013 and the second during the first quarter of 2014, and to build a manufacturing facility with capacity for two production lines in the United States, with the first production line being operational during the fourth quarter of 2014 and the second production line's construction subject to the growth of our business;
• our plans to invest in research and development for the development of new quartz products;
• our ability to increase quartz's penetration in our existing markets and new markets;
• our ability to acquire third-party distributors, manufacturers and raw material suppliers;
• our plans to continue our international presence;
our expectations regarding future prices of polyester and other polyester resins and future foreign exchange rates, particularly the Australian dollar, NIS, Canadian dollar and the Euro; and
• our expectations regarding our future product mix.

These statements may be found in the sections of this annual report on Form 20-F entitled "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" and elsewhere in this annual report. Actual results could differ materially from those anticipated in these forward-looking statements as a result of various factors, including all the risks discussed in "ITEM 3: Key Information—Risk Factors" and elsewhere in this annual report.

In addition, statements that use the terms "believe," "expect," "plan," "intend," "estimate," "anticipate" and similar expressions intended to identify forward-looking statements. All forward-looking statements in this annual report reflect our current views about future events and are based on assumptions and are subject to risks and uncertainties that could cause our actual results to differ materially from future results expressed or implied by the forward-looking statements. Many of these factors are beyond our ability to control or predict. You should not put undue reliance on any forward-looking statements. Unless we are required to do so under U.S. federal securities laws or other applicable laws, we do not intend to update or revise any forward-looking statements.

TABLE OF CONTENTS

	Page
Part I	
ITEM 1: Identity of Directors, Senior Management and Advisers	1
ITEM 2: Offer Statistics and Expected Timetable	1
ITEM 3: Key Information	1
Selected Financial Data	1
Risk Factors	5
ITEM 4: Information on Caesarstone	25
History and Development of Caesarstone	25
Business Overview	26
Organizational Structure	33
Property, Plants and Equipment	34
ITEM 4A: Unresolved Staff Comments	34
ITEM 5: Operating and Financial Review and Prospects	34
Operating Results	34
Liquidity and Capital Resources	54
Research and Development, Patents and Licenses	58
Trend Information	58
Off-Balance Sheet Arrangements	58
Contractual Obligations	58
ITEM 6: Directors, Senior Management and Employees	59
Directors and Senior Management	59
Compensation of Officers and Directors	64
Board Practices	66
Employees	79
Share Ownership	80
ITEM 7: Major Shareholders and Related Party Transactions	81
Major Shareholders	81
Related Party Transactions	82
ITEM 8: Financial Information	88
Consolidated Financial Statements and Other Financial Information	88
Significant Changes	91
ITEM 9: The Offer and Listing	91
Offer and Listing Details	91
Plan of Distribution	92
Markets	92
Selling Shareholders	92
Dilution	92
Expenses of the Issue	92
ITEM 10: Additional Information	92
Share Capital	92
Memorandum of Association and Articles of Association	92
Material Contracts	97
Exchange Controls	98

Edgar Filing: CaesarStone Sdot-Yam Ltd. - Form 20-F

Taxation	98
Documents on Display	107
ITEM 11: Quantitative and Qualitative Disclosures about Market Risk	108
ITEM 12: Description of Securities Other than Equity Securities	110

Part II

ITEM13: Defaults, Dividend Arrearages and Delinquencies	110
ITEM 14: Material Modifications to the Rights of Security Holders and Use of Proceeds	110
ITEM 15: Controls and Procedures	110
ITEM 16: [Reserved]	111
ITEM 16A: Audit Committee Financial Expert	111
ITEM 16B: Code of Ethics	111
ITEM 16C: Principal Accountant Fees and Services	111
ITEM 16D: Exemptions from the Listing Standards for Audit Committees	112
ITEM 16E: Purchases of Equity Securities by the Company and Affiliated Purchasers	112
ITEM 16F: Change in Registrant's Certifying Accountant	112
ITEM 16G: Corporate Governance	112

Part III

ITEM 17: Financial Statements	113
ITEM 18: Financial Statements	113
ITEM 19: Exhibits	113

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, 2010, 2011 and 2012 and the consolidated balance sheet data as of December 31, 2011 and 2012 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, 2008 and 2009 and the consolidated balance sheet data as of December 31, 2008, 2009 and 2010 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” contain information that is not derived from our financial statements.

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands of U.S. dollars, except per share and share data)				
Consolidated Income Statement Data:					
Revenues	\$ 169,203	\$ 162,634	\$ 198,791	\$ 259,671	\$ 296,564
Cost of revenues	121,325	108,853	120,503	155,377	169,169
Gross profit	47,878	53,781	78,288	104,294	127,395
Operating expenses:					

Edgar Filing: CaesarStone Sdot-Yam Ltd. - Form 20-F

Research and development, net(1)	2,147	1,964	2,273	2,487	2,100
Marketing and selling	12,934	12,960	16,048	34,043	46,911
General and administrative	14,816	18,729	20,896	30,018	28,423
Total operating expenses	29,897	33,653	39,217	66,548	77,434
Operating income	17,981	20,128	39,071	37,746	49,961
Finance expenses, net	6,206	8,693	2,370	4,775	2,773
Income before taxes on income	11,775	11,435	36,701	32,971	47,188
Taxes on income	453	3,752	7,399	3,600	6,821
Income after taxes on income	11,322	7,683	29,302	29,371	40,367
Equity in losses of affiliate(2)	3,554	293	296	67	—
Net income	\$ 7,768	\$ 7,390	\$ 29,006	\$ 29,304	\$ 40,367
Net income attributable to non-controlling interest	—	—	348	252	735
Net income attributable to controlling interest	\$ 7,768	\$ 7,390	\$ 28,658	\$ 29,052	\$ 39,632
Dividend attributable to preferred shareholders	(1,837)	(2,337)	(8,312)	(8,376)	—
Net income attributable to the Company's ordinary shareholders	\$ 5,931	\$ 5,053	\$ 20,346	\$ 20,676	\$ 39,632
Basic and diluted net income per ordinary share	\$ 0.30	\$ 0.26	\$ 1.04	\$ 1.06	\$ 1.21
Weighted average number of ordinary shares used in computing diluted income per share	19,565	19,565	19,565	19,565	32,700
Dividends declared per share:					
Shekels	NIS —	NIS 1.42	NIS 2.32	NIS 0.50	NIS—
Dollars	\$ —	\$ 0.38	\$ 0.65	\$ 0.14	\$ —

	At December 31,				
	2008	2009	2010	2011	2012
	(in thousands of U.S. dollars)				
Consolidated Balance Sheet Data:					
Cash, cash equivalents and short term bank deposits	\$2,990	\$20,527	\$43,737	\$11,950	\$72,733
Working capital(3)	22,411	35,885	40,201	28,592	117,712
Total assets	187,426	193,444	236,403	246,317	321,049
Total liabilities	110,099	99,025	115,450	103,661	90,026
Redeemable non-controlling interest	—	—	5,662	6,205	7,106
Shareholders' equity	77,327	94,419	115,291	136,451	223,917

	Year ended December 31,				
	2008	2009	2010	2011	2012
	(in thousands of U.S. dollars)				
Other Financial Data:					
Adjusted EBITDA(4)	\$27,353	\$34,397	\$50,489	\$58,774	\$69,445
Adjusted net income attributable to controlling interest(4)	6,760	16,013	29,763	34,765	44,008
Capital expenditures	10,079	4,765	5,486	8,785	13,481
Depreciation and amortization	9,235	9,497	10,034	14,615	14,368

- (1) Research and development expenses are presented net of grants that we receive from the Office of the Chief Scientist of the Ministry of Industry and Trade of the State of Israel.
- (2) Reflects our proportionate share of the net loss of our U.S. distributor, Caesarstone USA, 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,				
	2008	2009	2010	2011	2012
	(in thousands of U.S. dollars)				
Reconciliation of Net Income to Adjusted EBITDA:					
Net income	\$7,768	\$7,390	\$29,006	\$29,304	\$40,367
Finance expenses, net	6,206	8,693	2,370	4,775	2,773
Taxes on income	453	3,752	7,399	3,600	6,821
Depreciation and amortization	9,235	9,497	10,034	14,615	14,368
Equity in losses of affiliate, net(a)	3,554	293	296	67	—
Excess cost of acquired inventory(b)	—	—	—	4,021	885
Share-based compensation expense(c)	137	4,772	1,384	1,259	3,007
IPO bonus(d)	—	—	—	—	1,970
Caesarstone USA contingent consideration adjustment(e)	—	—	—	—	255
Litigation gain(f)	—	—	—	(1,783)	(1,001)
Microgil loan and inventory write down(g)	—	—	—	2,916	—
Adjusted EBITDA	\$27,353	\$34,397	\$50,489	\$58,774	\$69,445

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