UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF NEW YORK

[redacted] Individually and on Behalf of All Others Similarly Situated, Plaintiff(s), v. CAESARSTONE SDOT-YAM, LTD., YOSEF SHIRAN, and YAIR AVERBUCH, Defendants.	**Civil Action No.:** **CLASS ACTION COMPLAINT FOR VIOLATIONS OF THE FEDERAL SECURITIES LAWS** **<u>JURY TRIAL DEMANDED</u>**

Plaintiff [redacted] ("Plaintiff"), individually and on behalf of all other persons similarly situated, by her undersigned attorneys, for her complaint against defendants, alleges the following based upon personal knowledge as to herself and her own acts, and information and belief as to all other matters, based upon, *inter alia*, the investigation conducted by and through her attorneys, which included, among other things, a review of the defendants' public documents, conference calls and announcements made by defendants, United States Securities and Exchange Commission ("SEC") filings, wire and press releases published by and regarding CaesarStone Sdot-Yam, Ltd. ("CaesarStone" or the "Company"), analysts' reports and advisories about the Company, and information readily obtainable on the Internet. Plaintiff believes that substantial evidentiary support will exist for the allegations set forth herein after a reasonable opportunity for discovery.

NATURE OF THE ACTION

1. This is a class action on behalf of purchasers of CaesarStone securities between March 25, 2013 and August 18, 2015, inclusive (the "Class Period"), seeking to pursue remedies under the Securities Exchange Act of 1934 (the "Exchange Act").

2. CaesarStone manufactures and sells engineered quartz surfaces under the CaesarStone brand in the United States, Australia, Canada, Israel, Europe, and internationally. The Company's products are engineered quartz slabs, which are used as kitchen countertops in the renovation and remodeling, and residential construction end markets, as well as other applications, including vanity tops, wall panels, back splashes, floor tiles, stair, and other interior surfaces that are used in various residential and non-residential applications. It sells its products directly to fabricators, sub-distributors, and resellers; and indirectly through a network of independent distributors.

3. The company was founded in 1987 and is based in MP Menashe, Israel. CaesarStone Sdot-Yam Ltd. is a subsidiary of Mifalei Sdot-Yam Agricultural Cooperative Society Ltd. CaesarStone is based in Sedot Yam, Israel. Its shares trade on the NASDAQ under the ticker symbol "CSTE."

4. Throughout the Class Period, Defendants made false and/or misleading statements, as well as failed to disclose material adverse facts about the Company's business, operations, and prospects. Specifically, Defendants made false and/or misleading statements and/or failed to disclose that: (i) that the cost of quartz rose substantially by approximately 20% in 2014 while the Company claimed in SEC filings the impact was just 4%; (ii) that independent lab tests demonstrate that CaesarStone's samples contained less quartz than advertised; (iii) CaesarStone's reported consolidated margins, gross margins, and EBITDA were overstated; (iv)

the extent of and risk posed by a growing number of lawsuits for approximately 60 silicosis-related injuries or deaths suffered by workers and fabricators of its product in Israel; (vi) the impact recent OSHA warnings regarding silicosis may have on the opening of a new U.S. facility and associated costs; and (vii) recent inspection reports revealed audit deficiencies related to revenue and inventory controls; and (viii) as a result of the foregoing, Defendants' statements about CaesarStone's business, operations, and prospects were false and misleading and/or lacked a reasonable basis.

5. On August 19, 2015, analyst firm Spruce Point Capital Management published a report on CaesarStone describing the aforementioned false and misleading statements and failures of disclosure.

6. On this adverse news, CaesarStone ADRs fell $3.68, or 7.6%, to close at $44.61 on August 19, 2015.

7. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other class members have suffered significant losses and damages.

JURISDICTION AND VENUE

8. The claims asserted herein arise under Sections 10(b) and 20(a) of the Exchange Act (15 U.S.C. §§78j(b) and 78t(a)) and Rule 10b-5 promulgated thereunder by the SEC (17 C.F.R. § 240.10b-5).

9. This Court has jurisdiction over the subject matter of this action pursuant to 28 U.S.C. §1331 and Section 27 of the Exchange Act (15 U.S.C. §78aa).

10. Venue is proper in this Judicial District pursuant to 28 U.S.C. §1391(b) and Section 27 of the Exchange Act (15 U.S.C. §78aa(c)). Substantial acts in furtherance of the

alleged fraud or the effects of the fraud have occurred in this Judicial District. Many of the acts charged herein, including the preparation and dissemination of materially false and/or misleading information, occurred in substantial part in this Judicial District.

11. In connection with the acts, transactions, and conduct alleged herein, Defendants directly and indirectly used the means and instrumentalities of interstate commerce, including the United States mail, interstate telephone communications, and the facilities of a national securities exchange.

PARTIES

12. Plaintiff, as set forth in the accompanying certification, incorporated by reference herein, purchased CaesarStone common stock during the Class Period, and suffered damages upon the revelation of the alleged corrective disclosures.

13. Defendant CaesarStone is an Israeli corporation with its principal executive offices located at Kibbutz Sdot-Yam, MP Menashe, 37804, Israel. CaesarStone's ADRs trade on the NASDAQ under the ticker symbol "CSTE."

14. Defendant Yosef Shiran ("Shiran") served at all relevant times as the Company's Chief Executive Officer and Executive Director.

15. Defendant Yair Averbuch ("Averbuch") served at all relevant times as the Chief Financial Officer and Executive Director of CaesarStone.

16. The defendants referenced above in ¶¶ 14-15 are sometimes collectively referred to herein as the "Individual Defendants."

SUBSTANTIVE ALLEGATIONS

Background

17. CaesarStone manufactures and sells engineered quartz surfaces under the CaesarStone brand in the United States, Australia, Canada, Israel, Europe, and internationally. The Company's products are engineered quartz slabs, which are used as kitchen countertops in the renovation and remodeling, and residential construction end markets, as well as other applications, including vanity tops, wall panels, back splashes, floor tiles, stair, and other interior surfaces that are used in various residential and non-residential applications. It sells its products directly to fabricators, sub-distributors, and resellers; and indirectly through a network of independent distributors.

18. The company was founded in 1987 and is based in MP Menashe, Israel. CaesarStone Sdot-Yam Ltd. is a subsidiary of Mifalei Sdot-Yam Agricultural Cooperative Society Ltd. CaesarStone is based in Sedot Yam, Israel. Its shares trade on the NASDAQ under the ticker symbol "CSTE."

Materially False and Misleading Statements Issued During the Class Period

19. The Class Period begins when, on March 25, 2013, The Company issued a press release and filed an annual report or Form 20-F with the SEC, announcing its financial and operating results for the fiscal year 2012. The filing deemphasizes the risk posed by the injury- and death-related lawsuits filed against the Company, stating:

> ***Silicosis and related claims could have a material adverse effect on our business, operating results and financial condition.***
>
> Since 2008, 22 lawsuits have been filed against us or named us as third party defendants in Israel and one lawsuit has named CaesarStone USA, Inc. as a defendant in the United States. We have also received a number of additional letters threatening lawsuits on behalf of certain fabricators of our products in

Israel or their employees in Israel alleging that they contracted illnesses, including silicosis, through exposure to fine silica particles when cutting, polishing, sawing, grinding, breaking, crushing, drilling, sanding or sculpting our products. Each of the lawsuits that have been filed names defendants in addition to us, including, in certain cases, fabricators that employed the plaintiff, the Israeli Ministry of Industry, Trade and Employment, distributors of our products and insurance companies, and the lawsuit in the United States names a total of 26 defendants that are manufacturers of equipment utilized in stone fabricating or finishing operations or manufacturers and marketers of stone and engineered stone products, including us. Silicosis is an occupational lung disease that is progressive and sometimes fatal, and is characterized by scarring of the lungs and damage to the breathing function. Inhalation of dust containing fine silica particles as a result of not well protected and not well controlled, or unprotected and uncontrolled, exposure while processing quartz, granite, marble and other materials can cause silicosis. Silica comprises 90% of engineered stones, and smaller concentrations of silica are present in natural stones. Various types of claims are raised in these lawsuits and in the letters submitted to us, including product liability claims, such as claims related to failure to provide warnings regarding the risks associated with silica dust. Damages totaling $62.1 million are specified in the lawsuits currently filed against us in Israel; however, the amount of general damages, which includes items such as pain and suffering and loss of future earnings, has not yet been specified in most of the lawsuits. As a result, there is uncertainty regarding the total amount of damages that may ultimately be sought. Total damages of $56.0 million, including $20.0 million of punitive damages, are sought in the U.S. lawsuit to which CaesarStone USA, Inc. was added as a 26th defendant approximately one year after commencement of the lawsuit. We believe that we have valid defenses to the lawsuits pending against us and to potential claims and intend to contest them vigorously.

At present, we do not believe that it is reasonably possible or probable that the lawsuits filed against us to date will have a material adverse effect on our financial position, results of operations, or cash flows, in part due to the current availability of insurance coverage. Nevertheless, all but five of the lawsuits are generally at a preliminary stage and no material determinations, including those relating to attribution of fault or amount of damages, have been made. There can also be no assurance that our insurance coverage will be adequate or that we will prevail in these cases. We are party to a settlement agreement that has been approved by a court with respect to one of the lawsuits filed. In that instance, the total settlement is for NIS 275,000 ($73,667) of which we have agreed to pay NIS 10,000 ($2,679) without admitting liability. Substantially all of the balance is payable by the fabricator that employed the individual in question and insurance companies. We can provide no assurance that other lawsuits will be settled in this manner or at all.

(emphasis added)

20. Regarding potential increases in the price of Quarter, the 20-F stated:

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

Polyester and other polymer resins, which act as a binding agent in our products, accounted for approximately 41% of our raw material costs in 2012. Accordingly, our cost of sales and overall results of operations are impacted significantly by fluctuations in resin prices. For example, if the price of polyester and other polymer resins was to rise by 10%, and we were not able to pass along any of such increase to our customers or achieve other offsetting savings, we would experience a decrease of approximately 1.2% in our gross profit margin. The cost of polyester and other polymer resins is a function of, among other things, manufacturing capacity, demand and the price of crude oil. We do not have long-term supply contracts with our suppliers of polyester and other polymer resins. We generally purchase polyester and other polymer resins on a quarterly basis and have found that increases in their prices are difficult to pass on to our customers. In 2009, average polyester prices dropped by approximately 27%, and during 2010, average polyester prices increased by approximately 20% followed by a further increase of approximately 12% in 2011. In 2012, however, polyester prices stabilized with an approximately 1% decrease in average prices during this period. 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 longer than one or two months. Any future increases in polyester prices may adversely impact our margins and net income.

Approximately 50% of our cost of revenues is raw material costs. Our principal raw materials are quartz, polyester and other polymer resins and pigments. In 2012, quartz and polyester and polymer resins jointly accounted for approximately 75% of our total raw material cost, with quartz accounting for approximately one-third 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.

21. Regarding the Company's internal controls, the 20-F stated:

We have not yet determined whether our existing internal control over financial reporting is effective under Section 404 of the Sarbanes-Oxley Act of 2002 and, as an emerging growth company, are currently not required to obtain an auditor attestation regarding our internal control.

We will be required to comply with the internal control, evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") in our Annual Report on Form 20-F for the year ending December 31, 2013. Accordingly, we have only recently commenced the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. Furthermore, unless we lose our status as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012, we will not be required to obtain an auditor attestation under Section 404 of the Sarbanes-Oxley Act until 2017. The process of evaluating our internal control over financial reporting will require an investment of substantial time and resources, including by our Chief Financial Officer and other members of our senior management. As a result, this process may divert internal resources and take a significant amount of time and effort to complete. In addition, we cannot predict the outcome of this determination and whether we will need to implement remedial actions in order to implement effective control over financial reporting. The determination and any remedial actions required could result in us incurring additional costs that we did not anticipate. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors.

22. Regarding the Company's improved margins, the 20-F stated:

Our gross profit margins have improved significantly over recent years, increasing from 39.4% in 2010 to 43.0% in 2012. The primary reason for these gross profit margin improvements is our transition to direct distribution in Canada in October 2010 and in the United States in May 2011, which enabled us to retain the full margin on our sales in these markets. General operational cost reduction strategies and favorable volume impact, which lowered costs per unit on fixed and semi-variable costs of goods sold, also contributed to the improvement. In 2013 and 2014, we expect to construct an additional production line and a new production facility. We believe these investments will cause temporary inefficiencies that will adversely impact our margins in 2013 and 2014.

. . .

The acquisition of CaesarStone USA and the shift to direct sales in the United States increased our average selling prices significantly and favorably impacted our revenue and gross margins as we retained the full margin on our sales in this market. The acquisition also increased our operating expenses significantly as we added the cost of CaesarStone USA's operations to our cost structure. In the future, we believe that the acquisition will positively impact our operating profit and net income although our operating profit margins may decrease slightly due to higher revenue. In 2011, however, the acquisition of CaesarStone USA's impact on our operating profit and net income was

> unfavorable mainly due to CaesarStone USA's inventory held upon its acquisition having a higher carrying cost than our inventory. As a result, we recognized lower gross margins relative to future sales by CaesarStone USA during 2011 when the majority of this inventory was sold. In 2012, the acquisition contributed positively to our results of operations as a result of increased volume and a lower pre-acquisition inventory level following inventory sales in 2011.
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> (emphasis added)

23. On May 10, 2013, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q1 2013 financial results, making positive statements regarding the Company's North America market share and margins, stating in relevant part:

> Yosef Shiran, Chief Executive Officer, commented, "We are pleased to have begun the year with a good first quarter. Our growth in North America continues to be strong and ***we are excited to build our presence into the fast-growing U.S. and Canadian markets as they embrace quartz as a superior material***. We are also pleased to see growth in sales and margins following a strong global response to our innovative Super-Naturals product line."
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> Gross margin in the first quarter was 44.8% compared to 41.8% in the same period in the prior year. The Company noted that in the first quarter of last year, excluding compensation related to its initial public offering, gross margin was 43.0%. The comparable year-over-year improvement resulted from benefits of scale, higher margins associated with new products, and favorable changes in the regional mix of revenues.
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> . . .
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> Adjusted EBITDA, which excludes share-based compensation, the excess cost of acquired inventory and other non-recurring costs, increased by 28.9% to $17.6 million in the first quarter, a margin of 23.1%. This compares to adjusted EBITDA of $13.7 million, a margin of 20.3% in the first quarter of the prior year.
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> (emphasis added)

24. On June 6, 2013, CaesarStone filed with the SEC a form 6-K and issued a press release announcing the resignation of Ariel Halperin from the Company's Board of directors, leaving a board with a minority of independent directors, stating in relevant part:

> CaesarStone Sdot-Yam Ltd. (CSTE), a manufacturer of high quality engineered quartz surfaces, today reported that Dr. Ariel Halperin has resigned from the Company's Board of Directors, effective immediately. Dr. Halperin, a co-founder of Tene Investment Funds, resigns following the recent completion of a secondary offering of Tene's shares in the Company. ***The board now consists of 9 directors, four of which are independent.***
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> (emphasis added)

25. On August 9, 2013, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q2 2013 financial results, making positive statements regarding the Company's U.S. market share and margins, stating in relevant part:

> Yosef Shiran, Chief Executive Officer, commented, "We are pleased to report another record quarter for sales and profitability, particularly in our fast-growing North American markets where quartz is increasingly embraced. This includes our Super-Natural design which has demonstrated rapid, global success. We continue to look forward to completing capacity expansion projects both in Israel and the United States to reinforce our growth capability, maintain our leadership position and create growth and value for both our customers and our shareholders."
>
> Gross margin in the second quarter was 49.8% and included a $3.5 million one-time positive impact associated with a change in estimate for the value of inventory following the implementation of the Company's new ERP system in April of 2013. Excluding this benefit, adjusted gross margin in the second quarter was 45.9%, an improvement of 290 basis points compared to 43.0% in the same period in the prior year. This year-over-year improvement resulted from benefits of scale, higher margins associated with new products and favorable changes in the regional mix of revenues.
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> Adjusted EBITDA, which excludes share-based compensation, the excess cost of acquired inventory and other non-recurring costs mentioned above, increased by 36.9% to $24.6 million in the second quarter, a margin of 27.7%. This compares to adjusted EBITDA of $18.0 million, a margin of 23.8% in the second quarter of the prior year.

26. On November 7, 2013, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q3 2013 financial results, making positive statements regarding the Company's U.S. market share, margins, and planned capacity expansion projects, stating in relevant part:

> Yosef Shiran, Chief Executive Officer, commented, "We are pleased with our results for the third quarter, particularly in the United States, which is our largest and fastest growing market. Our strong brand, leading products and improved market conditions all contributed to our significant increase in revenues and our strong cash flow. We expect to continue to drive value to our shareholders, partners and customers through ongoing growth in our business."
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> Gross margin in the third quarter was 44.5% compared to 45.0% in the same period in the prior year. This slight decline was driven by increased manufacturing costs, including those associated with the planned expansion in the Company's Bar Lev manufacturing facility, and the overall negative currency impact in the quarter. These factors were partially offset by favorable changes in the mix of revenues and scale-related benefits.
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> Adjusted EBITDA, which excludes share-based compensation, the excess cost of acquired inventory and other non-recurring costs, increased by 18.4% to $25.2 million in the third quarter, a margin of 26.8%. This compares to adjusted EBITDA of $21.3 million, a margin of 27.5% in the third quarter of the prior year.
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> . . .
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> The Company also today provided an update with respect to its planned capacity expansion projects. In November it began utilizing expanded capacity in its Bar Lev facility with an expected completion of a full fifth line in the second quarter of 2014. The Company also today announced that it has selected Richmond Hill, Georgia as the location for its new manufacturing plant in the United States. ***Site-specific considerations have prompted the Company to revise its expected start date for the first of two lines to the second quarter of 2015. The Company has decided to accelerate its initial investment to approximately 70% of the total expected capital cost of $100 million in order to support an expedited launch of the second line.*** Upon completion, the Company's manufacturing operations will encompass seven full production lines.
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> (emphasis added)

27. On February 2, 2014, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q4 2014 and FY 2014 financial results, making positive statements regarding the Company's U.S. market share, margins, success regarding its IKEA partnership, and issued FY 2014 revenue guidance, stating in relevant part:

> Yosef Shiran, Chief Executive Officer, commented, "We are pleased to set another record year for both sales and earnings. Revenue growth continued its acceleration into year-end, principally driven by growth in the United States. We believe these results

demonstrate the realization of our quartz penetration vision and our solid position in the US market. This was accompanied by strong demand in all of our other regions, and the success of our Super-Natural collection. We expect 2014 to be another strong year, and we look forward to expanding our capacity to meet the increasing demand, maintain our leadership position, enhance our strong brand and generate value for our customers and shareholders."

In addition, the Company noted that during the fourth quarter, as contemplated by its previously announced agreement with IKEA, CaesarStone is now providing all 38 of IKEA's US stores with quartz countertops. Both IKEA and CaesarStone have been pleased to see a good reaction from consumers who prefer CaesarStone quartz surfaces as their material of choice and find IKEA's kitchen equipped with CaesarStone surfaces as an appealing proposition.

Gross margin in the fourth quarter was 43.0% compared to 41.8% in the prior year. This year-over-year improvement was driven primarily by the benefits of higher volume and the success of the Super-Natural collection, partially offset by a significantly negative exchange rate impact.

. . .

Adjusted EBITDA, which excludes share-based compensation expense, the excess cost of acquired inventory and other non-recurring costs, increased by 47.1% to $24.2 million in the fourth quarter, a margin of 25.0%. This compares to adjusted EBITDA of $16.5 million, a margin of 21.6% in the fourth quarter of the prior year.

. . .

Revenues for the full year of 2013 grew by 20.2% to a record level of $356.6 million as compared to $296.6 million in 2012. On a constant currency basis, growth was 21.6% year-over-year. Revenue grew in all regions, with the strongest growth coming from the United States, which grew by 42.2% to become the Company's largest region.

Full-year gross margin, excluding a one-time positive inventory adjustment of $3.5 million, was 44.5%, an improvement of 150 basis points over the prior-year.

28. On May 6, 2014, CaesarStone filed with the SEC a form 6-K announcing its decision to delay the filing with the SEC its FY 2013 Form 20-F reflecting the Company's FY 2013 financial results due to a comment letter received from the SEC, stating:

CaesarStone Sdot-Yam Ltd. (the "Company") previously disclosed in a Form 12b-25 filing made on May 1, 2014 that it had delayed filing its annual report on Form 20-F for the year ended December 31, 2013 because of an outstanding comment from the staff of the Securities and Exchange Commission (the "SEC") regarding the Company's choice of the U.S. dollar as its functional currency commencing on July 1, 2012. The SEC staff has informed the Company that it has completed its review and does not object to the Company's selection of the U.S. dollar as its functional currency. Accordingly, there will be no change to the results of operations previously disclosed by the Company and the Company intends to file its annual report on Form 20-F for the year ended December 31, 2013 in the coming days.

29. On May 8, 2014, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q1 2014 financial results, making positive statements regarding the Company's U.S. market share, margins, planned capacity expansion and increased revenue guidance for FY 2014, stating in relevant part

> Yosef Shiran, Chief Executive Officer, commented, "We are excited to see continued strong momentum and support for the CaesarStone brand, particularly in the United States where our growth remains robust. We are pleased to have successfully increased our manufacturing throughput and built our inventories to support continued growth. This improved product position combined with healthy, ongoing levels of demand give us confidence in our business."
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> Gross margin in the first quarter was 41.5% compared to 44.8% in the same period in the prior year. This year-over-year decline was driven primarily by the effects of foreign exchange rate fluctuations and, to a lesser extent, raw material price increases.
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> . . .
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> Adjusted EBITDA, which excludes share-based compensation and the excess cost of acquired inventory, increased by 25.4% to $22.1 million in the first quarter, a margin of 23.4%. This compares to adjusted EBITDA of $17.6 million, a margin of 23.1% in the first quarter of the prior year.
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> . . .
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> The Company also provided an update with respect to its planned capacity expansion projects. The Company continues to benefit from expanded production in its Bar Lev facility and remains on schedule for its Richmond Hill, Georgia manufacturing plant to be operational in the second quarter of 2015. Based upon current and expected strong demand, the Company has decided to accelerate the implementation of a second line in the Richmond Hill facility. This line, now anticipated to become operational in the fourth quarter of 2015, will require an acceleration of planned capital expenditures.
>
> Additionally, the Company increased its expected range of adjusted EBITDA for the full year to $108 million to $113 million as compared to its prior expected range of $104 million to $109 million.

30. On May 13, 2014, the Company issued a press release and filed an annual report or Form 20-F with the SEC, announcing its financial and operating results for the fiscal year 2014. The filing emphasizes the risk posed by competitors' products purportedly containing lower quartz contents, stating:

> ***We face competition from providers of quartz surfaces that set prices considerably lower than the prices of our premium products, which could adversely impact our sales and margins.***
>
> We have invested considerable resources to position our quartz surface products as premium branded products. Due to our products' high quality and positioning, we generally set our prices at a higher level than alternate surfaces and quartz surfaces provided by other manufacturers. We face competition in many markets, particularly in the United States, Australia and Europe, primarily from manufacturers located in the Asia-Pacific region that market quartz surface products at lower price points. Manufacturers in China, Vietnam and other countries in the Asia-Pacific region frequently benefit from labor and energy costs that are significantly lower than our costs and enable them to price their products lower than our products. Under these circumstances, we can face direct competition that significantly undercuts the prices that we are able to charge and that we seek to charge our customers, as well as the prices that our distributors and stonemasons are able to charge consumers. Even if we seek to lower the prices that we charge for our products in certain markets, we may be unable to achieve the same labor and energy costs in order to maintain current margins on our products. Some of these competitors have developed know-how and technical capabilities to manufacture products similar to our products and other competitors may do so in the future. We have also experienced instances 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.

31. CaesarStone's FY 2013 Form 20-F makes reference to the potential effect of a 10% price increase in raw quartz, stating:

> ***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 is the main raw material component used in our products accounted for approximately 30% of our raw materials cost in 2013. 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 during the last few years, but recently we have experienced an increase when renewing our annual supply contracts for 2014 with the Turkish quartzite suppliers, given the increasing global demand for quartz. We acquire quartzite from four suppliers in Turkey, with the major part acquired from Mikroman Madencilik San ve TIC.LTD.STI ("Mikroman"). Any future increases in quartz prices may adversely impact our margins and net income.

32. The FY 2013 Form 20-F acknowledged a growing number of injury- and death-related lawsuits against the Company, stating:

> Silicosis and related claims might have a material adverse effect on our business, operating results and financial condition.
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> We are subject to 41 pending claims of bodily injury 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, including one lawsuit filed by the Israeli National Insurance Institute ("NII"). We have also received nine letters threatening to file claims on behalf of certain fabricators or 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 90% of engineered stones, and smaller concentrations of silica are present in natural stones and, therefore, fabrication of engineered stones creates higher exposure to silica dust and, accordingly, to the risk of silicosis.
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> 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 our total reasonably possible exposure with respect to 27 out of the total 41 pending lawsuits to be NIS 31.8 million (approximately $9.1 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.

33. Regarding the Company's internal controls, the 20-F stated:

> ***While we believe our existing internal control over financial reporting is effective under Section 404 of the Sarbanes-Oxley Act of 2002, as an emerging growth company, we are currently not required to obtain an auditor attestation regarding our internal control.***
>
> We are required to comply with the internal control, evaluation and certification requirements of Section 404 of the Sarbanes-Oxley Act of 2002 (the "Sarbanes-Oxley Act") as of our Annual Report on Form 20-F for the year ended December 31, 2013. Accordingly, only in 2013 did we commenced the process of determining whether our existing internal controls over financial reporting systems are compliant with Section 404. As of December 31, 2013, we are not required to obtain an auditor attestation since, among others, as of June 30, 2013, our market capitalization related to public holdings was under $700 million and our status as an "emerging growth company" was preserved. Unless we lose our status as an "emerging growth company" under the Jumpstart Our Business Startups Act of 2012 prior to the end of the fiscal year in which the fifth anniversary of our IPO occurred, we will not be required to obtain an auditor attestation under Section 404 of the Sarbanes-Oxley Act until the year ending December 31, 2017. We cannot predict whether we will need to implement remedial actions in order to implement effective control over financial reporting. The determination and any remedial actions required could result in us incurring additional costs that we did not anticipate. Irrespective of compliance with Section 404, any failure of our internal controls could have a material adverse effect on our stated results of operations and harm our reputation. As a result, we may experience higher than anticipated operating expenses, as well as higher independent auditor fees during and after the implementation of these changes. If we are unable to implement any of the required changes to our internal control over financial reporting effectively or efficiently, it could adversely affect our operations, financial reporting and/or results of operations and could result in an adverse opinion on internal controls from our independent auditors.

34. On August 7, 2014, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q2 2014 financial results, making positive statements regarding the Company's growth, North American market share, margins, and planned capacity expansion, as well as increasing its FY 2014 revenue guidance, stating in relevant part:

> Revenues in the second quarter of 2014 increased by 30.4% to $116.1 million compared to $89.0 million in the same quarter of the prior year. This was a record for any quarter. On a constant currency basis, second quarter revenue growth was 32.3% compared to the same period last year. Growth in revenues was primarily driven by continued increases in the United States, which grew 55.0% to $47.9 million, as well as contributions from Australia, Canada and other regions.

Yosef Shiran, Chief Executive Officer, commented, "This was a strong quarter with significant growth. Market demand for our products is robust and the CaesarStone brand continues to be a market leader, known for quality and innovative design. We are operating well, controlling our costs and growing our capacity to meet the demand for our products."

Gross margin in the second quarter was 41.0% compared to 49.8% in the same period of the prior year. The Company noted that the second quarter this year includes $0.8 million of non-recurring cost related to an adjustment of provision for taxable employee fringe benefits and the second quarter last year included $3.5 million of credit related to a change in the value of inventory. Excluding the above-mentioned one-time items, a gross margin decline of 4.2 percentage points year-over-year was driven primarily by the effects of foreign exchange fluctuations, strong growth from IKEA which includes a significant portion of lower-margin fabrication and installation revenue and, to a lesser extent, raw material price increases.

. . .

Adjusted EBITDA, which excludes the non-recurring items as well as share-based compensation and the excess cost of acquired inventory, increased by 23.3% to $30.4 million in the second quarter, a margin of 26.2%. This compares to adjusted EBITDA of $24.6 million, a margin of 27.7% in the second quarter of the prior year.

. . .

The Company also provided an update with respect to its planned capacity expansion projects. The Company continues to benefit from expanded production in its Bar Lev facility. It also remains on schedule for its Richmond Hill, Georgia manufacturing plant to be operational in the second quarter of 2015 with a second line to become operational in the fourth quarter of 2015. The Company has decided to increase its investment in its US facility to approximately $115 million, compared to its earlier estimate of approximately $100 million, mostly to accommodate improvements in operations, including upgraded machinery for higher manufacturing capacity. In addition to this investment, the Company intends to start initial steps towards establishing its second building in Richmond Hill to accommodate additional manufacturing capacity in the future as needed to satisfy potential demand.

. . .

Following a strong second quarter and to reflect an improvement in both inventory and manufacturing throughput, the Company today increased its revenue guidance for the full year of 2014 to a new range of $435 to $445 million as compared to its prior range of $420 million to $430 million.

> The Company also increased its expected range of adjusted EBITDA for the full year to $112 million to $117 million as compared to its prior expected range of $108 million to $113 million.

35. On November 5, 2014, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q3 2014 financial results, making positive statements regarding the Company's growth, North American market share, margins, and planned capacity expansion, as well as increasing its FY 2014 revenue guidance, stating in relevant part:

> Revenue in the third quarter of 2014 increased by 30.7% to $123.3 million compared to $94.3 million in the same quarter of the prior year. On a constant currency basis, third quarter revenue growth was 31.1% compared to the same period last year. Growth in revenue was broad-based with strong continued increases in the United States, Australia and Canada, up 47.8%, 36.3% and 27.2%, respectively, compared to the same period in the prior year.
>
> Yosef Shiran, Chief Executive Officer, commented, "We are pleased with our results for the third quarter in the United States, which continues to be our largest and fastest growing market, as well as in Australia and Canada. We were happy to see success this quarter from our new product, Calacatta Nuvo, which we recently launched in our key markets. Strong demand for our product offering, along with improved manufacturing throughput, contributed to our significant increase in revenue, profitability and cash flow."
>
> Gross margin in the third quarter was 43.7% compared to 44.5% in the same period in the prior year. Significant favorable product mix and scale were offset by strong growth from IKEA, which includes lower-margin fabrication and installation revenue, as well as some impact from foreign exchange fluctuations and, to a lesser extent, raw material price increases.
>
> . . .
>
> Operating income in the third quarter grew by 49.3% to $31.2 million, a margin of 25.3%, compared to $20.9 million, a margin of 22.2%, in the third quarter of 2013.
>
> Adjusted EBITDA, which excludes share-based compensation expense, the excess cost of acquired inventory and other non-recurring costs, increased by 42.4% to $35.9 million in the third quarter, a margin of 29.1%. This compares to adjusted EBITDA of $25.2 million, a margin of 26.8% in the third quarter of the prior year.
>
> . . .

> The Company also noted today that it remains on schedule with respect to its capacity expansion project in Richmond Hill, Georgia for its sixth and seventh lines to begin production in the second quarter and fourth quarter of 2015, respectively. The Company also continues to prepare for further manufacturing capacity at its Richmond Hill facility to serve additional expected demand.
>
> . . .
>
> Following the strong third quarter, the Company today increased its revenue guidance for the full year of 2014 to a new range of $445 to $450 million as compared to its prior range of $435 million to $445 million.
>
> Additionally, the Company raised its expected range of adjusted EBITDA for the full year to $115 million to $118 million, compared to its prior expected range of $112 million to $117 million.

36. On February 11, 2015, CaesarStone delivered an earnings call discussing its Q4 2014 financial results, where Defendant Averbuch described the increases in price of quart by stating in relevant part:

> For Q4 2014 versus Q3 – Q4 2014, then there was quartz prices went up and that caused around less than 60 basis points impact on gross margin for Q4. In 2015, we expect some additional pressure from quartz pricing, again, not much less than 60 basis points.

37. On its February 11, 2015 Q4 2014 earnings call, Defendant Shiran described its U.S. market share as strong and unchanged, stating:

> I don't think there is big difference from our last updates. So, in general, the market is good and we continue to perform well.
>
> . . .
>
> I think that overall also according to publications in magazines, you can see that overall the quartz penetration continues to grow and the acceptance of quartz continues to grow. And the quartz is becoming the preferred products for [indiscernible] in the States, but – and there is a lot of activity from all angles.

38. On its February 11, 2015 Q4 2014 earnings call, CaesarStone described its exposure to silicosis claims and lawsuits as unchanged, stating:

> Silicosis, nothing new to report about what we said in the past, we continued to deal with it and probably it will accompany us in the next few years, but there is nothing new.

39. On its February 11, 2015 Q4 2014 earnings call, Defendant Shiran described its increase inventory levels, stating:

> As to the inventory level, what you see is that we are building inventories towards Q2. So, we try to operate and manufacture all the time to obtain the maximum throughput that we can. So, it causes a little bit of growth in the inventory and we see it as a positive thing. We expect that this may roll down, especially in the first half of the year, because we don't have enough capacity yet. However, towards the second half, we hope that the startup of line number six, the first line in the States will help us in terms of servicing the markets. So, this is as far as inventory regard.
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> . . .
>
> So I don't think there is anything – again no significant changes [regarding dealer inventory relating to stone suppliers in the U.S.]. We suffer here and there for because of short inventory and also because of strikes in ports in the States. But as far as inventory regard, there is nothing special there.

40. On its February 11, 2015 Q4 2014 earnings call, Defendant Shiran made positive statements regarding expected opening and revenue generation of its planned U.S. facility, stating:

> [W]e are not breaking out how much revenue will be from each plant, but you should assume again as we said the first line in the U.S. will be operational in Q2. The second line only in Q4 and there will be significant learning curve. So and I think that with that you can assume something very close to what we have in launch.
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> . . .
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> I think the [FY 2015 revenue] guidance takes into consideration more at the current level with of course increase as the collection, but there is nothing special that is built into its apart of 4Q original and of course the most significant impact is in the FX and the startup of the factory.
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> . . .
>
> So, what we expect for the lines in the States is that it will take us at least 6 months until we get to full capacity and maybe longer. We don't know yet. We have to wait and see. So far, the project in the States was done according to the schedule and hopefully of course the ramp up in production will also reflect a good performance . . . [It would] take at least 6 months until we get to a reasonable and strong performance there.

41. On February 12, 2015, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q4 2014 and FY 2014 financial results, making positive statements regarding the Company's growth, North American market share, margins, and planned capacity expansion, as well as increasing its FY 2014 revenue guidance, stating in relevant part:

> Revenues in the fourth quarter of 2014 increased by 17.4% to $113.6 million compared to $96.8 million in the prior year. On a constant currency basis, fourth quarter revenue growth was 22.7% year-over-year. Growth was primarily driven by ongoing strong demand in the United States, the Company's largest market, which rose 43.1% compared to the same period in the prior year.
>
> Yosef Shiran, Chief Executive Officer, commented, "We are pleased to report another strong quarter and full year record for both sales and earnings. We are excited by the continuing global opportunity to build our brand and grow our business, supported by the commencement of our new US-based manufacturing operations. We will seek to reinforce our leadership position, serve increasing global demand, and continue to create value for our customers, our partners and our shareholders."
>
> Gross margin in the fourth quarter was 43.0%, unchanged compared to the prior year period. Significant favorable mix associated with our differentiated product and benefits of scale was offset by negative exchange rate fluctuations, strong growth from IKEA, which includes lower-margin fabrication and installation revenues, and, to a lesser extent, higher quartz prices.
>
> Operating expenses in the fourth quarter were $25.9 million, or 22.8% of revenues. This compares to the prior year fourth quarter's level of $21.8 million, or 22.5% of revenues. Operating leverage was offset by increased general and administrative expenses. The Company noted that in addition to other items, it began to incur, in the fourth quarter, general and administrative expenses associated with building organizational infrastructure in anticipation of commencing manufacturing at its new facility in the United States.
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> . . .
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> Adjusted EBITDA, which excludes share-based compensation expense, the excess cost of acquired inventory and other non-recurring costs, increased by 16.1% to $28.1 million in the fourth quarter, a margin of 24.7%. This compares to adjusted EBITDA of $24.2 million, a margin of 25.0% in the fourth quarter of the prior year.
>
> Finance income in the fourth quarter was $0.9 million compared to finance expense of $0.4 million during the same period in the prior year. The change was predominantly related to the impact of foreign exchange rate fluctuations.

. . .

Construction of the Company's U.S. manufacturing facility in Richmond Hill, Georgia remains on time, and the Company continues to expect its sixth and seventh lines to begin production in the second quarter and fourth quarter of 2015, respectively. The Company noted that start-up costs associated with the first and second lines in its U.S. facility are expected to be incurred principally in the first and third quarters whereas revenues from these lines are expected to be generated in subsequent quarters in each case.

. . .

Revenues for the full year of 2014 grew by 25.5% to a record level of $447.4 million as compared to $356.6 million in 2013. On a constant currency basis, growth was 28.4% year over year. Revenue grew in all regions except Israel, led by the United States, which grew by 50.4% and remains the Company's largest market.

Full-year gross margin was 42.4%, a decrease of 310 basis points compared to the prior-year. The Company noted that this year's margin includes $0.8 million of non-recurring cost related to an adjustment of provision for taxable employee fringe benefits and the prior year included $3.5 million of credit related to a change in the value of inventory. Excluding these items, a gross margin decline of 190 basis points year-over-year was driven primarily by the effects of foreign exchange fluctuations, strong growth from IKEA which includes a significant portion of lower-margin fabrication and installation revenue and, to a lesser extent, higher quartz prices.

. . .

The operating income margin in 2014 was 21.2%, in line with the prior year at 21.3%. Excluding the items mentioned above, operating margin increased 110 basis points, reflecting strong operating expense leverage.

Adjusted EBITDA in 2014 increased by 27.1% to $116.6 million, a margin of 26.1%, compared to $91.7 million, a margin of 25.7%, in fiscal 2013.

. . .

The Company today issued guidance for the full-year of 2015. Taking into consideration, among other items, current exchange rates and the temporary inefficiencies associated with opening its new U.S. manufacturing facility, it expects its 2015 revenues to be in the range of $515 million to $525 million, and adjusted EBITDA to be in the range of $123 million to $129 million.

42. On March 12, 2015, the Company issued a press release and filed an annual report or Form 20-F with the SEC, announcing its financial and operating results for the fiscal year 2014. Regarding the price of quartz, the filing stated:

> ***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.
>
> (emphasis added)

43. Regarding the lawsuits filed against the Company, the 20-F stated:

> 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.

(emphasis added)

44. CaesarStone's FY 2014 Form 20-F makes positive statements regarding the Company's North American market share and the source of its information, stating in relevant part:

> ***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.
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> . . .
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> 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.
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> . . .
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> 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."
>
> . . .
>
> 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 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.

. . .

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.

45. Regarding the Company's margins, the 20-F stated:

> 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.
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> . . .
>
> 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.
>
> (emphasis added)

46. On May 6, 2015, CaesarStone filed with the SEC a form 6-K and issued a press release announcing its Q1 2015 financial results, making positive statements regarding the Company's growth, North American market share, margins, and planned capacity expansion, as well as reiterating its FY 2015 revenue guidance, stating in relevant part:

> Revenues in the first quarter of 2015 increased by 14.2% to $107.8 million compared to $94.4 million in the same quarter of the prior year. Growth in revenues was driven primarily by a continued increase in U.S. sales, which were up 27.6% to $48.0 million compared to $37.6 million in the same period in the prior year. On a constant currency basis, first quarter revenue growth was 22.9% compared to the same period of the prior year, also reflecting strength in Canada and Australia.

Yosef Shiran, Chief Executive Officer, commented, "We are excited to see continued momentum for the CaesarStone brand, particularly in our key markets, the United States, Canada and Australia, where our growth remains strong. CaesarStone continues to be a market leader, known for quality and innovation. We are happy to announce the commencement of production at our new U.S facility, which is currently in commissioning stage, and we look forward to seeing the benefit of our additional capacity."

Gross margin in the first quarter was 42.0% compared to 41.5% in the same period in the prior year. This year-over-year increase was driven primarily by favorable product mix, benefits of scale and improved utilization of production lines in Israel. These factors were partially offset by negative exchange rate fluctuations, start-up costs related to the U.S. manufacturing facility and continued growth in lower-margin fabrication and installation revenue in North America.

. . .

Adjusted EBITDA, which excludes share-based compensation expense, increased by 15.3% to $25.5 million in the first quarter, a margin of 23.7%. This compares to adjusted EBITDA of $22.1 million, a margin of 23.4% in the first quarter of the prior year.

. . .

The Company's U.S. manufacturing facility in Richmond Hill, Georgia remains on track, and has begun commissioning for its first line in the U.S., with the second line in the U.S. expected to begin production in the fourth quarter of 2015. The Company increased its expected capital expenditure related to the first and second lines in its new U.S. manufacturing facility from $115 million to $130 million.

. . .

The Company today maintained its revenue guidance for the full year of 2015 of $515 million to $525 million and its expected range of adjusted EBITDA for the full year of $123 million to $129 million.

47. The statements in ¶¶ 19-46 above were materially false and/or misleading because the misrepresented and failed to disclose the following adverse facts, which were known to defendants or recklessly disregarded by them, including that: (i) that the cost of quartz rose substantially by approximately 20% in 2014 while the Company stated in SEC filings the impact was just 4%; (ii) independent lab tests show CaesarStone's samples contain less quartz than

advertised; (iii) CaesarStone's reported consolidated margins, gross margins, and EBITDA margins were overstated; (iv) CaesarStone's North American market share was not growing as claimed; (v) the extent of and risk posed by a growing number of lawsuits for approximately 60 silicosis-related injuries or deaths suffered by workers and fabricators of its product in Israel was understated; (vi) the impact recent OSHA warnings regarding silicosis may have on the opening of a new U.S. facility and associated costs; and (vii) recent inspection reports revealed audit deficiencies related to revenue and inventory controls; and (viii) as a result of the foregoing, Defendants' positive statements about CaesarStone's business, operations, and prospects were false and misleading and/or lacked a reasonable basis.

The Truth Emerges

48. On August 19, 2015, analyst firm Spruce Point Capital Management published an in-depth report on CaesarStone summarizing the aforementioned false and misleading statements and failures of controls and disclosure as follows:

i. **SEC FOIA Request For CSTE's Quartz Contracts Show Substantial Cost Pressure**: CSTE's confidentiality period for its key quartz supply contracts lapsed on Dec 31, 2014. A FOIA was quickly filed and found that quartz, its key raw material cost for its quartz countertops, rose substantially by ~20% in 2014, yet they told investors in its SEC filings the impact was just 4%. Before acquiring these documents, CSTE used to request a 1yr confidential period, now they have requested 5yr confidential period coverage (what are they hiding?). CSTE just invested $115m to open its new U.S. production facility and has indicated it still does not have long-term quartz supply agreements, exposing them to increased margin pressure.

ii. **Our Independent Lab Tests Show CSTE's Samples May Contain Less Quartz Than Advertised**: We ordered product samples directly from CSTE (along with samples from 7 competitors) and sent them to a material testing lab. Our tests suggests [*sic*] that CSTE's quartz countertops contain approximately 88-89% quartz vs. the 93% advertised industry benchmark. CSTE's samples contained among the lowest % of quartz among all of the samples tested. In light of CSTE's rising quartz costs, it is possible that it is mitigating price increases by including less quartz. Numerous product quality complaints about chipping / staining may also support our conclusions.

iii. **Dependent on Positioning itself as "Premium," Competition Rising Fast**: CSTE prominently touts its quartz product as "premium" and lists it as the #1 key investment highlight in its investor presentation. In light of our lab testing results, and commoditized nature of its products, we believe this positioning may be misleading. With little more than style being the main product differentiator, we find it difficult to believe CSTE can maintain its prices while new competitors from China and Europe enter the U.S. market at lower price points up to 25% less. The recent Chinese Yuan devaluation will add further price pressure. We obtained dealer price quotes to support our claim of price pressures. Further, we note that CSTE's R&D headcount and margin have been shrinking every year and its largest competitor, Cosentino has launched a new super premium material called Dekton. Early indications show it is gaining rapid traction.

iv. **Questionable Market Share Gains**: CSTE's story to investors is that its North American market is growing, and it is gaining market share. It cites a custom, paid-for, research provider paid for by CSTE called Freedonia Market Research. Since 2010, the report indicates its market share in Australia has declined, Canadian market share has been flat (2012- 2014), but that it is gaining significant market share in the U.S. - up from 14% in 2010, to 19% in 2014. Ascertaining true market shares are difficult given all are private companies (ex: CSTE), so we sourced proprietary U.S. import shipping data collected from port documents. Since CSTE is Israeli-based and dependent on importing to the U.S. market, we believe our data is highly reliable, and it indicates that its market share may not be growing.

v. **Margins May Be Significantly Overstated**: CSTE's gross margins of 42% are substantially higher than its peers in the building products sector which average 22%. Because it is the only publicly traded quartz countertop company, it is difficult to disprove its margins. However, we've pulled private financials for Cosentino S.A. (largest Spanish competitor) along with other private financials for Italian stone and countertop makers and find that CSTE's margins appear vastly superior. We've also obtained CSTE's Australian and Singapore subsidiary filings which indicate gross margins of 24.7% and 31.6%, respectively. We believe currency effects are masking up to 7% gross margin erosion. We also find its raw material costs to revenues to be abnormally low. There are also many related party transactions with its largest shareholder that could enable operating margin overstatement. We also question CSTE's distribution deal through IKEA, which is inconsistent with its premium brand image and carries lower margins.

vi. **Unquantifiable Product Liability for Silicosis-Related Deaths**: CSTE is a party to a growing number of lawsuits related to death and injury as it relates to injuries suffered by workers and fabricators of its products in Israel (from 14 in 2012, to 60 today). A single plaintiff and motion for class action certification alleges a $56m damage. CSTE's insurer said it would only be partially covered, thus exposing CSTE to a material risk. CSTE is also in the process of opening its new facility in the U.S. and OSHA has recently warned about the dangers of silicosis, specifically highlighting issues in Israel. Increasing regulatory scrutiny could drive up its cost of doing business.

vii. **Auditor Concerns, Signs of Financial Strain**: CSTE is audited in Israel by Kost Forer Gabbay & Kasierer. Two recent inspection reports revealed audit deficiencies including failure to perform sufficient procedures to test revenue and test the existence of inventory. Upon closer inspection, we find CSTE has abnormal days sales outstanding, payables, and inventory turnover ratios relative to peers.

viii. **Cracks in the Story, Massive Overvaluation, Majority Owner Liquidating**: CSTE's price recently corrected after Q2'15 earnings beat Wall St. estimates, but it cut its sales range from \$515-\$525m to \$495-\$505m, while maintaining its EBITDA guidance. We believe this is the canary in the coal mine, and CSTE's EBITDA margins appear overstated. CSTE is at risk of missing its goals in light of flat import tonnage growth and rising competition. CSTE trades at 3.4x and 13.5x 2015 Sales and EBITDA, respectively, a huge premium to building products peers at 1.3x and 12.0x on the premise it can maintain share and grow sales 15% p.a. We believe CSTE should trade at a discount to peers of 8x - 10x EBITDA given our concerns about product + earnings quality (sales growth slowing + margin pressures), its shares would be worth \$11 - \$29 (40% – 75% downside) on a normalized EBITDA margin range. Since its 2012 IPO, its shareholder has reduced ownership from 79.0% to 32.6%; we expect continued sales.

49. On this adverse news, CaesarStone ADRs fell \$3.68, or 7.6% to close at \$44.61 on August 19, 2015.

50. As a result of Defendants' wrongful acts and omissions, and the precipitous decline in the market value of the Company's securities, Plaintiff and other class members have suffered significant losses and damages.

PLAINTIFF'S CLASS ACTION ALLEGATIONS

51. Plaintiff brings this action as a class action pursuant to Federal Rule of Civil Procedure 23(a) and (b)(3) on behalf of a Class, consisting of all those who purchased or otherwise acquired CaesarStone securities during the Class Period (the "Class"); and were damaged upon the revelation of the alleged corrective disclosures. Excluded from the Class are defendants herein, the officers and directors of the Company, at all relevant times, members of their immediate families and their legal representatives, heirs, successors or assigns and any entity in which defendants have or had a controlling interest.

52. The members of the Class are so numerous that joinder of all members is impracticable. Throughout the Class Period, CaesarStone securities were actively traded on the

NASDAQ. While the exact number of Class members is unknown to Plaintiff at this time and can be ascertained only through appropriate discovery, Plaintiff believes that there are hundreds or thousands of members in the proposed Class. Record owners and other members of the Class may be identified from records maintained by CaesarStone or its transfer agent and may be notified of the pendency of this action by mail, using the form of notice similar to that customarily used in securities class actions.

53. Plaintiff's claims are typical of the claims of the members of the Class as all members of the Class are similarly affected by defendants' wrongful conduct in violation of federal law that is complained of herein.

54. Plaintiff will fairly and adequately protect the interests of the members of the Class and has retained counsel competent and experienced in class and securities litigation. Plaintiff has no interests antagonistic to or in conflict with those of the Class.

55. Common questions of law and fact exist as to all members of the Class and predominate over any questions solely affecting individual members of the Class. Among the questions of law and fact common to the Class are:

- whether the federal securities laws were violated by defendants' acts as alleged herein;
- whether statements made by defendants to the investing public during the Class Period misrepresented material facts about the business, operations and management of CaesarStone;
- whether the Individual Defendants caused CaesarStone to issue false and misleading financial statements during the Class Period;
- whether defendants acted knowingly or recklessly in issuing false and misleading financial statements;
- whether the prices of CaesarStone securities during the Class Period were artificially inflated because of the defendants' conduct complained of herein; and

- whether the members of the Class have sustained damages and, if so, what is the proper measure of damages.

56. A class action is superior to all other available methods for the fair and efficient adjudication of this controversy since joinder of all members is impracticable. Furthermore, as the damages suffered by individual Class members may be relatively small, the expense and burden of individual litigation make it impossible for members of the Class to individually redress the wrongs done to them. There will be no difficulty in the management of this action as a class action.

57. Plaintiff will rely, in part, upon the presumption of reliance established by the fraud-on-the-market doctrine in that:

- defendants made public misrepresentations or failed to disclose material facts during the Class Period;
- the omissions and misrepresentations were material;
- CaesarStone securities are traded in an efficient market;
- the Company's shares were liquid and traded with moderate to heavy volume during the Class Period;
- the Company traded on the NASDAQ and was covered by multiple analysts;
- the misrepresentations and omissions alleged would tend to induce a reasonable investor to misjudge the value of the Company's securities; and
- Plaintiff and members of the Class purchased, acquired and/or sold CaesarStone securities between the time the defendants failed to disclose or misrepresented material facts and the time the true facts were disclosed, without knowledge of the omitted or misrepresented facts.

58. Based upon the foregoing, Plaintiff and the members of the Class are entitled to a presumption of reliance upon the integrity of the market.

59. Alternatively, Plaintiff and the members of the Class are entitled to the presumption of reliance established by the Supreme Court in *Affiliated Ute Citizens of the State*

of Utah v. United States, 406 U.S. 128, 92 S. Ct. 2430 (1972), as Defendants omitted material information in their Class Period statements in violation of a duty to disclose such information, as detailed above.

COUNT I

(Against All Defendants For Violations of Section 10(b) And Rule 10b-5 Promulgated Thereunder)

60. Plaintiff repeats and realleges each and every allegation contained above as if fully set forth herein.

61. This Count is asserted against defendants and is based upon Section 10(b) of the Exchange Act, 15 U.S.C. § 78j(b), and Rule 10b-5 promulgated thereunder by the SEC.

62. During the Class Period, defendants engaged in a plan, scheme, conspiracy and course of conduct, pursuant to which they knowingly or recklessly engaged in acts, transactions, practices and courses of business which operated as a fraud and deceit upon Plaintiff and the other members of the Class; made various untrue statements of material facts and omitted to state material facts necessary in order to make the statements made, in light of the circumstances under which they were made, not misleading; and employed devices, schemes and artifices to defraud in connection with the purchase and sale of securities. Such scheme was intended to, and, throughout the Class Period, did: (i) deceive the investing public, including Plaintiff and other Class members, as alleged herein; (ii) artificially inflate and maintain the market price of CaesarStone securities; and (iii) cause Plaintiff and other members of the Class to purchase or otherwise acquire CaesarStone securities and options at artificially inflated prices. In furtherance of this unlawful scheme, plan and course of conduct, defendants, and each of them, took the actions set forth herein.

63. Pursuant to the above plan, scheme, conspiracy and course of conduct, each of the defendants participated directly or indirectly in the preparation and/or issuance of the quarterly and annual reports, SEC filings, press releases and other statements and documents described above, including statements made to securities analysts and the media that were designed to influence the market for CaesarStone securities. Such reports, filings, releases and statements were materially false and misleading in that they failed to disclose material adverse information and misrepresented the truth about CaesarStone's finances and business prospects.

64. By virtue of their positions at CaesarStone, defendants had actual knowledge of the materially false and misleading statements and material omissions alleged herein and intended thereby to deceive Plaintiff and the other members of the Class, or, in the alternative, defendants acted with reckless disregard for the truth in that they failed or refused to ascertain and disclose such facts as would reveal the materially false and misleading nature of the statements made, although such facts were readily available to defendants. Said acts and omissions of defendants were committed willfully or with reckless disregard for the truth. In addition, each defendant knew or recklessly disregarded that material facts were being misrepresented or omitted as described above.

65. Defendants were personally motivated to make false statements and omit material information necessary to make the statements not misleading in order to personally benefit from the sale of CaesarStone securities from their personal portfolios.

66. Information showing that defendants acted knowingly or with reckless disregard for the truth is peculiarly within defendants' knowledge and control. As the senior managers and/or directors of CaesarStone, the Individual Defendants had knowledge of the details of CaesarStone's internal affairs.

67. The Individual Defendants are liable both directly and indirectly for the wrongs complained of herein. Because of their positions of control and authority, the Individual Defendants were able to and did, directly or indirectly, control the content of the statements of CaesarStone. As officers and/or directors of a publicly-held company, the Individual Defendants had a duty to disseminate timely, accurate, and truthful information with respect to CaesarStone's businesses, operations, future financial condition and future prospects. As a result of the dissemination of the aforementioned false and misleading reports, releases and public statements, the market price of CaesarStone securities was artificially inflated throughout the Class Period. In ignorance of the adverse facts concerning CaesarStone's business and financial condition which were concealed by defendants, Plaintiff and the other members of the Class purchased or otherwise acquired CaesarStone securities at artificially inflated prices and relied upon the price of the securities, the integrity of the market for the securities and/or upon statements disseminated by defendants, and were damaged thereby.

68. During the Class Period, CaesarStone securities were traded on an active and efficient market. Plaintiff and the other members of the Class, relying on the materially false and misleading statements described herein, which the defendants made, issued or caused to be disseminated, or relying upon the integrity of the market, purchased or otherwise acquired shares of CaesarStone securities at prices artificially inflated by defendants' wrongful conduct. Had Plaintiff and the other members of the Class known the truth, they would not have purchased or otherwise acquired said securities, or would not have purchased or otherwise acquired them at the inflated prices that were paid. At the time of the purchases and/or acquisitions by Plaintiff and the Class, the true value of CaesarStone securities was substantially lower than the prices paid by Plaintiff and the other members of the Class. The market price of CaesarStone securities

declined sharply upon public disclosure of the facts alleged herein to the injury of Plaintiff and Class members.

69. By reason of the conduct alleged herein, defendants knowingly or recklessly, directly or indirectly, have violated Section 10(b) of the Exchange Act and Rule 10b-5 promulgated thereunder.

70. As a direct and proximate result of defendants' wrongful conduct, Plaintiff and the other members of the Class suffered damages in connection with their respective purchases, acquisitions and sales of the Company's securities during the Class Period, upon the disclosure that the Company had been disseminating misrepresented financial statements to the investing public.

COUNT II

(Violations of Section 20(a) of the Exchange Act Against The Individual Defendants)

71. Plaintiff repeats and realleges each and every allegation contained in the foregoing paragraphs as if fully set forth herein.

72. During the Class Period, the Individual Defendants participated in the operation and management of CaesarStone, and conducted and participated, directly and indirectly, in the conduct of CaesarStone's business affairs. Because of their senior positions, they knew the adverse non-public information about CaesarStone's misstatement of income and expenses and false financial statements.

73. As officers and/or directors of a publicly owned company, the Individual Defendants had a duty to disseminate accurate and truthful information with respect to CaesarStone's financial condition and results of operations, and to correct promptly any public statements issued by CaesarStone which had become materially false or misleading.

74. Because of their positions of control and authority as senior officers, the Individual Defendants were able to, and did, control the contents of the various reports, press releases and public filings which CaesarStone disseminated in the marketplace during the Class Period concerning CaesarStone's results of operations. Throughout the Class Period, the Individual Defendants exercised their power and authority to cause CaesarStone to engage in the wrongful acts complained of herein. The Individual Defendants therefore, were "controlling persons" of CaesarStone within the meaning of Section 20(a) of the Exchange Act. In this capacity, they participated in the unlawful conduct alleged which artificially inflated the market price of CaesarStone securities.

75. Each of the Individual Defendants, therefore, acted as a controlling person of CaesarStone. By reason of their senior management positions and/or being directors of CaesarStone, each of the Individual Defendants had the power to direct the actions of, and exercised the same to cause, CaesarStone to engage in the unlawful acts and conduct complained of herein. Each of the Individual Defendants exercised control over the general operations of CaesarStone and possessed the power to control the specific activities which comprise the primary violations about which Plaintiff and the other members of the Class complain.

76. By reason of the above conduct, the Individual Defendants are liable pursuant to Section 20(a) of the Exchange Act for the violations committed by CaesarStone.

PRAYER FOR RELIEF

WHEREFORE, Plaintiff demands judgment against defendants as follows:

A. Determining that the instant action may be maintained as a class action under Rule 23 of the Federal Rules of Civil Procedure, and certifying Plaintiff as the Class representative;

B. Requiring defendants to pay damages sustained by Plaintiff and the Class by reason of the acts and transactions alleged herein;

C. Awarding Plaintiff and the other members of the Class prejudgment and post-judgment interest, as well as their reasonable attorneys' fees, expert fees and other costs; and

D. Awarding such other and further relief as this Court may deem just and proper.

DEMAND FOR TRIAL BY JURY

Plaintiff hereby demands a trial by jury.

Dated: August 25, 2015

Respectfully submitted,