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

FORM 10-K

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

For the fiscal year ended December 31, 2018

OR

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

For the transition period from _________ to __________
Commission File Number: 001-36894

SOLAREDGE TECHNOLOGIES, INC.
(Exact name of registrant as specified in its charter)

Delaware	**20-5338862**
(State or other jurisdiction of incorporation or organization)	**(IRS Employer Identification No.)**
1 HaMada Street Herziliya Pituach, Israel	**4673335**
(Address of Principal Executive Offices)	**(Zip Code)**

972 (9) 957-6620
Registrant's telephone number, including area code
Securities registered pursuant to Section 12(b) of the Act:

Title of each class	**Name of each exchange on which registered**
Common stock, par value $0.0001 per share	**NASDAQ (Global Select Market)**

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

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

Yes ☒ No ☐

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act.

Yes ☐ No ☒

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

Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files).

Yes ☒ No ☐

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ☒

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

☒ Large accelerated filer	☐ Accelerated filer	☐ Non-accelerated filer (do not check if a smaller reporting company)	☐ Smaller reporting company	☐ Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ☐

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Act).

☐ Yes No ☒

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant on June 30, 2018, the last business day of the registrant's most recently completed second fiscal quarter was approximately $ 2,068,517,229 (assuming that the registrant's only affiliates are its officers, directors and non-institutional 10% stockholders) based upon the closing market price on that date of $47.85 per share as reported on the Nasdaq Global Select Market.

As of February 26, 2019, there were 47,255,226 shares of the registrant's common stock, par value of $0.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from our definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2019, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the annual period to which this report relates.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

This Annual Report on Form 10-K and the documents incorporated herein by reference contain forward-looking statements that are based on our management's expectations, estimates, projections, beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in "Item 1. Business," "Item 1A. Risk Factors" "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations." and "Item 7A. Quantitative and Qualitative Disclosures About Market Risk". Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, technology developments, new product developments, financing and investment plans, competitive position, industry and regulatory environment, potential growth opportunities, and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as "anticipate," "believe," "could," "seek," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "will," "would," or similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on forward-looking statements. Also, forward-looking statements represent our management's beliefs and assumptions only as of the date of this filing. Important factors that could cause actual results to differ materially from our expectations include:

- our limited history of profitability, which may not continue in the future;
- our limited operating history, which makes it difficult to predict future results;
- future demand for solar energy solutions;
- changes to net metering policies or the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar energy applications;
- changes in the U.S. trade environment, including the recent imposition of import tariffs;
- federal, state, and local regulations governing the electric utility industry with respect to solar energy;
- the retail price of electricity derived from the utility grid or alternative energy sources;
- interest rates and supply of capital in the global financial markets in general and in the solar market specifically;
- competition, including introductions of power optimizer, inverter and solar photovoltaic ("PV") system monitoring products by our competitors;
- developments in alternative technologies or improvements in distributed solar energy generation;
- historic cyclicality of the solar industry and periodic downturns;
- defects or performance problems in our products;
- our ability to forecast demand for our products accurately and to match production with demand;
- our dependence on ocean transportation to deliver our products in a cost-effective manner;
- our dependence upon a small number of outside contract manufacturers and suppliers;
- capacity constraints, delivery schedules, manufacturing yields, and costs of our contract manufacturers and availability of components;
- delays, disruptions, and quality control problems in manufacturing;
- shortages, delays, price changes, or cessation of operations or production affecting our suppliers of key components;

- business practices and regulatory compliance of our raw material suppliers;
- performance of distributors and large installers in selling our products;
- our customer's financial stability, creditworthiness, and debt leverage ratio;
- our ability to retain key personnel and attract additional qualified personnel;
- our ability to effectively design, launch, market, and sell new generations of our products and services;
- our ability to maintain our brand and to protect and defend our intellectual property;
- our ability to retain, and events affecting, our major customers;
- our ability to manage effectively the growth of our organization and expansion into new markets;
- our ability to integrate acquired businesses;
- fluctuations in global currency exchange rates;
- unrest, terrorism, or armed conflict in Israel;
- general economic conditions in our domestic and international markets;
- consolidation in the solar industry among our customers and distributors; and

the other factors set forth under "Item 1A. Risk Factors. "Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I

ITEM 1. BUSINESS

Introduction

We have invented an intelligent inverter solution that has changed the way power is harvested and managed in a solar PV system. Our direct current (“DC”) optimized inverter system is designed to maximize power generation at the individual PV module level while lowering the cost of energy produced by the solar PV system and providing comprehensive and advanced safety features. Supporting increased PV proliferation, the SolarEdge system consists of our power optimizers, inverters, communication and smart energy management solutions, and a cloud based monitoring platform. SolarEdge's solutions address a broad range of solar market segments, from residential solar installations to commercial and small utility-scale solar installations. Since we began commercial shipments in 2010, we have shipped approximately 10.6 gigawatts (“GW”) of our DC optimized inverter systems and our products have been installed in solar PV systems in 133 countries.

Historically, the solar PV industry used traditional string and central inverter architectures to harvest PV solar power. However, traditional inverter architectures result in energy losses as well as systemic challenges in design flexibility, safety, and monitoring. In recent years, microinverter technology was introduced in an attempt to resolve these challenges, but this technology has certain inherent limitations. We believe that our DC optimized inverter system, consisting of an inverter and distributed power optimizers, best addresses all of these challenges.

Our system allows for superior power harvesting and module management relative to traditional inverter systems by deploying power optimizers at each PV module while maintaining a competitive system cost by keeping the AC inversion and grid interaction centralized using a simplified DC-AC inverter. The entire system is monitored through our cloud-based monitoring platform that enables reduced system operation and maintenance (“O&M”) costs. Our system enables each PV module to operate at its own maximum power point (“MPP”), rather than a system-wide average, enabling dynamic response to real-world conditions, such as atmospheric conditions, PV module aging, soiling and shading and offering improved energy yield relative to traditional inverter systems. In addition to higher efficiency, our system’s installed cost per watt is competitive with traditional inverter systems of leading manufacturers and generally lower than comparable microinverter systems of leading manufacturers. Furthermore, our architecture allows for complex rooftop system designs and enhanced safety and reliability. Our technology and system architecture are protected by 147 awarded patents and 200 patent applications filed worldwide as of December 31, 2018. We also have protection for some of our battery-related technology through Kokam with 143 awarded patents and 9 pending applications.

We primarily sell our products indirectly to thousands of solar installers through large distributors and electrical equipment wholesalers and directly to large solar installers and engineering, procurement, and construction firms (“EPCs”). Our customers include leading providers of solar PV systems to residential and commercial end users, key solar distributors and electrical equipment wholesalers as well as several PV module manufacturers that offer PV modules with our power optimizer physically embedded into their modules.

We were founded in 2006 and began commercial shipments in 2010. As of December 31, 2018, we have shipped approximately 34.1 million power optimizers and 1.4 million inverters. More than 920,000 installations, many of which may include multiple inverters, are currently connected to, and monitored through, our cloud based monitoring platform.

In July 2018, we closed an asset purchase agreement (the "Gamatronic Acquisition”) with Gamatronic Electronics Ltd. (“Gamatronic”), acquiring the assets of a business for the development, manufacturing and sale of uninterruptible power supply systems, also known as UPSs, for the aggregate amount of $12.1 million. We purchased substantially all of Gamatronic’s assets, including its intellectual property, brand and tangible assets. In October 2018, we also purchased the shares of Gamatronic (UK) Limited, a UK wholly owned subsidiary of Gamatronic responsible for the sale of these UPS products in the UK for approximately $1.0 million, net of cash acquired.

In October 2018, we closed an acquisition (the “Kokam Acquisition”) of 74.5% of Kokam Co., Ltd. (“Kokam”), a provider of Lithium-ion cells, batteries and energy storage solutions for approximately $82.5 million USD, net of cash acquired. Since the Kokam Acquisition and to date, we have increased our shareholdings in Kokam to approximately 94.0%. Headquartered in South Korea, Kokam was founded in 1989, and has been manufacturing lithium-ion cells and providing reliable, safe, high-performance solutions for the past twenty-nine years. Kokam provides battery solutions for a wide-variety of industries, including energy storage systems, also known as ESS, UPS, electric vehicles (EV), aerospace and the marine market.

Limitations of Traditional PV System Technologies

A solar PV system consists of PV modules, which produce direct current (“DC”) power when exposed to sunlight; an inverter, which transforms the DC power into alternating current (“AC”) power that is required by the electricity grid; and associated cabling, fuse boxes and mounting hardware. Traditionally, solar PV systems connected strings of solar PV modules to one or more inverters for this energy conversion.

Traditional inverter architecture still constitutes the vast majority of the PV inverter market, especially for larger commercial and utility installations. However, traditional inverter architecture suffers from significant inefficiencies leading to suboptimal power generation. These challenges include:

- ***Module mismatch.*** Traditional inverter systems are unable to consistently produce maximum energy from PV modules. Each PV module in a system has a unique power production profile driven by differences in manufacturing and installation parameters. The architecture of traditional inverter systems does not allow each PV module to operate at its unique MPP. When PV modules are wired in series in a traditional inverter architecture, the entire string’s output is reduced, sometimes correlated directly to the output of the lowest-performing PV module on the string. Output reduction can result from subtle variations in PV module composition, atmospheric conditions, soiling, individual PV module locations and orientations, or varying levels of PV module degradation over time.

- ***Partial shading.*** Many real-world factors can cause a subset of the PV modules in a system to be partially shaded, which can significantly affect the power output of the entire string. For instance, electric wires, a chimney or even adjacent solar panels may cast a shadow during particular hours of the day, or debris may accumulate. This partial shading reduces the yield of a traditional solar PV system by decreasing, or in extreme cases eliminating, power output from the shaded modules. Overall losses to system production from such partial shading can range from small to substantial.

- ***Dynamic maximum power point tracking loss.*** The MPP of a PV module shifts constantly throughout the day as a result of atmospheric conditions. A traditional inverter system’s inability to coordinate output on a module-by-module basis makes it difficult for the system to respond dynamically to the shifting MPP. This inability to respond to the shifting MPP can reduce the potential power output of a traditional solar PV system by 3-10%.

In addition to power losses, the traditional inverter architecture also has system design, installation and operational challenges, including:

- ***Rooftop system design complexities.*** A traditional inverter system requires each string to be of the same length, use the same type of PV modules and be positioned at the same angle toward the sun. Consequently, rooftop asymmetries and obstructions result in either wasted roof space or inefficient duplication of system components.

- ***Safety hazards.*** Traditional inverter systems cannot shut down the DC output voltage at the PV module level. The DC cables from these modules carry high voltages as long as the sun is shining, even when the traditional inverter or the grid connection has been shut down. This poses serious risks to installers, fire fighters and anyone else who performs work on or around the installation. Such safety hazards have recently prompted heightened safety installation and operation procedures and regulations in a growing number of geographies, compliance with which increases the cost of traditional PV systems.

- ***No module level monitoring.*** A traditional inverter system cannot track power output, temperature or any other attribute of a single PV module. Consequently, a system operator cannot perform remote diagnostics, track performance of PV system components or receive alerts about individual PV module status, and may be unaware of specific module-level problems or breakdowns.

The first generation of module level power electronics ("MLPE") was the microinverter. This technology scaled down the traditional inverter to a size and power appropriate to a single PV module. By creating control and monitoring at the module level, microinverters solved certain challenges of the traditional inverter system architecture. However, microinverter architecture has its own limitations, such as:

- ***Higher initial cost per watt and limited economies of scale.*** Microinverters perform all the functionality of the traditional inverter, but at each PV module, and consequently a microinverter system has a higher initial upfront cost of components relative to traditional inverter architecture. In addition, as every PV module must have its own microinverter, the cost per watt of a microinverter system does not decrease with scale. As such, microinverters are generally more expensive than traditional inverter systems on a cost per watt basis for residential installations and not economically viable relative to traditional inverter systems for large commercial and utility installations.

- ***Grid Code Compliance.*** With the growing penetration of solar energy, many utilities in individual U.S. states and Europe have adopted new sets of grid codes to preserve the stability of the electric grid. These grid codes require solar PV inverters to respond dynamically to variances in grid-wide voltage, which typically requires inverter hardware and software to be reengineered. In most cases, adaptation to these new grid codes would require added costs and complexities, limiting the ability of microinverters to address some markets.

The SolarEdge Solution

Our DC optimized inverter system maximizes power generation at the individual PV module level while lowering the cost of energy produced by the solar PV system and providing comprehensive and advanced safety features. Our solution consists of our power optimizers, inverters and cloud-based monitoring platform and addresses a broad range of solar market segments, from residential solar installations to commercial and small utility-scale solar installations. Additional features and hardware that can be added to our solution includes a battery pack for storage of energy generated and a home energy automation system which enables greater savings for the system owner.

The key advantages of our solution include:

- ***Maximized PV module power output.*** Our power optimizers provide module-level MPP tracking and real-time adjustments of current and voltage to the optimal working point of each individual PV module. This enables each PV module to continuously produce its maximum power potential independent of other modules in the same string, thus minimizing module mismatch and partial shading losses. By performing these adjustments at a very high rate, our power optimizers also solve the dynamic MPP losses associated with traditional inverters. Independent testing from Photon Laboratories as well as tests performed by PV Evolution Labs according to the National Renewable Energy Laboratory shade test have confirmed that our technology provides power harvesting that is superior to traditional inverter systems.

- ***Optimized architecture with economies of scale.*** Our system shifts certain functions of the traditional inverter to our power optimizers while keeping the DC to AC function and grid interaction in our inverter. As a result, our inverter is smaller, more efficient, more reliable and less expensive than inverters used in traditional inverter systems. The cost savings that we have achieved on the inverter enable our system to be priced at a cost per watt that is comparable with traditional inverter systems of leading manufacturers. As a PV system grows in size, our inverter benefits from economies of scale, making our technology viable for large commercial and utility-scale applications.

- ***Enhanced system design flexibility.*** Unlike a traditional inverter system that requires each string to be the same length, use the same type of PV modules and be positioned at the same angle toward the sun, our system allows significant design flexibility by enabling the installer to place PV modules in uneven string lengths and on multiple roof facets. This design flexibility:

  - increases the amount of the available roof that can be utilized for power production. Unlike traditional inverter systems, our system does not require each string to be the same length, use the same type of PV modules or be positioned at the same angle toward the sun. As a result, our system is significantly less prone to wasted roof space resulting from rooftop asymmetries and obstructions.

  - reduces the number of field change orders. For example, some installers use remote tools to estimate the size and configuration of an installation in connection with the customer acquisition process. This is especially common for high-volume residential arrays, where an exhaustive survey of rooftop obstructions would be uneconomical. In some cases, installers discover that their preliminary design, based on remote tools, cannot be implemented due to unexpected shading or other obstructions. With traditional inverter system designs, an obstructed module may require a significant system redesign and a modification of the customer contract to take into account the changed system design. Our DC optimized inverter solution enables an installer to compensate or adjust for most obstructions without materially changing the original design or requiring a modification to the customer contract.

- ***Reduced balance of system costs.*** Our DC optimized inverter system allows significantly longer strings to be connected to the same inverter (as compared to a traditional inverter system). This minimizes the cost of cabling, fuse boxes and other ancillary electric components. These factors together result in easier installation with shorter design times and a lower initial cost per watt, while enabling larger installations per rooftop.

- ***Continuous monitoring and control to reduce operation and maintenance costs.*** Our cloud-based monitoring platform provides full data visibility at the module level, string level, inverter level and system level. The data can be accessed remotely by any web-enabled device, allowing comprehensive analysis, immediate fault detection and alerts. These monitoring features reduce O&M costs for the system owner by identifying and locating faults, enabling remote testing and reducing field visits.

- ***Enhanced safety.*** We have incorporated module-level safety mechanisms in our system to protect installers, electricians and firefighters. Each power optimizer is configured to reduce output to 1 volt unless the power optimizer receives a fail-safe signal from a functioning inverter. As a result, if the inverter is shut down (e.g., for system maintenance, due to malfunction, in the event of a fire or otherwise), the DC voltage throughout the system is reduced to a safe level. In recent years, new safety standards have been introduced in the U.S. and in Europe that require or encourage the installation of safety measures such as these. Our DC optimized inverters comply with the applicable safety requirements of the areas in which they are sold, providing incremental cost savings to installers by eliminating the need for additional hardware such as DC breakers, switches or fire-proof ducts required by traditional inverter systems.

- ***High reliability.*** Solar PV systems are typically expected to operate for at least 25 years under harsh outdoor conditions. High reliability is critical and is facilitated by systems and components that have low heat generation, solid and stable materials, and an absence of moving parts. We have designed our system to meet these stringent requirements. Our power optimizers dissipate much less heat than microinverters because no DC-AC inversion occurs at the module level. As a result, less heat is dissipated beneath the PV module, which improves lifetime expectancy and reliability of our power optimizers. Our power optimizers' high switching frequency allows the use of ceramic capacitors with a low, fixed rate of aging and a proven life expectancy in excess of 25 years. Further, we use automotive-grade application specific integrated circuits ("ASICs") that embed many of the required electronics into the ASIC. This reduces the number of components and consequently the potential points of failure.

Our Products

Our basic solution consists of a DC power optimizer, an inverter and a cloud-based monitoring platform that operate as a single integrated system:

SolarEdge Power Optimizer. Our DC power optimizer is a highly reliable and efficient DC-to-DC converter which is connected by installers to each PV module or embedded by PV module manufacturers into their modules as part of the manufacturing process. Our power optimizer increases energy output from the PV module to which it is connected by continuously tracking the MPP of each module and controlling its working point. The power optimizer's ability to track the MPP of each PV module and its ability to increase or decrease its output voltage, enables the inverter's input voltage to remain fixed under a large variety of string configurations. This feature enhances flexibility in PV system designs, enabling use of different string lengths in a single PV system connected to the same inverter, use of PV panels situated on multiple orientations connected to the same inverter and using varied PV module types in the same string. In addition, our power optimizers monitor the performance of each PV module and communicates this data to our inverter using our proprietary power line communication. In turn, the inverter transmits this information to our monitoring server. Each power optimizer is equipped with our proprietary safety mechanism which automatically reduces the output voltage of each power optimizer to 1V unless the power optimizer receives a fail-safe signal from a functioning inverter. As a result, if the inverter is shut down (e.g., for system maintenance, due to malfunction, in the event of a fire or otherwise), the DC voltage throughout the system is reduced to a safe level.

Our power optimizers are designed to withstand high temperatures and harsh environmental conditions, and contain multiple bypass features that localize failures and enable continued system operation in the vast majority of cases of power optimizer failure. Our power optimizers are compatible with the vast majority of modules on the market today and carry a 25-year product warranty. Our power optimizers are designed to be used with our inverters as well as third party inverters to provide power optimization. Monitoring and safety features can also be achieved with third party inverters by adding supplemental communications hardware. During fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, revenues derived from the sale of power optimizers represented 50.0%, 48.0%, 47.3% and 46.1% of total revenues, respectively.

SolarEdge Inverter. Our DC-to-AC inverters contain sophisticated digital control technology with efficient power conversion architecture resulting in superior solar power harvesting and high reliability and are designed to work exclusively with our DC power optimizers. A proprietary power line communication receiver is integrated into each inverter, receiving data from our power optimizers, storing this data and transmitting it to our monitoring server when an internet connection exists. Since each string which is equipped with our power optimizers provides fixed input voltage to our inverter, the inverter is able to operate at its highest efficiency at all times and therefore is more cost-efficient, energy efficient and reliable. Like our power optimizers, our inverters are designed to withstand harsh environmental conditions. Since the power rating of an inverter determines how many PV modules it can serve, larger installations require inverters with higher power ratings. We currently offer our second generation of inverters which come in two models: a one-phase inverter designed to address the residential market (1 kilowatt ("kW") to 11.4 kW) which includes our HD-Wave technology and our newly introduced inverter-integrated electric vehicle (EV) charger and a three-phase inverter designed to address the residential market in certain European countries and the commercial market (4 kW to 100 kW). In June 2017, we introduced an extended commercial solution that consists of various inverters, sized 55kW, 82.5kW, and 100kW. These inverters are designed for commercial installations, reduce the number of required inverters and increase the system return on investment. The vast majority of our inverters are sold with a 12-year warranty that is extendable to 20 or 25 years for an additional cost. During fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, revenues derived from the sale of inverters represented 45.7%, 46.9%, 47.9% and 44.5% of total revenues, respectively.

EV Charging Inverter. SolarEdge's EV charging inverter offers homeowners the ability to charge electric vehicles up to six times faster than a standard Level 1 charger through an innovative solar boost mode that utilizes grid and PV charging simultaneously. This inverter is the world's first EV charger with an integrated PV inverter. Reducing the hassle of installing separately a standalone EV charger and a PV inverter, the EV charging inverter eliminates the need for additional wiring, conduit and a breaker installation. By installing an EV charger that is integrated with an inverter, no additional dedicated circuit breaker is needed, saving space and ruling out a potential upgrade to the main distribution panel.

StorEdge Solutions. Our StorEdge solution is a DC coupled solution that is used to increase energy independence and maximize self-consumption for homeowners by utilizing a battery which is sold separately by third party manufacturers, to store and supply power as needed. The solution is based on a single inverter for both solar PV and storage. Our StorEdge solution is designed to provide smart energy functions such as maximizing self-consumption, Time-of-Use programming for desired hours of the day, and home energy backup solutions. To optimize self-consumption, the battery is charged and discharged to meet consumption needs and reduce the amount of power purchased from the grid. With a backup solution, unused solar PV power is stored in a battery and used during a power outage or when solar PV production is insufficient. When there is a power outage, a combination of solar PV power and battery is used to power important sources such as the refrigerator, communication devices, lighting, and AC outlets. Our proprietary monitoring platform provides visibility into battery status, solar PV production, and self-consumption, while offering easy maintenance with remote access to inverter and battery software. Existing SolarEdge systems can be upgraded to our StorEdge solution.

SolarEdge Monitoring Software. Our cloud-based monitoring platform collects power, voltage, current and system data sent from our inverters and power optimizers and allows users to view the data at the module level, string level, inverter level and system level from any browser or from most smart phones and tablets. The monitoring software continuously analyzes data and flags potential problems. The monitoring software includes features which are used on a routine basis by integrators, installers, maintenance staff, and system owners to improve a solar PV system's performance by maximizing solar power harvesting and reducing O&M costs by increasing system up-time and detecting PV module performance issues more effectively. Connection to the monitoring server is completed during installation by the installer. The installer then receives full access to system data through the monitoring software and can select the amount of data to be shared with the system owner.

Smart Energy Management. There are currently two separate energy technology industries that exist today, solar energy production and automation technology. Inverters are taking on an expanded role in energy management and automation, and in order to address these market needs, we are developing and providing automation products. This line of products, when used with the SolarEdge solution, is designed to allow system owners to increase self-consumption by shifting energy usage to match peak solar PV production as well as offer a convenient, wireless control option over various building and/or home devices. An example of this solution, would be using excess solar PV energy to heat water or the ability to remotely turn on or off certain power sources such as lighting or electrical appliances. The introduction of these products is dependent upon certification and region specific needs and as such, these products are not yet available in all of the geographies in which SolarEdge operates.

Grid Services. As PV and storage continue to proliferate around the world, energy production is transitioning from a centralized system to a distributed network model, where energy is produced close to the location in which it is consumed and stored. This model creates an opportunity for new interconnected and decentralized energy networks offering improved grid reliability and stability, new energy services and reduction of grid infrastructure costs. SolarEdge grid services deliver near real-time aggregative control and data reporting, enabling the pooling of distributed energy resources — photovoltaic systems, battery storage, electric vehicle chargers, and loads — in the cloud for the creation of virtual power plants. The SolarEdge grid services and VPP solution provides sophisticated management platforms to enable real-time, aggregated control of available energy resources to meet ever-changing supply needs and demand.

Product Roadmap

Our products reflect the innovation focus and capabilities of our technology departments. Our core product roadmap is divided into five categories: power optimizers, inverters, monitoring services, energy storage, and smart energy management.

Power Optimizers. We currently sell our third generation power optimizer which was designed for fully automated assembly and which is based on our third generation ASIC. A key element of our reliability strategy, and a significant differentiator relative to our competitors, is our use of proprietary ASICs to control, among other things, our power optimizer's power conversion, safety features, and PV module monitoring. Instead of using large numbers of discrete components, our power optimizer uses a single proprietary ASIC, thus reducing the total number of components in an electrical circuit and thereby improving reliability. In June 2017, we unveiled our fourth generation optimizer which uses fourth generation ASIC and incorporates a new safety mechanism for PV systems. In addition, we are also continuing to develop the necessary subsystems for the fifth generation ASIC which will be used in our fifth generation power optimizer. Each new ASIC generation reduces the number of components required and meaningfully improved the efficiency of the power optimizer. The efficiency improvement reduces the energy losses which in turn reduces the amount of heat dissipation. This enables design of a more cost-effective and usually smaller enclosure and also keeps the electronics cooler, thereby improving the power optimizer's reliability.

Inverters. Our inverter roadmap is intended to serve three purposes: (i) expand addressable market by developing new and larger inverters designed specifically for larger commercial installations and utility-scale projects; (ii) improve the electronics to increase the total power throughput without changing the existing enclosure, thereby reducing the actual cost per watt and increasing economies of scale and (iii) improve ease of installation by integrating additional functionality required in certain installations in order to reduce costs of additional hardware and subcontractors' labor costs. As part of our inverter roadmap, we plan to apply our HD-Wave technology to three-phase inverters and we are in the development process for doing so.

Monitoring Services. Our cloud-based monitoring platform is continuously growing by the amount of data aggregated. We are continuously developing tools to accommodate our growth and further enhance our service offering. Specifically, we plan to increase data compression in order to enable support for a rapidly increasing number of field systems while using low-cost equipment. In addition, we plan to improve our reporting systems and enable users to obtain self-generated customized reports. We also expect to expand algorithms that detect and pinpoint problems that can affect power production in field systems. We further plan to add more capabilities through our public application program interface to allow users to build and integrate our system into their own systems and to allow users to build and share useful applications based on monitoring data gathered by our software.

Electric Vehicle Charging. In 2018, we further expanded our business by offering our EV charging solutions. The first offered product in this respect is a residential solar inverter that integrates an EV charger. This product addresses the growing market for EVs and the need for a higher power charging solution, while maintaining control over electricity costs and maximizing self-consumption.

Energy Storage and Shifting. SolarEdge is working to continue to expand its third-party battery compatibility for the residential market. For the commercial market, we plan to expand our StorEdge product offering to the commercial and industrial sector.

New Products or Product Categories. We are evaluating opportunities to expand our product offerings and services to our customers. We may from time to time develop new products or services that are a natural extension of our existing business, or may engage in acquisitions of businesses or product lines with the potential to strengthen our market position, enable us to enter attractive markets, expand our technological capabilities, or provide synergy opportunities.

Additional Product Offerings

During the year ended December 31, 2018, we expanded our product offering by means of completing the Gamatronic Acquisition and the Kokam Acquisition. This allows SolarEdge to offer a variety of products and solutions in addition to the SolarEdge Solution, in adjacent markets.

UPS products. The Gamatronic UPS business has offered power protection solutions for power dependent and critical applications around the world for almost five decades. The Gamatronic product offering includes a full range of UPS and power supply solutions for use in various applications including datacenters, communications, defense, healthcare, industrial, financial, marine, transportation, government and, retail. The products include Modular UPS solutions ranging from 10 kW to 1.8 MW, a wide range of standalone UPS systems, modular power systems for the telecommunications market, modular DC/AC inverters, modular DC/DC converters and different control and management solutions.

Lithium ion batteries and related products. Kokam, has developed lithium-ion battery cells, batteries and energy storage solutions since its founding in 1989. The products reliable, safe, high-performance battery solutions for a wide-variety of industries, including ESS, UPS, EVs, aerospace and marine. The Kokam Acquisition will enable SolarEdge to provide battery cells and battery modules to its own solar customers as well.

Sales and Marketing Strategy

Our strategy is to focus on markets where electricity prices, irradiance and government policies make solar PV installations economically viable. Our solar products have been installed in 133 countries, including the U.S., Canada, Germany, Italy, the Netherlands, the United Kingdom, Israel, Australia, Japan, Singapore, India, Taiwan, Korea South Africa, Belgium, France, and China.

We target our sales and marketing efforts to the largest distributors, electrical equipment wholesalers, EPC contractors and installers in each of the countries where we operate. In the U.S., Germany, Italy, the United Kingdom, and Australia, our products are carried and actively sold by most of the top solar PV distributors as well as the largest electrical distribution companies that are active in solar PV. We anticipate that an increasing percentage of solar PV equipment sales will also occur through electrical equipment wholesalers who sell to a broad range of electrical contractors, and we are focused on cultivating these global relationships. As of December 31, 2018, according to data available on our monitoring portal, over 20,000 installers around the world have installed SolarEdge solar PV systems. We also sell our power optimizers to several PV module manufacturers that offer PV modules with our power optimizer physically embedded into their modules.

Additionally, we have a number of programs focused on educating installers and other industry professionals about our technology, and we use a combination of road shows, webinars, and partner trainings to show them how best to design, sell, and implement our technology in their projects.

Our Customers

We derive a significant portion of our revenues from key solar distributors, electrical equipment wholesalers and large installers in the U.S. and worldwide. In fiscal 2018 three of our customers represented 33.4 % of our revenues. Out of these three customers, Consolidated Electrical Distributors Inc. (CED), a leading electric-equipment wholesaler in the U.S., was our largest customer and accounted for 19.4% of our revenues. None of our other customers accounted for more than ten percent of our revenues in fiscal 2018.

Training and Customer Support

We offer our installer base a comprehensive package of customer support and training services which include pre-sales support, ongoing trainings, and technical support before, during, and after installation. We also provide customized support programs to PV module manufacturers, large installers and distributors to help prioritize and track support issues, thereby enabling short cycle times for issue resolution. In 2018, we conducted approximately 300 training events in 26 countries, with an aggregate of approximately 7,500 attendees.

We offer a wide variety of training, including hands-on and on-demand video sessions and online product and training materials. We support our commercial system customers with design consulting throughout their sales process and installation. Our technical support organization includes local expert teams, call centers in the USA, Germany, Australia, Netherlands, Italy, the United Kingdom, Israel and Bulgaria, and an online service portal. Our toll-free call centers are open Monday through Friday from 9:00 a.m. to 8:00 p.m. in every region in which we sell our products. In addition, customers can open and track support cases 24/7 utilizing our online portal. All support cases are monitored via a customer relationship management system in order to ensure service, track closure of all customer issues and further improve our customer service. Our call centers have access to our cloud-based monitoring platform database, which enables real-time remote diagnostics.

Customer service and satisfaction has been a key component of our business and we expect it to continue to be integral to our success in the future. We maintain high levels of customer engagement through our call centers in California, Germany, Israel and Bulgaria. In addition to our call centers, we have field service engineers located in the geographies where we are active, and support our customers with commissioning of large projects, introduction of new technologies and features and on-the-job training of new installers. As of December 31, 2018, our customer support and training organization consisted of 275 full time employees worldwide.

Our Technology

We have drawn on our expertise in the fields of power electronics, magnetic design, mechanical and heat dissipation capabilities, control loops and algorithms and power line communications to design and develop what we believe to be the most advanced commercial solutions for harvesting power from solar PV systems. Our advanced technologies are explained in more detail below.

Power optimizers

Our power optimizers are DC/DC step up/step down (buck-boost) converters designed and developed to operate in harsh outdoor environments at very high conversion efficiency. Our power optimizers include proprietary power electronics customized to efficiently convert power from the PV module to the inverter. The conversion topology and components are all designed for the power optimizer specifications and verified for consistent performance and reliability in numerous lab tests and simulations.

A key factor in the performance of our power optimizer is determined by the digital control algorithms and closed-loop mechanism. The power optimizer's control is built into our advanced ASIC which is responsible for all critical digital control functions of the power optimizer, including detailed power analysis, digital control of the power conversion subsystem and power line communications and networking. Since each power optimizer handles the power and voltage of a single module, we are able to reach a high degree of semiconductor integration by leveraging low cost silicon in standard semiconductor packages. As a result, much of the functionality of our power optimizer can be integrated into a standard ASIC instead of discrete electronic components, resulting in lower costs and higher reliability.

The ASIC performs the critical power analysis and power conversion control functions of the power optimizer. The power analysis function processes the status and working parameters at the power optimizer's input and output and together with advanced digital control and state machine logic, controls the power conversion function. In addition, our digital control system uses technology that allows the solar PV installation to anticipate and adapt to changing operating conditions and protect against system anomalies.

Each power optimizer in the array is connected to the inverter by a power line communications networking link. Our power line communications link uses a proprietary networking technology that we developed utilizing the existing DC wiring between the power optimizers and the inverter to transmit and receive data between these devices.

Inverters

Our inverter is designed for single-stage DC/AC conversion. Using our inverter in combination with the power optimizers will allow the control loop to maintain a fixed DC voltage level at its input thereby allowing for longer, uneven, and multi-faceted strings while also enabling custom, cost–efficient, and reliable inverter design and component selection. All of the power components, as well as the main magnetic components for our inverters, can then be optimized for DC/AC inversion at high efficiency.

The digital control algorithms of our inverters are implemented using programmable digital signal processors which allow for flexibility and adaptation of control loops for various grids and for the requirements and standards of various grid operators across geographies. We have already implemented the control mechanisms necessary to support advanced grid codes and standards that are required to support high penetration of solar energy into the grid.

Manufacturing

We have designed our manufacturing processes to produce high quality products at competitive costs. The strategy is threefold: outsource, automate, and localize. We currently contract to have our solar products manufactured by three of the world's leading global electronics manufacturing service providers, Jabil Circuit, Inc., Celestica LLC and Flextronics Industrial Ltd, while the contract with Celestica will terminate as of May 1, 2019. By using contract manufacturers rather than building our own manufacturing infrastructure, we are able to access advanced manufacturing equipment, processes, skills and capacity on a "capital light" budget. Our contract manufacturers are responsible for funding the capital expenses incurred in connection with the manufacture of our products, except with regard to end-of-line testing equipment and other specific manufacturing equipment utilized in assembling our products or sub-components which are financed and owned by the company. We expect to continue this funding arrangement in the future, with respect to any expansions to such existing lines. Further, contracting with global providers such as Jabil, Celestica and Flextronics gives us added flexibility to manufacture certain products in China, closer to target markets in Asia and the North American west coast as well as other products in Romania and Hungary, closer to target markets in Europe and the North American east coast, potentially increasing responsiveness to customers while reducing costs and delivery times. In July 2017, we executed a long term lease agreement for 10,000 square meters in Israel, intended for the establishment of a manufacturing facility for the production of product prototypes, manufacturing and the development of proprietary manufacturing and testing equipment. The facility is still under development.

We have developed propriety automated assembly lines for the manufacturing of our power optimizers. These assembly lines, currently operating in all of our manufacturing facilities enable the manufacturing of more than 4,000 optimizers per machine per day. We invest resources in additional automated assembly lines as well as in automated machinery for subassembly and self-manufacturing of certain components used in our products, and we own and are responsible for funding all of the capital expenses related thereto. The current and expected capital expenses associated with these automated assembly lines and other machinery are not significant and will be funded out of our cash flows. In addition, we are in the process of designing an automatic assembly line for the production of embedded optimizers.

We source our raw materials through various component manufacturers and invest resources in continued cost-reduction efforts as well as verifying second and third sources so as to limit dependence on sole suppliers.

Reliability and Quality Control

Our power optimizers are either connected to each PV module by installers, or embedded in each PV module by PV module manufacturers. Our power optimizers are designed to be as reliable as the PV module itself and capable of withstanding the same operating and environmental conditions.

Our reliability methodology includes a multi-level plan with design analysis, sub-system testing of critical components by Accelerated Life Testing, and integrative testing of design prototypes by Highly Accelerated Life Testing and large sample groups. As part of our reliability efforts, we subject components to industry standard conditions and tests including in accelerated life chambers that simulate burn-in, thermal cycling, damp-heat, and other stresses. We also conduct out of box audits (OBA) on our finished products, on-line reliability tests (ORT) are conducted on our inverters and we test complete products in stress tests and in the field. Our rigorous testing processes have helped us to develop highly reliable products.

In order to verify the quality of each of our products when it leaves the manufacturing plant, each component, sub-assembly, and final product are tested multiple times during production. These tests include Automatic Optical Inspection, In-Circuit Testing, Board- Functional Testing, Safety Testing, and Integrative Stress Testing. We employ a serial number-driven manufacturing process auditing and traceability system that allows us to control production line activities, verify correct manufacturing processes and to achieve item-specific traceability.

As a part of our quality and reliability approach, failed products from the field are returned and subjected to root cause analysis, the results of which are used to improve our product and manufacturing processes and design and further reduce our field failure rate.

Certifications

Our products and systems comply with the applicable regulatory requirements of the jurisdictions in which they are sold as well as all other major markets around the world. These include safety regulations, electromagnetic compatibility standards and grid compliance.

Research and Development

We devote substantial resources to research and development with the objective of developing new products and systems, adding new features to existing products and systems and reducing unit costs of our products and systems. Our development strategy is to identify features, products, and systems for both software and hardware that reduce the cost and improve the effectiveness of our solutions for our customers. We measure the effectiveness of our research and development by metrics including product unit cost, efficiency, reliability, power output, and ease of use.

We have a strong research and development team with wide-ranging experience in power electronics, semiconductors, power line communications and networking, and software engineering. In addition, many members of our team have expertise in solar technologies. As of December 31, 2018, our research and development organization had a headcount of 598 employees (including Kokam).

Intellectual Property

The success of our business depends, in part, on our ability to maintain and protect our proprietary technologies, information, processes, and know-how. We rely primarily on patent, trademark, copyright and trade secrets laws in the U.S. and similar laws in other countries, confidentiality agreements and procedures and other contractual arrangements to protect our technology. As of December 31, 2018, SolarEdge had 102 issued U.S. patents, 45 issued non-U.S. patents, 85 patent applications pending for examination in the U.S. and 114 patent applications pending for examination in other countries, all of which are related to U.S. applications. A majority of our patents relate to DC power optimization and DC to AC conversion for alternative energy power systems, power system monitoring and control, and management systems. Our issued patents are scheduled to expire between 2024 and 2035. As of December 31, 2018, Kokam had 14 issued U.S. patents, 60 issued patents in Korea and additional 92 issued patents in other countries. Additionally, as of December 31, 2018, Kokam had 15 patent applications pending for examination worldwide.

We continually assess opportunities to seek patent protection for those aspects of our technology, designs, and methodologies and processes that we believe provide significant competitive advantages.

We rely on trade secret protection and confidentiality agreements to safeguard our interests with respect to proprietary know-how that is not patentable and processes for which patents are difficult to enforce. We believe that many elements of our manufacturing processes involve proprietary know-how, technology, or data that are not covered by patents or patent applications, including technical processes, test equipment designs, algorithms, and procedures.

All of our research and development personnel are required to enter into confidentiality and proprietary information agreements with us. These agreements address intellectual property protection issues and require our employees to assign to us all of the inventions, designs, and technologies they develop during the course of employment with us.

Our customers and business partners are required to enter into confidentiality agreements before we disclose any sensitive aspects of our technology or business plans.

Competition

The markets for our solar products are competitive, and we compete with manufacturers of traditional inverters and manufacturers of other MLPE. The principal areas in which we compete with other companies include:

- product and system performance and features;
- total cost of ownership;
- PV module compatibility and interoperability;
- reliability and duration of product warranty;
- customer service and support;

- breadth of product line;
- local sales and distribution capabilities;
- compliance with applicable certifications and grid codes;
- size and financial stability of operations; and
- size of installed base.

Our DC optimized inverter system competes principally with products from traditional inverter manufacturers, such as SMA Solar Technology AG, ABB Ltd. and Huawei Technologies Co. Ltd. as well as from other Chinese inverter manufacturers. In the North American residential market, we compete with traditional inverter manufacturers, as well as microinverter manufacturers such as Enphase Energy, Inc. In addition, several new entrants to the MLPE market, including low-cost Asian manufacturers, have recently announced plans to ship or have already shipped similar products. We believe that our DC optimized inverter system offers significant technology and cost advantages that reflect a competitive differentiation over traditional inverter systems and microinverter technologies.

The markets for our lithium-ion products are competitive as well, and we compete with global cell and battery manufacturers in the ESS market. Our energy storage solutions compete with products from global manufactures such as LG Chem, Samsung SDI, BYD and Panasonic.

In the UPS market, our UPS products compete with products and solutions from global UPS providers such as Schneider Electric, Eaton and Emerson.

Government Incentives

U.S. federal, state, and local government bodies, as well as non-U.S. government bodies, provide incentives to owners, end users, distributors, and manufacturers of solar PV systems to promote solar electricity in the form of rebates, tax credits, and other financial incentives such as system performance payments, payments for renewable energy credits associated with renewable energy generation, and exclusion of solar PV systems from property tax assessments. The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, often depends in large part on the availability and size of these government subsidies and economic incentives, which vary by geographic market and from time to time. In general, the amount and availability of these incentives and subsidies to encourage the development of solar PV energy have been declining and are expected to continue to decline.

Import Tariffs

The U.S. government has proposed new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. In January 2018, a tariff on imported solar modules and cells was adopted in the United States. The tariff, which does not apply directly to our products, except possibly with respect to power optimizers that are embedded onto solar panels in China, was initially set at 30%, with a gradual reduction over four years to 15%. In addition, in July 2018, a 10% tariff on a long list of products imported from China, including inverters and power optimizers was adopted in the United States under Section 301 of the Trade Act of 1974, and became effective on September 24, 2018.

An additional increase of the tariffs to 25% was expected to take effect on January 1, 2019. However, following a meeting held between U.S. President Trump and Chinese President Xi Jinping on December 1, 2018, President Trump indicated that he would postpone increasing the tariff rate to 25% on certain Chinese goods. The parties agreed to endeavor on a 90-day period, until March 1, 2019, to discuss the restructuring of China's trade policies and come to an agreement. On February 24, 2019, U.S. President Trump has announced that considering progress in trade talks with China, the United States is planning to delay the additional tariffs that were scheduled to begin on March 1, 2019.

It is uncertain what effect, if any, these tariffs may have on the price of solar systems in the United States. If the price of solar systems in the U.S. increases, it would likely reduce the number of solar systems manufactured and sold, which in turn may decrease demand for our products.

Seasonality

The solar energy market is subject to seasonal and quarterly fluctuations affected by weather. For example, during the winter months in Europe and the northeastern U.S. where the climate is particularly cold and snowy, it is typical to see a decline in PV installations and this decline can impact the timing of orders for our products.

Employees

As of December 31, 2018, we had 1,737 full-time employees. Of these full-time employees, 598 were engaged in research and development, 323 in sales and marketing, 663 in operations, production and support, and 153 in general and administrative capacities. Of our employees, 924 were based in Israel, 266 were based in Korea, 183 were based in the U.S., 103 were based in China, 55 were based in Germany, and an additional 206 were based elsewhere.

None of our employees are represented by a labor union. We have not experienced any employment-related work stoppages, and we consider relations with our employees to be good.

Corporate Information

We were incorporated in Delaware in 2006. Our principal executive offices are located at 1 HaMada Street, Herziliya Pituach 4673335, Israel and our telephone number at this address is 972 (9) 957-6620. Our website is www.solaredge.com.

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). Our reports, proxy statements and other documents filed electronically with the SEC are available at the website maintained by the SEC at *www.sec.gov*.

We also make available, free of charge on the Investor Relations portion of our website at *www.solaredge.com*, our annual, quarterly, and current reports, and, if applicable, amendments to those reports, filed or furnished pursuant to Section 13(a) or 15(d) of the Exchange Act as soon as reasonably practicable after we electronically file such reports with, or furnish them to, the SEC. We also make available on the Investor Relations portion of our website at *www.solaredge.com* our earnings presentation and other important information, which we encourage you to review.

ITEM 1A. RISK FACTORS

Risk factors which could cause actual results to differ from our expectations and which could negatively impact our financial condition and results of operations are discussed below and elsewhere in this Annual Report. The risks and uncertainties described below are not the only ones we face. If any of the risks or uncertainties described below or any additional risks and uncertainties actually occur, our business, results of operations and financial condition could be materially and adversely affected. In particular, forward-looking statements are inherently subject to risks and uncertainties, some of which cannot be predicted or quantified. See "Special Note Regarding Forward-Looking Statements."

Risks Related to Our Business and Our Industry

We cannot be certain that we will sustain our current level of profitability in the future.

We achieved a net profit of $76.6 million, $25.4 million, $84.2 million and $128.0 million in fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, respectively. Our revenue growth may slow or revenue may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our products, increased competition, a decrease in the growth of the solar industry or our market share, or our failure to continue to capitalize on growth opportunities. If we fail to maintain sufficient revenue to support our operations, we may not be able to sustain profitability.

In addition, we expect to incur additional costs and expenses related to the continued development and expansion of our business, including in connection with recent or future acquisitions as well as ongoing marketing and developing our products, development of our own manufacturing facilities, expanding into new product markets and geographies, maintaining and enhancing our research and development operations and hiring additional personnel. We do not know whether our revenues will grow rapidly enough to absorb these costs or the extent of these expenses or their impact on our results of operations.

The rapidly evolving and competitive nature of the solar industry makes it difficult to evaluate our future prospects. Our entry into other adjacent markets through recent acquisitions is new and highly competitive and it is difficult to evaluate our future in these new markets as well.

Much of our growth has occurred in recent periods. The rapidly evolving and competitive nature of the solar industry makes it difficult to evaluate our current business and future prospects. In addition, we have limited insight into emerging trends that may adversely affect our business, financial condition, results of operations and prospects. Our recent acquisitions in adjacent markets, such as UPSs and ESS are new to us and these are highly competitive markets in which we will need to compete. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including unpredictable and volatile revenues and increased expenses as we continue to grow our business.

The viability and demand for solar energy solutions, UPS solutions and ESS products, and in turn, our products, may be affected by many factors outside of our control, including:

- cost competitiveness, reliability and performance of solar PV systems compared to conventional and non-solar renewable energy sources and products;
- availability and amount of government subsidies and incentives to support the development and deployment of solar energy solutions;
- the extent to which the electric power industry and broader energy industries are deregulated to permit broader adoption of solar electricity generation;
- prices of traditional carbon-based energy sources;
- levels of investment by end-users of solar energy products, which tend to decrease when economic growth slows; and
- the emergence, continuance or success of, or increased government support for, other alternative energy generation technologies and products.

If we do not manage these risks and overcome these difficulties successfully, our business and results of operations will suffer.

If demand for solar energy solutions does not continue to grow or grows at a slower rate than we anticipate, our business and results of operations will suffer.

Our solution is utilized in solar PV installations. As a result, our future success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. The solar industry is an evolving industry that has experienced substantial changes in recent years, and we cannot be certain that consumers and businesses, with respect to distributed solar solutions, or utilities, with respect to utility-scale solar projects, will adopt solar PV systems as an alternative energy source at levels sufficient to grow our business. If demand for solar energy solutions fails to develop sufficiently, demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

The reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity applications could reduce demand for solar PV systems and harm our business.

Federal, state, local and foreign government bodies provide incentives to owners, end users, distributors, system integrators and manufacturers of solar PV systems to promote solar electricity in the form of rebates, tax credits and other financial incentives such as system performance payments, payments of renewable energy credits associated with renewable energy generation and exclusion of solar PV systems from property tax assessments. The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, often depends in large part on the availability and size of government and economic incentives that vary by geographic market. Because our customers' sales are typically into the on-grid market, the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity may negatively affect the competitiveness of solar electricity relative to conventional and non-solar renewable sources of electricity, and could harm or halt the growth of the solar electricity industry and our business. For example, in August 2015, the United Kingdom's Department of Energy and Climate Change (DECC) launched a consultation on the future of the Feed-in Tariffs (FITs) scheme, the consultation reduced the levels of FIT effective February 2016. Under the new FIT scheme UK solar installations have significantly dropped. These subsidies and incentives may expire on a particular date, end when the allocated funding is exhausted or be reduced or terminated as solar energy adoption rates increase or as a result of legal challenges, the adoption of new statutes or regulations or the passage of time. These reductions or terminations often occur without warning.

In addition, several jurisdictions have adopted renewable portfolio standards, which mandate that a certain portion of electricity delivered by utilities to customers come from a set of eligible renewable energy resources by a certain compliance date. Some programs further specify that a portion of the renewable energy quota must be from solar electricity. Under some programs, a utility can receive a "credit" for renewable energy produced by a third party by either purchasing the electricity directly from the producer or paying a fee to obtain the right to renewable energy generated but used by the generator or sold to another party. A renewable energy credit allows the utility to add this electricity to its renewable portfolio requirement total without actually expending the capital for generating facilities. However, there can be no assurances that such policies will continue. For example, in December 2015, Nevada's Public Utilities Commission increased the fixed service charge for net-metered solar customers and lowered compensation for net excess solar generation Proposals to extend compliance deadlines, reduce targets or repeal standards have also been introduced in a number of states. Reduction or elimination of renewable portfolio standards or successful efforts to meet current standards could harm or halt the growth of the solar PV industry and our business.

Changes in the U.S. trade environment, including the recent imposition of import tariffs, could adversely affect the amount or timing of our revenues, results of operations or cash flows.

The U.S. government recently proposed new or higher tariffs on specified imported products originating from China in response to what it characterizes as unfair trade practices, and China has responded by proposing new or higher tariffs on specified products imported from the United States. In January 2018, a tariff on imported solar modules and cells was adopted in the United States. The tariff, which tariff does not apply directly to our products, except possibly with respect to power optimizers that are embedded onto solar panels in China, was initially set at 30%, with a gradual reduction over four years to 15%. In addition, in July 2018, a 10% tariff on a long list of products imported from China, including inverters and power optimizers was adopted in the United States under Section 301 of the Trade Act of 1974, and became effective on September 24, 2018.

An additional increase of the tariffs to 25% was expected to take effect on January 1, 2019, however, following a meeting held between On December 1, 2018, U.S. President Trump and Chinese President Xi Jinping on December 1, 2018, met to discuss trade relations between the two countries. Following their meeting, President Trump indicated that he would postpone increasing the tariff rate to 25% on certain Chinese goods currently covered under Section 301 List 3. As notified by the US administration, the parties agreed to endeavor on a 90-day period, until March 1, 2019, to discuss the restructuring of China's trade policies and come to an agreement. On February 24, 2019, U.S. President Trump has announced that considering progress in trade talks with China, the United States is planning to delay the additional tariffs that were scheduled to begin on March 1, 2019.

These tariffs and the possibility of additional tariffs in the future have created uncertainty in the industry concerning whether they will cause a material increase in the price of solar systems in the United States. If the price of solar systems in the United States increases, the use of solar systems could become less economically feasible and could reduce our gross margins or reduce the demand of solar systems manufactured and sold, which in turn may decrease demand for our products. Additionally, existing or future tariffs may negatively affect key customers, suppliers, and manufacturing partners. Such outcomes could adversely affect the amount or timing of our revenues, results of operations or cash flows, and continuing uncertainty could cause sales volatility, price fluctuations or supply shortages or cause our customers to advance or delay their purchase of our products.

Changes to net metering policies may significantly reduce demand for electricity from solar PV systems and harm our business.

Our business benefits from favorable net metering policies in several U.S. states, Canadian provinces, and European countries in which our customers operate. Net metering allows a solar PV system owner to pay his or her local electric utility only for power usage net of production from the solar PV system, transforming the conventional relationship between customers and traditional utilities. System owners receive credit for the energy that the solar installation generates to offset energy usage at times when the solar installation is not generating energy. Under a net metering program, the customer typically pays for the net energy used or receives a credit against future bills at the retail rate if more energy is produced than consumed. In some locations, customers are also reimbursed by the electric utility for net excess generation on a periodic basis.

Most U.S. states have adopted some form of net metering. However, net metering programs have recently come under regulatory scrutiny in some U.S. states due to challenges alleging that net metering policies inequitably shift costs onto non-solar ratepayers by allowing solar ratepayers to sell electricity at rates that are too high for utilities to recoup their fixed costs. We cannot assure you that the programs will not be significantly modified going forward.

If the value of the credit that customers receive for net metering is significantly reduced, end-users may be unable to recognize the same level of cost savings associated with net metering that current end-users enjoy. The absence of favorable net metering policies or of net metering entirely, or the imposition of new charges that only or disproportionately affect end-users that use net metering would significantly limit demand for solar PV systems that are sold by our customers and could have a material adverse effect on our business, financial condition, results of operations and future growth.

Existing electric utility industry regulations, and changes to regulations, may present technical, regulatory, and economic barriers to the purchase and use of solar PV systems that may significantly reduce demand for our products or harm our ability to compete.

Federal, state, local and foreign government regulations and policies concerning the electric utility industry, and internal policies and regulations promulgated by electric utilities, heavily influence the market for electricity generation products and services. These regulations and policies often relate to electricity pricing and the interconnection of customer-owned electricity generation, and governments and utilities continuously modify these regulations and policies. These regulations and policies could deter purchases of renewable energy products, including solar PV systems sold by our customers. This could result in a significant reduction in the potential demand for our products. For example, utilities commonly charge fees to larger, industrial customers for disconnecting from the electric grid or for having the capacity to use power from the electric grid for back-up purposes. These fees could increase the cost to use solar PV systems sold by our customers and make them less desirable, thereby harming our business, prospects, financial condition and results of operations. In addition, depending on the region, electricity generated by solar PV systems competes most effectively with expensive peak-hour electricity from the electric grid, rather than the less expensive average price of electricity. Modifications to the utilities' peak hour pricing policies or rate design, such as to a flat rate, could require the price of solar PV systems and their component parts to be lower in order to compete with the price of electricity from the electric grid.

Changes in current laws or regulations applicable to us or the imposition of new laws and regulations in the U.S., Europe, or other jurisdictions in which we do business could have a material adverse effect on our business, financial condition and results of operations. Any changes to government or internal utility regulations and policies that favor electric utilities could reduce the competitiveness of solar PV systems sold by our customers and cause a significant reduction in demand for our products and services. For example, regulators in certain U.S. states have been asked to consider proposals to assess fees on consumers purchasing energy from solar PV systems or imposing a new charge that would disproportionately impact solar PV system owners who utilize net metering, either of which would increase the cost of solar PV energy to those consumers and could reduce demand for our products. Any similar government or utility policies adopted in the future that discourage the growth of solar PV systems could reduce demand for our products and services and adversely impact our growth. In addition, changes in our products or changes in export and import laws and implementing regulations may create delays in the introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to certain countries altogether. Any such event could have a material adverse effect on our business, financial condition, and results of operations.

A drop in the retail price of electricity derived from the utility grid or from alternative energy sources may harm our business, financial condition, results of operations, and prospects.

Decreases in the retail prices of electricity from the utility grid would make the purchase of solar PV systems less economically attractive and would likely lower sales of our products. The price of electricity derived from the utility grid could decrease as a result of:

- construction of a significant number of new power generation plants, including plants utilizing natural gas, nuclear, coal, renewable energy, or other generation technologies;
- relief of transmission constraints that enable local centers to generate energy less expensively;
- reductions in the price of natural gas;
- utility rate adjustment and customer class cost reallocation;
- energy conservation technologies and public initiatives to reduce electricity consumption;
- development of smart-grid technologies that lower the peak energy requirements of a utility generation facility;
- development of new or lower-cost energy storage technologies that have the ability to reduce a customer's average cost of electricity by shifting load to off-peak times; and
- development of new energy generation technologies that provide less expensive energy.

Moreover, technological developments in the solar components industry could allow our competitors and their customers to offer electricity at costs lower than those that can be achieved by us and our customers, which could result in reduced demand for our products.

If the cost of electricity generated by solar PV installations incorporating our systems is high relative to the cost of electricity from other sources, our business, financial condition, and results of operations may be harmed.

An increase in interest rates or tightening of the supply of capital in the global financial markets could make it difficult for end-users to finance the cost of a solar PV system and could reduce the demand for solar systems and thus demand for our products.

Many end-users depend on financing to fund the initial capital expenditure required to develop, build, or purchase a solar PV system. As a result, an increase in interest rates or a reduction in the supply of project debt financing or tax equity investments, could reduce the number of solar projects that receive financing or otherwise make it difficult for our customers or their customers, the end-users, to secure the financing necessary to develop, build, purchase, or install a solar PV system on favorable terms, or at all, and thus lower demand for our products which could limit our growth or reduce our net sales. In addition, we believe that a significant percentage of end-users install solar PV systems as an investment, funding the initial capital expenditure through financing. An increase in interest rates could lower such end-user's return on investment on a solar PV system, increase equity return requirements or make alternative investments more attractive relative to solar PV systems, and, in each case, could cause such end-users to seek alternative investments.

The market for our products is highly competitive and we expect to face increased competition as new and existing competitors introduce power optimizer, inverter, and solar PV system monitoring products, which could negatively affect our results of operations and market share.

The market for solar PV solutions is highly competitive. We principally compete with traditional inverter manufacturers as well as microinverter manufacturers. Currently, our DC optimized inverter system competes with products from traditional inverter manufacturers, and microinverter manufacturers, as well as emerging technology companies offering alternative MLPE products. Several new entrants to the inverter and MLPE market including low-cost Asian manufacturers, have recently announced plans to ship or have already shipped products in markets in which we sell our products, including most recently, with respect to sales in Australia and in Europe. We expect competition to intensify as new and existing competitors enter the market.

Several of our existing and potential competitors are significantly larger, have greater financial, marketing, distribution, customer support, and other resources, are longer established, and have better brand recognition. Further, certain competitors may be able to develop new products more quickly than us, may partner with other competitors to provide combined technologies and competing solutions and may be able to develop products that are more reliable or that provide more functionality than ours. In addition, some of our competitors have the financial resources to offer competitive products at aggressive or below-market pricing levels, which could cause us to lose sales or market share or require us to lower prices for our products in order to compete effectively. If we have to reduce our prices by more than we anticipated, or if we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our revenues and gross profit would suffer.

Developments in alternative technologies or improvements in distributed solar energy generation may have a material adverse effect on demand for our offerings.

Significant developments in alternative technologies, such as advances in other forms of distributed solar PV power generation, storage solutions, such as batteries, the widespread use or adoption of fuel cells for residential or commercial properties or improvements in other forms of centralized power production, may have a material adverse effect on our business and prospects. Any failure by us to adopt new or enhanced technologies or processes, or to react to changes in existing technologies, could result in product obsolescence, the loss of competitiveness of our products, decreased revenue and a loss of market share to competitors.

Our industry has historically been cyclical and experienced periodic downturns.

Our future success partly depends on continued demand for solar PV systems in the end-markets we serve, including the residential and commercial sectors in the United States and Europe. The solar industry has historically been cyclical and has experienced periodic downturns which may affect the demand for equipment that we manufacture. The solar industry has undergone challenging business conditions in recent years, including downward pricing pressure for PV modules, mainly as a result of overproduction, and reductions in applicable governmental subsidies, contributing to demand decreases. Although the solar industry is experiencing a slow recovery, there is no assurance that the solar industry will not suffer significant downturns in the future, which will adversely affect demand for our solar products and our results of operations.

Defects or performance problems in our products could result in loss of customers, reputational damage, and decreased revenue, and we may face warranty, indemnity, and product liability claims arising from defective products.

Although our products meet our stringent quality requirements, they may contain undetected errors or defects, especially when first introduced or when new generations are released. Errors, defects, or poor performance can arise due to design flaws, defects in raw materials or components or manufacturing difficulties, which can affect both the quality and the yield of the product. Any actual or perceived errors, defects, or poor performance in our products could result in the replacement or recall of our products, shipment delays, rejection of our products, damage to our reputation, lost revenue, diversion of our engineering personnel from our product development efforts, and increases in customer service and support costs, all of which could have a material adverse effect on our business, financial condition, and results of operations.

Furthermore, defective components may give rise to warranty, indemnity, or product liability claims against us that exceed any revenue or profit we receive from the affected products. We offer a minimum 12-year limited warranty for our inverters and a 25-year limited warranty for our power optimizers. Our limited warranties cover defects in materials and workmanship of our products under normal use and service conditions. As a result, we bear the risk of warranty claims long after we have sold products and recognized revenue. While we do have accrued reserves for warranty claims, our estimated warranty costs for previously sold products may change to the extent future products are not compatible with earlier generation products under warranty. Our warranty accruals are based on our assumptions and we do not have a long history of making such assumptions. As a result, these assumptions could prove to be materially different from the actual performance of our systems, causing us to incur substantial unanticipated expense to repair or replace defective products in the future or to compensate customers for defective products. Our failure to accurately predict future claims could result in unexpected volatility in, and have a material adverse effect on, our financial condition.

If one of our products were to cause injury to someone or cause property damage, including as a result of product malfunctions, defects, or improper installation, then we could be exposed to product liability claims. We could incur significant costs and liabilities if we are sued and if damages are awarded against us. Further, any product liability claim we face could be expensive to defend and could divert management's attention. The successful assertion of a product liability claim against us could result in potentially significant monetary damages, penalties or fines, subject us to adverse publicity, damage our reputation and competitive position, and adversely affect sales of our products. In addition, product liability claims, injuries, defects, or other problems experienced by other companies in the residential solar industry could lead to unfavorable market conditions for the industry as a whole, and may have an adverse effect on our ability to attract new customers, thus harming our growth and financial performance.

If we do not forecast demand for our products accurately, we may experience product shortages, delays in product shipment, excess product inventory, or difficulties in planning expenses, which will adversely affect our business and financial condition.

Our products are manufactured according to our estimates of customer demand, which requires us to make multiple forecasts and assumptions relating to demand from solar PV installers and distributors, their end customers, and general market conditions. Because we sell a large portion of our products to larger solar installers and various distributors, who in turn sell to local installers, who in turn sell to their end customers, the system owner, we have limited visibility as to end customer demand and it is difficult to forecast future end-user demand to plan our operations. If we overestimate demand for our products, or if purchase orders are cancelled or shipments are delayed, we may have excess inventory that we cannot sell. Conversely, if we underestimate demand, we may not have sufficient inventory to meet end customer demand or to ramp up production at our contract manufacturers in a timely manner, or we could incur additional costs, lose market share, damage relationships with our distributors and end customers and forego potential revenue opportunities. For example, in late2017, and early 2018, we had high customer demand and certain component shortages which forced us to shorten transportation time from our factories in China by using air freight rather than less expensive ocean freight.

We are dependent on ocean transportation to deliver our products in a cost efficient manner. If we are unable to use ocean transportation to deliver our products, our business and financial condition could be materially and adversely impacted.

We rely on commercial ocean transportation for the delivery of a large percentage of our products to our customers. We also rely on more expensive air transportation when ocean transportation is not available or compatible with the delivery time requirements of our customers or when we are unable to meet the growing volume demands of our customers and need to accelerate delivery times. Our ability to deliver our products via ocean transportation could be adversely impacted by shortages in available cargo capacity, changes by carriers and transportation companies in policies and practices, such as scheduling, pricing, payment terms and frequency of service or increases in the cost of fuel, taxes and labor, and other factors, such as labor strikes and work stoppages, not within our control. If we are unable to use ocean transportation and are required to substitute more expensive air transportation, our financial condition and results of operations could be materially and adversely impacted.

We depend upon a small number of outside contract manufacturers. Our operations could be disrupted if we encounter problems with these contract manufacturers.

We do not yet have internal manufacturing capabilities, and currently rely upon our contract manufacturers to build all of our products. One of our contract manufacturers is in the process of ramping up manufacturing. During this period, we mainly rely on one contract manufacturer. Any change in our relationship with our contract manufacturers or changes to contractual terms of our agreements with the contract manufacturers could adversely affect our financial condition and results of operations. Our reliance on a small number of contract manufacturers makes us vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields and costs.

The revenues that our contract manufacturers generate from our orders represent a relatively small percentage of their overall revenues. As a result, fulfilling our orders may not be considered a priority in the event of constrained ability to fulfill all of their customer obligations in a timely manner. In addition, the facilities in which our products are manufactured are located outside of the U.S., currently in China, Romania and Hungary. The location of these facilities outside of key markets such as the U.S. increases shipping time, thereby causing a long lead time between manufacturing and delivery.

If any of our contract manufacturers were unable or unwilling to manufacture our products in required volumes and at high quality levels or renew existing terms under supply agreements, we would have to identify, qualify, and select acceptable alternative contract manufacturers. An alternative contract manufacturer may not be available to us when needed or may not be in a position to satisfy our quality or production requirements on commercially reasonable terms, including price. Any significant interruption in manufacturing would require us to reduce our supply of products to our customers or increase our shipping costs to make up for delays in manufacturing, which in turn could reduce our revenues, harm our relationships with our customers and damage our reputation with local installers and potential end-users, and cause us to forego potential revenue opportunities.

We may experience delays, disruptions, or quality control problems in our manufacturing operations.

Our product development, manufacturing, and testing processes are complex and require significant technological and production process expertise. Such processes involve a number of precise steps from design to production. Any change in our processes could cause one or more production errors, requiring a temporary suspension or delay in our production line until the errors can be researched, identified, and properly addressed and rectified. This may occur particularly as we introduce new products, modify our engineering and production techniques, and/or expand our capacity. In addition, our failure to maintain appropriate quality assurance processes could result in increased product failures, loss of customers, increased warranty reserve, increased production, and logistical costs and delays. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

We depend on a limited number of suppliers for key components and raw materials in our products to adequately meet anticipated demand. Due to the limited number of such suppliers, any cessation of operations or production or any shortage, delay, price change, imposition of tariffs or duties, or other limitation on our ability to obtain the components and raw materials we use could result in sales delays, higher costs associated with air shipments, cancellations, and loss of market share.

We depend on limited or single source suppliers for certain key components and raw materials used to manufacture our products, making us susceptible to quality issues, shortages, and price changes. Any of these limited or single source suppliers could stop producing our components or supplying our raw materials, cease operations or be acquired by, or enter into exclusive arrangements with, one or more of our competitors. As a result, these suppliers could stop selling to us at commercially reasonable prices, or at all. Because there are a limited number of suppliers of solar PV system components and raw materials used to manufacture our products, it may be difficult to quickly identify alternate suppliers or to qualify alternative components or raw materials on commercially reasonable terms, and our ability to satisfy customer demand may be adversely affected. Transitioning to a new supplier or redesigning a product to accommodate a new component manufacturer would result in additional costs and delays. These outcomes could harm our business or financial performance.

Managing our supplier and contractor relationships is particularly difficult when we are introducing new products and when demand for our products is increasing, especially if demand increases more quickly than we expect.

Any interruption in the supply of limited source components or raw materials for our products would adversely affect our ability to meet scheduled product deliveries to our customers, could result in lost revenue or higher expenses associated with increased air shipments required to meet customer demand in a timely manner, and would harm our business.

For example, during 2017 and 2018, our industry suffered from a severe component shortages which affected our ability to timely receive components within lead time and caused an extension of certain lead times by our suppliers. This shortages resulted in a delay in cost reduction activities, which negatively impacted our gross margin, as well as necessitated expedited air shipments that had an impact on our operating margins.

Failure by our contract manufacturers or our component or raw material suppliers to use ethical business practices and comply with applicable laws and regulations may adversely affect our business.

We do not control our contract manufacturers or suppliers or their business practices. Accordingly, we cannot guarantee that they follow ethical business practices such as fair wage practices and compliance with environmental, safety, and other local laws. A lack of demonstrated compliance could lead us to seek alternative manufacturers or suppliers, which could increase our costs and result in delayed delivery of our products, product shortages, or other disruptions of our operations. Violation of labor or other laws by our manufacturers or suppliers or the divergence of a supplier’s labor or other practices from those generally accepted as ethical in the U.S. or other markets in which we do business could also attract negative publicity for us and harm our business.

Our results of operations may fluctuate from quarter to quarter, which could make our future performance difficult to predict and could cause our results of operations for a particular period to fall below expectations, resulting in a decline in the price of our common stock.

Our quarterly results of operations are difficult to predict and may fluctuate significantly in the future. We have experienced seasonal and quarterly fluctuations in the past as a result of seasonal fluctuations in our customers' business. For example, our customers' and end-users' ability to install solar energy systems is affected by weather, as for example during the winter months in Europe and the northeastern U.S. Such installation delays can impact the timing of orders for our products. Further, given that we are operating in an industry that is affected by fluctuations as a result of economic factors such as tariff changes, the true extent of these fluctuations may have been masked by our recent growth rates and consequently may not be readily apparent from our historical results of operations and may be difficult to predict. Our financial performance, sales, working capital requirements, and cash flow may fluctuate, and our past quarterly results of operations may not be good indicators of future performance. Any substantial decrease in revenues would have an adverse effect on our financial condition, results of operations, cash flows, and stock price.

We rely on distributors and large installers to assist in selling our products, and the failure of these customers to perform as expected could reduce our future revenue.

We currently sell a substantial percentage of our products through distributors, who in turn sell to local installers, and through direct sales to large installers. We do not have exclusive arrangements with these third party distributors and large installers. Many of our distributors also market and sell products from our competitors, and all of our large installer customers also use products from our competitors. These distributors and large installers may terminate their relationships with us at any time and with little or no notice. Further, these distributors and large installers may fail to devote resources necessary to sell our products at the prices, in the volumes, and within the time frames that we expect, or may focus their marketing and sales efforts on products of our competitors. Termination of agreements with current distributors or large installers, failure by these distributors or large installers to perform as expected, or failure by us to cultivate new distributor or large installer relationships, could hinder our ability to expand our operations and harm our revenue and results of operations.

The loss of one or more members of our senior management team or other key personnel or our failure to attract additional qualified personnel may adversely affect our business and our ability to achieve our anticipated level of growth.

We depend on the continued services of our senior management team, including our chief executive officer and chief financial officer, and other key personnel, each of whom would be difficult to replace. The loss of any such personnel could have a material adverse effect on our business and ability to implement our business strategy. All of our employees, including our senior management, are free to terminate their employment relationships with us at any time. We do not maintain key-person insurance for any of our employees, including senior management.

Additionally, our ability to attract qualified personnel, including senior management and key technical personnel, is critical to the execution of our growth strategy. Competition for qualified senior management personnel and highly skilled individuals with technical expertise is extremely intense, and we face challenges identifying, hiring, and retaining qualified personnel in all areas of our business. In addition, integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention, and ultimately prove unsuccessful. Our failure to attract and retain qualified senior management and other key technical personnel could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations, and prospects.

If we fail to protect, or incur significant costs in defending our intellectual property and other proprietary rights, our business and results of operations could be materially harmed.

Our success depends to a significant degree on our ability to protect our intellectual property and other proprietary rights. We rely on a combination of patent, trademark, copyright, trade secret, and unfair competition laws, as well as confidentiality and license agreements and other contractual provisions, to establish and protect our intellectual property and other proprietary rights. We have applied for patents in the U.S., Europe, and China, some of which have been issued. We cannot guarantee that any of our pending applications will be approved or that our existing and future intellectual property rights will be sufficiently broad to protect our proprietary technology, and any failure to obtain such approvals or finding that our intellectual property rights are invalid or unenforceable could force us to, among other things, rebrand or re-design our affected products. In countries where we have not applied for patent protection or where effective intellectual property protection is not available to the same extent as in the U.S., we may be at greater risk that our proprietary rights will be misappropriated, infringed, or otherwise violated.

In addition, we have filed a lawsuit against Huawei Technologies Co., Ltd., a Chinese entity, Huawei Technologies Düsseldorf GmbH, a German entity, and WATTKRAFT Solar GmbH, a German distributor for Huawei in the Regional Court of Mannheim in Germany, asserting unauthorized use of our patented technology. The lawsuit is intended to protect our significant investment in our intellectual property .but it also may consume management and financial resources for long periods of time and, as meritorious as we believe it to be, may not result in favorable outcome for us.

Third parties may assert that we are infringing upon their intellectual property rights, which could divert management's attention, cause us to incur significant costs, and prevent us from selling or using the technology to which such rights relate.

Our competitors and other third parties hold numerous patents related to technology used in our industry. From time to time, we may also be subject to claims of intellectual property right infringement and related litigation, and, if we gain greater recognition in the market, we face a higher risk of being the subject of claims that we have violated others' intellectual property rights. For example, in September 2018, our German subsidiary, SolarEdge Technologies GmbH received a complaint filed by SMA Solar Technology AG. The complaint, filed in the District Court Düsseldorf, Germany, alleges that SolarEdge's 12.5kW - 27.6kW inverters infringe two of plaintiff's patents. Although we are certain that we have meritorious defenses to the claims, responding to such claims can be time consuming, can divert management's attention and resources and may cause us to incur significant expenses in litigation or settlement. While we believe that our products and technology do not infringe in any material respect upon any valid intellectual property rights of third parties, we cannot be certain that we would be successful in defending against any such claims. If we do not successfully defend or settle an intellectual property claim, we could be liable for significant monetary damages and could be prohibited from continuing to use certain technology, business methods, content, or brands. To avoid a prohibition, we could seek a license from the applicable third party, which could require us to pay significant royalties, increasing our operating expenses. If a license is not available at all or not available on reasonable terms, we may be required to develop or license a non-violating alternative, either of which could require significant effort and expense. If we cannot license or develop a non-violating alternative, we would be forced to limit or stop sales of our offerings and may be unable to effectively compete. Any of these results would adversely affect our business, financial condition, and results of operations.

We may become subject to claims for remuneration or royalties for assigned service invention rights by our employees, which could result in litigation and adversely affect our business.

We enter into agreements with our employees pursuant to which they agree that any inventions created in the scope of their employment or engagement are assigned to us or owned exclusively by us, depending on the jurisdiction, without the employee retaining any rights. A significant portion of our intellectual property has been developed by our employees in the course of their employment for us. Under the Israeli Patent Law, 5727-1967 (the "Patent Law"), inventions conceived by an employee during the scope of his or her employment with a company are regarded as "service inventions," which belong to the employer, absent a specific agreement between the employee and employer giving the employee service invention rights. The Patent Law also provides that if there is no such agreement between an employer and an employee, the Israeli Compensation and Royalties Committee (the "Committee"), a body constituted under the Patent Law, shall determine whether the employee is entitled to remuneration for his or her inventions. Recent decisions by the Committee and the Israeli Supreme Court have created uncertainty in this area, as the Israeli Supreme Court held that employees may be entitled to remuneration for their service inventions despite having specifically waived any such rights. Further, the Committee has not yet determined the method for calculating this Committee-enforced remuneration. Although our employees have agreed that any rights related to their inventions are owned exclusively by us, we may face claims demanding remuneration in consideration for such acknowledgement. As a consequence of such claims, we could be required to pay additional remuneration or royalties to our current and/or former employees, or be forced to litigate such claims, which could negatively affect our business.

The loss of, or events affecting, one of our major customers could reduce our sales and have a material adverse effect on our business, financial condition, and results of operations.

For the year ended December 31, 2018, three of our major customers accounted for 33.4 % of our revenues. Our next five largest customers for the year ended December 31, 2018 together accounted for 21.2% of our revenues. For the year ended December 31, 2018, our largest customer was Consolidated Electrical Distributors Inc. (CED), accounting for 19.4% of our revenues. Our customers' decisions to purchase our products are influenced by a number of factors outside of our control, including retail energy prices and government regulation and incentives, among others. In addition, these customers may decide to no longer use our products and services for other reasons which may be out of our control. Although we have agreements with some of our largest customers, these agreements do not have long-term purchase commitments and are generally terminable by either party after a relatively short notice period. The loss of, or events affecting, one or more of these customers could have a material adverse effect on our business, financial condition, and results of operations. For example, in April 2017, one of our customers, Sungevity, filed for reorganization under Chapter 11 of the U.S. bankruptcy laws.

Consolidations in the solar industry among our current or potential customers or distributors may adversely affect our competitive position.

There has been an increase in consolidation activity among distributors, large installers, and other strategic partners in the solar industry. For example, in June 2016, Tesla Motors (TSLA) announced that it had submitted a proposal to acquire all of the outstanding shares of common stock of SolarCity Corporation (SCTY). In June 2018, Enphase Energy (ENPH) announced its acquisition of SunPower's (SPWR) mincroinverter business. This trend could further increase our reliance on a small number of customers for a significant portion of our sales and may negatively impact our competitive position in the solar market.

Our planned expansion into new geographic markets or new product lines or services could subject us to additional business, financial, and competitive risks.

In the year ended December 31, 2018, we sold our products in different countries, including the U.S., Canada, Belgium, France, Germany, Israel, Italy, the Netherlands, the United Kingdom, Australia, Japan, Korea, Taiwan, Sweden and China. We have in the past, and may in the future, evaluate opportunities to expand into new geographic markets and introduce new product offerings and services that are a natural extension of our existing business. We also may from time to time engage in acquisitions of businesses or product lines with the potential to strengthen our market position, enable us to enter attractive markets, expand our technological capabilities, or provide synergy opportunities. For example, we intend to continue introduce new products targeted at large commercial and utility-scale installations and to continue to expand into other international markets.

Our success operating in these new geographic or product markets, or in operating any acquired business, will depend on a number of factors, including our ability to develop solutions to address the requirements of the large commercial and utility-scale solar PV markets, timely qualification and certification of new products for large commercial and utility-scale solar PV installations, acceptance of power optimizers in solar PV markets in which they have not traditionally been used, our ability to manage increased manufacturing capacity and production, and our ability to identify and integrate any acquired businesses.

Further, we expect these new solar PV markets to have different characteristics from the markets in which we currently sell products, and our success will depend on our ability to adapt properly to these differences. These differences may include differing regulatory requirements, including tax laws, trade laws, labor regulations, tariffs, export quotas, customs duties, or other trade restrictions, limited or unfavorable intellectual property protection, international, political or economic conditions, restrictions on the repatriation of earnings, longer sales cycles, warranty expectations, product return policies and cost, performance and compatibility requirements. In addition, expanding into new geographic markets will increase our exposure to presently existing risks, such as fluctuations in the value of foreign currencies and difficulties and increased expenses in complying with U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act of 1977, as amended (the "FCPA").

Failure to develop and introduce these new products successfully or to otherwise manage the risks and challenges associated with our potential expansion into new product and geographic markets could adversely affect our revenues and our ability to sustain profitability.

If we fail to manage our recent and future growth effectively, we may be unable to execute our business plan, maintain high levels of customer service, or adequately address competitive challenges.

We have experienced significant growth in recent periods with our annual product sales growing rapidly from approximately 8,400 inverters and approximately 181,000 power optimizers in the fiscal year ending June 30, 2011, our first full fiscal year of commercial shipments, to annual product sales exceeding 456,000 inverters and 11.4 million power optimizers in the year ended December 31, 2018. We intend to continue to expand our business significantly within existing and new markets. This growth has placed, and any future growth may place, a significant strain on our management, operational, and financial infrastructure. In particular, we will be required to expand, train, and manage our growing employee base and scale and otherwise improve our IT infrastructure in tandem with that headcount growth. Our management will also be required to maintain and expand our relationships with customers, suppliers, and other third parties and attract new customers and suppliers, as well as manage multiple geographic locations.

Our current and planned operations, personnel, IT, information systems, and other systems and procedures might be inadequate to support our future growth and may require us to make additional unanticipated investment in our infrastructure. Our success and ability to further scale our business will depend, in part, on our ability to manage these changes in a cost-effective and efficient manner. If we cannot manage our growth, we may be unable to take advantage of market opportunities, execute our business strategies, or respond to competitive pressures. This could also result in declines in quality or customer satisfaction, increased costs, difficulties in introducing new offerings, or other operational difficulties. Any failure to effectively manage growth could adversely impact our business and reputation.

Fluctuations in currency exchange rates may negatively impact our financial condition and results of operations.

Although our financial results are reported in U.S. dollars, 41.2% of our revenues in the year ended December 31, 2018 were generated in currencies other than the U.S. Dollar. In addition, a significant portion of our operating expenses are accrued in New Israeli Shekels (primarily related to payroll) and, to a lesser extent, the Euro and other currencies. Our profitability is affected by movements of the U.S. dollar against the Euro, and, to a lesser extent, the New Israeli Shekel and other currencies in which we generate revenues, incur expenses, and maintain cash balances. Foreign currency fluctuations may also affect the prices of our products. Our prices are denominated primarily in U.S. dollars. If there is a significant devaluation of a particular currency, the prices of our products will increase relative to the local currency and may be less competitive. Despite our efforts to minimize foreign currency risks, primarily by entering into forward-hedging transactions to sell Euro for U.S. dollars at a predefined rate, and maintaining cash balances in New Israeli Shekels, significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the Euro and, to a lesser extent, the New Israeli Shekel and other currencies, against the U.S. dollar could have an adverse effect on our profitability and financial condition.

From time to time, we may enter into forward contracts to hedge the exchange impacts on assets and liabilities denominated in Israeli Shekels, Euros and other currencies. As of December 31, 2018, we had no derivative instruments. We use derivative financial instruments, such as foreign exchange forward contracts and put and call options, to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecast cash flows denominated in certain foreign currencies. We may not be able to purchase derivative instruments adequate to fully insulate ourselves from foreign currency exchange risks.

Additionally, our hedging activities may also contribute to increased losses as a result of volatility in foreign currency markets. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our profit margins and results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively.

We may have exposure to greater than anticipated tax liabilities.

The determination of our worldwide provision for income taxes and other tax liabilities requires estimation and significant judgment, and there are many transactions and calculations where the ultimate tax determination is uncertain. Like many other multinational corporations, we are subject to tax in multiple jurisdictions, both in the U.S. and outside the U.S. Our determination of our tax liability is always subject to audit and review by applicable tax authorities. Any adverse outcome of any such audit or review could affect our business, and the ultimate tax outcome may differ from the amounts recorded in our financial statements and may materially affect our financial results in the periods for which such determination is made. While we have established reserves based on assumptions and estimates that we believe are reasonable to cover such eventualities, these reserves may prove to be insufficient.

In addition, our future income taxes could be adversely affected by earnings being lower than anticipated, or by the incurrence of losses, in jurisdictions that have lower statutory tax rates and higher than anticipated in jurisdictions that have higher statutory tax rates, by changes in the valuation of our deferred tax assets and liabilities, as a result of gains on our foreign exchange risk management program, or changes in tax laws, regulations, or accounting principles, as well as certain discrete items.

Various levels of government, such as U.S. federal and state legislatures, and international organizations, such as the Organization for Economic Co-operation and Development ("OECD") and the European Union, are increasingly focused on tax reform and other legislative or regulatory action to increase tax revenue. Any such tax reform or other legislative or regulatory actions could increase our effective tax rate.

Any unauthorized access to, or disclosure or theft of personal information we gather, store, or use could harm our reputation and subject us to claims or litigation.

Our business and operations may be impacted by data security breaches and cybersecurity attacks, including attempts to gain unauthorized access to confidential data. We receive, store, and use certain personal information of our customers, and the end-users of our customers' solar PV systems, including names, addresses, e-mail addresses, credit information, and energy production statistics. We also store and use personal information of our employees. We take steps to protect the security, integrity, and confidentiality of the personal information we collect, store, and transmit, but there is no guarantee that inadvertent or unauthorized use or disclosure will not occur or that third parties will not gain unauthorized access to this information despite our efforts. Because techniques used to obtain unauthorized access or sabotage systems change frequently and generally are not identified until they are launched against a target, we and our suppliers or vendors may be unable to anticipate these techniques or to implement adequate preventative or mitigation measures.

Unauthorized use or disclosure of, or access to, any personal information maintained by us or on our behalf, whether through breach of our systems, breach of the systems of our suppliers or vendors by an unauthorized party, or through employee or contractor error, theft or misuse, or otherwise, could harm our business, particularly in light of the European General Data Protection Regulation (GDPR), which went into effect in May 2018. If any such unauthorized use or disclosure of, or access to, such personal information were to occur, our operations could be seriously disrupted and we could be subject to demands, claims and litigation by private parties, and investigations, related actions, and penalties by regulatory authorities. In addition, we could incur significant costs in notifying affected persons and entities and otherwise complying with the multitude of foreign, federal, state, and local laws and regulations relating to the unauthorized access to, or use or disclosure of, personal information. Finally, any perceived or actual unauthorized access to, or use or disclosure of, such information could harm our reputation, substantially impair our ability to attract and retain customers, and have an adverse impact on our business, financial condition, and results of operations.

We could be adversely affected by any violations of the FCPA, the U.K. Bribery Act, and other foreign anti-bribery laws.

The FCPA generally prohibits companies and their intermediaries from making improper payments to foreign government officials for the purpose of obtaining or retaining business. Other countries in which we operate also have anti-bribery laws, some of which prohibit improper payments to government and non-government persons and entities. Our policies mandate compliance with these anti-bribery laws. However, we currently operate in and intend to further expand into, many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. In addition, due to the level of regulation in our industry, our entry into certain jurisdictions requires substantial government contact where norms can differ from U.S. standards. It is possible that our employees, subcontractors, agents, and partners may take actions in violation of our policies and anti-bribery laws. Any such violation, even if prohibited by our policies, could subject us to criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, financial condition, cash flows, and reputation.

Third parties might attempt to gain unauthorized access to our network or seek to compromise our products and services.

From time to time, we face attempts by others to gain unauthorized access through the Internet or to introduce malicious software to our information technology (IT) systems. Additionally, malicious hackers may attempt to gain unauthorized access and corrupt the processes of hardware and software products that we manufacture and services we provide. We or our products may be a target of computer hackers, organizations or malicious attackers who attempt to gain access to our network or data centers or those of our customers or end users; steal proprietary information related to our business, products, employees, and customers; or interrupt our systems or those of our customers or others. From time to time, we encounter intrusions or attempts at gaining unauthorized access to our network. To date, none have resulted in any material adverse impact to our business or operations; however, there can be no guarantee that such impacts will not be material in the future. While we seek to detect and investigate all unauthorized attempts and attacks against our network and products, and to prevent their recurrence where practicable through changes to our internal processes and tools and/or changes to our products, we remain potentially vulnerable to additional known or unknown threats. In addition to intentional third-party cyber-security breaches, the integrity and confidentiality of Company and customer data may be compromised as a result of human error, product defects, or technological failures. Cyber-security breaches, whether successful or unsuccessful, and other IT system interruptions, including those resulting from human error and technological failures, could result in our incurring significant costs related to, for example, rebuilding internal systems, reduced inventory value, providing modifications to our products and services, defending against litigation, responding to regulatory inquiries or actions, paying damages, or taking other remedial steps with respect to third parties.

Our entry into business engagements with military bodies as our customers in the lithium-ion battery and energy storage business embodies a risk for potentially large-scale and uncapped liability.

As a result of the Kokam Acquisition, a small portion of our business involves the sale of products to military customers. Our sales to military customers often involve standard form contracts, which are less subject to negotiation than the agreements we enter into in our ordinary course of business. In particular, certain of these contracts involve unlimited damages provisions that could result in large-scale liabilities.

We may not have sufficient insurance coverage to cover business continuity.

We rely on a limited number of contracted manufacturers to manufacture our products as well as on component manufacturers which are sometimes a single source. As a result, a sustained or repeated interruption in the manufacturing of our products by such outsourced providers due to fire or nature disasters, and/or an interruption in the provision of the required components for our business by these components manufacturers may interfere with our ability to sell our products to our customers in a timely manner. The described nature of our business and our size, makes it difficult to insure some or all of such possible loss of profit, which may adversely affect our financial results.

Our business could be materially adversely affected as a result of the risks associated with acquisitions and investments. In particular, we may not succeed in making additional acquisitions or be effective in integrating such acquisitions.

As part of our growth strategy, we have made a significant number of acquisitions. We may continue to make acquisitions and investments in the future as part of our growth strategy. We frequently evaluate the tactical or strategic opportunity available related to complementary businesses, products or technologies. There can be no assurance that we will be successful in making additional acquisitions. Even if we are successful in making additional acquisitions, integrating an acquired company's business into our operations or investing in new technologies may (1) result in unforeseen operating difficulties and large expenditures and (2) absorb significant management attention that would otherwise be available for the ongoing development of our business, both of which may result in the loss of key customers or personnel and expose us to unanticipated liabilities. Further, we may not be able to retain the key employees that may be necessary to operate the business we acquire and we may not be able to attract, in a timely manner, new skilled employees and management to replace them.

We may not be able to consummate acquisitions or investments that we have identified as crucial to the implementation of our strategy for other commercial or economic reasons. Further, we may not be able to obtain the necessary regulatory approvals, including those of competition authorities and foreign investment authorities, in countries where we seek to consummate acquisitions or make investments. For those and other reasons, we may ultimately fail to consummate an acquisition, even if we announce the intended acquisition.

If our goodwill or other intangible assets become impaired, our financial condition and results of operations could be negatively affected.

Due to our latest acquisitions, goodwill and other intangible assets totaled approximately $73.4 million, or approximately 7.6% of our total assets, as of December 31, 2018. We test our goodwill for impairment at least annually, or more frequently if an event occurs indicating the potential for impairment, and we assess on an as-needed basis whether there have been impairments in our other intangible assets. We make assumptions and estimates in this assessment which are complex and often subjective. These assumptions and estimates can be affected by a variety of factors, including external factors such as industry and economic trends, and internal factors such as changes in our business strategy or our internal forecasts. To the extent that the factors described above change, we could be required to record additional non-cash impairment charges in the future, which could negatively affect our financial condition and results of operations.

Risks Related to Operations in Israel

Conditions in Israel affect our operations and may limit our ability to develop, produce and sell our products.

Although we are incorporated in Delaware, our headquarters and research and development center are located in Israel. Accordingly, political, economic, and military conditions in Israel directly affect us. Israel has been involved in a number of armed conflicts and has been the target of terrorist activity. Ongoing state of hostility, varying in degree such as rocket fire from the Gaza Strip, including against civilian targets, has occurred on an irregular basis, disrupting day-to-day civilian activity and negatively affecting business conditions. Israel also faces threats from Hezbollah militants in Lebanon, and others. We cannot predict whether or when such armed conflicts or attacks may occur or the extent to which such events may impact us. Any future armed conflict, political instability or violence in the region may impede our ability to manage our business effectively or to engage in research and development, or may otherwise adversely affect our business or operations. In the event of war, we and our Israeli subcontractors and suppliers may cease operations, which may cause delays in the distribution and sale of our products. Some of our directors, executive officers, and employees in Israel are obligated to perform annual reserve duty in the Israeli military and are subject to being called for additional active duty under emergency circumstances. In the event that our principal executive office is damaged as a result of hostile action, or hostilities otherwise disrupting the ongoing operation of our offices, our ability to operate could be materially adversely affected.

Additionally, several countries, principally in the Middle East, restrict doing business with Israeli companies, and additional countries and groups may impose similar restrictions if hostilities in Israel or political instability in the region continue or increase. If recent regime changes and civil wars in neighboring states result in the establishment of fundamentalist Islamic regimes or governments more hostile to Israel, or if Egypt or Jordan abrogates its respective peace treaty with Israel, Israel could be subject to additional political, economic, and military confines, and our operations and ability to sell our products to countries in the region could be materially adversely affected. These restrictions may limit materially our ability to obtain manufactured components and raw materials or to sell our products.

Any hostilities involving Israel or the interruption or curtailment of trade between Israel and its present trading partners, or significant downturn in the economic or financial condition of Israel, could have a material adverse effect on our business, financial condition, and results of operations.

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

Our Israeli subsidiary is eligible for certain tax benefits provided to "Benefited Enterprises" under the Israeli Law for the Encouragement of Capital Investments, 1959 (the "Investments Law"). Beginning in January 2019, and with respect to its taxable results from 2019 onwards, our Israeli subsidiary further elected to apply the terms of the Investments Law as per "Preferred Enterprise" or "Preferred Technological Enterprise" ("PTE"). In order to remain eligible for the tax benefits for "Benefited Enterprises" with respect to our Israeli subsidiary's taxable results until 2018 and with respect to its taxable results from 2019 for "Preferred Enterprise" or "Preferred Technological Enterprise", we must continue to meet certain conditions stipulated in the Investments Law and its regulations, as amended. If these tax benefits are reduced, cancelled, or discontinued, our Israeli taxable income would be subject to regular Israeli corporate tax rates and we may be required to refund any tax benefits that we have already received, plus interest and penalties thereon. The standard corporate tax rate for Israeli companies was increased to 26.5% in 2014 and 2015 decreased to 25% in 2016, decreased to 24% in 2017 and decreased further to 23% as of January 1, 2018. Additionally, if we increase our activities outside of Israel through acquisitions or otherwise, our either existing or expanded activities might not be eligible for inclusion in existing or future Israeli tax benefit programs. The Israeli government may furthermore independently determine to reduce, phase out, or eliminate entirely the benefit programs under the Investments Law, regardless of whether we then qualify for benefits under those programs at the time, which would also adversely affect our global tax rate and our results of operations.

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

The majority of our directors and executive officers reside outside of the U.S., and most of our assets and most of the assets of these persons are located outside of the U.S. Consequently, a judgment obtained against any of these persons, including a judgment based on the civil liability provisions of the U.S. federal securities laws, may not be collectible in the U.S. It also may be difficult for you to effect service of process on these persons in the U.S. or to assert U.S. securities law claims in original actions instituted in Israel. Israeli courts may refuse to hear a claim based on an alleged violation of U.S. securities laws on the grounds that Israel is not the most appropriate forum in which to bring such a claim. In addition, even if an Israeli court hears a claim, it may determine that Israeli law and not U.S. law is applicable to the claim. If U.S. law is found to be applicable, the content of applicable U.S. law must be proven as a fact by expert witnesses, which can be a time consuming and costly process. Further, an Israeli court may not enforce a judgment awarded by a U.S. or other non-Israeli court. Certain matters of procedure will also be governed by Israeli law. There is little binding case law in Israel that addresses these matters. As a result of the difficulty associated with enforcing a judgment against any of these persons in Israel, you may not be able to obtain or enforce a judgment against many of our directors and executive officers.

Risks Related to the Ownership of Our Common Stock

We cannot assure you that our stock price will not decline or not be subject to significant volatility.

The trading price of our common stock has been volatile since our initial public offering. Since shares of our common stock were sold in our initial public offering in March 2015 at a price of $18.00 per share, during the year ended December 31, 2018, the reported high and low prices of our common stock has ranged from $30.80 to $70.74 per share. The price of our stock may change in response to fluctuations in our results of operations in future periods and also may change in response to other factors, including factors specific to companies in our industry, many of which are beyond our control. As a result, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance. Among other factors that could affect our stock price are:

- the addition or loss of significant customers;
- changes in laws or regulations applicable to our industry, products or services;
- speculation about our business in the press or the investment community;
- price and volume fluctuations in the overall stock market;
- volatility in the market price and trading volume of companies in our industry or companies that investors consider comparable;
- share price and volume fluctuations attributable to inconsistent trading levels of our shares;

- our ability to protect our intellectual property and other proprietary rights;
- sales of our common stock by us or our significant stockholders, officers and directors;
- the expiration of contractual lock-up agreements;
- the development and sustainability of an active trading market for our common stock;
- success of competitive products or services;
- the public's response to press releases or other public announcements by us or others, including our filings with the Securities and Exchange Commission (the "SEC"), announcements relating to litigation or significant changes to our key personnel;
- the effectiveness of our internal controls over financial reporting;
- changes in our capital structure, such as future issuances of debt or equity securities;
- our entry into new markets;
- tax developments in the U.S., Europe, or other markets;
- strategic actions by us or our competitors, such as acquisitions or restructurings; and
- changes in accounting principles.

Further, the stock markets have experienced extreme price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. In addition, the stock prices of many renewable energy companies have experienced wide fluctuations that have often been unrelated to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political, and market conditions such as recessions, interest rate changes, or international currency fluctuations, may cause the market price of our common stock to decline. In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may be the target of this type of litigation in the future. Securities litigation against us could result in substantial cost and divert our management's attention from other business concerns, which could seriously harm our business.

The price of our common stock could decline if securities analysts or other third parties publish inaccurate or unfavorable research about us or if one or more of our analysts ceases to cover us or to regularly publish reports about us.

The trading of our common stock is likely to be influenced by the reports and research that industry or securities analysts publish about us, our business, our market, or our competitors. If one or more securities or industry analysts downgrades our common stock or publishes inaccurate or unfavorable research about our business, our stock price would likely decline. If one or more securities or industry analysts ceases to cover the Company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume to decline.

Provisions in our certificate of incorporation and by-laws may have the effect of delaying or preventing a change of control or changes in our management.

Our certificate of incorporation and by-laws contain provisions that could depress the trading price of our common stock by discouraging, delaying, or preventing a change of control of our Company or changes in our management that the stockholders of our Company may believe advantageous. These provisions include:

- authorizing "blank check" preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- providing for a classified board of directors with staggered, three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;

- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- limiting the ability of stockholders to call a special stockholder meeting;
- prohibiting stockholders from acting by written consent;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 2/3% in voting power of all the then-outstanding shares of common stock of the Company entitled to vote thereon, voting together as a single class;
- providing that our board of directors is expressly authorized to amend, alter, rescind or repeal our by-laws; and
- requiring the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of common stock, voting as a single class, to amend provisions of our certificate of incorporation relating to the management of our business, our board of directors, stockholder action by written consent, advance notification of stockholder nominations and proposals, calling special meetings of stockholders, forum selection and the liability of our directors, or to amend, alter, rescind, or repeal our by-laws.

In addition, we are governed by the provisions of Section 203 of the Delaware General Corporation Law ("DGCL"), which generally prohibits a Delaware corporation from engaging in a broad range of business combinations with any "interested" stockholder for a period of three years following the date on which the stockholder becomes an "interested" stockholder.

Our certificate of incorporation includes a forum selection clause, which could limit our stockholders' ability to obtain a favorable judicial forum for disputes with us.

Our certificate of incorporation provides that, unless we consent in writing to the selection of an alternative forum, the sole and exclusive forum for any stockholder (including any beneficial owner) to bring (i) any derivative action or proceeding brought on our behalf, (ii) any action asserting a claim of breach of a fiduciary duty owed by any of our directors, officers, or employees to us or to our stockholders, (iii) any action asserting a claim arising pursuant to any provision of the DGCL or our certificate of incorporation or by-laws, or (iv) any action asserting a claim governed by the internal affairs doctrine, will be a state court located within the State of Delaware (or, if no state court located within the State of Delaware has jurisdiction, the federal district court for the District of Delaware); in all cases subject to the court's having personal jurisdiction over the indispensable parties named as defendants. Any person or entity purchasing or otherwise acquiring any interest in shares of our capital stock is deemed to have notice of and consented to the foregoing provisions. This forum selection provision may limit our stockholders' ability to obtain a favorable judicial forum for disputes with us. It is also possible that, notwithstanding the forum selection clause that is included in our certificate of incorporation, a court outside of Delaware could rule that such a provision is inapplicable or unenforceable.

We do not intend to pay any cash dividends on our common stock in the foreseeable future.

We have never declared or paid any dividends on our common stock. We currently intend to retain any future earnings and do not expect to pay any dividends in the foreseeable future. Any future determination to declare cash dividends will be made at the discretion of our board of directors, subject to applicable laws and organizational documents, after taking into account our financial condition, results of operations, capital requirements, general business conditions, and other factors that our board of directors may deem relevant. As a result, capital appreciation in the price of our common stock, if any, may be your only source of gain on an investment in our common stock.

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Herzliya Pituach, Israel, in an office consisting of approximately 56,000 square feet of office, testing, and product design space. We have a ten-year lease on our corporate headquarters, which expires on December 31, 2024. As our company has grown, to accommodate new employees we have leased additional office space adjacent to our corporate headquarters totaling 43,000 square feet, with leases that expire in 2020. We have also leased additional office space in Lod, Israel totaling 20,000 square feet with a lease that expires in 2019 and 18,000 square feet in Netanya, Israel with a lease that expires in 2019.

In addition, we currently have a leased office space in Jerusalem to accommodate our employees from the Gamatronic division, which lease expires on June 20, 2020.

In addition to our corporate headquarters and our other leased properties in Israel, we lease approximately 27,000 square feet of general office space in Fremont, California, under a lease that will expire on March 31, 2020. We also lease sales and support office space in Northern California, China, Germany, Netherlands, Italy, France, Australia, UK, Japan, Turkey, Romania, India, Bulgaria, Belgium, Taiwan and Korea, as well as an R&D center in Bulgaria.

We outsource most of our manufacturing to our manufacturing partners. We have a factory in which we manufacture lithium-ion batteries for Kokam's operations (the "Kokam Factories"). In July 2017, we executed a long-term lease agreement for 107,000 square feet in Israel, intended for the establishment of a manufacturing facility for our solar products. The facility is under development.

In addition to our leased properties, we also own properties in the UK and Korea, which includes an office space of approximately 5560 square feet in the UK, populating our team from Gamatronic UK, and 212,415 square feet which includes office space in South Korea, which populates our team from Kokam, dormitories for some Kokam employees and the Kokam Factories.

We believe that our existing properties are in good condition and are sufficient and suitable for the conduct of our business for the foreseeable future. To the extent our needs change as our business grows, we expect that additional space and facilities will be available on commercially reasonable terms.

ITEM 3. LEGAL PROCEEDINGS

In June 2018, we filed a lawsuit for patent infringement against Huawei Technologies Co., Ltd., a Chinese entity, Huawei Technologies Düsseldorf GmbH, a German entity, and WATTKRAFT Solar GmbH, a German distributor for Huawei. The lawsuit, filed in the Regional Court of Mannheim in Germany, asserts unauthorized use of patented technology, and is intended to protect SolarEdge's significant investment in its innovative DC optimized inverter technology. Seeking monetary damages, an injunction, and recall of infringing Huawei inverters from the German market, the lawsuit is intended to prevent the defendants from selling any multi-level inverters infringing upon SolarEdge's PV inverter technology protected in the asserted patent in Germany. In July 2018, we announced the extension of this lawsuit to two additional SolarEdge patents covering its power optimizer technology.

In June 2018, we were served with a complaint from a trustee of a former customer that filed for bankruptcy in the United States. The lawsuit seeks to recover approximately $2.5 million based on theories of preferential and fraudulent transfers. We believe we have valid defenses to the claims asserted in this lawsuit and we do not expect the outcome of the litigation matters to have a material adverse effect on our Balance Sheets, Statements of Income or Cash Flows.

On September 20, 2018, our German subsidiary, SolarEdge Technologies GmbH received a complaint filed by competitor SMA Solar Technology AG. The complaint, filed in the District Court Düsseldorf, Germany, alleges that SolarEdge's 12.5kW - 27.6kW inverters infringe two of plaintiff's patents. In its complaint, SMA Solar Technology requests inter alia an injunction and a determination for a claim for damages for sales in Germany. Plaintiff also asserts a value in dispute of five million Euros for both patents. We believe that we have meritorious defenses to the claims asserted and intend to vigorously defend against this lawsuit.

In 2017, Kokam received a claim for losses related to a fire that occurred at a plant of S&C Electric in the U.S., to which Kokam supplied products, alleging that the damage was caused by a container-type UPS manufactured by S&C Electric that contained batteries supplied by Kokam. The claim was originally for damages in the amount of approximately $4 million and following the Kokam acquisition by us, Kokam received an amended claim for damages in the amount of approximately $12 million. We have specific indemnification from the major selling shareholder of Kokam in the amount of up to $5 million for losses that may be incurred relating to this claim. Kokam also has product liability insurance. The claim has not developed into a lawsuit nor has Kokam received the supporting documents substantiating the claimed amount. We believe that we have meritorious defenses to the claims asserted and intend to vigorously defend against this lawsuit.

In addition, in the normal course of business, we may from time to time be named as a party to various legal claims, actions and complaints (including as a result of initiating such legal claims, action or complaints on behalf of the Company). It is impossible to predict with certainty whether any resulting liability would have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

ITEM 5. MARKET FOR REGISTRANT'S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock, par value $0.0001 per share, began trading on the NASDAQ Global Select Market on March 26, 2015, where prices are quoted under the symbol "SEDG".

Holders of Record

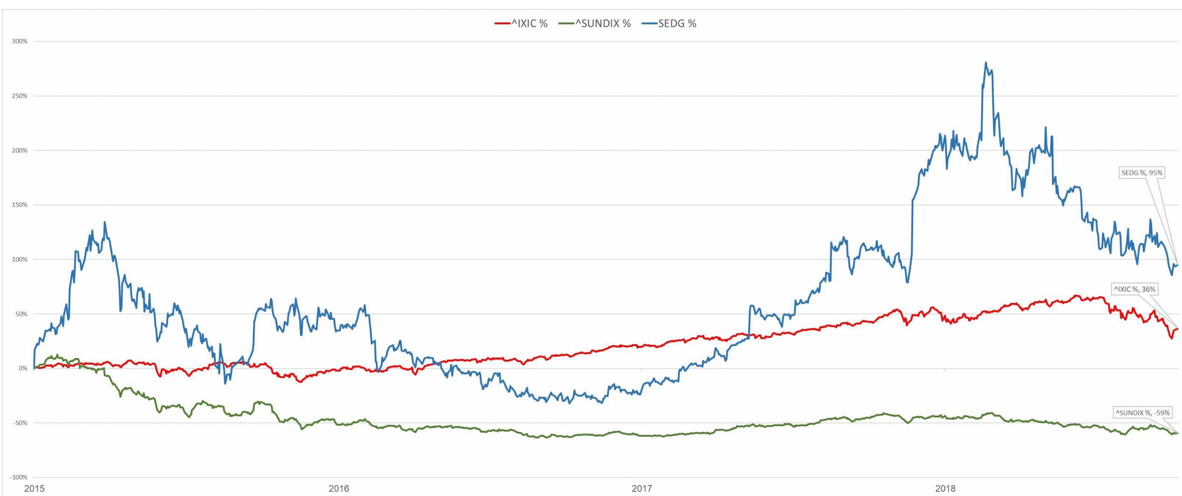
As of December 31, 2018, there were 25 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number of stockholders represented by these record holders.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

There were no purchases of equity securities by the issuer and affiliated purchases during the year ended December 31, 2018.

Performance Graph

The following graph compares the cumulative total shareholder return on our common stock from March 26, 2015 (using the price of which our shares of common stock were initially sold to the public) to December 31, 2018 to that of the total return of the Nasdaq Composite Index ([INDEXNASDAQ.IXIC]) and the MAC Global Solar Energy Index (SUNIDX). The comparison illustrates the relative change in stock price since our initial public offering on March 26, 2015. This graph is furnished and not "filed" with the Securities and Exchange Commission or "soliciting material" under the Securities Exchange Act of 1934 and shall not be incorporated by reference into any such filings, irrespective of any general incorporation contained in such filing.



ITEM 6. SELECTED FINANCIAL DATA

Change in Fiscal Year

In 2016, our Board of Directors approved the change to our fiscal year end from June 30 to December 31. We made this change to align our fiscal year end with other companies within our industry. We refer to the period beginning July 1, 2013 and ending June 30, 2014 as "fiscal 2014", the period beginning July 1, 2014 and ending June 30, 2015 as "fiscal 2015", the period beginning July 1, 2015 and ending June 30, 2016 as "fiscal 2016", the period beginning January 1, 2017 and ending December 31, 2017 as "fiscal 2017" and the period beginning January 1, 2018 and ending December 31, 2018 as "fiscal 2018". We previously filed a Form 10-KT to cover the transition period for the six-month period of July 1, 2016 through December 31, 2016.

Selected Financial Data

The selected consolidated statement of operations data for each of fiscal year ended June 30, 2016 as well as the six months ended December 31, 2016, the fiscal year ended December 31, 2017, the fiscal year ended December 31, 2018 and the selected consolidated balance sheet data as of June 30, 2016, December 31, 2016, December 31, 2017 and December 31, 2018, are derived from our audited consolidated financial statements included elsewhere in this Annual Report. The selected consolidated statements of operations data for fiscal year ended June 30 2014 and the selected consolidated balance sheet data as of June 30, 2014, and 2015, are derived from our audited financial statements not included in this Annual Report. Our historical results are not necessarily indicative of our results to be expected in any future period. These selected financial data should be read together with our consolidated financial statements and the related notes, as well as the section captioned "Management's Discussion and Analysis of Financial Condition and Results of Operations" appearing elsewhere in this Annual Report.

	Fiscal Year Ended June 30,			Six Months Ended December 31,	Fiscal Year Ended December 31,	
	2014	2015	2016	2016	2017	2018
	(In thousands)					
Consolidated Statements of Operations Data:						
Revenues	$ 133,217	$ 325,078	$ 489,843	$ 239,997	$ 607,045	$ 937,237
Cost of revenues	111,246	243,295	337,887	159,097	392,279	618,001
Gross profit	21,971	81,783	151,956	80,900	214,766	319,236
Operating expenses:						
Research and development, net	18,256	22,018	33,231	20,279	54,966	82,245
Sales and marketing	17,792	24,973	34,833	20,444	50,032	68,307
General and administrative	4,294	6,535	12,133	6,790	18,682	29,264
Total operating expenses	40,342	53,526	80,197	47,513	123,680	179,816
Operating income (loss)	(18,371)	28,257	71,759	33,387	91,086	139,420
Financial income (expenses)	(2,787)	(5,077)	471	(2,789)	9,158	(2,297)
Other expenses	—	104	—	—	—	—
Income (loss) before taxes on income	(21,158)	23,076	72,230	30,598	100,244	137,123
Taxes on income (tax benefit)	220	1,955	(4,379)	5,217	16,072	9,077
Net income (loss)	$ (21,378)	$ 21,121	$ 76,609	$ 25,381	$ 84,172	$ 128,046
Net loss attributable to Non-controlling interests	$ —	$ —	$ —	$ —	$ —	$ 787
Net income attributable to SolarEdge Technologies Inc.	$ —	$ —	$ —	$ —	$ —	$ 128,833
Net basic earnings (loss) per share of common stock attributable to SolarEdge Technologies, Inc.	$ (7.64)	$ 0.30	$ 1.92	$ 0.62	$ 1.99	$ 2.85
Net diluted earnings (loss) per share of common stock attributable to SolarEdge Technologies, Inc.	$ (7.64)	$ 0.27	$ 1.73	$ 0.58	$ 1.85	$ 2.69
Weighted average number of shares used in computing net basic earnings (loss) per share of common stock	2,798,894	11,902,911	39,987,935	41,026,926	42,209,238	45,235,310
Weighted average number of shares used in computing net diluted earnings (loss) per share of common stock	2,798,894	15,269,448	44,376,075	43,839,342	45,425,307	47,980,002

	As of June 30,			As of December 31,		
	2014	2015	2016	2016	2017	2018
	(In thousands)					
Consolidated Balance Sheet Data:						
Cash and cash equivalents	$ 9,754	$ 144,750	$ 74,032	$ 104,683	$ 163,163	$ 191,633
Available-for-sale marketable securities	-	-	111,609	118,727	180,384	192,936
Total assets	74,998	305,658	397,438	424,743	641,305	964,472
Total debt	20,244	-	-	-	-	20,149
Total stockholders' equity (deficiency)	$ (135,294)	$ 166,944	$ 256,108	$ 288,778	$ 397,467	$ 570,726

Key Operating Metrics

We regularly review a number of metrics, including the key operating metrics set forth in the table below, to evaluate our business, measure our performance, identify trends affecting our business, formulate projections, and make strategic decisions.

	Fiscal Year Ended June 30,	Six Months Ended December 31,	Fiscal Years Ended December 31,	
	2016	2016	2017	2018
Inverters shipped	223,589	120,117	317,288	455,793
Power optimizers shipped	5,738,546	2,904,858	7,367,921	11,351,678
Megawatts shipped(1)	1,615	880	2,461	3,919

(1) Calculated based on the aggregate nameplate capacity of inverters shipped during the applicable period. Nameplate capacity is the maximum rated power output capacity of an inverter as specified by the manufacturer. See "Management's Discussion and Analysis of Financial Condition and Results of Operations—Performance Measures".

ITEM 7. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the sections of this Annual Report on Form 10-K captioned "Selected Financial Data" and "Business" and our consolidated financial statements and the related notes to those statements included elsewhere in this Form 10-K. In addition to historical financial information, the following discussion and analysis contains forward-looking statements that involve risks, uncertainties, and assumptions. Our actual results and timing of selected events may differ materially from those anticipated in these forward-looking statements as a result of many factors, including those discussed under the sections of this Annual Report captioned "Special Note Regarding Forward-Looking Statements" and "Risk Factors".

Overview

We are a leading provider of intelligent inverter solutions that are changing the way power is harvested and managed in solar PV systems. Our DC optimized inverter solution maximizes power generation at the individual PV module level while lowering the cost of energy produced by the solar PV system. Our systems allow for superior power harvesting and module management by deploying power optimizers at each PV module while maintaining a competitive system cost by using a simplified DC-AC inverter. Our systems are monitored through our cloud-based monitoring platform that enables lower system operating and maintenance ("O&M") costs. We believe that these benefits, along with our comprehensive and advanced safety features, are highly valued by our customers.

We are a leader in the global module-level power electronics ("MLPE") market according to GTM Research, and as of December 31, 2018, we have shipped approximately 34.1 million power optimizers and 1.4 million inverters. More than 920,000 installations, many of which may include multiple inverters, are currently connected to, and monitored through, our cloud-based monitoring platform. As of December 31, 2018, we have shipped approximately 10.6 GW of our DC optimized inverter systems.

We primarily sell our products directly to large solar installers, EPCs, and indirectly to thousands of smaller solar installers through large distributors and electrical equipment wholesalers. Our sales strategy focuses on top-tier customers in markets where electricity prices, irradiance (amount of sunlight), and government policies make solar PV installations economically viable. We also sell our power optimizers to several PV module manufacturers that offer PV modules with our power optimizer physically embedded into their modules.

In the year ended December 31, 2018, one customer accounted for revenues of 19.4% and our top three customers (all distributors) together represented 33.4% of our revenues.

We were founded in 2006 with the goal of addressing the lost power generation potential that is inherent in the use of traditional solar PV inverter technology, thereby increasing the return on investment in solar PV systems. The following is a chronology of some of our key milestones:

- In 2012, we shipped our millionth power optimizer and increased our sales personnel presence in the U.S. market.
- In 2013, we introduced our third generation power optimizer, based on our third generation ASIC, with a power rating of up to 700 watts and improved heat dissipation capabilities for high reliability and lower cost.
- In March 2015, we completed our initial public offering and started to trade on the NASDAQ Global Select Market under the ticker SEDG.
- In September 2015, we released information about the development of our new HD-Wave inverter technology.
- In January 2016, we announced the immediate international availability of our StorEdge solution.
- In February 2016, we shipped our ten millionth power optimizer.
- In June 2016, we received the Intersolar Award in the Photovoltaics category for our HD-Wave technology inverter and began shipments of our HD-Wave inverter.

- In May 2017, we unveiled our new S-Series power optimizer, an Intersolar Award Finalist in the Photovoltaics category.
- In July 2017, we launched the world's first inverter-integrated electric vehicle (EV) charger, supplementing grid power with PV power.
- In September 2017, we approved an expansion for our residential offering in Australia with higher production of single-phase inverters and launched a line of three-phase inverters.
- In September 2017, we released our DC optimized inverter solution in South Korea.
- In January 2018, we launched together with Omron Corporation, a new DC optimized inverter solution for Japan's high-voltage PV market.
- In February 2018, we launched our StorEdge Solution with power backup for European PV markets.
- In April 2018, we were announced as the Gold Winner of the Edison Awards™ for our HD-Wave inverter technology, in the Renewable Energy Category.
- In May 2018, we released our new innovative grid services and virtual power plant solution.
- In May 2018, we entered into the UPS market with the purchase of the assets of Gamatronic.
- In August 2018, we were awarded the Straus Award in the Cloud Computing category for our grid services and virtual power plant solution.
- In October 2018, we announced our acquisition of Kokam, a leading provider of lithium-ion cells, batteries and energy storage solutions.

Our revenues were $489.8 million, $240.0 million, $607.0 million, and $937.2 million for fiscal 2016, the six months ended December 31, 2016, fiscal 2017 and fiscal 2018, respectively. Gross margins were 31.0 %, 33.7%, 35.4%, and 34.1 %, for fiscal 2016, the six months ended December 31, 2016, fiscal 2017 and fiscal 2018, respectively. Net profits were $76.6 million, $25.4 million, $84.2 million, and $128.8 million for fiscal 2016, for the six months ended December 31, 2016, the fiscal 2017 and fiscal 2018, respectively.

We continue to focus on our long-term growth and profitability. We believe that our market opportunity is large and that the transition from traditional inverter architecture to DC optimized inverter architecture will continue as the architecture of choice for distributed solar installations globally. We believe that we are well positioned to benefit from this market trend. We intend to continue to invest in sales and marketing to acquire new customers in our existing markets, grow internationally and drive additional revenue. We also plan to expand our product offerings to further penetrate the large commercial and utility segments. We expect to continue to invest in research and development to enhance our product offerings and develop new, cost-effective solutions.

We believe that our strategy results in an efficient operating base with relatively low expenses that will enable profitability on lower revenues relative to our competitors. We believe that our sales and marketing, research and development, and general and administrative costs will decrease as a percentage of revenue in the long-term as we continue to grow due to economies of scale. With this increased operating leverage, we expect our gross and operating margins to increase in the long-term. We believe that it is too early to estimate the impact, if any, the newly adopted U.S. tariff imposed on all imported solar modules and cells, may have on the price of solar systems in the United States. If the price of solar systems in the U.S. increases, it may reduce the number of solar systems manufactured and sold, which in turn may decrease demand for our products

Performance Measures

In managing our business and assessing financial performance, we supplement the information provided by the financial statements with other operating metrics. These operating metrics are utilized by our management to evaluate our business, measure our performance, identify trends affecting our business, and formulate projections. We use metrics relating to yearly shipments (inverters shipped, power optimizers shipped, and megawatts shipped) to evaluate our sales performance and to track market acceptance of our products from year to year. We use metrics relating to monitoring (systems monitored and megawatts monitored) to evaluate market acceptance of our products and usage of our solution.

We provide the "megawatts shipped" metric, which is calculated based on nameplate capacity shipped, to show adoption of our system on a nameplate capacity basis. Nameplate capacity shipped is the maximum rated power output capacity of an inverter and corresponds to our financial results in that higher total capacities shipped are generally associated with higher total revenues. However, revenues increase with each additional unit, not necessarily each additional MW of capacity, sold. Accordingly, we also provide the "inverters shipped" and "power optimizers shipped" operating metrics.

Key Components of Our Results of Operations

The following discussion describes certain line items in our Consolidated Statements of Operations.

Revenues

We generate revenues from the sale of DC optimized inverter systems for solar PV installations which include power optimizers, inverters, and our cloud-based monitoring platform. Our customer base mainly includes distributors, large solar installers, wholesalers, EPCs, and PV module manufacturers. In addition, following the Gamatronic Acquisition and the Kokam Acquisition, we also generate revenues from the sale of UPSs and lithium-ion cells, batteries and energy storage solutions to end-customers.

Our revenues from the sale of solar-related products are affected by changes in the volume and average selling prices of our DC optimized inverter systems. The volume and average selling price of our systems is driven by the supply and demand for our products, changes in the product mix between our residential and commercial products, the customer mix between large and small customers, the geographical mix of our sales, sales incentives, end-user government incentives, seasonality, and competitive product offerings. Revenues from the sale of UPS products are affected by the changes in the volumes, sizes and average selling prices of the products we sell. Revenues from the sale of Kokam's products are affected by the type of product sold (cell, battery or system) and the type of the battery that is sold.

Our revenue growth is dependent on our ability to expand our market share in each of the geographies in which we compete, expand our global footprint to new evolving markets, grow our production capabilities to meet demand, and to continue to develop and introduce new and innovative products that address the changing technology and performance requirements of our customers. Our revenues from Kokam are dependent on our ability to expand manufacturing capabilities and reducing costs.

Cost of Revenues and Gross Profit

Cost of revenues consists primarily of product costs, including purchases from our contract manufacturers and other suppliers, as well as costs related to shipping, customer support, product warranty, personnel, depreciation of test and manufacturing equipment, hosting services for our cloud-based monitoring platform, and other logistics services. Our product costs are affected by technological innovations, such as advances in semiconductor integration and new product introductions, economies of scale resulting in lower component costs, and improvements in production processes and automation. Some of these costs, primarily personnel and depreciation of test and manufacturing equipment, are not directly affected by sales volume.

With respect to Kokam, cost of revenues consists primarily of materials costs, labor costs associated with the manufacturing, variable utility, and operational costs related to the cell and battery factories, depreciation and other fixed costs.

Except for the Kokam Factories and final assembly of the UPS systems, we outsource our manufacturing to third-party manufacturers and negotiate product pricing on a quarterly basis. Our third-party manufacturers are responsible for funding the capital expenses incurred in connection with the manufacture of our products, except with regard to end-of-line testing equipment and the automated assembly lines for our power optimizers, as further described below (which resulted in capital expenditures of $5.2 million, $1.4 million, $13.6 million and $9.0 million for fiscal 2016, for the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, respectively). We expect to continue this funding arrangement in the future, with respect to any expansions to such existing lines. We also procure strategic and critical components from various approved vendors on behalf of our contract manufacturers. At times, higher than anticipated demand has exceeded the production capacities of these manufacturers. In 2014 and early 2015, for example, such production shortfalls, as well as shortages in the supply of certain raw materials, required us to use air freight, rather than less expensive ocean freight, to deliver the majority of our products. The expansion of current manufacturing sites by our contract manufacturers allowed us to reduce these expenses in fiscal 2015 as well as to build sufficient inventory to continue our growth without the need to ship substantial amounts of products by air. In 2016, we managed to continuously increase the efficiency of our supply chain, reduce our reliance on air freight to a minimum and use ocean freight for the majority of our shipments.

In 2017 and 2018, global shortages in power components used in our products and in other industries, such as electrical motor drives and uninterrupted power systems (UPS) caused disruptions to our ongoing manufacturing. This phenomenon combined with increased demand for our products required us to use expensive air shipments in order to meet our delivery schedule, which negatively affected our gross profit. We expect component shortages to continue to affect us in upcoming quarters, a combination of increased component safety stocks, qualification of additional suppliers, and increased capacity of our existing vendors coupled with continued expansion of the current manufacturing sites by our contract manufacturers, and the development and deployment of our proprietary automated assembly line (described below), will provide sufficient manufacturing capacity to meet our forecasted demands with lower shipment volumes of products by air freight.

We completed development and manufacturing our proprietary automated assembly lines for our power optimizers. We expect to continue to invest in additional automated assembly lines in the future. We have designed and are responsible for funding all of the capital expenses associated with existing and future automated assembly lines. The current and expected capital expenses associated with these automated assembly lines will be funded out of our cash flows generation.

Key components of our logistics supply channel consist of third party distribution centers in the U.S., Europe, Australia, and Japan. Finished goods are either shipped to our customers directly from our contract manufacturers or shipped to third-party distribution centers and then, finally, shipped to our customers.

Cost of revenues also includes our operations and support department costs. The operations department is responsible for production management such as planning, procurement, supply chain, production methodologies, and machinery planning, logistics management and manufacturing support to our contract manufacturers, as well as the quality assurance of our products. Our support department provides customer and technical support at various levels through our call centers around the world as well as second and third-level support services which are provided by support personnel located in our headquarters. Our full-time employee headcount in our operations, production and support departments has grown from 175 as of June 30, 2016, to 244 as of December 31, 2016, to 348 as of December 31, 2017 and to 663 as of December 31, 2018.

Gross profit may vary from quarter to quarter and is primarily affected by our average selling prices, product costs, product mix, customer mix, geographical mix, shipping method, warranty costs, and seasonality.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories and include salaries, benefits, payroll taxes, commissions and stock-based compensation. Our full-time employee headcount in our research and development, sales and marketing, and general and administrative departments has grown from 434 as of June 30, 2016, to 475 as of December 31, 2016, to 660 as of December 31, 2017 and 1,074 to as of December 31, 2018. We expect to continue to hire significant numbers of new employees to support our growth. The timing of these additional hires could materially affect our operating expenses in any particular period, both in absolute dollars and as a percentage of revenue. We expect to continue to invest substantial resources to support our growth and anticipate that each of the following categories of operating expenses will increase in absolute dollar amounts for the foreseeable future.

Research and development expenses, net

Research and development expenses, net include personnel-related expenses such as salaries, benefits, stock-based compensation, and payroll taxes. Our research and development employees are engaged in the design and development of power electronics, semiconductors, software, power line communications and networking and chemistry. Our research and development expenses also include third-party design and consulting costs, materials for testing and evaluation, ASIC development and licensing costs, depreciation expense, and other indirect costs. We devote substantial resources to ongoing research and development programs that focus on enhancements to and cost efficiencies in our existing products and timely development of new products that utilize technological innovation, thereby maintaining our competitive position.

Research and development expenses are presented net of the amount of any grants we receive for research and development in the period in which we receive the grant. We previously received grants and other funding from the Binational Industrial Research and Development Foundation and the Israel Innovation Authority (the IIA). Certain of those grants required us to pay royalties on sales of certain of our products, which were recorded as cost of revenues. As of December 31, 2018, no such royalty obligations remained.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel-related expenses such as salaries, sales commissions, benefits, payroll taxes, and stock-based compensation. These expenses also include travel, fees of independent consultants, trade shows, marketing, costs associated with the operation of our sales offices, and other indirect costs. The expected increase in sales and marketing expenses is due to an expected increase in the number of sales and marketing personnel and the expansion of our global sales and marketing footprint, enabling us to increase our penetration of new markets. While most of our sales in fiscal 2012 (the period beginning July 1, 2011 and ending June 30, 2012) were in Europe, sales in the U.S., in absolute nominal value, have grown steadily since fiscal 2012 with sales from the U.S. generating revenue of $5.7 million compared to $505.5 million in 2018. Revenues generated in the U.S. represented 68.2 %, 66.8 %, 57.5% and 53.9% of our revenues in fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, respectively. Sales in Europe, which represented most of our sales until fiscal 2013 (the period beginning July 1, 2012 and ending June 30, 2013) also increased and represented 22.7 %, 25.2 %, 32.7 % and 32.0% of our revenues in fiscal 2016, in the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, respectively. We currently have a sales presence in the U.S., Canada, France, Germany, Italy, the Netherlands, the United Kingdom, Israel, Turkey, Japan, Australia, China, Sweden, Poland, India, Belgium, Korea and Taiwan. We intend to continue to expand our sales presence to additional countries.

General and administrative expenses

General and administrative expenses consist primarily of salaries, employee benefits, payroll taxes, and stock-based compensation related to our executives, finance, human resources, information technology, and legal organizations, travel expenses, facilities costs, fees for professional services, and registration fees related to being a publicly-traded company. Professional services consist of audit and legal costs, remuneration to board members, tax, insurance, information technology, and other costs. General and administrative expenses also include allowance for doubtful accounts in the event of uncollectable account receivables balances.

Non-Operating Expenses

Financial income (expenses)

Financial income (expenses) consists primarily of interest income, interest expense, gains or losses from foreign currency fluctuations and hedging transactions.

Interest income consists of interest from our investment in available for sale marketable securities.

Interest expense consists of interest related to loans taken by Kokam and advance payments received for performance obligations that extend for a period greater than one year, as part of the adoption of Accounting Standard Codification 606, Revenue from Contracts with Customers (ASC 606).

Our functional currency is the U.S. Dollar. With respect to certain of our subsidiaries, the functional currency is the applicable local currency. Financial expenses, net is net of financial income which consists primarily of the effect of foreign exchange differences between the U.S. Dollar and the New Israeli Shekel, the Euro, and other currencies, related to our monetary assets and liabilities, and the realization of gain from hedging transactions.

Taxes on income

We are subject to income taxes in the countries where we operate.

From incorporation through the end of fiscal 2014, we experienced operating losses, and, consequently, accumulated a significant amount of operating loss carryforwards, net, in several jurisdictions. By the end of fiscal 2015, we fully utilized our unused operating loss carryforwards with respect to U.S. federal tax obligations. In fiscal 2016, we recorded net income tax expenses of $0.4 million for federal and state tax in the U.S, which consisted of $1.8 million current income tax expenses and $1.4 million deferred tax assets. In the six months ended December 31, 2016, we recorded net income tax expenses of $1.6 million for federal and state tax in the U.S, which consisted of $1.1 million current income tax expenses and $0.5 million deferred tax liabilities. In fiscal 2017, we recorded net income tax expenses of $19.8 million for federal and state tax in the U.S., which consists of $19.9 million current income tax expenses and $0.1 million deferred tax. In the year ended December 31, 2018, we recorded net income tax expenses of $12.6 million for federal and state tax in the U.S., which consists of $13.9 million current income tax expenses and $1.3 million deferred tax benefit.

On December 22, 2017, the Tax Cuts and Jobs Act of 2017 (the "TCJA") was signed into law, making significant changes to the US income tax law. Changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of foreign earnings as of December 31, 2017, which we elected to pay over the eight-year period provided in the TCJA. Additionally, the TCJA requires certain Global Intangible Low Taxed Income ("GILTI") earned by controlled foreign corporations ("CFCs") to be included in the gross income of the CFCs' U.S. shareholder. GAAP allows us to either: (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor such amounts into its measurement of deferred taxes (the "deferred method").

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act ("SAB 118"), which allowed us to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, we previously provided a provisional estimate of the effect of the TCJA in its financial statements. Accordingly, in 2017, we calculated our best estimate of the impact of the TCJA in its year end income tax provision in accordance with its understanding of the TCJA and guidance available as of the date of the respective filing and as a result we recorded $19.2 million as an additional income tax expense in the period in which the legislation was enacted.

In the fourth quarter of 2018, upon further analyses of the TCJA and proposed regulations by the U.S. Department of the Treasury and the Internal Revenue Service ("IRS"), we completed our analysis to determine the effect of the TCJA with respect to the one-time transition tax and recorded a reduction of $1.3 million as of December 31, 2018. Additionally, we finalized our decision on treating the tax effects of GILTI as a periodic expense, evaluated the impact of the proposed regulations related to GILTI and recorded a provision in the amount of $12.0 million for such GILTI tax. Due to the timing of the TCJA and the complexity in applying its provisions, changes made in fourth quarter 2018 to our provisional amounts are based on our analysis of the TCJA and additional guidance issued by the U.S. Treasury Department, IRS, FASB, and other standard-setting and regulatory bodies.

SolarEdge Technologies Ltd., our Israeli subsidiary, is taxed under Israeli law. Income not eligible for benefits under the Investments Law is taxed at the corporate tax rate. The corporate tax rate in Israel was 26.5% in fiscal 2015 and 25% in fiscal 2016. Amendments of the Israeli Income Tax Ordinance (New Version), 1961 (the "Tax Ordinance") decreased the corporate tax rate to 25% commencing on January 1, 2016, 24% starting January 1, 2017, and 23% starting January 1, 2018.

Our Israeli subsidiary elected tax year 2012 as a "Year of Election" for "Benefited Enterprise" under the Israeli Investments Law, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Benefited Enterprise benefits is taxed at the then prevailing regular corporate tax rate. Upon meeting the requirements under the Israeli Investments Law, income derived from productive activity under the Benefited Enterprise status, would subject to certain terms and limits, will be exempt from tax for two years from the year in which the Israeli subsidiary first generated taxable income. Because SolarEdge Technologies Ltd. utilized all of its losses carryforwards in the six months ended in December 31, 2016, and as it was granted an approval by the Israeli Tax Authorities ("ITA") in this regard, the two-year tax exemption has ended on December 31, 2018.

The Investment Law was amended in 2005 and was further amended as of January 1, 2011 and in August 2013 (the "2011 Amendment"). The 2011 Amendment canceled the availability of the benefits granted in accordance with the provisions of the Investments Law prior to 2011 and, instead, introduced new benefits for income generated by a "Preferred Company" through its "Preferred Enterprise" (both as defined in the 2011 Amendment). Under the 2011 Amendment, income derived by Preferred Companies from Preferred Enterprise would be subject to a uniform rate of corporate tax for an unlimited period as opposed to the incentives prior to the 2011 Amendment that were limited to income from Approved or Benefited Enterprise during the respective benefits period. According to the 2011 Amendment (considering the rates as amended in the 2017 Amendment as defined herein), the tax rate applicable to such income, referred to as "Preferred Income", would be 7.5% in areas in Israel that are designated as Development Zone A and 16% elsewhere in Israel in the year 2017 and thereafter. Under the transitional provisions of the 2011 Amendment, companies may elect to irrevocably implement the 2011 Amendment while waiving benefits provided under the legislation prior to the 2011 Amendment or keep implementing the legislation prior to the 2011 Amendment.

In December 2016, Amendment 73 to the Investments Law (the "2017 Amendment") was published. According to the 2017 Amendment, special tax tracks for technological enterprises have been introduced, which are subject to rules that were issued by the Israeli Ministry of Finance. A Technological Preferred Enterprise, as defined in the 2017 Amendment, that is located in the central region of Israel, will be subject to tax at a rate of 12% on profits deriving from intellectual property (in Development Zone A - a tax rate of 7.5%).

On June 14, 2017, the Encouragement of Capital Investments Regulations (Preferred Technological Income and Capital Gain for Technological Enterprise), 2017 (the "Regulations") were published. The Regulations describe, inter alia, the mechanism used to determine the calculation of the benefits under the PTE regime and determine certain requirements relating to documentation of intellectual property for the purpose of the PTE. According to these provisions, a company that complies with the terms under the PTE regime may be entitled to certain tax benefits with respect to certain income generated during the company's regular course of business and derived from the preferred intangible asset (as determined in the Investments Law), excluding certain portion of income as prescribed therein.

As of January 2019, SolarEdge Technologies Ltd. elected to implement the 2011 Amendment.

Our production facilities in Israel are not located in Development Zone A.

We are in the process of evaluation the applicability of the PTE regime with respect to our business activities in Israel pursuant to the 2017 Amendment and the Regulations, and, accordingly, expect that SolarEdge Technologies Ltd. will be entitled to an effective tax at a rate of 13.99% under the 2017 Amendment.

The Law for the Encouragement of Industry (Taxes), 1969, (the "Industry Encouragement Law"), provides certain tax benefits for an 'Industrial Company' as such term is defined in the Industry Encouragement Law. An Industrial Company is entitled to certain tax benefits including, inter alia: (i) amortization over an eight-year period of the cost of purchased know-how and patents and rights to use a patent and know-how which are used for the development or advancement of the company; and (ii) accelerated depreciation rates on equipment and buildings. Eligibility for benefits under the Industry Encouragement Law is not subject to receipt of prior approval from any governmental authority. We believe that our Israeli subsidiary currently qualifies as an Industrial Company; however, there can be no assurance that it will continue to so qualify or that the benefits described above will be available to it in the future. Furthermore, the ITA may determine that we do not qualify as an Industrial Company, which could entail a loss of the benefits that relate to that status.

Israeli tax law (Section 20A of the Tax Ordinance) allows, under certain conditions, a tax deduction for certain research and development expenses as prescribed in the Tax Ordinance for the year in which they are paid, subject to appropriate approval by the relevant Israeli government ministry, determined by the field of research. Expenses incurred in scientific research that are not approved by the relevant Israeli government ministry will be deductible over a three-year period commencing from the tax year in which they are paid. Our Israeli subsidiary did not obtain to date such approval.

Results of Operations

The following tables set forth our consolidated statements of operations for the calendar years ended December 31, 2016, 2017 and 2018, and for the six months ended December 31, 2015 and 2016. We have derived this data from our consolidated financial statements included elsewhere in this Annual Report. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this this Annual Report. The results of historical periods are not necessarily indicative of the results of operations for any future period.

Comparison of year ended December 31, 2017 and year ended December 31, 2018

	Year ended December 31,		2017 to 2018	
	2017	2018	Change	
	(In thousands)			
Revenues	$ 607,045	$ 937,237	$ 330,192	54.4%
Cost of revenues	392,279	618,001	225,722	57.5%
Gross profit	214,766	319,236	104,470	48.6%
Operating expenses:				
Research and development	54,966	82,245	27,279	49.6%
Sales and marketing	50,032	68,307	18,275	36.5%
General and administrative	18,682	29,264	10,582	56.6%
Total operating expenses	123,680	179,816	56,136	45.4%
Operating income	91,086	139,420	48,334	53.1%
Financial income (expenses)	9,158	(2,297)	11,455	N/A
Income before taxes on income	100,244	137,123	36,879	36.8%
Taxes on income	16,072	9,077	(6,995)	(43.5)%
Net income	$ 84,172	$ 128,046	$ 43,874	52.1%
Net loss attributable to Non-controlling interests	-	787	787	N/A
Net income attributable to SolarEdge Technologies Inc.	$ 84,172	$ 128,833	$ 44,661	53.1%

Revenues

	Year Ended December 31,		2017 to 2018	
	2017	2018	Change	
	(In thousands)			
Revenues	$ 607,045	$ 937,237	$ 330,192	54.4%

Revenues increased by $330.2 million, or 54.4%, in 2018 as compared to 2017, primarily due to an increase in the number of systems sold, with significant growth in revenues coming from the United States, Europe, Australia, Japan and Israel. Non-U.S. revenues comprised 46.1% of our revenues in 2018 as compared to 42.5% in 2017. In addition, the Gamatronic Acquisition and the Kokam Acquisition increased our revenues over the last months of 2018, which included sales of UPS units, batteries and storage systems in the aggregate amount of $23.0 million.

The number of power optimizers sold increased by approximately 4.0 million units, or 54.1%, from approximately 7.4 million units in 2017 to approximately 11.4 million units in 2018. The number of inverters sold increased by approximately 139,000 units, or 43.7%, from approximately 317,000 units in 2017 to approximately 456,000 units in 2018. Overall, our blended average selling price ("ASP") of solar products per watt decreased by $0.018, or 6.8%, in 2018 as compared to 2017, primarily due to:

- a change in the mix of products, yielding a higher portion of sales of commercial products that are characterized with lower ASP per Watt in comparison to residential products;
- we initiated price reductions of our commercial products in order to increase market share in this segment;
- the introduction of new commercial products with higher capacity which carry a lower ASP per watt; and
- selective price decreases of our residential products

Cost of Revenues and Gross Profit

	Year Ended December 31,		2017 to 2018	
	2017	2018	Change	
	(In thousands)			
Cost of revenues	$ 392 ,279	$ 618,001	$ 225,722	57.5%
Gross profit	$ 214,766	$ 319,236	$ 104,470	48.6%

Cost of revenues increased by $225.7 million, or 57.5%, in 2018 as compared to 2017, primarily due to:

- an increase in the volume of products sold;
- increased warranty expenses of $35.1 million associated with the rapid increase in our install base;
- increased shipment and logistical costs of $16.1 million attributed, in part, to the growth in volumes shipped, an increase of customs tariff in the US and an increase in air shipments due to power component shortages;
- increased fixed and variable costs related to the manufacturing of Kokam related products and the assembly of UPS products in the amount of $14.7 million; and
- increased personnel-related costs of $13.1 million related to the expansion of our operations and support headcount which is growing in parallel to our growing install base worldwide and as result of the acquisition of our UPS and battery divisions ;

Gross profit as a percentage of revenue decreased from 35.4% in 2017 to 34.1% in 2018, primarily due to:

- increased warranty and support services expenses and accruals;
- price reduction to customers at a rate higher than our cost reduction;
- lower gross profit on UPS and battery products due to underutilization of production facilities, as well as certain transactions for the sale of batteries with low gross profit, which had been entered into prior to closing the Kokam Acquisition; and
- amortization of intangible assets and cost of product adjustment related to the UPS assets acquisition and Kokam Acquisition;

These were partially offset by:

- reductions in per-unit production costs that exceeded price erosion of our products;
- increased efficiency in our supply chain; and
- general economies of scale in our personnel-related costs and other costs associated with our support and operations departments.

Operating Expenses:

Research and Development, Net

	Year Ended December 31		2017 to 2018	
	2017	2018	Change	
	(In thousands)			
Research and development	$ 54,966	$ 82,245	$ 27,279	49.6%

Research and development increased by $27.3 million, or 49.6%, in 2018 as compared to 2017, primarily due to:

- an increase in personnel-related costs of $21.2 million as a result of an increased headcount of engineers, as well as hiring Gamatronic's employees and the consolidation of Kokam's employees. The increase in headcount reflects our continuing investment in enhancements of existing products as well as development associated with bringing new products to market;
- depreciation expenses related to lab equipment and amortization expenses related to intangible assets increased by $2.1 million;
- materials consumption for development increased by $1.5 million, part of it related to Kokam activities;

- expenses related to other directly related overhead costs that increased by $1.1 million;
- expenses related to consultants and sub-contractors that increased by $1.1 million; and
- Other expenses, including travel expenses increased by $0.3 million.

Sales and Marketing

	Year Ended December 31,		2017 to 2018 Change	
	2017	2018		
	(In thousands)			
Sales and marketing	$ 50,032	$ 68,307	$ 18,275	36.5%

Sales and marketing expenses increased by $18.3 million, or 36.5%, in 2018 as compared to 2017, primarily due to:

- an increase in personnel-related costs of $14.6 million as a result of (i) an increase in headcount supporting our growth in the U.S., Europe Asia and the rest of the world, (ii) salary expenses associated with employee equity compensation resulting from the impact of the increase in our stock price affecting the fair value of any share award, and (iii) hiring Gamatronic's employees and the consolidation of Kokam's employees;
- expenses related to travel increased by $1.0 million;
- expenses related to trade shows and marketing activities increased by $1.0 million;
- expenses related to other overhead costs increased by $0.6 million;
- depreciation expenses related to tangible assets and amortization expenses related to intangible assets increased by $0.6 million; and
- expenses related to consultants and sub-contractors increased by $0.5 million.

General and Administrative

	Year Ended December 31,		2017 to 2018 Change	
	2017	2018		
	(In thousands)			
General and administrative	$ 18,682	$ 29,264	$ 10,582	56.6%

General and administrative expenses increased by $10.6 million, or 56.6%, in 2018 as compared to 2017, primarily due to:

- an increase in personnel-related costs of $5.8 million related to (i) higher headcount in the legal, finance, human resources, and information technology department, functions required of a fast-growing public company, (ii) changes in management compensation and increased expenses related to equity-based compensation resulting from the impact of the increase in our stock price affecting the fair value of any share award and (iii) hiring Gamatronic's employees and the consolidation of Kokam's employees;
- expenses related to external consultants and sub-contractors increased by $3.9 million due to legal proceedings initiated by us and other consulting expenses in relation to the Gamatronic Acquisition and the Kokam Acquisition;
- expenses related to other overhead costs increased by $0.6 million;
- expenses related to travel increased by $0.5 million;
- increase of $0.4 million in 2018 due to the disposal of fixed assets; and
- depreciation expenses increased by $0.3 million.

This increase was offset by a decrease in costs related to the accrual of doubtful and bad debts of $0.9 million.

Financial Income (Expenses)

	Year Ended December 31,		2017 to 2018	
	2017	2018	Change	
		(In thousands)		
Financial Income (Expenses)	$ 9,158	$ (2,297)	$ (11,455)	N/A

Financial income was $9.2 million in 2018 as compared to financial expenses of $2.3 million in 2017, primarily due to:

- an increase of $13.3 million in foreign exchange fluctuations mostly between the Euro and the New Israeli Shekel against the U.S. Dollar; and
- an increase of $2.4 million in interest expenses, mainly related to advance payments received for performance obligations that extend for a period greater than one year, as part of the adoption of Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606).

These increases in financial expenses were offset by:

- an increase of $2.2 million in interest income and accretion (amortization) of discount (premium) on marketable securities; and
- a decrease of $2.0 million in costs related to hedging transactions in 2018, as compared to 2017.

Taxes on Income

	Year Ended December 31,		2017 to 2018	
	2017	2018	Change	
		(In thousands)		
Taxes on income	$ 16,072	$ 9,077	$ (6,995)	(43.5)%

Tax on income decreased by $7.0 million, or 43.5 %, in 2018 as compared to 2017, primarily due to

- a one-time transition tax net decrease of $1.3 million in 2018 as compared to an increase of $18.7 million in 2017 on the federal mandatory deemed repatriation of cumulative foreign earnings; and
- a decrease of $1.6 million in deferred tax assets (presented as tax income).

These taxes on income were offset by:

- a tax provision of $12.0 million in the year ended December 31, 2018, with respect to Global Intangible Low Taxed Income inclusion;
- an increase of $1.7 million in other current tax expenses in the US; and
- an increase of $0.9 million in current tax expenses in all jurisdictions.

Net Income

	Year Ended December 31,		2017 to 2018	
	2017	2018	Change	
		(In thousands)		
Net income	$ 84,172	$ 128,046	$ 43,874	52.1%

As a result of the factors discussed above, net income increased by $43.9 million, or 52.1%, in 2018 as compared to 2017.

Comparison of year ended December 31, 2016 (unaudited) and year ended December 31, 2017 (audited)

	Year ended December 31, 2016 (unaudited)	Year ended December 31, 2017	2016 to 2017 Change	
	(In thousands)			
Revenues	$ 489,954	$ 607,045	$ 117,091	23.9%
Cost of revenues	329,207	392,279	63,072	19.2%
Gross profit	160,747	214,766	54,019	33.6%
Operating expenses:				
Research and development, net	38,220	54,966	16,746	43.8%
Sales and marketing	38,200	50,032	11,832	31.0%
General and administrative	13,317	18,682	5,365	40.3%
Total operating expenses	89,737	123,680	33,943	37.8%
Operating income	71,010	91,086	20,076	28.3%
Financial income (expenses)	(1,287)	9,158	10,445	N/A
Income before taxes on income	69,723	100,244	30,521	43.8%
Taxes on income	6,270	16,072	9,802	156.3%
Net income	$ 63,453	$ 84,172	$ 20,719	32.7%

Revenues

	Year Ended December 31, 2016 (unaudited)	Year Ended December 31, 2017	2016 to 2017 Change	
	(In thousands)			
Revenues	$ 489,954	$ 607,045	$ 117,091	23.9%

Revenues increased by $117.1 million, or 23.9%, in 2017 as compared to 2016, primarily due to an increase in the number of systems sold outside of the U.S. Specifically, non-U.S. revenues comprised 42.5% of our revenues in 2017 as compared to 34.0% in 2016, with significant growth in revenues coming from Germany and the Netherlands as well as from non-U.S. markets outside of Europe. The number of power optimizers sold increased by approximately 1.4 million units, or 24.5%, from approximately 5.9 million units in 2016 to approximately 7.3 million units in 2017. The number of inverters sold increased by approximately 82,000 units, or 35.1%, from approximately 234,000 units in 2016 to approximately 316,000 units in 2017. While selling price per product remained relatively stable in 2017, our blended average selling price per watt for units shipped decreased by $0.029, or 10.2%, in 2017 as compared to 2016, primarily due to increased sales of our commercial products which are characterized with lower average selling price per watt and a change in our customer mix, which included larger portion of sales to distribution channels and large customers to whom we provide volume discounts.

Cost of Revenues and Gross Profit

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Cost of revenues	$ 329,207	$ 392 ,279	$ 63,072	19.2%
Gross profit	$ 160,747	$ 214,766	$ 54,019	33.6%

Cost of revenues increased by $63.1 million, or 19.2%, in 2017 as compared to 2016, primarily due to:

- an increase in the volume of products sold;
- increased warranty expenses and warranty accruals of $5.3 million associated with the rapid increase in our install base;
- increased shipment and logistical costs of $11.1 million attributed, in part, to the growth in volumes shipped, and to an increase in air shipments caused by power component shortages; and
- increased personnel-related costs of $8.9 million connected to the expansion of our operations and increased support headcount which is growing in parallel with our growing install base worldwide.

Gross profit as a percentage of revenue increased from 32.8% in 2016 to 35.4% in 2017, primarily due to:

- reductions in per-unit production costs that exceeded price erosion of our products;
- increased efficiency in our supply chain;
- lower costs associated with warranty product replacements; and
- general economies of scale in our personnel-related costs and other costs associated with our support and operations departments.

Operating Expenses:

Research and Development, Net

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Research and development, net	$ 38,220	$ 54,966	$ 16,746	43.8%

Research and development, net increased by $16.7 million, or 43.8%, in 2017 as compared to 2016, primarily due to:

- an increase in personnel-related costs of $11.7 million as a result of an increased headcount of engineers. The increase in headcount reflects our continuing investment in enhancements of existing products as well as development associated with bringing new products to market;
- expenses related to other directly related overhead costs that increased by $2.2 million;
- expenses related to consultants and sub-contractors that increased by $1.1 million;
- depreciation expenses related to lab equipment that increased by $1.0 million; and
- materials consumption for development, travel expenses and other expenses that increased by $0.7 million.

Sales and Marketing

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Sales and marketing	$ 38,200	$ 50,032	$ 11,832	31.0%

Sales and marketing expenses increased by $11.8 million, or 31.0%, in 2017 as compared to 2016, primarily due to:

- an increase in personnel-related costs of $9.0 million as a result of an increase in headcount supporting our growth in the U.S., Europe, and Asia, as well as salary increases;
- expenses related to consultants and sub-contractors that increased by $0.9 million;
- expenses related to trade shows and marketing activities that increased by $0.8 million;
- expenses related to other directly related overhead costs that increased by $0.7 million; and
- expenses related to travel that increased by $0.4 million.

General and Administrative

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
General and administrative	$ 13,317	$ 18,682	$ 5,365	40.3%

General and administrative expenses increased by $5.4 million, or 40.3%, in 2017 as compared to 2016, primarily due to:

- an increase in personnel-related costs of $2.5 million related to (i) higher headcount in the legal, finance, human resources, and information technology department, functions required of a fast-growing public company and (ii) increased expenses related to equity-based compensation and changes in management compensation;
- legal expenses increased by $1.8 million mainly due to legal proceedings initiated by us during 2017 and settled by the end of 2017;
- costs related to the accrual of doubtful debts increased by $0.7 million; and
- other overhead costs, costs related to being a public company and depreciation, all of which increased by $0.4 million.

Financial Income (Expenses)

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Financial Income (Expenses)	$ (1,287)	$ 9,158	$ 10,445	N/A

Financial income was $9.2 million in 2017 as compared to financial expenses of $1.3 million in 2016, primarily due to:

- an increase of $10.6 million in foreign exchange fluctuations between the Euro and the New Israeli Shekel against the U.S. Dollar; and
- an increase of $1.0 million in interest income, net of accretion (amortization) of discount (premium) on marketable securities.

These increases in financial income were offset by decreases of $1.2 million in costs related to hedging transactions in 2017, as compared to 2016.

Taxes on Income

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Taxes on income	$ 6,270	$ 16,072	$ 9,802	156.3%

Taxes on income increased by $9.8 million, or 156.3%, in 2017 as compared to 2016, primarily due to

- a one-time transition tax of $18.7 million on the mandatory deemed repatriation of cumulative foreign earnings as of December 31, 2017;
- an increase of $0.6 million in current tax expenses;
- an increase of $9.2 million in deferred tax assets (presented as tax income); and
- $0.3 million of income related to the previous year's tax credit.

Net Income

	Year Ended December 31,		2016 to 2017	
	2016 (unaudited)	2017	Change	
	(In thousands)			
Net income	$ 63,453	$ 84,172	$ 20,719	32.7%

As a result of the factors discussed above, net income increased by $20.7 million, or 32.7%, in 2017 as compared to 2016.

Comparison of the six months ended December 31, 2015 (unaudited) and the six months ended December 31, 2016

	Six Months Ended December 31,		2015 to 2016	
	2015 (unaudited)	2016	Change	
	(In thousands)			
Revenues	$ 239,886	$ 239,997	$ 111	0.0%
Cost of revenues	167,777	159,097	(8,680)	(5.2)%
Gross profit	72,109	80,900	8,791	12.2%
Operating expenses:				
Research and development, net	15,290	20,279	4,989	32.6%
Sales and marketing	17,077	20,444	3,367	19.7%
General and administrative	5,606	6,790	1,184	21.1%
Total operating expenses	37,973	47,513	9,540	25.1%
Operating income	34,136	33,387	(749)	(2.2)%
Financial expenses	1,031	2,789	1,758	170.5%
Income before taxes on income	33,105	30,598	(2,507)	(7.6)%
Taxes on income (tax benefit)	(5,432)	5,217	10,649	N/A
Net income	$ 38,537	$ 25,381	$ (13,156)	(34.1)%

Six Months Ended December 31, 2016 vs. Six Months Ended December 31, 2015 (unaudited):

- Revenues for the six-month period ended December 31, 2016 remained stable when compared to revenues in the same period in the prior year.
- An increase of $8.8 million in gross profit principally due to:
  - o Reductions in per unit production costs
  - o Installation of automatic assembly line for optimizers and self-manufacturing of sub components
  - o Lower costs associated with warranty product replacements
  - o Cash received from our insurance company covering a bad debt from a former customer that declared bankruptcy
- An increase of $9.5 million in operating expenses principally due to:
  - o Increase in personnel-related costs to support (1) our continuing investment in enhancements of existing products as well as development associated with bringing new products to market; (2) our growth in the U.S., European, and other markets such as Australia and Japan; and (3) higher headcount in the legal, finance, human resources, and information technology department functions required of a fast-growing publicly-traded company
- An increase of $1.8 million in financial expenses mainly due to:
  - o Foreign exchange fluctuations between the Euro and the New Israeli Shekel against the U.S. Dollar
- An increase of $10.6 million in tax expenses principally due to:
  - o A reversal of deferred tax assets recorded during fiscal 2016
  - o Exhaustion of carry forwards of net operating loss balances related to our past losses

Liquidity and Capital Resources

The following table shows our cash flows from operating activities, investing activities, and financing activities for the stated periods:

	Fiscal Year ended June 30,	Six Months Ended December 31,	Fiscal Year ended December 31,	
	2016	2016	2017	2018
	(In thousands)			
Net cash provided by operating activities	$ 52,427	$ 49,098	$ 136,665	$ 189,079
Net cash used in investing activities	(125,837)	(19,747)	(85,407)	(152,628)
Net cash provided by financing activities	2,779	1,284	7,240	(7,955)
Increase (decrease) in cash and cash equivalents	$ (70,631)	$ 30,635	$ 58,498	$ 28,496

As of December 31, 2018, our cash, cash equivalents and restricted cash were $193.3 million. This amount does not include $192.9 million invested in available for sale marketable securities and $6.0 million invested in short-term bank deposits. Our principal uses of cash are funding our operations and other working capital requirements. As of December 31, 2018, we have open commitments for capital expenditures in an amount of approximately $40.1 million. These commitments reflect purchases of automated assembly lines and other machinery related to our manufacturing. We believe that cash provided by operating activities as well as our cash and cash equivalents will be sufficient to meet our anticipated cash needs for at least the next 12 months and to fund our capital expenditure commitments.

Operating Activities

During 2018, cash provided by operating activities was $189.1 million derived mainly from net income of $128.0 million that included $45.1 million of non-cash expenses. An increase of $41.9 million warranty obligations, $37.0 million in deferred revenues, $31.5 million in trade payables and $4.6 million accruals for employees. This was offset by an increase of $60.5 million in trade receivables, $20.2 million in inventories, $7.1 million in deferred tax assets, $2.7 million in prepaid expenses and other accounts receivable and a decrease of $8.5 in accrued expenses and other account payable.

During 2017, cash provided by operating activities was $136.7 million derived mainly from net income of $84.2 million that included $26.8 million of non-cash expenses. An increase of $63.0 million in trade payables and other accounts payable, $20.4 million warranty obligations, $14.1 million in deferred revenues and $9.4 million accruals for employees. This was offset by an increase of $38.1 million in trade receivables, $21.9 million in prepaid expenses and other accounts receivable, $15.7 million in inventories, and $5.5 million in deferred tax assets.

During the six months ended December 31, 2016, cash provided by operating activities was $49.1 million derived mainly from net income of $25.4 million that included $10.0 million of non-cash expenses. An increase of $7.2 million in warranty obligations, $3.0 million accruals for employees and $1.3 million in deferred revenues and a decrease of $14.0 million in inventories, $3.7 million in deferred tax assets and $1.6 million in trade receivables was offset by a decrease of $16.4 million in trade payables and other accounts payable and $0.3 million in lease incentive obligations and an increase of $0.4 million in prepaid expenses and other accounts receivable.

During fiscal 2016, cash provided by operating activities was $52.4 million derived mainly from net income of $76.6 million that included $13.5 million of non-cash expenses. An increase of $19.3 million in warranty obligations, $8.6 million in deferred revenues and $3.3 million accruals for employees and a decrease of $10.5 million in prepaid expenses and other receivables was offset by an increase of $37.3 million in trade receivables, $7.4 million in inventories, $6.4 million in deferred tax assets, and a decrease of $28.3 million in trade payables and other accounts payable.

Investing Activities

During 2018, net cash used in investing activities was $152.6 million, of which $142.6 million was invested in available-for-sale marketable securities, $94.7 million was utilized for the acquisitions of the assets of Gamatronic and the Kokam Acquisition, $38.6 million related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements and $6.0 million was invested in short-term bank deposits. This was offset by $129.3 million from sales and maturities of available-for-sale marketable securities.

During 2017, net cash used in investing activities was $85.4 million, of which $143.7 million was invested in available-for-sale marketable securities, $21.4 million related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements and $0.6 million related to an increase in restricted cash. This was offset by $80.3 million from the maturities of available-for-sale marketable securities.

During the six months ended December 31, 2016, net cash used in investing activities was $19.7 million, of which $40.9 million was invested in available-for-sale marketable securities, $11.0 million related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements and $0.6 million related to intangible assets investment. This was offset by $32.8 million from the maturities of available-for-sale marketable securities.

During fiscal 2016, net cash used in investing activities was $125.8 million, of which $118.5 million was invested in available-for-sale marketable securities, $15.7 million related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements and $0.8 million related to intangible assets investment. This was offset by $6.4 million from the maturities of available-for-sale marketable securities and a $2.8 million repayment of a security deposit held to secure payments under our previous office lease and the expiration of a letter of credit, which was issued by us to one of our contract manufacturers.

Financing Activities

During 2018, net cash provided by financing activities was $8.0 million, of which $14.2 million related to the purchase of non-controlling interests and $3.8 million was used for repayment of loans we acquired as part of Koakm's Acquisition ("Kokam Loans"). This was offset by $10.0 million attributed to cash received from the exercise of employee and non-employee stock-base awards.

During 2017, net cash provided by financing activities was $7.2 million, all of which is attributed to cash received from the exercise of employee and non-employee stock-base awards.

During the six months ended December 31, 2016, net cash provided by financing activities was $1.3 million, all of which is attributed to cash received from the exercise of employee and non-employee stock-base awards.

During fiscal 2016, net cash provided by financing activities was $2.8 million, of which $3.0 million related to cash received from the exercise of employee and non-employee stock options, offset by $0.2 million attributed to issuance costs related to our initial public offering.

Debt Obligations

The Kokam Loans were acquired as part of the Kokam Acquisition. We acquired a number of bank loans in an aggregate amount of $20.1 million (the “Kokam Loans”). The Kokam Loans mature in various installments through May 2021, their annual interest rates are variable and as of December 31, 2018 range from 2.89% to 4.24%.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2018:

	Payment Due By Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	More Than 5 Years
			(In thousands)		
Operating leases(1)	$ 21,417	$ 6,933	$ 7,310	$ 4,730	$ 2,444
Purchase commitments under agreements(2)	262,979	262,979	-	-	-
Capital expenditures(3)	40,052	40,052	-	-	-
Total	$ 324,448	$ 309,964	$ 7,310	$ 4,730	$ 2,444

(1) Represents future minimum lease commitments under non-cancellable operating lease agreements through which we lease our operating facilities.

(2) Represents non-cancelable amounts associated with our manufacturing contracts. Such purchase commitments are based on our forecasted manufacturing requirements and typically provide for fulfillment within agreed-upon or commercially standard lead-times for the particular part or product. The timing and amounts of payments represent our best estimates and may change due to business needs and other factors.

(3) Represents non-cancelable amounts associated with purchases of automated assembly lines and other machinery related to our manufacturing.

Off-Balance Sheet Arrangements

We did not have any off-balance sheet arrangements in fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 or the year ended December 31, 2018.

Critical Accounting Policies and Significant Management Estimates

We prepare our consolidated financial statements in accordance with generally accepted accounting principles in the U.S. (“GAAP”) The preparation of consolidated financial statements also requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses, and related disclosures. We base our estimates on historical experience and on various other assumptions that we believe to be reasonable under the circumstances. Actual results could differ significantly from the estimates made by our management. To the extent that there are differences between our estimates and actual results, our future financial statement presentation, financial condition, results of operations, and cash flows will be affected. We believe that the accounting policies discussed below are critical to understanding our historical and future performance, as these policies relate to the more significant areas involving management’s judgments and estimates. Critical accounting policies and estimates are those that we consider the most important to the portrayal of our financial condition and results of operations because they require our most difficult, subjective or complex judgments, often as a result of the need to make estimates about the effects of matters that are inherently uncertain.

Revenue Recognition

Effective January 1, 2018, we adopted the Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606) using the modified retrospective method applied to those contracts which were not substantially completed as of January 1, 2018. As a result of this adoption, we revised our accounting policy for revenue recognition as detailed below.

We generate revenues from the sale of DC optimized inverter systems for solar PV installations which include our power optimizers, inverters, and cloud-based monitoring platform as well as other solar related products, UPS systems, Lithium-ion cells, batteries and energy storage solutions. Our worldwide customer base includes large solar installers, distributors, EPCs, PV module manufacturers, utility companies and other customers. Our products are fully functional at the time of shipment to the customer and do not require production, modification, or customization with the exception of some UPS and ESS systems that require installation and commissioning. We recognize revenue under the core principle that transfer of control to the customers should be depicted in an amount reflecting the consideration we expect to receive in revenue. In order to achieve that core principle, we apply the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied. Provisions for rebates, sales incentives, and discounts to customers are accounted for as reductions in revenue in the same period that the related sales are recorded.

We generally sell our products to our customers pursuant to a customer’s standard purchase order and our customary terms and conditions. We do not offer rights to return our products other than for normal warranty conditions, and as such, revenue is recorded upon shipment of products to customers and transfer of title and risk of loss under standard commercial terms. We evaluate the creditworthiness of our customers to determine that appropriate credit limits are established prior to the acceptance and shipment of an order.

We provide our full web-based monitoring platform free of charge and revenues associated with the service since that date are being recognized ratably over 25 years. In the absence of vendor-specific objective evidence or third party comparable pricing for such service, management determines the revenue levels of this service based on the costs associated with providing the service plus appropriate margins that reflect management’s best estimate of the selling price. These revenues are minimal and we do not expect this to become a significant source of revenue in the near future.

The most significant impact of the standard on our financial statements relates to advance payments received for performance obligations that extend for a period greater than one year. Applying the new standard, such performance obligations are those that include a financing component, specifically: (i) warranty extension services, (ii) cloud-based monitoring, and (iii) communication services.

We recognize financing component expenses in our consolidated statement of income in relation to advance payments for performance obligations that extend for a period greater than one year. These financing component expenses are reflected in our deferred revenues balance. The cumulative adjustments have decreased the retained earnings by $3.9 million while increasing the deferred revenues by the same amount.

Product Warranty

We provide a standard limited product warranty for our solar products against defects in materials and workmanship under normal use and service conditions. Our standard warranty period is 25 years for our power optimizers, 12 years for our inverters, and 10 years for our storage interface. Other products are sold with standard limited warranties that typically range in duration from one to ten years, and in some cases for a longer period. In certain cases, customers can purchase an extended warranty for UPS products and our battery storage products that exceed the standard warranty period and extended warranties for inverters that increase the warranty period to up to 25 years.

Our products are designed to meet the warranty periods and our reliability procedures cover component selection, design, accelerated life cycle tests, and end-of-manufacturing line testing. However, since our history in selling power optimizers and inverters is substantially shorter than the warranty period, the calculation of warranty provisions is inherently uncertain.

We accrue for estimated warranty costs at the time of sale based on anticipated warranty claims and actual historical warranty claims experience. Warranty provisions, computed on a per-unit sold basis, are based on our best estimate of such costs and are included in our cost of revenues. The warranty obligation is determined based on actual and predicted failure rates of the products, cost of replacement and service and delivery costs incurred to correct a product failure. Our warranty obligation requires management to make assumptions regarding estimated failure rates and replacement costs.

In order to predict the failure rate of each of our products, we have established a reliability model based on the estimated mean time between failures (“MTBF”). The MTBF represents the average elapsed time predicted for each product unit between failures during operation. Applying the MTBF failure rate over our install base for each product type and generation allows us to predict the number of failed units over the warranty period and estimates the costs associated with the product warranty. Predicted failure rates are updated periodically based on data returned from the field and new product versions, as are replacement costs which are updated to reflect changes in our actual production costs for our products, subcontractors’ labor costs, and actual logistics costs.

Since the MTBF model does not take into account additional non-systematic failures such as failures caused by workmanship or manufacturing or design-related issues, and since warranty claims are at times opened for cases in which the error has been triggered by an improper installation, we have developed a supplemental model to predict such cases and recognize the associated expenses ratably over the expected claim period. This model, which is based on actual root cause analysis of returned products, identification of the causes of claims and time until each identified problem is revealed, allows us to better predict actual warranty expenses and is updated periodically based on our experience, taking into account the installed base of approximately 34.1 million power optimizers and approximately 1.4 million inverters as of December 31, 2018.

If actual warranty costs differ significantly from these estimates, adjustments may be required in the future, which could adversely affect our gross profit and results of operations. Warranty obligations are classified as short-term and long-term warranty obligations based on the period in which the warranty is expected to be claimed. The warranty provision (short and long-term) was $51.2 million in fiscal 2016, $58.4 million as of December 31, 2016, $78.8 million as of December 31, 2017 and $121.8 million as of December 31, 2018.

Inventory Valuation

Our inventories comprise sellable finished goods, raw materials bought for own manufacturing or on behalf of our contract manufacturers, and faulty units returned under our warranty policy.

Sellable finished goods and raw material inventories are valued at the lower of cost or market, based on the moving average cost method. Certain factors could affect the realizable value of our inventories, including market and economic conditions, technological changes, existing product changes (mainly due to cost reduction activities), and new product introductions. We consider historic usage, expected demand, anticipated sales price, the effect of new product introductions, product obsolescence, product merchantability, and other factors when evaluating the value of inventories. Inventory write-downs are equal to the difference between the cost of inventories and their estimated fair market value. Inventory write-downs are recorded as cost of revenues in the accompanying statements of operations and were $2.5 million, $0.1 million, $1.4 million and $0.9 million, in fiscal 2016, the six months ended December 31, 2016, in the year ended December 31, 2017 and in the year ended December 31, 2018, respectively.

Faulty products returned under our warranty policy are often refurbished and used as replacement units in warranty cases. Such products are written off upon receipt.

We do not believe that there is a reasonable likelihood that there will be a material change in future estimates or assumptions that we use to record inventory at the lower of cost or market. However, if estimates regarding customer demand are inaccurate or changes in technology affect demand for certain products in an unforeseen manner, we may be exposed to losses that could be material.

Business Combination

We allocate the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair value. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require our management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired technology and other intangible assets, their useful lives and discount rates. Our management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, we may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

Intangible and other long lived assets

We evaluate the recoverability of finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. We have not recorded any impairment charges during the year ended December 31, 2018.

Acquired identifiable finite-lived intangible assets are amortized on a straight-line basis or accelerated method over the estimated useful lives of the assets. We believe the basis of amortization approximates the pattern in which the assets are utilized, over their estimated useful lives. We routinely review the remaining estimated useful lives of finite-lived intangible assets. In case we reduce the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life.

Goodwill

We evaluate goodwill for impairment annually or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing goodwill for impairment, we may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment indicates that goodwill impairment is more likely than not, than a two-step impairment test is performed. We test goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. We estimate the fair value of the reporting unit using discounted cash flows. Forecasts of future cash flows are based on our management best estimate of future net sales and operating expenses that are based primarily on expected category expansion, pricing, and general economic conditions.

We complete the required annual testing of goodwill for impairment for the reporting unit on October 1 of each year and accordingly, determines whether goodwill should be impaired. As of December 31, 2018, no impairment of goodwill has been identified.

Income taxes

We account for income taxes in accordance with ASC 740, "Income Taxes." ASC 740, which prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax basis of assets and liabilities, and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

We account for uncertain tax positions in accordance with ASC 740. ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative probability) likely to be realized upon ultimate settlement.

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

We are exposed to market risk in the ordinary course of our business. Market risk represents the risk of loss that may impact our financial position due to adverse changes in financial market prices and rates. Our market risk exposure is primarily a result of fluctuations in foreign currency exchange rates, customer concentrations, and interest rates. We do not hold or issue financial instruments for trading purposes.

Foreign Currency Exchange Risk

Approximately 24.0%, 27.7%, 37.4% and 41.2% of our revenues for fiscal 2016, the six months ended December 31, 2016, the year ended December 31, 2017 and the year ended December 31, 2018, respectively, were earned in non-U.S. dollar denominated currencies, principally the Euro. Our expenses are generally denominated in the currencies in which our operations are located, primarily the U.S. dollar and New Israeli Shekel, and to a lesser extent, the Euro. Our New Israeli Shekel-denominated expenses consist primarily of personnel and overhead costs. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. A hypothetical 10% change in foreign currency exchange rates between the Euro and the U.S. dollar would increase or decrease our net income by $23.5 million for the year ended December 31, 2018. A hypothetical 10% change in foreign currency exchange rates between the New Israeli Shekel and the U.S. dollar would increase or decrease our net income by $9.0 million for the year ended December 31, 2018.

For purposes of our consolidated financial statements, local currency assets and liabilities are translated at the rate of exchange to the U.S. dollar on the balance sheet date and local currency revenues and expenses are translated at the exchange rate as of the date of the transaction or at the average exchange rate to the U.S. dollar during the reporting period.

To date, we have used derivative financial instruments, specifically foreign currency forward contracts, to manage exposure to foreign currency risks by hedging a portion of our account receivable balances denominated in Euros expected to be paid within six months. Our foreign currency forward contracts are expected to mitigate exchange rate changes related to the hedged assets. We do not use derivative financial instruments for speculative or trading purposes.

We had cash, cash equivalents and restricted cash of $75.0 million, $105.6 million, $164.7 million and $193.3 million at the end of fiscal 2016, the year ending December 31, 2016, the year ending December 31, 2017 and the year ending December 31, 2018, respectively, which was held for working capital purposes. In addition, we had available-for-sale marketable securities with an estimated fair value of $118.7 million, $180.4 million and $192.9 million on June 30, 2016, December 31, 2016, December 31, 2017 and December 31, 2018, respectively, and short-term bank deposit of $6.0 million as of December 31, 2018.

We entered into forward contracts and put and call options to hedge the exchange impacts on assets and liabilities denominated in other than the U.S. dollar. As of December 31, 2018, we had no outstanding forward contracts or put and call options. We use derivative financial instruments, such as foreign exchange forward contracts, to mitigate the risk of changes in foreign exchange rates on accounts receivable and forecast cash flows denominated in certain foreign currencies. We may not be able to purchase derivative instruments adequate to fully insulate ourselves from foreign currency exchange risks and over the past year we have incurred losses as a result of exchange rate fluctuations on exposures that have not been covered by our hedging strategy.

Additionally, our hedging activities may also contribute to increased losses as a result of volatility in foreign currency markets. If foreign exchange currency markets continue to be volatile, such fluctuations in foreign currency exchange rates could materially and adversely affect our profit margins and results of operations in future periods. Also, the volatility in the foreign currency markets may make it difficult to hedge our foreign currency exposures effectively.

Concentrations of Major Customers

Our trade accounts receivables potentially expose us to a concentration of credit risk with our major customers. For the year ended December 31, 2018, one major customer accounted for 19.4% of total revenues, and as of December 31, 2018, two major customers accounted for approximately 41.3% of our consolidated trade receivables balance. For the year ended December 31, 2017, one major customer accounted for 14.8% of total revenues, and as of December 31, 2017, two major customers accounted for approximately 35.2% of our consolidated trade receivables balance. We currently do not foresee a credit risk associated with these receivables.

Inflation

We do not believe that inflation had a material effect on our business, financial condition, or results of operations in the last three years. If our costs were to become subject to significant inflationary pressures, we may not be able to fully offset such higher costs through price increases. Our inability or failure to do so could harm our business, financial condition, and results of operations.

Commodity Price Risk

We are subject to risk from fluctuating market prices of certain commodity raw materials, including copper, which are used in our products. Prices of these raw materials may be affected by supply restrictions or other market factors from time to time, and we do not enter into hedging arrangements to mitigate commodity risk. Significant price changes for these raw materials could reduce our operating margins if we are unable to recover such increases from our customers, and could harm our business, financial condition, and results of operations.

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

Unaudited Quarterly Results of Operations

The following table sets forth our unaudited quarterly consolidated statements of operations data for each of the fiscal years covered by the financial statements provided with this filing. The data presented below has been prepared on the same basis as the audited consolidated financial statements included elsewhere in this Annual Report and, in the opinion of management, reflects all adjustments, consisting only of normal recurring adjustments, necessary for a fair presentation of this data. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this Annual Report. The results of historical periods are not necessarily indicative of the results of operations for a full year or any future period.

	Mar. 31, 2017	June 30, 2017	Sept. 30, 2017	Dec. 31, 2017	Mar. 31, 2018	June 30, 2018	Sept. 30, 2018	Dec. 31, 2018
				(In thousands, unaudited)				
Revenues	$ 115,054	$ 136,099	$ 166,552	$ 189,340	$ 209,871	$ 227,118	$ 236,578	$ 263,670
Cost of revenues	76,378	89,033	108,498	118,370	130,274	145,172	158,596	183,959
Gross profit	38,676	47,066	58,054	70,970	79,597	81,946	77,982	79,711
Operating expense								
Research and development	11,458	12,725	14,363	16,420	17,875	19,551	20,109	24,710
Sales and marketing	10,775	11,961	13,217	14,079	16,205	15,954	16,938	19,210
General and administrative	4,439	3,265	5,078	5,900	4,753	5,776	6,898	11,837
Total operating expenses	26,672	27,951	32,658	36,399	38,833	41,281	43,945	55,757
Operating income	12,004	19,115	25,396	34,571	40,764	40,665	34,037	23,954
Financial income (expenses)	1,410	3,595	2,666	1,487	584	(2,480)	(689)	288
Income before taxes on income	13,414	22,710	28,062	36,058	41,348	38,185	33,348	24,242
Taxes on income (tax benefit)	(761)	186	91	16,556	5,662	3,617	(12,295)	12,093
Net income	$ 14,175	$ 22,524	$ 27,971	$ 19,502	$ 35,686	$ 34,568	$ 45,643	$ 12,149
Net loss attributable to noncontrolling interests	-	-	-	-	-	-	-	787
Net income attributable to SolarEdge Technologies Inc.	$ 14,175	$ 22,524	$ 27,971	$ 19,502	$ 35,686	$ 34,568	$ 45,643	$ 12,936

Subsequent Events

On January 24, 2019, we announced the closing of transactions for the purchase of shares of SMRE S.p.A. ("SMRE"), an Italian provider of integrated powertrain technology and electronics for electric vehicles. Following the closing, we hold approximately 56% of the SMRE shares. SMRE's stock is publicly traded on the Italian AIM.

The acquisition was made for an aggregate purchase price of approximately $85 million, with 50% of such amount paid in cash and 50% in approximately 1.2 million SolarEdge common stock, approximately seventy five percent of is subject to restrictions on sale for 12 to 48 months. Subject to regulatory reviews and approvals, we intend to offer to purchase the remaining outstanding shares of SMRE that are currently listed on the Italian AIM stock exchange.

ITEM 9. CHANGES IN AND DISAGREEMENTS WITH ACCOUNTANTS ON ACCOUNTING AND FINANCIAL DISCLOSURE

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of December 31, 2018. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

Based on that evaluation, our chief executive officer and chief financial officer concluded that our disclosure controls and procedures are effective to provide reasonable assurance that information we are required to disclose in reports that we file or submit under the Exchange Act is recorded, processed, summarized, and reported within the time periods specified in SEC rules and forms, and that such information is accumulated and communicated to our management, including our chief executive officer and chief financial officer, as appropriate, to allow timely decisions regarding required disclosure.

Management’s Report on Internal Control Over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting (as defined in Rules 13a-15(f) and 15d-15(f) under the Exchange Act) to provide reasonable assurance regarding the reliability of our financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. generally accepted accounting principles.

Management assessed our internal control over financial reporting as of December 31, 2018. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

Management’s assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the purchased Gamatronic business or the business of Kokam Co., Ltd., that were acquired during 2018 and included in the 2018 consolidated financial statements of the Company and constituted 10.1% and 10.8% of total and net assets, respectively, as of December 31, 2018 and 2.4% of revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the purchased Gamatronic business or of Kokam Co., Ltd.

Based on this assessment, management has concluded that our internal control over financial reporting was effective as of the end of the year to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles. We reviewed the results of management’s assessment with the Audit Committee of our Board of Directors.

Our independent registered public accounting firm, Kost Forer Gabbay & Kasierer, a member of Ernst & Young, independently assessed the effectiveness of the company’s internal control over financial reporting, as stated in the firm’s attestation report, which is incorporated by reference into Part II, Item 8 of this Form 10-K.

Our management, including our chief executive officer and chief financial officer, does not expect that our disclosure controls and procedures or our internal control over financial reporting will prevent or detect all errors and all fraud. A control system, no matter how well-designed and operated, can provide only reasonable, not absolute, assurance that the control system’s objectives will be met. The design of a control system must reflect the fact that there are resource constraints, and the benefits of controls must be considered relative to their costs. Further, because of the inherent limitations in all control systems, no evaluation of controls can provide absolute assurance that misstatements due to error or fraud will not occur or that all control issues and instances of fraud, if any, have been detected. The design of any system of controls is based in part on certain assumptions about the likelihood of future events, and there can be no assurance that any design will succeed in achieving its stated goals under all potential future conditions. Projections of any evaluation of the effectiveness of controls to future periods are subject to risks. Over time, controls may become inadequate because of changes in conditions or deterioration in the degree of compliance with policies or procedures.

Changes in Internal Control over Financial Reporting

Following adoption of ASC 606 guidance on January 1, 2018, we implemented changes to our processes related to revenue recognition and the related control activities. There were no significant changes to our internal control over financial reporting due to the adoption of this new standard.

Following the acquisition of Kokam and Gamatronic's business, we implemented new processes related to business combination and intangible-goodwill and the related control activities.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Item 10 will be included under the captions “Directors and Corporate Governance”, “The Board’s Role in Risk Oversight”, “Board Committees”, “Director Compensation”, “Compensation Committee Report”, and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the 2019 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the year ending December 31, 2018 (the "2019 Proxy Statement") and is incorporated herein by reference.

Our Executive Officers

Name	Age(1)	Position(s) Held
Guy Sella	54	Chief Executive Officer and Chairman of the Board
Ronen Faier	47	Chief Financial Officer
Rachel Prishkolnik	50	Vice President, General Counsel & Corporate Secretary
Zvi Lando	54	Vice President, Global Sales
Lior Handelsman	45	Vice President, Marketing and Product Strategy
Yoav Galin	45	Vice President, Research & Development
Meir Adest	43	Chief Information Officer

(1) As of December 31, 2018

Guy Sella is a co-founder of SolarEdge and has served as Chairman of the board of directors and Chief Executive Officer since 2006. Prior to founding SolarEdge, Mr. Sella was a partner at Star Ventures, a leading venture capital firm, where he led investments in several startups, including AeroScout, Inc. (acquired by Stanley Black & Decker, Inc.) and Vidyo, Inc. Previously, Mr. Sella acted as the director of technology for the Israeli National Security Council and as the secretary for the National Committee for Cyber Protection. Mr. Sella also served as the head of the Electronics Research Department (“ERD”), one of Israel’s national labs, which is tasked with developing innovative and complex systems. Mr. Sella holds a B.S. in Engineering from the Technion, Israel’s Institute of Technology in Haifa. Mr. Sella brings to our board of directors demonstrated senior leadership skills, expertise from years of experience in electronics industries, and historical knowledge of our Company from the time of its founding.

Ronen Faier joined SolarEdge in 2011 as our Chief Financial Officer. Prior to joining SolarEdge, Mr. Faier served from 2008 to 2010 as the chief financial officer of Modu Ltd, a privately owned Israeli company, which entered into voluntary liquidation proceedings in Israel in December 2010. Between 2004 and 2007, Mr. Faier held several senior finance positions, including chief financial officer at M-Systems prior to its acquisition by SanDisk Corporation in 2006. Previously, Mr. Faier served as corporate controller of VocalTec Communications Ltd. Mr. Faier holds a CPA (Israel) license, an MBA (with Honors) from Tel Aviv University and a B.A. in Accounting and Economics from the Hebrew University in Jerusalem.

Rachel Prishkolnik joined SolarEdge in 2010 as our Vice President, General Counsel and Corporate Secretary. Prior to joining SolarEdge, Mrs. Prishkolnik served as the vice president, general counsel & corporate secretary of Gilat Satellite Networks Ltd. At Gilat she held various positions beginning as legal counsel in 2001 and becoming corporate secretary in 2004 and vice president, general counsel in 2007. Prior to Gilat, she worked at the law firm of Jeffer, Mangels, Butler & Marmaro LLP in Los Angeles. Before that, Mrs. Prishkolnik worked at Kleinhendler & Halevy (currently GKH Law Offices) in Tel Aviv. Mrs. Prishkolnik holds an LLB law degree from the Faculty of Law at the Tel Aviv University and a B.A. from Wesleyan University in Connecticut. She is licensed to practice law and is a member of the Israeli Bar.

Zvi Lando joined SolarEdge in 2009 as our Vice President, Global Sales. Mr. Lando had previously spent 16 years at Applied Materials, based in Santa Clara, California, where he held several positions, including process engineer for metal disposition and chemical vapor deposition systems, business manager for the Process Diagnostic and Control Group, vice president, and general manager of the Baccini Cell Systems Division in the Applied Materials Solar Business Group. Mr. Lando holds a BSc in Chemical Engineering from the Technion, Israel’s Institute of Technology in Haifa, and is the author of several publications in the field of chemical disposition.

Lior Handelsman co-founded SolarEdge in 2006 and currently serves as our Vice President, Marketing and Product Strategy where he is responsible for SolarEdge’s marketing activities, product management and business development. Previously, Mr. Handelsman served as Vice President, Product Strategy and Business Development, from 2009 through 2013 and Vice President, Product Development, from our founding through 2009. Mr. Handelsman also served as acting Vice President, Operations, from 2008 through 2010. Prior to co-founding SolarEdge, Mr. Handelsman spent 11 years at the ERD, where he held several positions including research and development power electronics engineer, head of the ERD’s power electronics group and manager of several large-scale development projects and he was a branch head in his last position at the ERD. Mr. Handelsman holds a B.S. in Electrical Engineering (cum laude) and an MBA from the Technion, Israel’s Institute of Technology in Haifa.

Yoav Galin co-founded SolarEdge in 2006 and has served since our founding as our Vice President, Research & Development where he is responsible for leading the execution of our technology strategy, building and managing the technology team and overseeing research and development of SolarEdge's innovative PV power harvesting products. Prior to joining SolarEdge, Mr. Galin served for 11 years at the ERD. During this period, Mr. Galin held various research and development and management positions, including his last position at the ERD where he led a project and its development team of over 30 hardware and software engineers. He was also responsible for overseeing the research and development of future technologies. Mr. Galin holds a B.S. in Electrical Engineering from Tel Aviv University.

Meir Adest co-founded SolarEdge in 2006 and has served since 2007 as our Vice President, Core Technologies where he is responsible for SolarEdge's certification and long-term reliability of SolarEdge products and research of future technologies. Since 2018, Mr. Adest serves as the Company's Chief Information Officer, managing the Information Technologies and Systems groups in addition to his previous areas of responsibility. Prior to co-founding SolarEdge, Mr. Adest spent 7 years at the ERD, where he held a number of positions, starting as an embedded software engineer for mission-critical systems, progressing to the position of a software team leader, managing a large-scale techno-operational project, and finally managing a multi-disciplinary section with approximately 25 hardware and software engineers. Mr. Adest holds a B.Sc in mathematics, physics, and computer science from the Hebrew University in Jerusalem.

Our Board of Directors

The following table sets forth certain information concerning our directors:

Name	Age(1)	Position(s) Held
Guy Sella	54	Chief Executive Officer and Chairman of the Board
Dan Avida	55	Director*
Yoni Cheifetz	58	Director*
Marcel Gani	66	Director*
Doron Inbar	69	Director*
Avery More	64	Director*
Tal Payne	47	Director*

(1) As of December 31, 2018

* Our board of directors has determined that this director is independent under the standards of the NASDAQ Global Select Market.

Guy Sella. Please see Item 1 of Part I, "ITEM 1. Business—Executive Officers of the Registrant."

Dan Avida has served as a member of our board of directors since 2007. Mr. Avida is a partner at Opus Capital. Before joining Opus Capital in 2005, Mr. Avida served for four years as president and chief executive officer at Decru Inc., a pioneering storage security company that Mr. Avida co-founded in 2001. Between 1989 and 1999 Mr. Avida was employed by Electronics for Imaging, Inc. (NASDAQ:EFII), where he held a number of positions and ultimately served as chairman and chief executive officer. Prior to Electronics for Imaging, Mr. Avida served as an officer in the Israel Defense Forces. Mr. Avida holds a B.Sc. in Computer Engineering (summa cum laude) from the Technion, the Israel Institute of Technology. Mr. Avida's historical knowledge of our company and years of experience in working with innovative companies in the United States and Israel provide a valuable perspective to the board of directors.

Yoni Cheifetz has served as a member of our board of directors since 2010. Since 2006, Mr. Cheifetz has served as a Partner at Lightspeed Venture Partners, where he focuses on investment activity in Israel in areas of interest, including the Internet, general media, mobile, communications, software, semiconductors and cleantech. Prior to joining Lightspeed Venture Partners, Mr. Cheifetz was a partner with Star Ventures from 2003 to 2006. Before joining Star Ventures, Mr. Cheifetz was a serial entrepreneur and the founder, CEO and Chairman of several privately held software companies most of which have been acquired. Mr. Chiefetz holds a B.Sc. in Applied Mathematics from Tel Aviv University and a M.Sc. in Applied Mathematics and Computer Science from the Weizmann Institute of Science. Mr. Cheifetz's historical knowledge of our company and extensive experience in working with technology companies qualify him to serve as a member of our board of directors.

Marcel Gani has served as a member of our board of directors since 2015. From 2005 to 2009, Mr. Gani lectured at Santa Clara University, where he taught classes on accounting and finance. In 1997, Mr. Gani joined Juniper Networks, Inc. where he served as chief financial officer and executive vice president from December 1997 to December 2004, and as chief of staff from January 2005 to March 2006. Prior to joining Juniper, Mr. Gani served as chief financial officer at various companies, including NVIDIA Corporation, Grand Junction Networks, Primary Access Corporation and Next Computers. Mr. Gani served as corporate controller at Cypress Semiconductor from 1991 to 1992. Prior to joining Cypress Semiconductor, Mr. Gani worked at Intel Corporation from 1978 to 1991. Mr. Gani holds a B.A. in Applied Mathematics from Ecole Polytechnique Federal and an M.B.A. from University of Michigan, Ann Arbor. Mr. Gani serves on the board of directors of Infinera, where he is a member of the audit committee and the chairman of the compensation committee. Mr. Gani brings valuable financial and business experience to our board through his years of experience as a chief financial officer with public companies and experience as a director of other public companies.

Doron Inbar has served as a member of our board of directors since 2010. Mr Inbar has been a venture partner at Carmel Ventures, an Israeli-based venture capital firm that invests primarily in early stage companies in the fields of software, communications, semiconductors, internet, media, and consumer electronics, since 2006. Previously, Mr. Inbar served as the president of ECI Telecom Ltd., a global telecom networking infrastructure provider, from November 1999 to December 2005 and its chief executive officer from February 2000 to December 2005. Mr. Inbar joined ECI Telecom Ltd. in 1983 and during his first eleven years with the company, served in various positions at its wholly-owned U.S. subsidiary, ECI Telecom, Inc., in the U.S., including executive vice president and General Manager. In July 1994, Mr. Inbar returned to Israel to become vice president, corporate budget, control and subsidiaries of ECI Telecom Ltd. In June 1996, Mr. Inbar was appointed senior vice president and chief financial officer of ECI Telecom Ltd., and he became executive vice president of ECI Telecom Ltd. in January 1999. Mr. Inbar has served on the board of directors of Alvarion Ltd. (formerly NASDAQ: ALVR), a company that sells broadband wireless and Wi-Fi products, from September 2009 until September 2013 and was a member of its audit and compensation committees and served as chairman of its nominating and governance committee. Mr. Inbar also served on the board of directors of Archimedes Global Ltd. from 2008 until 2017, a company which provides health insurance and health provision in Eastern Europe, and serves on the board of directors of MaccabiDent Ltd., the largest chain of dental service clinics in Israel. In 2012, Mr. Inbar joined the board of directors of Comverse Technology Inc. (formerly NASDAQ: CNSI), where he was a member of the audit committee and corporate governance committee until August 2016. Mr. Inbar served also as a board member and management consultant at Degania Medical Ltd., a medical device designer and manufacturer, and serves as a board member and management advisor to the board of Tzinorot Ltd. and Cellwize Wireless Technologies Ltd., a developer of innovative wireless solutions. Previously, Mr. Inbar served as chairman of the board of C-nario Ltd., a global provider of digital signage software solutions, chairman of the board of Followap Ltd., which was sold to Neustar, Inc. in November 2006, and chairman of the board of Enure Networks Ltd. Mr. Inbar holds a B.A. in Economics and Business Administration from Bar-Ilan University, Israel.

Avery More has served as a member of our board of directors since 2006. Mr. More was the sole seed investor in the Company through his fund, ORR Partners I, L.P., and has participated in all successive rounds. Mr. More joined Menlo Ventures in 2013 as a venture partner, and focuses on investments in technology companies. Prior to joining Menlo Ventures, Mr. More was the president and chief executive officer of CompuCom Systems Inc. from 1989 to 1993. Mr. More currently serves on the board of directors of Vidyo, Inc., QualiSystems Ltd., Takipi, BuzzStream, AppDome, and Dome9. Mr. More has specific attributes that qualify him to serve as a member of our board of directors, including his historical knowledge of our company and his experience as a director of other private and public technology companies.

Tal Payne has served as a member of our board of directors since 2015. Tal Payne brings over 15 years of financial management experience, serving as Chief Financial Officer in Check Point Software Technologies Ltd. ("Check Point") since joining in 2008 and as Chief Financial and Operations Officer since 2015. Ms. Payne oversees Check Point's global operations and finance, including investor relations, legal, treasury, purchasing and facilities. Prior to joining Check Point, Ms. Payne served as Chief Financial Officer at Gilat Satellite Networks, Ltd., where she held the role of Vice President of Finance for over five years. Ms. Payne began her career as a CPA in public accounting at PricewaterhouseCoopers. Ms. Payne holds a B.A. in Economics and Accounting and an Executive M.B.A., both from Tel Aviv University. Ms. Payne is a certified public accountant. Ms. Payne brings valuable financial and business experience to our board through her years of experience as a chief financial officer with publicly traded companies.

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be included under the captions "Executive Compensation" in our 2019 Proxy Statement and is incorporated herein by reference.

ITEM 12. SECURITY OWNERSHIP OF CERTAIN BENEFICIAL OWNERS AND MANAGEMENT AND RELATED STOCKHOLDER MATTERS

Except as set forth below, the information required by Item 12 will be included under the captions "Security Ownership of Certain Beneficial Owners and Management" in our 2019 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2018, about shares of common stock that may be issued under our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding stock awards(a)	Weighted-average exercise price of outstanding stock awards (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders (1)	5,263,991	$ 5.06	3,822,355
Equity compensation plans not approved by security holders	—	—	—
Total	5,263,991	$ 5.06	3,822,355

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(1) Includes in column (a) 3,812,812 shares of common stock issuable upon exercise of stock awards outstanding under the Company's 2015 Global Incentive Plan, 1,451,179 shares of common stock issuable upon exercise of options outstanding under the Company's 2007 Global Incentive Plan. Includes in column (c) 2,468,721 shares of common stock available for future issuance under the Company's 2015 Global Incentive Plan and 1,353,634 shares of common stock available for future issuance under the Company's Employee Stock Purchase Plan. Upon consummation of our initial public offering, the Company's 2007 Global Incentive Plan was terminated and no further awards can be granted under this plan.

Employee Stock Purchase Plan

We have adopted an employee stock purchase plan ("ESPP"), pursuant to which our eligible employees and eligible employees of our subsidiaries may elect to have payroll deductions made during the offering period in an amount not exceeding 10% of the compensation which the employees receive on each pay day during the offering period. In the second quarter of calendar 2016, we started granting eligible employees the right to purchase our common stock under the ESPP. As of December 31, 2018, a total of 1,739,280 shares were reserved for issuance under the ESPP. The number of shares of common stock reserved for issuance under the ESPP will increase annually on January 1st, for ten years, by the lesser of 1% of the total number of shares of the Company's common stock outstanding on December 31st of the preceding calendar year or 487,643 shares. Our board of directors may reduce the number of shares to be added to the share reserve for the ESPP in any particular year at their discretion. As of June 30, 2016, no shares of our common stock had yet been purchased under the ESPP. As of December 31, 2016, 2017 and 2018, 83,319, 268,377 and 385,646 common stock shares had been purchased under the ESPP, respectively.

ITEM 13. CERTAIN RELATIONSHIPS AND RELATED TRANSACTIONS, AND DIRECTOR INDEPENDENCE

The information required by Item 13 will be included under the captions "Transactions with Related Persons" in our 2019 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be included under the captions "Audit and Related Fees" in our 2019 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

Our Consolidated Financial Statements and Notes thereto are included in ITEM 8 of this Annual Report on Form 10-K. See Index to ITEM 8 for more detail.

All financial schedules have been omitted either because they are not applicable or because the required information is provided in our Consolidated Financial Statements and Notes thereto, included in ITEM 8 of this Annual Report on Form 10-K.

Index to Exhibits

Exhibit No.	Description	Incorporation by Reference
3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Exhibit 4.1 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
3.2	Amended and Restated By-Laws	Incorporated by reference to Exhibit 4.2 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
4.1	Specimen Common Stock Certificate of the Registrant	Incorporated by reference to Exhibit 4.1 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.2	Employment Agreement, dated August 26, 2007, between SolarEdge Technologies, Inc. and Guy Sella	Incorporated by reference to Exhibit 10.2 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.3	Employment Agreement, dated December 1, 2010, between SolarEdge Technologies, Inc. and Ronen Faier	Incorporated by reference to Exhibit 10.3 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.4†	Employment Agreement, dated May 17, 2009, between SolarEdge Technologies, Inc. and Zvi Lando	Incorporated by reference to Exhibit 10.3 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.5†	SolarEdge Technologies, Inc. 2007 Global Incentive Plan.	Incorporated by reference to Exhibit 99.3 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.6†	SolarEdge Technologies, Inc. 2015 Global Incentive Plan	Incorporated by reference to Exhibit 99.1 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.7†	SolarEdge Technologies, Inc. 2015 Employee Stock Purchase Plan	Incorporated by reference to Exhibit 99.2 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.8	Manufacturing Services Agreement, dated February 14, 2010 between Flextronics (Israel) Ltd. and SolarEdge Technologies Ltd. (previously filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015	Incorporated by reference to Exhibit 10.10 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015

10.9#	Interim Agreement, dated April 7, 2013 among Flextronics Industrial Ltd. between Flextronics (Israel) Ltd. and SolarEdge Technologies Ltd. (previously filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015)	Incorporated by reference to Exhibit 10.11 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
10.10#	Manufacturing Services Agreement, dated June 9, 2011 between Jabil Circuit Inc. and SolarEdge Technologies Inc. (previously filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015)	Incorporated by reference to Exhibit 10.12 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
10.11 †	Form of Non-Employee Director RSU Award Agreement	Incorporated by reference to Exhibit 10.11 to Form 10-K filed with the SEC on August 20, 2015
10.12 †	Form of Non-Employee Director Stock Option Award Agreement	Incorporated by reference to Exhibit 10.12 to Form 10-K filed with the SEC on August 20, 2015
10.13 †	Form of Employee RSU Award Agreement	Incorporated by reference to Exhibit 10.13 to Form 10-K filed with the SEC on August 20, 2015
10.14 †	Form of Employee Stock Option Award Agreement	Incorporated by reference to Exhibit 10.14 to Form 10-K filed with the SEC on August 20, 2015
10.15	Share Purchase Agreement, dated January 7, 2019, between SolarEdge Technologies Ltd. and MTI Holding s.r.l., Mr. Gabriele Amati and Mr. Giampaolo Giammarioli.	Incorporated by reference to Exhibit 2.1 to Form 8-K filed with the SEC on January 7, 2019
10.16	Share Purchase Agreement with Mr. Ji Jun Hong with respect to Kokam Co., Ltd.	Filed with this report.
10.17	Form of Ancillary Purchase Agreement with respect to Kokam Co., Ltd.	Filed with this report.
21.1	List of Subsidiaries of the Registrant	Filed with this report.
23.1	Consent of Kost Forer Gabbay & Kasierer, independent registered public accounting firm	Filed with this report.
24.1	Power of Attorney (included in signature page)	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed with this report.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this report.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this report.
101.INS	XBRL Instance Document	Filed with this report.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed with this report.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed with this report.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed with this report.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed with this report.

† Management contract or compensatory plan or arrangement.
# Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

SOLAREDGE TECHNOLOGIES, INC.
AND ITS SUBSIDIARIES.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2018

AUDITED

INDEX

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of

SOLAREDGE TECHNOLOGIES, INC.

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of SolarEdge Technologies, Inc. and subsidiaries (the “Company”) as of December 31, 2018, December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders’ equity and cash flows for each of the years ended December 31, 2018, December 31, 2017, the period from July 1, 2016 to December 31, 2016, and the year ended June 30, 2016, and the related notes (collectively referred to as the "financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of the Company as of December 31, 2018, December 31, 2017 and December 31, 2016, and the consolidated results of its operations and its cash flows for each of the years ended December 31, 2018, December 31, 2017, the period from July 1, 2016 to December 31, 2016, and the year ended June 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company's internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 28, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Kost Forer Gabbay & Kasierer

Kost Forer Gabbay & Kasierer,
A Member of Ernst & Young Global

We have served as the Company's auditor since 2007.

Tel-Aviv, Israel
February 28, 2019

REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Stockholders and the Board of Directors of

SOLAREDGE TECHNOLOGIES, INC.

Opinion on Internal Control over Financial Reporting

We have audited SolarEdge Technologies, Inc. and subsidiaries internal control over financial reporting as of December 31, 2018, based on criteria established in Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, SolarEdge Technologies, Inc. and subsidiaries (the Company) maintained, in all material respects, effective internal control over financial reporting as of December 31, 2018, based on the COSO criteria.

As indicated in the accompanying Management's Report on Internal Control Over Financial Reporting, management's assessment of and conclusion on the effectiveness of internal control over financial reporting did not include the internal controls of the business of Gamatronic Electronic Industries Ltd. and Kokam Co., Ltd., that were acquired during 2018 and included in the 2018 consolidated financial statements of the Company and constituted 10.1% and 10.8% of total and net assets, respectively, as of December 31, 2018 and 2.4% of revenues for the year then ended. Our audit of internal control over financial reporting of the Company also did not include an evaluation of the internal control over financial reporting of the business of Gamatronic Electronic Industries Ltd. and Kokam Co., Ltd.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of the Company as of December 31, 2018, December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, comprehensive income, changes in stockholders' equity and cash flows for each of the years ended December 31, 2018 December 31, 2017, the period from July 1, 2016 to December 31, 2016, and the year ended June 30, 2016, and related notes and our report dated February 29, 2019 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control over Financial Reporting.

Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Kost Forer Gabbay & Kasierer

Kost Forer Gabbay & Kasierer,
A Member of Ernst & Young Global

Tel-Aviv, Israel
February 28, 2019

CONSOLIDATED BALANCE SHEETS

U.S. dollars in thousands (except share and per share data)

	December 31,		
	2018	**2017**	**2016**
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	$ 191,633	$ 163,163	$ 104,683
Short-term bank deposits	6,001	-	-
Restricted cash	1,628	1,516	897
Marketable securities	118,680	77,264	74,465
Trade receivables, net	173,579	109,528	71,041
Prepaid expenses and other current assets	45,073	42,223	21,347
Inventories	141,519	82,992	67,363
Total current assets	678,113	476,686	339,796
LONG-TERM ASSETS:			
Marketable securities	74,256	103,120	44,262
Property, plant and equipment , net	119,329	51,182	36,122
Deferred tax assets, net	14,699	8,340	2,815
Intangible assets, net	38,504	1,115	1,259
Goodwill	34,874	-	-
Other non-current assets	4,697	862	489
Total long term assets	286,359	164,619	84,947
Total assets	$ 964,472	$ 641,305	$ 424,743

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

CONSOLIDATED BALANCE SHEETS (Cont.)

U.S. dollars in thousands (except share and per share data)

	December 31, 2018	December 31, 2017	December 31, 2016
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables, net	$ 107,079	$ 69,488	$ 34,001
Employees and payroll accruals	29,053	22,544	13,018
Current maturities of bank loans	16,639	-	-
Warranty obligations	28,868	14,785	13,616
Deferred revenues	14,351	2,559	1,202
Accrued expenses and other current liabilities	29,728	20,378	8,648
Total current liabilities	225,718	129,754	70,485
LONG-TERM LIABILITIES:			
Bank loans	3,510	-	-
Warranty obligations	92,958	64,026	44,759
Deferred revenues	60,670	31,453	18,660
Deferred tax liabilities, net	1,499	-	-
Other non-current liabilities	9,391	18,605	2,061
Total long-term liabilities	168,028	114,084	65,480
COMMITMENTS AND CONTINGENT LIABILITIES			
STOCKHOLDERS' EQUITY:			
Share capital			
Common stock of $0.0001 par value - Authorized 125,000,000 shares as of December 31, 2018, 2017, and, 2016; issued and outstanding: 46,052,802, 43,812,601, 41,259,391 shares as of December 31, 2018, 2017 and 2016, respectively.	5	4	4
Additional paid-in capital	371,794	331,902	307,098
Accumulated other comprehensive loss	(524)	(611)	(324)
Retained earnings (accumulated deficit)	191,133	66,172	(18,000)
Total SolarEdge Technologies, Inc. stockholders' equity	562,408	397,467	288,778
Non-controlling interests	8,318	-	-
Total stockholders' equity	570,726	397,467	288,778
Total liabilities and stockholders' equity	$ 964,472	$ 641,305	$ 424,743

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

CONSOLIDATED STATEMENTS OF OPERATIONS

U.S. dollars in thousands (except share and per share data)

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Revenues	$ 937,237	$ 607,045	$ 239,997	$ 489,843
Cost of revenues	618,001	392,279	159,097	337,887
Gross profit	319,236	214,766	80,900	151,956
Operating expenses:				
Research and development, net	82,245	54,966	20,279	33,231
Sales and marketing	68,307	50,032	20,444	34,833
General and administrative	29,264	18,682	6,790	12,133
Total operating expenses	179,816	123,680	47,513	80,197
Operating income	139,420	91,086	33,387	71,759
Financial expenses (income), net	2,297	(9,158)	2,789	(471)
Income before taxes on income	137,123	100,244	30,598	72,230
Taxes on income (tax benefit)	9,077	16,072	5,217	(4,379)
Net income	$ 128,046	$ 84,172	$ 25,381	$ 76,609
Net loss attributable to Non-controlling interests	787	-	-	-
Net income attributable to SolarEdge Technologies, Inc.	$ 128,833	$ 84,172	$ 25,381	$ 76,609
Net basic earnings per share of common stock attributable to SolarEdge Technologies, Inc.	$ 2.85	$ 1.99	$ 0.62	$ 1.92
Net diluted earnings per share of common stock attributable to SolarEdge Technologies, Inc.	$ 2.69	$ 1.85	$ 0.58	$ 1.73
Weighted average number of shares used in computing net basic earnings per share of common stock	45,235,310	42,209,238	41,026,926	39,987,935
Weighted average number of shares used in computing net diluted earnings per share of common stock	47,980,002	45,425,307	43,839,342	44,376,075

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

U.S. dollars in thousands (except share and per share data)

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Net income	$ 128,046	$ 84,172	$ 25,381	$ 76,609
Other comprehensive income (loss):				
Available-for-sale securities:				
Changes in unrealized gains (losses) net of tax	(360)	(297)	(193)	56
Reclassification adjustments for losses included in net income	137	-	-	1
Net change	(223)	(297)	(193)	57
Cash flow hedges:				
Changes in unrealized gains, net of tax	31	975	93	412
Reclassification adjustments for gains, net of tax included in net income	(31)	(994)	(317)	(169)
Net change	-	(19)	(224)	243
Foreign currency translation adjustments, net	310	29	(178)	193
Total other comprehensive income (loss)	87	(287)	(595)	493
Comprehensive income	$ 128,133	$ 83,885	$ 24,786	$ 77,102
Comprehensive income attributable to Non-controlling interests	150	-	-	-
Comprehensive income attributable to SolarEdge Technologies, Inc.	$ 127,983	$ 83,885	$ 24,786	$ 77,102

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

U.S. dollars in thousands (except share and per share data)

	SolarEdge Technologies, Inc. Stockholders' Equity							
	Common stock							
	Number	Amount	Additional paid in Capital	Accumulated Other comprehensive Income (loss)	Retained earnings (Accumulated Deficit)	Total	Non-controlling interests	Total stockholders' equity
Balance as of June 30, 2015	39,297,539	$ 4	$ 287,152	$ (222)	$ (119,990)	$ 166,944	$ -	$ 166,944
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	1,592,383	* -	2,973	-	-	2,973	-	2,973
Equity based compensation expenses to employees and non-employee consultants	-	-	9,089	-	-	9,089	-	9,089
Other comprehensive income adjustments	-	-	-	493	-	493	-	493
Net income	-	-	-	-	76,609	76,609	-	76,609
Balance as of June 30, 2016	40,889,922	$ 4	$ 299,214	$ 271	$ (43,381)	$ 256,108	$ -	$ 256,108
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	286,150	* -	349	-	-	349	-	349
Issuance of Common stock under employee stock purchase plan	83,319	* -	935	-	-	935	-	935
Equity based compensation expenses to employees and non-employee consultants	-	-	6,600	-	-	6,600	-	6,600
Other comprehensive loss adjustments	-	-	-	(595)	-	(595)	-	(595)
Net income	-	-	-	-	25,381	25,381	-	25,381
Balance as of December 31, 2016	41,259,391	$ 4	$ 307,098	$ (324)	$ (18,000)	$ 288,778	$ -	$ 288,778

* Represents an amount less than $1.

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (Cont.)

U.S. dollars in thousands (except share and per share data)

	SolarEdge Technologies, Inc. Stockholders' Equity							
	Common stock							
	Number	Amount	Additional paid in Capital	Accumulated Other comprehensive Income (loss)	Retained earnings (Accumulated Deficit)	Total	Non-controlling interests	Total stockholders' equity
Balance as of December 31, 2016	41,259,391	$ 4	$ 307,098	$ (324)	$ (18,000)	$ 288,778	$ -	$ 288,778
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	2,368,152	* -	4,854	-	-	4,854	-	4,854
Issuance of Common stock under employee stock purchase plan	185,058	* -	2,386	-	-	2,386	-	2,386
Equity based compensation expenses to employees and non-employee consultants	-	-	17,564	-	-	17,564	-	17,564
Other comprehensive loss adjustments	-	-	-	(287)	-	(287)	-	(287)
Net income	-	-	-	-	84,172	84,172	-	84,172
Balance as of December 31, 2017	43,812,601	$ 4	$ 331,902	$ (611)	$ 66,172	$ 397,467	$ -	$ 397,467
Cumulative effect of adopting ASC 606	-	-	-	-	(3,872)	(3,872)	-	(3,872)
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	2,122,932	1	6,333	-	-	6,334	-	6,334
Issuance of Common stock under employee stock purchase plan	117,269	* -	3,687	-	-	3,687	-	3,687
Equity based compensation expenses to employees and non-employee consultants	-	-	30,618	-	-	30,618	-	30,618
Non-controlling interests related to business combination	-	-	-	-	-	-	22,159	22,159
Purchase of Non-controlling interests	-	-	(746)	-	-	(746)	(13,204)	(13,950)
Other comprehensive loss adjustments	-	-	-	87	-	87	150	237
Net income	-	-	-	-	128,833	128,833	(787)	128,046
Balance as of December 31, 2018	46,052,802	$ 5	$ 371,794	$ (524)	$ 191,133	$ 562,408	$ 8,318	$ 570,726

* Represents an amount less than $1.

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

CONSOLIDATED STATEMENTS OF CASH FLOW

U.S. dollars in thousands (except share and per share data)

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Cash flows provided by operating activities:				
Net income	$ 128,046	$ 84,172	$ 25,381	$ 76,609
Adjustments to reconcile net income to net cash provided by operating activities:				
Depreciation of property, plant and equipment	11,426	7,011	2,702	3,763
Amortization of intangible assets	1,193	144	57	84
Amortization of premium and accretion of discount on available-for-sale marketable securities	1,242	2,061	681	532
Stock-based compensation	30,618	17,564	6,600	9,089
Capital loss from disposal of equipment	445	-	-	-
Realized loss from sale of available-for-sale marketable securities	137	-	-	-
Realized gain from cash flow hedge	(31)	(994)	(317)	(169)
Changes in assets and liabilities:				
Inventories	(20,178)	(15,690)	14,022	(7,356)
Prepaid expenses and other assets	(2,711)	(20,943)	(127)	10,814
Trade receivables, net	(60,514)	(38,139)	1,555	(37,271)
Deferred tax assets and liabilities, net	(7,093)	(5,455)	3,652	(6,380)
Trade payables, net	31,482	35,455	(14,464)	(32,200)
Employees and payroll accruals	4,583	9,394	2,996	3,278
Warranty obligations	41,878	20,436	7,183	19,313
Deferred revenues	37,041	14,106	1,335	8,578
Other liabilities	(8,485)	27,543	(2,235)	3,846
Net cash provided by operating activities	189,079	136,665	49,021	52,530
Cash flows from investing activities:				
Business combinations, net of cash acquired	(94,737)	-	-	-
Purchase of property, plant and equipment	(38,608)	(21,382)	(11,025)	(15,690)
Purchase of intangible assets	-	-	(600)	(800)
Investment in short term bank deposits	(6,001)	-	-	-
Investment in available-for-sale marketable securities	(142,627)	(143,675)	(40,858)	(118,511)
Proceed from sales and maturities of available-for-sale marketable securities	129,345	80,269	32,782	6,350
Net cash used in investing activities	$ (152,628)	$ (84,788)	$ (19,701)	$ (128,651)

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

CONSOLIDATED STATEMENTS OF CASH FLOW (Cont.)

U.S. dollars in thousands (except share and per share data)

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Cash flows from financing activities:				
Repayment of bank loan	$ (3,786)	$ -	$ -	$ -
Issuance costs related to initial public offering	-	-	-	(194)
Proceeds from issuance of shares under stock purchase plan and upon exercise of stock-based awards	10,021	7,240	1,284	2,973
Purchase of Non-controlling interests	(14,190)	-	-	-
Net cash provided by financing activities	(7,955)	7,240	1,284	2,779
Increase (decrease) in cash, cash equivalents and restricted cash	28,496	59,117	30,604	(73,342)
Cash, cash equivalents and restricted cash at the beginning of the period	164,679	105,580	74,960	148,389
Effect of exchange rate differences on cash, cash equivalents and restricted cash	86	(18)	16	(87)
Cash, cash equivalents and restricted cash at the end of the period	$ 193,261	$ 164,679	$ 105,580	$ 74,960
Supplemental disclosure of non-cash investing activities:				
Net change in accrued expenses and other accounts payable related to property and equipment additions	$ -	$ 598	$ -	$ 1,187
Supplemental disclosure of cash flow information:				
Cash paid for taxes	$ 15,368	$ 3,100	$ 1,103	$ 1,178

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

NOTE 1:- GENERAL

a. SolarEdge Technologies, Inc. (the “Company”) and its subsidiaries design, develop, and sell an intelligent inverter solution designed to maximize power generation at the individual photovoltaic (“PV”) module level while lowering the cost of energy produced by the solar PV system and providing comprehensive and advanced safety features. The Company’s products consist mainly of (i) power optimizers designed to maximize energy throughput from each and every module through constant tracking of Maximum Power Point individually per module, (ii) inverters which invert direct current (DC) from the PV module to alternating current (AC), (iii) a related cloud-based monitoring platform, that collects and processes information from the power optimizers and inverters of a solar PV system to enable customers and system owners as applicable, to monitor and manage the solar PV systems and (iv) a storage solution that is used to increase energy independence and maximize self-consumption for homeowners by utilizing a battery that is sold separately by third party manufacturers, to store and supply power as needed (the “StorEdge solution”). The StorEdge solution is designed to provide smart energy functions such as maximizing self-consumption, Time-of-Use programming for desired hours of the day, and home energy backup solutions.

The Company and its subsidiaries sell their products worldwide through large distributors and electrical equipment wholesalers to smaller solar installers as, well as directly to large solar installers and engineering, procurement and construction firms (“EPCs”).

In 2018, the Company completed certain strategic acquisitions in order to further expand its business.

In July and October 2018, the Company completed the acquisition ("Gamatronic Acquisition") of substantially all of the assets and activities of Gamatronic Electronic Industries Ltd ("Gamatronic IL") and all of the outstanding shares of its wholly owned subsidiary Gamatronic (UK) Limited (“Gamatronic UK”), respectively. Both companies ("UPS Division") are providers and manufacturers of Uninterruptible Power Supplies ("UPS") devices (see note 8).

On October 17, 2018, the Company completed the acquisition of 74.5% of the outstanding common shares and voting rights of Kokam Co., Ltd. (“Kokam”), a Korean company whose shares are traded on the Korean OTC market, a provider of Lithium-ion cells, batteries and energy storage solutions (see note 8). Since the Kokam acquisition date through December 31, 2018, the Company has increased its shareholdings in Kokam to 91.6%.

Subsequent to the balance sheet date, on January 24, 2019, the Company completed the acquisition of a majority stake (approximately 56%) of the outstanding common shares of S.M.R.E S.p.A (“SMRE”), an Italian company whose shares are traded on the Italian AIM, a provider of innovative integrated powertrain technology and electronics for electric vehicles (see note 20).

b. Basis of presentation:

Effective December 31, 2016, the Company changed its fiscal year end from June 30 to December 31. This change was made in order to align the Company’s fiscal year end with other companies within the industry. As a result of this change, the consolidated financial statements include presentation of the six month transition period from July 1, 2016 through December 31, 2016.

NOTE 1:- GENERAL (Cont.)

c. For the years ended December 31, 2018, and December 31, 2017, and the six months ended December 31, 2016, the Company had one major customer (customer with attributable revenues that represents more than 10% of total revenues) that accounted for approximately 19.4%, 14.8% and 11.2% of the Company's consolidated revenues, respectively. For the year ended June 30, 2016, the Company had three major customers that accounted for approximately 32.6% of the Company's consolidated revenues (see Note 19).

d. As of December 31, 2018 and 2017, the Company had two major customers (customer with a balance that represents more than 10% of total trade receivables) which accounted in the aggregate for approximately 41.3% and 35.2%, respectively, of the Company's consolidated trade receivables.

As of December 31, 2016, the Company had one major customer, which accounted for approximately 20.2% of the Company's consolidated trade receivables.

e. The Company depends on three contract manufacturers and several limited or single source component suppliers. The Company is in a process of discontinuing its activity with one of those contract manufacturers. Reliance on these vendors makes the Company vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields, and costs. These contract manufacturers collectively accounted for 58.8%, 51.6% and 61.0% of the Company's total trade payables as of December 31, 2018, 2017 and 2016, respectively.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES

The consolidated financial statements are prepared according to United States generally accepted accounting principles ("U.S. GAAP").

a. Principles of consolidation:

The consolidated financial statements include the accounts of the Company and its subsidiaries. Intercompany transactions and balances including profits from intercompany sales not yet realized outside the Company have been eliminated upon consolidation.

b. Use of estimates:

The preparation of financial statements, in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company evaluates its assumptions on an ongoing basis. The Company's management believes that the estimates, judgment, and assumptions used are reasonable based upon information available at the time they are made.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

These estimates, judgments, and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

c. Financial statements in U.S. dollars:

The functional currency of the Company and most of its foreign subsidiaries is the U.S. dollar, as the U.S. dollar is the currency of the primary economic environment in which the Company has operated and expects to continue to operate in the foreseeable future. Currently, the operations of these subsidiaries and the Company are primarily conducted in Israel, and a significant portion of its expenses are paid in U.S. dollars. Financing activities, including cash investments are primarily made in U.S. dollars.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are translated into U.S. dollars in accordance with Financial Accounting Standards Board Accounting Standards Codification (“ASC”) No. 830 “Foreign Currency Matters”. All transaction gains and losses of the re-measurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

The financial statements of other Company’s subsidiaries whose functional currency is other than the U.S. dollar have been translated into U.S dollars. Assets and liabilities have been translated using the exchange rates in effect on the balance sheet date. Statements of operations amounts have been translated using the average exchange rate for the relevant periods.

The resulting translation adjustments are reported as a component of stockholders’ equity in accumulated other comprehensive loss.

Accumulated other comprehensive gains (losses) related to foreign currency translation adjustments, net amounted to $132, $(178) and $(207) as of December 31, 2018, 2017 and 2016, respectively.

d. Basic and Diluted Net Earnings Per Share Attributable to SolarEdge Technologies, Inc.:

Basic net earnings per share is computed by dividing the net earnings attributable to SolarEdge Technologies, Inc. by the weighted-average number of shares of common stock outstanding during the period.

Diluted net earnings per share is computed by giving effect to all potential shares of common stock, including stock options, to the extent dilutive, all in accordance with ASC No. 260, "Earnings Per Share."

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

No shares were excluded from the calculation of diluted net earnings per share due to their anti-dilutive effect for the year ended December 31, 2018.

The total weighted average number of shares related to the outstanding stock options, excluded from the calculation of diluted net earnings per share due to their anti-dilutive effect was 197,516, 374,156 and 16,208 for the years ended December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, respectively.

The following table presents the computation of basic and diluted net earnings per share attributable to SolarEdge Technologies, Inc. for the periods presented (in thousands, except share and per share data):

	Year ended December 31,		Six months ended December 31,	Year ended June 30,
	2018	2017	2016	2016
Numerator:				
Net income	$ 128,046	$ 84,172	$ 25,381	$ 76,609
Net loss attributable to Non-controlling interests	787	-	-	-
Net income attributable to SolarEdge Technologies, Inc.	$ 128,833	$ 84,172	$ 25,381	$ 76,609
Denominator:				
Shares used in computing net earnings per share of common stock, basic	45,235,310	42,209,238	41,026,926	39,987,935
Effect of stock-based awards	2,744,692	3,216,069	2,812,416	4,388,140
Shares used in computing net earnings per share of common stock, diluted	47,980,002	45,425,307	43,839,342	44,376,075

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

e. Cash and cash equivalents:

Cash equivalents are short-term, highly liquid investments that are readily convertible to cash, with original maturities of three months or less at the date acquired.

f. Short-term bank deposits:

Short-term bank deposits are deposits with an original maturity of more than three months from the date of investment and which do not meet the definition of cash equivalents. The deposits are presented according to their term deposits.

g. Marketable Securities:

Marketable securities consist of corporate and governmental bonds. The Company determines the appropriate classification of marketable securities at the time of purchase and re-evaluates such designation at each balance sheet date. In accordance with FASB ASC No. 320 “Investments - Debt and Equity Securities”, the Company classifies marketable securities as available-for-sale. Available-for-sale securities are stated at fair value, with unrealized gains and losses reported in accumulated other comprehensive income (loss), a separate component of stockholders’ equity, net of taxes.

Realized gains and losses on sales of marketable securities, as determined on a specific identification basis, are included in financial income (expenses), net. The amortized cost of marketable securities is adjusted for amortization of premium and accretion of discount to maturity, both of which, together with interest, are included in financial income (expenses), net.

The Company classifies its marketable securities as either short-term or long-term based on each instrument’s underlying contractual maturity date. Marketable securities with maturities of 12 months or less are classified as short-term and marketable securities with maturities greater than 12 months are classified as long-term.

The Company recognizes an impairment charge when a decline in the fair value of its investments in debt securities below the cost basis of such securities is judged to be other-than-temporary. Factors considered in making such a determination include the duration and severity of the impairment, the reason for the decline in value, the potential recovery period, and the Company’s intent to sell, including whether it is more likely than not that the Company will be required to sell the investment before recovery of cost basis. If the Company does not intend to sell the security or it is not more likely than not that it will be required to sell the security before it recovers in value, the Company must estimate the net present value of cash flows expected to be collected. If the amortized cost exceeds the net present value of cash flows, such excess is considered a credit loss and an other-than-temporary impairment has occurred. For securities that are deemed other-than-temporarily impaired (“OTTI”), the amount of impairment is recognized in the statement of operations and is limited to the amount related to credit losses, while impairment related to other factors is recognized in other comprehensive income (loss). The Company did not recognize OTTI on its marketable securities during the years ended December 31, 2018, and December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

h. Restricted cash:

Restricted cash is primarily invested in short-term bank deposits, which are primarily used as a guarantee to the Company’s landlords for its office leases and as security for the Company’s credit cards.

i. Inventories:

Inventories are stated at the lower of cost or market value. Cost includes depreciation, labor, material and overhead costs. Inventory reserves are provided to cover risks arising from slow-moving items or technological obsolescence.

The Company periodically evaluates the quantities on hand relative to historical, current, and projected sales volume. Based on this evaluation, an impairment charge is recorded when required to write-down inventory to its market value. Cost of finished goods and raw materials is determined using the moving average cost method.

j. Property, plant and equipment:

Property, plant and equipment are stated at cost, net of accumulated depreciation. Machinery and equipment in progress is the construction or development of property and equipment that have not yet been placed in service for the Company's intended use. Depreciation is calculated by the straight-line method over the estimated useful lives of the assets, at the following rates:

	%
Buildings and plants	2.5 – 5 (mainly 2.5)
Computers and peripheral equipment	15 – 33 (mainly 33)
Office furniture and equipment	7 – 25 (mainly 7)
Machinery and equipment	7 – 33 (mainly 20)
Laboratory equipment	15 – 25 (mainly 15)
Leasehold improvements	over the shorter of the lease term or useful economic life

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Business Combination:

The Company allocates the fair value of purchase consideration to the tangible assets acquired, liabilities assumed and intangible assets acquired based on their estimated fair value. The excess of the fair value of purchase consideration over the fair values of these identifiable assets and liabilities is recorded as goodwill. Such valuations require management to make significant estimates and assumptions, especially with respect to intangible assets. Significant estimates in valuing certain intangible assets include, but are not limited to, future expected cash flows from acquired technology, useful lives and discount rates.

Management's estimates of fair value are based upon assumptions believed to be reasonable, but which are inherently uncertain and unpredictable and, as a result, actual results may differ from estimates. During the measurement period, which is not to exceed one year from the acquisition date, the Company may record adjustments to the assets acquired and liabilities assumed, with the corresponding offset to goodwill. Upon the conclusion of the measurement period, any subsequent adjustments are recorded to earnings.

l. Intangible Assets:

The Company evaluates the recoverability of finite-lived intangible assets for possible impairment whenever events or circumstances indicate that the carrying amount of such assets may not be recoverable. The evaluation is performed at the lowest level for which identifiable cash flows are largely independent of the cash flows of other assets and liabilities. Recoverability of these assets is measured by a comparison of the carrying amounts to the future undiscounted cash flows the assets are expected to generate. If such review indicates that the carrying amount of intangible assets is not recoverable, the carrying amount of such assets is reduced to fair value. The Company has not recorded any impairment charges during the year ended December 31, 2018.

Acquired identifiable finite-lived intangible assets are amortized on a straight-line basis or accelerated method over the estimated useful lives of the assets. The Company believes the basis of amortization approximates the pattern in which the assets are utilized, over their estimated useful lives. The Company routinely reviews the remaining estimated useful lives of finite-lived intangible assets. If the Company reduces the estimated useful life assumption for any asset, the remaining unamortized balance is amortized or depreciated over the revised estimated useful life (see Note 9).

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

m. Goodwill:

The Company evaluates goodwill for impairment annually, or more frequently when an event occurs or circumstances change that indicate the carrying value may not be recoverable. In testing goodwill for impairment, the Company may elect to utilize a qualitative assessment to evaluate whether it is more likely than not that the fair value of a reporting unit is less than its carrying amount. If the qualitative assessment indicates that goodwill impairment is more likely than not, than a two-step impairment test is performed. The Company tests goodwill for impairment under the two-step impairment test by first comparing the book value of net assets to the fair value of the reporting unit. If the fair value is determined to be less than the book value or qualitative factors indicate that it is more likely than not that goodwill is impaired, a second step is performed to compute the amount of impairment as the difference between the estimated fair value of goodwill and the carrying value. The Company estimates the fair value of the reporting units using discounted cash flows. Forecasts of future cash flows are based on the Company's management best estimate of future net sales and operating expenses that are based primarily on expected category expansion, pricing, and general economic conditions.

The Company completes the required annual testing of goodwill for impairment for the reporting units on October 1 of each year and accordingly, determines whether goodwill should be impaired.

As of December 31, 2018, no impairment of goodwill has been identified.

n. Impairment of long-lived assets:

The Company’s long-lived assets are reviewed for impairment in accordance with ASC 360 “Property, Plants and Equipment”, whenever events or changes in circumstances indicate that the carrying amount of an asset (or asset group) may not be recoverable. Recoverability of assets to be held and used is measured by a comparison of the carrying amount of an asset (or asset group) to the future undiscounted cash flows expected to be generated by the assets (or asset group).

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. For the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, no impairment losses have been identified.

o. Severance pay:

Pursuant to Israel's Severance Pay Law, Israeli employees are entitled to severance pay equal to one month's salary for each year of employment, or a portion thereof. The employees of the Company's Israeli subsidiary have elected to be included under section 14 of the Severance Pay Law, 1963, under which these employees are entitled only to monthly deposits made in their name with insurance companies, at a rate of 8.33% of their monthly salary. These payments cause the Company to be released from any future obligation under the Israeli Severance Pay Law to make severance payments in respect of those employees; therefore, related assets and liabilities are not presented in the balance sheet.

For the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, the Company recorded $4,331, $2,995, $1,131, and $1,761, in severance expenses related to its employees in Israel, respectively.

Severance expenses related to all other employees are immaterial to the Company's consolidated statements of operations.

p. Revenue recognition:

The Company adopted Accounting Standards Codification 606, Revenue from Contracts with Customers (ASC 606), effective as of January 1, 2018, which changed the Company's revenue recognition accounting policy, as detailed below.

The Company's products consist mainly of (i) power optimizers, (ii) inverters, (iii) a related cloud-based monitoring platform, (iv) a storage solution, (v) UPS units and (vi) Lithium-ion cells, batteries and energy storage solutions.

The Company recognizes revenue under the core principle that transfer of control to the Company's customers should be depicted in an amount reflecting the consideration the Company expects to receive in revenue. In order to achieve that core principle, the Company applies the following five-step approach: (1) identify the contract with a customer, (2) identify the performance obligations in the contract, (3) determine the transaction price, (4) allocate the transaction price to the performance obligations in the contract, and (5) recognize revenue when a performance obligation is satisfied.

Revenue disaggregated by revenue source for the years ended December 31, 2018, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016 consists of the following:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Solar	$ 914,285	$ 607,045	$ 239,997	$ 489,843
Non-solar	22,952	-	-	-
Total revenues	$ 937,237	$ 607,045	$ 239,997	$ 489,843

(1) Identify the contract with a customer

A contract is an agreement between two or more parties that creates enforceable rights and obligations. In evaluating the contract, the Company analyzes the customer's intent and ability to pay the amount of promised consideration (credit risk) and considers the probability of collecting substantially all of the consideration.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company determines whether collectability is reasonably assured on a customer-by-customer basis pursuant to its credit review policy. The Company typically sells to customers with whom it has a long-term business relationship and a history of successful collection. For a new customer, or when an existing customer substantially expands its commitments, the Company evaluates the customer's financial position, the number of years the customer has been in business, the history of collection with the customer, and the Customer's ability to pay, and typically assigns a credit limit based on that review.

(2) Identify the performance obligations in the contract

At a contract's inception, the Company assesses the goods or services promised in a contract with a customer and identifies the performance obligations.

The main performance obligations are the provisions of the following:

Power optimizers; Inverters; UPS devices; Lithium-ion cells, batteries and energy storage solutions; cloud based monitoring services; extended warranty services and communication services.

(3) Determine the transaction price

The transaction price is the amount of consideration to which the Company is entitled in exchange for transferring promised goods or services to a customer, excluding amounts collected on behalf of third parties.

Generally, the Company does not provide price protection, stock rotation, and/or right of return. The Company determines the transaction price for all satisfied and unsatisfied performance obligations identified in the contract from contract inception to the beginning of the earliest period presented.

Rebates or discounts on goods or services are accounted for as variable consideration. The rebate or discount program is applied retrospectively for future purchases. Provisions for rebates, sales incentives, and discounts to customers are accounted for as reductions in revenue in the same period the related sales are recorded.

When a contract provides a customer with payment terms of more than a year, the Company considers whether those terms create variability in the transaction price and whether a significant financing component exists.

The performance obligations that extend for a period greater than one year are those that include a financial component: (i) warranty extension services, (ii) cloud-based monitoring, and (iii) communication services.

(4) Allocate the transaction price to the performance obligations in the contract

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company performs an allocation of the transaction price to each separate performance obligation, in proportion to their relative standalone selling prices.

(5) Recognize revenue when a performance obligation is satisfied

Revenue is recognized when or as performance obligations are satisfied by transferring control of a promised good or service to a customer. Control either transfers over time or at a point in time, which affects when revenue is recorded.

Revenues from sales of products are recognized when control is transferred (based on the agreed International Commercial terms, or "INCOTERMS"). Revenues related to warranty extension services, cloud-based monitoring, and communication services are recognized over time on a straight-line basis.

Deferred revenues consist of deferred cloud-based monitoring services, communication services, warranty extension services and advance payments received from customers for the Company's products. Deferred revenues are classified as short-term and long-term deferred revenues based on the period in which revenues are expected to be recognized.

The Company recognizes financing component expenses in its consolidated statement of income in relation to advance payments for performance obligations that extend for a period greater than one year. These financing component expenses are reflected in the Company's deferred revenues balance. The application of the new standard includes reference to such performance obligations that include a financing component, specifically: (i) warranty extension services, (ii) cloud-based monitoring, and (iii) communication services.

The effect of the changes made to the consolidated January 1, 2018 balance sheets following the adoption of ASC 606, Revenue - Revenue from Contracts with Customers were as follows:

	Balance as of December 31, 2017	Adjustments due following adoption of ASC 606	Balance as of January 1, 2018
Deferred Revenues - Current term	$ 2,559	$ (89)	$ 2,470
Deferred Revenues - Long term	31,453	3,961	35,414
Retained earnings	$ 66,172	$ (3,872)	$ 62,300

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In accordance with the new revenue standard requirements, the disclosure of the impact of adoption on the Company's consolidated statements of operations, cash flows, and balance sheets were as follows:

	Year ended December 31, 2018		
	As Reported	Balances before adoption of ASC 606	Effect of change
Statements of operations			
Revenues	$ 937,237	$ 937,168	$ 69
Financial expenses (income), net	2,297	(122)	2,419
Net income	128,046	130,396	(2,350)
Cash flows			
Net income	128,046	130,396	(2,350)
Changes in assets and liabilities:			
Deferred revenues	37,041	34,789	2,252

	As of December 31, 2018		
	As Reported	Balances before adoption of ASC 606	Effect of change
Balance Sheets			
Deferred Revenues - Current	14,351	14,559	(208)
Deferred Revenues - Long term	60,670	54,240	6,430
Retained earnings	$ 191,133	$ 195,005	$ (3,872)

q. Cost of revenues:

Cost of revenues sold includes the following: product costs consisting of purchases from contract manufacturers and other suppliers, direct and indirect manufacturing costs, shipping and handling costs, support, warranty expenses and changes in warranty provision, provision for losses related to slow moving and dead inventory, personnel and logistics costs, and royalty expense payments to the Israel Innovation Authority ("IIA").

r. Shipping and handling costs:

Shipping and handling costs, which amounted to $45,821, $29,693, $8,131 and $21,922, for the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, respectively, are included in cost of revenues in the consolidated statements of operations. Shipping and handling costs include all costs associated with the distribution of finished goods from the Company's point of sale directly to its customers.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

s. Warranty obligations:

The Company provides a warranty for its solar related products as follows: a 10-year limited warranty for StorEdge products, a minimum 12-year limited warranty for inverters, and a 25-year limited warranty for power optimizers. In certain cases, the Company provides extended warranties for inverters that brings the warranty period up to 25 years. The Company maintains reserves to cover the expected costs that could result from these warranties. The warranty liability is generally in the form of product replacement and associated costs. Warranty reserves are based on the Company’s best estimate of such costs and are included in cost of revenues. The reserve for the related warranty expenses is based on various factors including assumptions about the frequency of warranty claims on product failures, derived from results of accelerated lab testing, field monitoring, analysis of the history of product field failures, and the Company’s reliability estimates.

The Company has established a reliability measurement system based on the units’ estimated mean time between failure, or MTBF, a metric that equates to a steady-state failure rate per year for each product generation. The MTBF predicts the expected failure rate of each product within the Company's products installed base during the expected product warranted lifetime.

The Company performs accelerated life cycle testing, which simulates the service life of the product in a short period of time.

The accelerated life cycle tests incorporate test methodologies derived from standard tests used by solar module vendors to evaluate the period over which solar modules wear out. Corresponding replacement costs are updated periodically to reflect changes in the Company’s actual and estimated production costs for its products, rate of usage of refurbished units as a replacement of faulty units, and other costs related to logistic and subcontractors’ services associated with the replacement products.

In addition, through the collection of actual field failure statistics, the Company has identified several additional failure causes that are not included in the MTBF model. Such causes, which mostly consist of design errors, workmanship errors caused during the manufacturing process and, to a lesser extent, replacement of non-faulty units by installers, are generating additional replacement costs to the replacement costs projected under the MTBF model. The Company identified those causes, its failure pattern and the relative ratio compared to the pattern of malfunctions identified under the MTBF model and accrued additional provisions for the occurrence of such malfunctioning. For the major causes of failures, the Company evaluates the continuation of these occurrences and the appearance of potential additional malfunctioning cases beyond the MTBF pattern and accrues additional expenses accordingly.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

For other products the Company accrued for warranty costs based on the Company’s best estimate of product and associated costs. The Company’s other products are sold with a standard limited warranties that typically range in duration from one to ten years, and in some cases for a longer period.

Warranty obligations are classified as short-term and long-term obligations based on the period in which the warranty is expected to be claimed.

t. Research and development costs:

Research and development costs, net of grants received, are charged to the consolidated statement of operations as incurred.

u. Concentrations of credit risks:

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents, restricted cash, short-term bank deposits, trade receivables, other accounts receivable, and marketable securities.

Cash and cash equivalents are mainly invested in major banks in the U.S., Israel, Korea, Germany, Australia and Japan. Management believes that the financial institutions that hold the Company’s investments are financially sound and, accordingly, minimal credit risk exists with respect to these investments.

The Company’s marketable securities consist of corporate and governmental bonds.

The Company's marketable securities include investments in highly-rated corporate debentures (mainly of U.S., UK, Australia, Cayman Islands, Canada, and other countries) and governmental bonds. The financial institutions that hold the Company's marketable securities are major financial institutions located in the United States. Management believes that the Company's marketable securities portfolio is a diverse portfolio of highly-rated securities and the Company's investment policy limits the amount the Company may invest in each issuer, and accordingly, management believes that minimal credit risk exists from geographic or credit concentration with respect to these securities.

The trade receivables of the Company derive from sales to customers located primarily in North America, Europe, and Australia.

The Company generally does not require collateral, however, in certain circumstances, the Company may require letters of credit, other collateral, or additional guarantees.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

An allowance for doubtful accounts is determined with respect to specific receivables that are doubtful of collection. The Company accrued $427, $128, and $226 as allowance for doubtful accounts as of December 31, 2018, 2017 and 2016, respectively.

In addition, an accrual for rebates is allocated to specific receivables. The Company accrued $39,018, $17,428, and $9,089 for rebates as of December 31, 2018, 2017 and 2016, respectively.

The Company and its subsidiaries have no off-balance sheet concentration of credit risk except for certain derivative instruments as mentioned below.

v. Fair value of financial instruments:

The following methods and assumptions were used by the Company in estimating the fair value of its financial instruments:

The carrying value of cash and cash equivalents, restricted cash, short-term bank deposits, trade receivables, short and long term bank loans, prepaid expenses and other current assets, trade payables, employee and payroll accruals and accrued expenses and other current liabilities approximate their fair values due to the short-term maturities of such instruments.

Assets measured at fair value on a recurring basis as of December 31, 2018, 2017 and 2016 are comprised of money market funds, foreign currency derivative contracts and marketable securities (see Note 4).

The Company applies ASC 820 “Fair Value Measurements and Disclosures”, with respect to fair value measurements of all financial assets and liabilities.

Fair value is an exit price, representing the amount that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants. As such, fair value is a market-based measurement that should be determined based on assumptions that market participants would use in pricing an asset or a liability.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

A three-tiered fair value hierarchy is established as a basis for considering such assumptions and for inputs used in the valuation methodologies in measuring fair value:

Level 1- Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets.

Level 2- Include other inputs that are directly or indirectly observable in the marketplace.

Level 3- Unobservable inputs which are supported by little or no market activity.

The fair value hierarchy also requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value.

w. Accounting for stock-based compensation:

The Company accounts for stock-based compensation in accordance with ASC 718 “Compensation-Stock Compensation”. ASC 718 requires companies to estimate the fair value of equity-based payment awards on the date of grant using an Option-Pricing Model (“OPM”). The value of the portion of the award that is ultimately expected to vest is recognized as an expense over the requisite service periods in the Company’s consolidated statements of operations.

The Company recognizes compensation expenses for the value of its awards granted based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. ASC 718 requires forfeitures to be estimated at the time of grant and revised, if necessary, in subsequent periods if actual forfeitures differ from those estimates. Estimated forfeitures are based on actual historical pre-vesting forfeitures (pursuant to the adoption of ASU 2016-09, the Company made a policy election to estimate the number of awards that are expected to vest).

The Company selected the Black-Scholes-Merton option-pricing model as the most appropriate fair value method for its stock-option awards and Employee Stock Purchase Plan. The option-pricing model requires a number of assumptions, of which the most significant are the fair market value of the underlying common stock, expected stock price volatility, and the expected option term. Expected volatility for stock-option awards was calculated until December 31, 2017 based upon certain peer companies that the Company considered to be comparable and starting January 1, 2018 based upon the Company’s actual historical stock price movements over the most recent periods. Expected volatility for Employee Stock Purchase Plan was calculated based upon the Company’s stock prices. The expected option term represents the period of time that options granted are expected to be outstanding. The expected option term is determined based on the simplified method in accordance with SAB No. 110, as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company has not declared or paid any dividends on its common stock and does not expect to pay any dividends in the foreseeable future.

The fair value for options granted to employees and executive directors and Employee Stock Purchase Plan in the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, are estimated at the date of grant using a Black-Scholes-Merton option-pricing model with the following assumptions:

	Year ended December 31,		Six months ended December 31, 2016	Year Ended June 30, 2016
	2018	2017		
Employee Stock Options				
Risk-free interest	2.32%	2.14% - 2.17%	1.28% - 1.34%	1.39% - 1.97%
Dividend yields	0%	0%	0%	0%
Volatility	56.53%	58.08% - 58.10%	55.33% - 55.34%	55.45%- 56.03%
Expected option term in years	6.06	6.06	6.06	5.50-6.11
Estimated forfeiture rate	0%	0%	0%	10.3%
Employee Stock Purchase Plan				
Risk-free interest	2.10% - 2.52%	0.60% - 1.07%	0.60%	0.40%
Dividend yields	0%	0%	0%	0%
Volatility	54.13% - 56.67%	45.60% - 48.08%	48.08%	62.84%
Expected term	6 months	6 months	6 months	6 months

The following table set forth the parameters used in computation of the options compensation to non-employee consultants in the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, using a Black-Scholes-Merton option-pricing model with the following assumptions:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Risk-free interest	2.81%-2.84%	2.12% - 2.42%	1.16% - 2.45%	1.15%-2.21%
Dividend yields	0%	0%	0%	0%
Volatility	58.18%- 59.33%	61.21% - 62.62%	55.33% - 58.57%	55.37%- 55.75%
Contractual life in years	6-10	6-10	6 - 10	6.4-10

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company recognizes compensation expenses for the value of its restricted stock unit ("RSU") awards, based on the straight-line method over the requisite service period of each of the awards, net of estimated forfeitures. The fair value of each RSU is the market value of the Company's stock as determined by the closing price of the common stock on the day of grant.

x. Income taxes:

The Company and its subsidiaries account for income taxes in accordance with ASC 740, "Income Taxes." ASC 740 prescribes the use of the liability method, whereby deferred tax asset and liability account balances are determined based on differences between financial reporting and tax bases of assets and liabilities and are measured using the enacted tax rates that will be in effect when the differences are expected to reverse.

Deferred income tax balances reflect the effects of temporary differences between the carrying amounts of assets and liabilities and their tax bases and are stated at enacted tax rates expected to be in effect when taxes are actually paid or recovered.

Deferred tax assets are evaluated for future realization and reduced by a valuation allowance to the extent we believe they will not be realized.

The Company may incur additional tax liability in the event of intercompany dividend distributions by some of its subsidiaries. Such additional tax liability in respect of these subsidiaries has not been provided when the Company intends to permanently reinvest earnings of foreign subsidiaries indefinitely.

Tax liabilities that would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing the deferred taxes, as it is the Company's intention to hold, and not to realize, these investments.

The Company accounts for uncertain tax positions in accordance with ASC 740. ASC 740-10 contains a two-step approach to recognizing and measuring uncertain tax positions. The first step is to evaluate the tax position taken or expected to be taken in a tax return by determining if the weight of available evidence indicates that it is more likely than not that, on an evaluation of the technical merits, the tax position will be sustained on audit, including resolution of any related appeals or litigation processes. The second step is to measure the tax benefit as the largest amount that is more than 50% (cumulative probability) likely to be realized upon ultimate settlement.

The Company records reserves for uncertain tax positions to the extent it is more likely than not that the tax position will not be sustained on audit, based on the technical merits of the position.

y. Derivative financial instruments:

The Company accounts for derivatives and hedging based on ASC 815 "Derivatives and Hedging". ASC 815 requires the Company to recognize all derivatives on the balance sheet at fair value. The accounting for changes in the fair value (i.e., gains or losses) of a derivative instrument depends on whether it has been designated and qualifies as part of a hedging relationship and further, on the type of hedging relationship.

To protect against the increase in value of forecasted foreign currency cash flows resulting from salary and lease payments of its Israeli facilities denominated in the Israeli currency, the New Israeli Shekel ("NIS"), the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll and lease payments denominated in NIS for a period of one to twelve months with hedging contracts. These hedging contracts are designated as cash flow hedges, as defined by ASC 815 and are all effective hedges.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In accordance with ASC 815, for derivative instruments that are designated and qualify as a cash flow hedge (i.e. hedging the exposure to variability in expected future cash flows that is attributable to a particular risk), the effective portion of the gain or loss on the derivative instrument is reported as a component of other comprehensive income and reclassified into earnings in the same period or periods during which the hedged transaction affects earnings. Any gain or loss on a derivative instrument in excess of the cumulative change in the present value of future cash flows of the hedged item is recognized in current earnings during the period of change.

In addition to the above-mentioned cash flow hedges transactions, the Company also entered into derivative instrument arrangements to hedge the Company’s exposure to currencies other than the U.S. dollar. These derivative instruments are not designated as cash flow hedges, as defined by ASC 815, and therefore all gains and losses, resulting from fair value remeasurement, were recorded immediately in the statement of operations, as financial income (expenses).

As of December 31, 2018, the Company had no outstanding derivative instruments.

As of December 31, 2017, the Company entered into forward contracts and put and call options to sell Euros for U.S. dollars in the amount of €54 million.

As of December 31, 2017, the Company had no derivative instruments that were designated as cash flow hedges.

As of December 31, 2016, the Company entered into forward contracts to sell U.S. dollars for NIS in the amount of $5,098. These hedging contracts do not contain any credit-risk-related contingency features. See Note 4 for information on the fair value of these hedging contracts.

As of December 31, 2016, the Company had no derivative instruments that were not designated as cash flow hedges.

The fair value of derivative assets and derivative liabilities as of December 31, 2017, was $221 and $401, respectively, which was recorded at net amount in accrued expenses and other current liabilities in the consolidated balance sheets.

The fair value of derivative assets as of December 31, 2016 was $19, which was recorded in prepaid expenses and other current assets in the consolidated balance sheets.

The Company recorded changes in the fair value (i.e., gains or losses) of the derivatives in the accompanying consolidated statements of cash flows as changes in operating activities.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

z. Comprehensive income:

The Company reports comprehensive income in accordance with ASC 220 ("Comprehensive Income"). ASC 220 establishes standards for the reporting and presentation of comprehensive income and its components in a full set of general purpose financial statements.

Total comprehensive income and the components of accumulated other comprehensive income are presented in the consolidated statements of stockholders' equity. Accumulated other comprehensive income consists of foreign currency translation effects, unrealized gains and losses on available-for-sale marketable securities and hedging contracts.

aa. New accounting pronouncements not yet effective:

In February 2016, the Financial Accounting Standards Board (FASB) issued Accounting Standards Update No. 2016-02 (Topic 842) "Leases". Topic 842 supersedes the lease requirements in Accounting Standards Codification (ASC) Topic 840, "Leases". Under Topic 842, lessees are required to recognize assets and liabilities on the balance sheet for most leases and provide enhanced disclosures. ASU No. 2016-02 is effective for interim and annual reporting periods beginning after December 15, 2018. In July 2018, the FASB issued amendments in ASU 2018-11, which provide a transition election to not restate comparative periods for the effects of applying the new standard. This transition election permits entities to change the date of initial application to the beginning of the earliest comparative period presented, or retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company has elected to apply the standard retrospectively at the beginning of the period of adoption through a cumulative-effect adjustment. The Company also expects to elect certain relief options offered in ASU 2016-02 including certain available transitional practical expedients. Based on the Company's current portfolio of leases, approximately $32 million of lease assets (net of lease incentive) and $34 million lease liabilities would be recognized on its balance sheet, primarily relating to real estate. The Company has established a cross-functional team and it is continuing to evaluate the new standard and prepare for implementation. The Company will adopt Topic 842 effective January 1, 2019.

In January 2017, the FASB issued ASU 2017-04, "Intangibles - Goodwill and Other (Topic 350): Simplifying the Test for Goodwill Impairment". ASU 2017-04 was issued to simplify how an entity is required to test goodwill for impairment by eliminating Step 2 from the goodwill impairment test. Step 2 measures a goodwill impairment loss by comparing the implied fair value of a reporting unit's goodwill with the carrying amount of that goodwill. The amendments in ASU 2017-04 are effective for fiscal years, and interim periods within those years, beginning after December 15, 2019. The Company is evaluating the potential impact of this pronouncement.

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In June 2016, the FASB issued ASU 2016-13, Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. ASU 2016-13 amends the impairment model to utilize an expected loss methodology in place of the currently used incurred loss methodology, which will result in the more timely recognition of losses. ASU 2016-13 also applies to employee benefit plan accounting, with an effective date of the first quarter of fiscal 2022. The Company is currently assessing the impact that adopting this new accounting standard will have on its consolidated balance sheets, statements of operations and cash flows.

ab. Recently issued and adopted pronouncements:

In May 2014, the FASB issued Accounting Standards Update No. 2014-09, Revenue from Contracts with Customers (Topic 606). The Company adopted the new standard, effective January 1, 2018, using the modified retrospective method applied to those contracts which were not substantially completed as of the adoption date (see Note 2p).

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The Company adopted ASU 2016-18 during the first quarter of 2018. The adoption of this new guidance had no material impact on the Company’s consolidated balance sheets, statements of operations and cash flows.

In June 2018, the FASB issued Accounting Standards Update No. 2018-07, "Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting" (ASU 2018-07). ASU 2018-07 was issued to simplify several aspects of the accounting for nonemployee share-based payment transactions resulting from expanding the scope of Topic 718, Compensation - Stock Compensation, to include share-based payment transactions for acquiring goods and services from nonemployees. The amendments specify that Topic 718 applies to all share-based payment transactions in which a grantor acquires goods or services to be used or consumed in a grantor’s own operations by issuing share-based payment awards. The Company adopted ASU 2018-07 effective July 1, 2018. The adoption of this new guidance had no material impact on the Company’s consolidated balance sheets, statements of operations and cash flows.

U.S. dollars in thousands (except share and per share data)

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Staff Accounting Bulletin No. 118 ("SAB 118") was issued to address the application of U.S. GAAP in situations when a registrant does not have the necessary information available, prepared, or analyzed (including computations) in reasonable detail to complete the accounting for certain income tax effects of the Tax Cuts and Jobs Act. December 22, 2018 marked the end of the measurement period for purposes of SAB 118.

In October 2016, the FASB issued Accounting Standards Update No. 2016-16, Income Taxes (Topic 740): Intra-Entity Transfers Other than Inventory (ASU 2016-16), which requires companies to recognize the income-tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs, rather than when the asset has been sold to an outside party. The Company adopted ASU 2016-16 during the first quarter of 2018. The adoption of this new guidance had no material impact on the Company's consolidated balance sheets, statements of operations and cash flows.

ac. Certain prior period amounts have been reclassified to conform to the current period presentation.

NOTE 3:- MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable securities at December 31, 2018:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale – matures within one year:				
Corporate bonds	$ 110,904	$ -	$ (519)	$ 110,385
Governmental bonds	8,343	-	(48)	8,295
	119,247	-	(567)	118,680
Available for-sale – matures after one year:				
Corporate bonds	74,564	-	(308)	74,256
	74,564	-	(308)	74,256
Total	$ 193,811	$ -	$ (875)	$ 192,936

U.S. dollars in thousands (except share and per share data)

NOTE 3:- MARKETABLE SECURITIES (Cont.)

The following is a summary of available-for-sale marketable securities at December 31, 2017:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for-sale – matures within one year:				
Corporate bonds	$ 68,392	$ 1	$ (121)	$ 68,272
Governmental bonds	9,019	-	(27)	8,992
	77,411	1	(148)	77,264
Available for-sale – matures after one year:				
Corporate bonds	95,540	-	(380)	95,160
Governmental bonds	8,023	-	(63)	7,960
	103,563	-	(443)	103,120
Total	$ 180,974	$ 1	$ (591)	$ 180,384

The following is a summary of available-for-sale marketable securities at December 31, 2016:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available for-sale – matures within one year:				
Corporate bonds	$ 71,753	$ 20	$ (54)	$ 71,719
Governmental bonds	2,758	-	(12)	2,746
	74,511	20	(66)	74,465
Available for-sale – matures after one year:				
Corporate bonds	39,435	3	(159)	39,279
Governmental bonds	5,004	-	(21)	4,983
	44,439	3	(180)	44,262
Total	$ 118,950	$ 23	$ (246)	$ 118,727

U.S. dollars in thousands (except share and per share data)

NOTE 3:- MARKETABLE SECURITIES (Cont.)

The following table presents gross unrealized losses and fair values for those investments that were in an unrealized loss position as of December 31, 2018, 2017 and 2016, based on the investments maturity date:

	12 months or less		Greater than 12 months	
	Fair value	Gross unrealized losses	Fair value	Gross unrealized losses
As of December 31, 2018	$ 118,680	$ (567)	$ 74,256	$ (308)
As of December 31, 2017	$ 72,269	$ (148)	$ 103,116	$ (443)
As of December 31, 2016	$ 51,124	$ (66)	$ 39,373	$ (180)

As of December 31, 2018, 2017 and 2016, management believes the unrealized losses are not other than temporary and therefore such unrealized losses were recorded in accumulated other comprehensive loss.

Proceeds from maturity of available-for-sale marketable securities during the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, were $84,497, $80,269, $32,782 and $6,350, respectively. Proceeds from sales of available-for-sale marketable securities during the year ended December 31, 2018 were $44,848, which lead to a realized loss of $137. During the years ended December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, the Company had no proceeds from sales of available-for-sale marketable securities, therefore no realized gains or losses from the sale of available-for sale marketable securities were recognized. The Company determines realized gains or losses from the sale of available-for-sale marketable securities based on the specific identification method.

NOTE 4:- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Company measures its cash equivalents, foreign currency derivative contracts, and marketable securities, at fair value using the market approach valuation technique. Cash equivalents and marketable securities are classified within Level 1 or Level 2. This is because these assets are valued using quoted market prices or alternative pricing sources and models utilizing market observable inputs. Foreign currency derivative contracts are classified within the Level 2 value hierarchy, as the valuation inputs are based on quoted prices and market observable data of similar instruments.

U.S. dollars in thousands (except share and per share data)

NOTE 4:- FAIR VALUE MEASUREMENTS (cont.)

The following table sets forth the Company's assets that were measured at fair value as of December 31, 2018, 2017 and 2016 by level within the fair value hierarchy:

Description	Fair Value Hierarchy	Fair value measurements as of December 31, 2018	2017	2016
Measured at fair value on a recurring basis:				
Assets:				
Cash equivalents:				
Money market mutual funds	Level 1	$ 1,767	$ 6,163	$ 6,510
Derivative instruments asset	Level 2	-	-	19
Short-term marketable securities:				
Corporate bonds	Level 2	110,385	68,272	71,719
Governmental bonds	Level 2	8,295	8,992	2,746
Long-term marketable securities:				
Corporate bonds	Level 2	74,256	95,160	39,279
Governmental bonds	Level 2	-	7,960	4,983
Liabilities				
Long-term Earn-out provision	Level 3	(332)	-	-
Derivative instruments liability	Level 2	-	(180)	-

U.S. dollars in thousands (except share and per share data)

NOTE 5:- PREPAID EXPENSES AND OTHER CURRENT ASSETS

	As of December 31,		
	2018	2017	2016
Vendor non-trade receivables (*)	$ 28,284	$ 33,719	$ 15,209
Prepaid expenses and other	11,038	5,083	3,553
Government authorities	5,751	3,421	2,585
	$ 45,073	$ 42,223	$ 21,347

(*) Vendor non-trade receivables related to contract manufacturers derive from the sale of components to manufacturing vendors who manufacture products for the Company. The Company purchases these components directly from other suppliers. The Company does not reflect the sale of these components to the contract manufacturers in revenues (see also Note 15c).

NOTE 6:- INVENTORIES

	As of December 31,		
	2018	2017	2016
Raw materials	$ 39,380	$ 25,887	$ 10,053
Work in process	18,115	-	-
Finished goods	84,024	57,105	57,310
	$ 141,519	$ 82,992	$ 67,363

The Company recorded inventory write-downs of $943, $1,352, $113, and $2,539 for the year ended December 31, 2018, 2017, the six months ended December 31, 2016 and for the year ended June 30, 2016, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 7:- PROPERTY, PLANT AND EQUIPMENT, NET

	As of December 31,		
	2018	2017	2016
Cost:			
Land	$ 6,592	$ -	$ -
Buildings and plants	18,196	-	-
Computers and peripheral equipment	13,896	9,872	6,053
Office furniture and equipment	9,005	1,785	1,505
Laboratory and testing equipment	18,160	13,732	9,589
Machinery and equipment	113,553	38,461	26,298
Leasehold improvements	11,741	7,536	5,898
Gross property, plant and equipment	191,143	71,386	49,343
Less - accumulated depreciation	71,814	20,204	13,221
Total property, plant and equipment, net	$ 119,329	$ 51,182	$ 36,122

Equipment in progress under construction and development with a cost basis of $22,890, $8,783, and $10,698 was included in machinery and equipment as of December 31, 2018, 2017 and 2016, respectively.

Depreciation expenses for the years ended December 31, 2018, and December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016 were $11,426, $7,011, $2,702 and $3,763, respectively.

NOTE 8:- BUSINESS COMBINATION

Gamatronic Electronic Industries Ltd.

On July 1, 2018, the Company completed the acquisition of substantially all of the assets and activities of Gamatronic Electronic Industries Ltd. ("Gamatronic IL"), at the aggregate amount of $12,083. The asset purchase agreement (the "Gamatronic Agreement") also includes an earn-out provision requiring the Company to pay an amount of 50% and 33% of the Company’s UPS business division’s net income for the first and second years following the Acquisition Date, respectively. The Company estimated the fair value of the contingent consideration based on Monte-Carlo model. This fair value measurement is based on significant inputs not observable in the market and thus represents a Level 3 measurement as defined in ASC 820.

On October 4, 2018, the Company exercised its right to purchase all of the outstanding shares of Gamatronic (UK) Limited ("Gamatronic UK"), a wholly owned subsidiary of Gamatronic IL, for approximately $1.0 million, net of cash acquired. This right was contemplated as part of the Gamatronic Agreement.

The primary reason for Gamatronic Acquisition was to acquire UPS technology and to expand and diversify the Company’s business by entering into the UPS global market.

The Company determined that the Gamatronic Acquisition will be accounted for as a business combination in accordance with ASC 805 "Business Combinations".

NOTE 8:- BUSINESS COMBINATION (Cont.)

Kokam Co., Ltd.

On October 17, 2018, the Company completed the acquisition of 74.5% of the outstanding common shares and voting rights of Kokam Co., Ltd. (“Kokam”), a provider of Lithium-ion cells, batteries and energy storage solutions for approximately $82.5 million, net of cash acquired (the "Kokam Acquisition").

The primary reason for the acquisition was to acquire technology that will enable the Company to offer its customers battery solutions for a wide-variety of industries, including ESS (energy storage systems), residential and commercial solar systems, UPS, electric vehicles, aerospace, marine and more.

The Company determined that the Kokam Acquisition will be accounted for as a business combination in accordance with ASC 805 "Business Combinations".

The fair value of the 25.5% non-controlling interests (“NCI”) in Kokam is estimated to be $22 million. The fair value of the NCI was based on the transaction price.

During the period from the Kokam Acquisition date through December 31, 2018, the Company purchased additional common shares of Kokam in a total amount of $14.2 million. As of December 31, 2018, the Company holds 91.6% of the outstanding common shares and voting rights of Kokam.

The purchase price allocations for the business combinations completed during the year ended December 31, 2018 have been prepared on a preliminary basis and changes to those allocations may occur as additional information becomes available during the respective measurement periods (up to one year from the respective acquisition dates). Fair values still under review include values assigned to identifiable intangible assets, goodwill, deferred income taxes and contingent liabilities.

U.S. dollars in thousands (except share and per share data)

NOTE 8:- BUSINESS COMBINATION (Cont.)

The following table summarizes the preliminary estimated allocations of the purchase prices for the business combinations completed during the year ended December 31, 2018:

	Kokam	UPS Division	Total
Components of Purchase Price:			
Cash	$ 87,004	$ 12,322	$ 99,326
Less cash acquired	(4,477)	(112)	(4,589)
Earn-out provision	-	860	860
Total purchase price	$ 82,527	$ 13,070	$ 95,597
Allocation of Purchase Price:			
Net tangible assets (liabilities):			
Trade receivables, net	$ 4,113	$ 220	$ 4,333
Prepaid expenses and other current assets	1,390	23	1,413
Inventories	30,633	6,351	36,984
Property, plant and equipment, net	41,079	857	41,936
Other non-current assets	3,568	-	3,568
Trade payables	(5,956)	(110)	(6,066)
Employees and payroll accruals	(2,046)	-	(2,046)
Accrued expenses and other current liabilities	(6,426)	(43)	(6,469)
Loans	(23,670)	-	(23,670)
Warranty obligations	(1,059)	(61)	(1,120)
Deferred tax liabilities, net	(2,271)	-	(2,271)
Other non-current liabilities	(1,399)	-	(1,399)
Total net tangible assets	$ 37,956	$ 7,237	$ 45,193
Identifiable intangible assets (1):			
Technology	$ 28,389	$ 2,048	$ 30,437
Customer relationships	3,007	810	3,817
Backlog	-	193	193
Tradename	3,671	-	3,671
Total identifiable intangible assets acquired	$ 35,067	$ 3,051	$ 38,118
Goodwill (2)	$ 31,663	$ 2,782	$ 34,445
Non-controlling interests	$ (22,159)	-	$ (22,159)
Total purchase price allocation	$ 82,527	$ 13,070	$ 95,597

(1) Gamatronic's definite-lived intangible assets include current technology of $2,048 (7 years weighted-average useful life), customer relationships of $810 (7 years weighted-average useful life) and backlog of $193 (2 months weighted-average useful life.

Kokam's definite-lived intangible assets include technology of $28,389 (8 years weighted-average useful life), customer relationships of $3,007 (13 years useful life), and tradename of $3,671 (9 years weighted-average useful life).

U.S. dollars in thousands (except share and per share data)

NOTE 8:- BUSINESS COMBINATION (Cont.)

(2) The goodwill resulted from the Gamatronic Acquisition is attributable primarily to acquired technology, expected synergies and the assembled workforce from the UPS Division. The goodwill is expected to be deductible for income tax purposes over a period of 10 years.

The goodwill resulted from Kokam's Acquisition is attributable primarily to acquired technology, tradename, customer relationship, expected synergies and the assembled workforce of Kokam. The goodwill is not expected to be deductible for income tax purposes.

The Company recognized $1,260 of aggregate acquisition-related costs that were expensed in the consolidated statement of operations in general and administrative expenses.

The amounts of revenue and net loss of both acquired companies included in the Company's consolidated statements of operations for the period from the acquisitions dates to December 31, 2018 are $22,952 and $7,466, respectively.

The following represents the pro-forma (unaudited) consolidated statements of operations as if both acquisitions had been included in the consolidated results of the Company for the years ended December 31, 2018 and 2017:

	Year ended December 31, 2018	Year ended December 31, 2017
	Unaudited	
Revenue	$ 976,827	$ 671,570
Net income	$ 115,074	$ 66,011

These amounts have been calculated after applying the Company's accounting policies and adjusting the results of both acquisitions to reflect the additional depreciation and amortization that would have been charged assuming the fair value adjustments to property, plant and equipment and intangible assets had been applied since the acquisitions date, together with the consequential tax effects.

These pro-forma results are based on estimates and assumptions, which we believe are reasonable. They are not the results that would have been realized had the acquisitions actually occurred on January 1, 2017 and are not necessarily indicative of our consolidated results of operations in future periods. The pro-forma results include adjustments related to purchase accounting, primarily depreciation of property and equipment, and amortization of intangible assets.

U.S. dollars in thousands (except share and per share data)

NOTE 9:- INTANGIBLE ASSETS AND GOODWILL

a. Intangible assets:

Acquired intangible assets consisted of the following as of December 31, 2018, 2017 and 2016:

	As of December 31, 2018	2017	2016
Intangible assets with finite lives:			
Current Technology	$ 30,821	$ -	$ -
Customer relationships	3,857	-	-
Trade names	3,721	-	-
Patents	1,400	1,400	1,400
Backlog	193	-	-
Gross intangible assets	39,992	1,400	1,400
Less - accumulated amortization	(1,488)	(285)	(141)
Total intangible assets, net	$ 38,504	$ 1,115	$ 1,259

Amortization expenses for the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, were $1,193, $144, $57, and $84, respectively.

The reported amount of net acquisition-related intangible assets can fluctuate due to the impact of changes in foreign currency exchange rates on intangible assets not denominated in U.S. dollars.

Expected future amortization expenses of acquired intangible assets as of December 31, 2018 are as follows:

2019	$ 4,673
2020	4,769
2021	4,818
2022	4,883
2023	4,868
2024 and thereafter	14,493
	$ 38,504

U.S. dollars in thousands (except share and per share data)

NOTE 9:- INTANGIBLE ASSETS AND GOODWILL (Cont.)

b. Goodwill:

The following summarizes the goodwill activity for the year ended December 31, 2018:

		Total
Goodwill at January 1, 2018	$	-
Business combinations		34,445
Foreign currency translation		429
Goodwill at December 31, 2018	$	34,874

NOTE 10:- ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE

	As of December 31,					
		2018		2017		2016
Accrued expenses	$	14,859	$	14,863	$	4,209
Government authorities		11,344		1,905		1,568
Loss provision related to contractual inventory purchase obligations and others*		3,525		3,610		2,871
	$	29,728	$	20,378	$	8,648

* See Note 15c.

U.S. dollars in thousands (except share and per share data)

NOTE 11:- BANK LOANS

The following table summarizes the Company's long-term bank loans:

Maturities calendar year	As of December 31, 2018		Effective interest rate*
2019	$	15,919	0.60%-0.89%
2020		2,430	0.68%-0.75%
2018 - 2020		900	0.67%
2016 - 2021		900	0.69%
	$	20,149	
Less - current maturities bank loans	$	(16,639)	
Long term bank loans net of Current maturities	$	3,510	

* The effective interest rate for the period from October 17, 2018 to December 31, 2018.

U.S. dollars in thousands (except share and per share data)

NOTE 11:- BANK LOANS (Cont.)

All the bank loans are denominated in KRW except for one loan, which is denominated in USD at the amount of $3,000. The bank loans bear interest at a variable rate and mainly payable monthly. The bank loans do not contain financial covenants.

During the year ended December 31, 2018, the Company recognized $132 of interest expenses related to the bank loans in the consolidated statement of operations in financial expenses (income), net.

As of December 31, 2018, the Company secured its bank loans with an aggregate principal amount of $11,029 against part of its manufacturing facilities.

Subsequent to the balance sheet date, the Company extended a few of its bank loans for a period of one year with an aggregate principal amount of $12,703. The principal of the extended bank loans is to be paid in one installment due on December 31, 2019.

U.S. dollars in thousands (except share and per share data)

NOTE 12:- WARRANTY OBLIGATIONS

Changes in the Company's product warranty obligations for the years ended December 31, 2018, 2017 and 2016, were as follows:

	December 31,		
	2018	2017	2016
Balance, at beginning of year	$ 78,811	$ 58,375	$ 51,192
Additions and adjustments to cost of revenues	70,854	34,650	13,749
Usage and current warranty expenses	(27,839)	(14,214)	(6,566)
Balance, at end of year	121,826	78,811	58,375
Less current portion	(28,868)	(14,785)	(13,616)
Long term portion	$ 92,958	$ 64,026	$ 44,759

NOTE 13:- OTHER NON-CURRENT LIABILTIES

	As of December 31,		
	2018	2017	2016
Tax liabilities	$ 7,147	$ 16,840	$ 2,061
Lease incentive obligations	1,468	1,765	-
Other	776	-	-
	$ 9,391	$ 18,605	$ 2,061

U.S. dollars in thousands (except share and per share data)

NOTE 14:- ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table summarizes the changes in accumulated balances of other comprehensive loss, net of taxes, for the year ended December 31, 2018:

	Unrealized losses on available-for-sale marketable securities	Unrealized gains on cash flow hedges	Unrealized gains losses on foreign currency translation	Total
Beginning balance	$ (433)	$ -	$ (178)	$ (611)
Other comprehensive income (loss) before reclassifications	(360)	31	310	(19)
Loses (gains) reclassified from accumulated other comprehensive income	137	(31)	-	106
Net current period other comprehensive income (loss)	(223)	-	310	87
Ending balance	$ (656)	$ -	$ 132	$ (524)

The following table summarizes the changes in accumulated balances of other comprehensive, net of taxes, for the year ended December 31, 2017:

	Unrealized losses on available-for-sale marketable securities	Unrealized gains on cash flow hedges	Unrealized losses on foreign currency translation	Total
Beginning balance	$ (136)	$ 19	$ (207)	$ (324)
Other comprehensive income (loss) before reclassifications	(297)	975	29	707
Gains reclassified from accumulated other comprehensive income	-	(994)	-	(994)
Net current period other comprehensive income (loss)	(297)	(19)	29	(287)
Ending balance	$ (433)	$ -	$ (178)	$ (611)

U.S. dollars in thousands (except share and per share data)

NOTE 14:- ACCUMULATED OTHER COMPREHENSIVE LOSS (Cont.)

The following table summarizes the changes in accumulated balances of other comprehensive loss, net of taxes, for the six months ended December 31, 2016:

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains on cash flow hedges	Unrealized losses on foreign currency translation	Total
Beginning balance	$ 57	$ 243	$ (29)	$ 271
Other comprehensive income (loss) before reclassifications	(193)	93	(178)	(278)
Gains reclassified from accumulated other comprehensive income	-	(317)	-	(317)
Net current period other comprehensive loss	(193)	(224)	(178)	(595)
Ending balance	$ (136)	$ 19	$ (207)	$ (324)

The following table summarizes the changes in accumulated balances of other comprehensive income, net of taxes, for the year ended June 30, 2016:

	Unrealized gains on available-for-sale marketable securities	Unrealized gains on cash flow hedges	Unrealized losses on foreign currency translation	Total
Beginning balance	$ -	$ -	$ (222)	$ (222)
Other comprehensive income (loss) before reclassifications	56	412	193	661
Losses (gains) reclassified from accumulated other comprehensive income (loss)	1	(169)	-	(168)
Net current period other comprehensive income	57	243	193	493
Ending balance	$ 57	$ 243	$ (29)	$ 271

U.S. dollars in thousands (except share and per share data)

NOTE 14:- ACCUMULATED OTHER COMPREHENSIVE LOSS (Cont.)

The following table provides details about reclassifications out of accumulated other comprehensive income (loss):

Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss)				Affected Line Item in the Statements of Operations
	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016	
Unrealized gains on cash flow hedges	$ 3	$ 166	$ 47	$ 30	Cost of revenues
	19	570	227	115	Research and development
	5	151	58	33	Sales and marketing
	4	153	46	24	General and administrative
	31	1,040	378	202	Total, before income taxes
	-	46	61	33	Income tax expenses
	31	994	317	169	Total, net of income taxes
Unrealized losses on available-for-sale marketable securities	(137)	-	-	(1)	Financial income, net
	-	-	-	-	Income tax expense
	(137)	-	-	(1)	Total, net of income taxes
Total reclassifications for the period	$ (106)	$ 994	$ 317	$ 168	Total, net of income taxes

U.S. dollars in thousands (except share and per share data)

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company and its subsidiaries lease their operating facilities under non-cancelable operating lease agreements, which expire over the next ten years, with the last lease ending in September 2027.

On July 10, 2017 the Company entered into a ten years lease agreement, intended for the establishment of a manufacturing facility and includes extension period options. The Company accounts for this lease as an operating lease according to ASC 840 ("Leases").

The future minimum lease commitments of the Company under various non-cancelable operating lease agreements in respect of premises, that are in effect as of December 31, 2018, are as follows:

2019	6,933
2020	4,677
2021	2,633
2022	2,380
2023	2,350
2024 and thereafter	2,444
	$ 21,417

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

Rent expenses for years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, were approximately $6,231, $3,449, $1,199, and $2,238, respectively.

b. Guarantees:

As of December 31, 2018, contingent liabilities exist regarding guarantees in the amounts of $1,354, $323 and $172 in respect of office rent lease agreements, customs transactions and credit card limits, respectively.

c. Contractual purchase obligations:

The Company has contractual obligations to purchase goods and raw materials. These contractual purchase obligations relate to inventories held by contract manufacturers and purchase orders initiated by the contract manufacturers, which cannot be canceled without penalty. The Company utilizes third parties to manufacture its products.

In addition, it acquires raw materials or other goods and services, including product components, by issuing to suppliers authorizations to purchase based on its projected demand and manufacturing needs. As of December 31, 2018, the Company had non-cancelable purchase obligations totaling approximately $262,979, out of which the Company already recorded a provision for loss in the amount of $1,759.

As of December 31, 2018, the Company had contractual obligations for capital expenditures totaling approximately $40,052. These commitments reflect purchases of automated assembly lines and other machinery related to the Company's manufacturing

d. Legal claims:

From time to time, the Company may be involved in various claims and legal proceedings. The Company reviews the status of each matter and assesses its potential financial exposure. If the potential loss from any claim or legal proceeding is considered probable and the amount can be reasonably estimated, the Company accrues a liability for the estimated loss. These accruals are reviewed at least quarterly and adjusted to reflect the impact of negotiations, settlements, rulings, advice of legal counsel, and other information and events pertaining to a particular matter.

In June 2018, the Company was served with a complaint from a trustee of a former customer that filed for bankruptcy in the US. The lawsuit seeks to recover approximately $2,481 based on theories of preferential and fraudulent transfers. The Company believes it has valid defenses to the claims in this lawsuit and does not expect the outcome of the litigation matters to have a material effect on its balance sheets, statements of operations or cash flows.

U.S. dollars in thousands (except share and per share data)

NOTE 15:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

On September 20, 2018, the Company's German subsidiary, SolarEdge Technologies GmbH received a complaint filed by competitor SMA Solar Technology AG. The complaint, filed in the District Court Düsseldorf, Germany, alleges that SolarEdge's 12.5kW - 27.6kW inverters infringe plaintiff's patents EP 2 228 895 B1 and EP 1 610 452 B1. In its complaint, SMA Solar Technology requests inter alia an injunction and a determination for a claim for damages for sales in Germany. Plaintiff also suggests a value in dispute of €5 million (approximately $5.8 million) for both patents. The Company believes that it has meritorious defenses to the claims asserted and intends to vigorously defend against this lawsuit and does not expect the outcome of the litigation matters to have a material effect on its balance sheets, statements of operations or cash flows.

In 2017, Kokam received a claim for losses related to a fire that occurred at a plant of S&C Electric in the U.S., to which Kokam supplied products, alleging that the damage was caused by a container-type UPS manufactured by S&C Electric that contained batteries supplied by Kokam. The claim was originally for damages in the amount of approximately $4 million and following the Kokam acquisition by the Company, Kokam received an amended claim for damages in the amount of approximately $12 million. The Company has specific indemnification from the major selling shareholder of Kokam in the amount of up to $5 million for losses that may be incurred relating to this claim. Kokam also has product liability insurance. The claim has not developed into a lawsuit nor has Kokam received the supporting documents substantiating the claimed amount. As of December 31, 2018, the Company has not recorded any provision for the above claim.

NOTE 16:- STOCK CAPITAL

a. Composition of common stock capital of the Company:

	Number of shares					
	Authorized as of December 31,			Issued and outstanding as of December 31,		
	2018	2017	2016	2018	2017	2016
Stock of $0.0001 par value:						
Common stock	125,000,000	125,000,000	125,000,000	46,052,802	43,812,601	41,259,391

b. Common stock rights:

Common stock confers upon its holders the right to receive notice of, and to participate in, all general meetings of the Company, where each share of common stock shall have one vote for all purposes; to share equally, on a per share basis, in bonuses, profits, or distributions out of fund legally available therefor; and to participate in the distribution of the surplus assets of the Company in the event of liquidation of the Company.

c. Stock option plans:

The Company's 2007 Global Incentive Plan (the "2007 Plan") was adopted by the board of directors on August 30, 2007. The 2007 Plan terminated upon the Company's IPO on March 31, 2015 and no further awards may be granted thereunder. All outstanding awards will continue to be governed by their existing terms and 379,358 available options for future grant were transferred to the Company's 2015 Global Incentive Plan (the "2015 Plan") and are reserved for future issuances under the 2015 plan. The 2015 Plan became effective upon the consummation of the IPO. The 2015 Plan provides for the grant of options, RSUs, and other share-based awards to directors, employees, officers, and consultants of the Company and its Subsidiaries. As of December 31, 2018, a total of 8,080,717 shares of common stock were reserved for issuance pursuant to stock awards under the 2015 Plan (the "Share Reserve").

U.S. dollars in thousands (except share and per share data)

NOTE 16:- STOCK CAPITAL (Cont.)

The Share Reserve will automatically increase on January 1st of each year during the term of the 2015 Plan, commencing on January 1st of the year following the year in which the 2015 Plan becomes effective, in an amount equal to 5% of the total number of shares of capital stock outstanding on December 31st of the preceding calendar year; provided, however, that the Company's board of directors may determine that there will not be a January 1st increase in the Share Reserve in a given year or that the increase will be less than 5% of the shares of capital stock outstanding on the preceding December 31st.

The aggregate maximum number of shares of common stock that may be issued on the exercise of incentive stock options is 10,000,000. As of December 31, 2018, an aggregate of 8,946,316 options are still available for future grant under the 2015 Plan.

A summary of the activity in the share options granted to employees and members of the board of directors for the year ended December 31, 2018 and related information follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic Value
Outstanding as of December 31, 2017	3,524,310	7.40	6.35	106,251
Granted	180,983	38.05		
Exercised	(1,280,057)	4.89		
Forfeited or expired	(23,343)	8.35		
Outstanding as of December 31, 2018	2,401,893	11.04	6.19	58,323
Vested and expected to vest as of December 31, 2018	2,359,484	10.94	6.17	57,520
Exercisable as of December 31, 2018	1,843,014	7.93	5.64	50,173

The aggregate intrinsic value in the tables above represents the total intrinsic value (the difference between the fair value of the Company's common stock as of the last day of each period and the exercise price, multiplied by the number of in-the-money options) that would have been received by the option holders had all option holders exercised their options on the last day of each period.

The total intrinsic value of options exercised during the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, was $58,601, $44,625, $1,790, and $30,670, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 16:- STOCK CAPITAL (Cont.)

The weighted average grant date fair values of options granted to employees and executive directors during the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, were $20.83, $7.94, $8.86, and $13.27, respectively.

The options outstanding as of December 31, 2018, have been separated into exercise price ranges as follows:

Range of exercise price	Options outstanding as of December 31, 2018	Weighted average remaining contractual Life in years	Options exercisable as of December 31, 2018	Weighted average remaining contractual Life in years
$0.87 – $1.50	22,236	0.57	22,236	0.57
$2.01 – $2.46	331,482	2.56	331,482	2.56
$3.03 – $5.01	1,080,892	5.86	1,043,120	5.86
$9.36	10,546	6.08	10,098	6.08
$13.70 – $14.85	426,181	8.14	180,479	8.14
$15.34 – $17.14	183,623	7.66	100,571	7.66
$20.81 – $25.09	165,950	6.68	121,100	6.68
$38.05	180,983	9.01	33,928	9.01
	2,401,893	6.19	1,843,014	5.64

A summary of the activity in the RSUs granted to employees and members of the board of directors for the year ended December 31, 2018, is as follows:

	No. of RSUs	Weighted average grant date fair value
Unvested as of January 1, 2018	2,087,992	24.33
Granted	1,744,621	41.45
Vested	(811,376)	24.97
Forfeited	(214,005)	29.36
Unvested as of December 31, 2018	2,807,232	34.40

The weighted-average grant-date fair value of RSUs granted during the years ended December 31, 2018, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, was $41.45, $27.30, $15.74 and $24.77, respectively.

U.S. dollars in thousands (except share and per share data)

NOTE 16:- STOCK CAPITAL (Cont.)

Options and RSUs issued to non-employee consultants:

The Company has granted options and RSU's to purchase common shares to non-employee consultants as of December 31, 2018 as follows:

Issuance Date	Options & RSU's outstanding as of December 31, 2018	Range of Exercise price	Exercisable as of December 31, 2018	Exercisable Through
2014	6,478	$3.51 - $5.01	4,923	October 29, 2024
2015	5,918	$0	-	
2016	7,126	$0 - $15.34	-	September 21, 2026
2017	18,626	$0 - $13.70	-	March 15, 2027
2018	20,783	$0	-	
	58,931		4,923	

In connection with the grant of stock options to non-employee consultants, the Company recorded stock compensation expenses in the years ended December 31, 2018, December 31, 2017, the six months ended December 31, 2016 and the year ended June 30, 2016, in the amounts of $1,299, $986, $66, and $524, respectively.

d. Employee Stock Purchase Plan ("ESPP"):

The Company adopted an Employee Stock Purchase Plan (the "ESPP") effective upon the consummation of the IPO. As of December 31, 2018, total of 1,739,280 shares were reserved for issuance under this plan. The number of shares of common stock reserved for issuance under the ESPP will increase automatically on January 1st of each year, for ten years, by the lesser of 1% of the total number of shares of the Company's common stock outstanding on December 31st of the preceding calendar year or 487,643 shares.

However, the Company's board of directors may reduce the amount of the increase in any particular year at their discretion, including a reduction to zero.

U.S. dollars in thousands (except share and per share data)

NOTE 16:- STOCK CAPITAL (Cont.)

The ESPP is implemented through an offering every six months. According to the ESPP, eligible employees may use up to 10% of their salaries to purchase common stock shares up to an aggregate limit of $10 per participant for every six months plan. The price of an ordinary share purchased under the ESPP is equal to 85% of the lower of the fair market value of the ordinary share on the subscription date of each offering period or on the purchase date.

As of December 31, 2018, 385,646 common stock shares had been purchased under the ESPP.

As of December 31, 2018, 1,353,634 common stock shares were available for future issuance under the ESPP.

In accordance with ASC No. 718, the ESPP is compensatory and, as such, results in recognition of compensation cost.

e. Stock-based compensation expense for employees and non-employee consultants:

The Company recognized stock-based compensation expenses related to stock options and RSUs granted to employees and non-employee consultants and ESPP in the consolidated statement of operations for the years ended December 31, 2018, and December 31, 2017, the six months ended December 31, 2016, and the year ended June 30, 2016, as follows:

	Year ended December 31,		Six months ended December 31,	Year ended June 30,
	2018	2017	2016	2016
Cost of revenues	$ 4,343	$ 2,250	$ 871	$ 945
Research and development, net	11,205	5,703	2,061	2,364
Selling and marketing	9,111	5,387	1,852	2,915
General and administrative	5,959	4,224	1,816	2,820
Total stock-based compensation expense	$ 30,618	$ 17,564	$ 6,600	$ 9,044

As of December 31, 2018, there were total unrecognized compensation expenses of $98,826 related to non-vested equity-based compensation arrangements granted under the Company’s Plans. These expenses are expected to be recognized during the period from January 1, 2019 through February 28, 2023.

NOTE 17:- INCOME TAXES

a. Tax rates in U.S:

The Company is subject to U.S. federal tax at the rate of 21%.

On December 22, 2017, the Tax Cuts and Jobs Act (the "TCJA") was signed into law making significant changes to U.S. income tax law. These changes include, but are not limited to, a corporate tax rate decrease from 35% to 21% effective for tax years beginning after December 31, 2017, the transition of U.S. international taxation from a worldwide tax system to a territorial system, and a one-time transition tax on the mandatory deemed repatriation of cumulative foreign earnings (the "E&P") as of December 31, 2017.

The one-time transition tax is based on the Company's total post-1986 earnings and profits (E&P). The Company has elected to pay its transition tax over the eight-year period provided in the TCJA.

Additionally, the TCJA requires certain Global Intangible Low Taxed Income ("GILTI") earned by controlled foreign corporations ("CFCs") to be included in the gross income of the CFCs' U.S. shareholder. GAAP allows the Company to either: (i) treat taxes due on future U.S. inclusions in taxable income related to GILTI as a current-period expense when incurred (the "period cost method"); or (ii) factor such amounts into its measurement of deferred taxes (the "deferred method").

In December 2017, the SEC staff issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act (SAB 118), which allowed the Company to record provisional amounts during a measurement period not to extend beyond one year of the enactment date. As a result, the Company previously provided a provisional estimate of the effect of the TCJA in its financial statements.

In 2017, the Company calculated its best estimate of the impact of the TCJA in its year end income tax provision in accordance with its understanding of the TCJA and guidance available as of the date of the respective filing and as a result recorded $19.2 million as an additional income tax expense in the period in which the legislation was enacted.

In August, September and December 2018, the Internal Revenue Service ("IRS") issued proposed regulations related to the one-time transition tax and GILTI. Due to the timing of the enactment and the complexity in applying the provisions of the TCJA, changes made in fourth quarter 2018 to the Company's provisional amounts are based on the Company's analysis of the TCJA and additional guidance issued by the U.S. Treasury Department, IRS, FASB, and other standard-setting and regulatory bodies.

In the fourth quarter of 2018, upon further analyses of the TCJA and proposed regulations by the U.S. Department of the Treasury and the IRS, the Company completed its analysis to determine the effect of the TCJA with respect to the on-time transition tax and recorded a reduction of $1,297 as of December 31, 2018. Additionally, the Company finalized its decision on treating the tax effects of GILTI as a period expense, evaluated the impact of the proposed regulations related to GILTI and recorded a provision in the amount of $12,043 for such GILTI tax.

NOTE 17:- INCOME TAXES (Cont.)

As of December 31, 2018, the U.S. Treasury Department and the Internal Revenue Service ("IRS") are still in the process of issuing various TCJA regulations. Accordingly, future adjustments to the financial statements may be necessary as regulations are issued and when the Company files its fiscal year 2018 tax returns with the IRS and foreign tax authorities in the current fiscal year.

b. Kokam is subject to Korean tax on progressive tax rates of up to 22%.

c. Corporate tax in Israel:

Taxable income of Israeli companies was subject to corporate tax at the rate of 25% in the year ended June 30, 2016.

The Israeli subsidiary is also eligible for tax benefits as further described in note 17k.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law 2016 (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), which reduces the corporate income tax rate to 24% effective from January 1, 2017 and to 23% effective from January 1, 2018 onwards.

d. Carryforward tax losses:

As of December 31, 2018, the Company has no federal or state carryforward tax losses.

As of December 31, 2018, the Israeli subsidiary has no carryforward tax losses.

As of December 31, 2018, Kokam has carryforward tax losses of $18,887.

e. Deferred income taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company's Israeli subsidiary's tax-exempt profit from Benefited Enterprises is permanently reinvested, as the Company's management and the Board of Directors has determined that the Company does not currently intend to distribute dividends. Therefore, deferred taxes have not been provided for such tax-exempt income. The Company intends to continue to reinvest these profits and does not currently foresee a need to distribute dividends out of such tax-exempt income. Therefore, no deferred taxes have been provided in respect of such tax-exempt income as the undistributed tax-exempt income is essentially permanent in duration.

The Company may incur additional tax liability in the event of intercompany dividend distributions by some of its subsidiaries. Such additional tax liability in respect of these subsidiaries has not been provided for in the Financial Statements as the Company's management and the Board of Directors has determined that the Company intends to reinvest earnings of its subsidiaries indefinitely.

Taxes that would apply in the event of disposal of investments in subsidiaries have not been taken into account in computing deferred income taxes, as the Company's management and the Board of Directors has determined that the Company's intention to hold, and not to realize, these investments.

U.S. dollars in thousands (except share and per share data)

NOTE 17:- INCOME TAXES (Cont.)

Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31, 2018	2017	2016
Deferred tax assets, net:			
Research and Development carryforward expenses	$ 9,482	$ 5,380	$ 908
Carryforward tax losses	4,155	-	-
Stock based compensation expenses	3,160	1,622	1,039
Inventory Impairment	1,471	-	-
Allowance and other reserves	4,340	1,338	868
Total deferred tax assets, net	$ 22,608	$ 8,340	$ 2,815
Deferred tax liabilities, net:			
Purchase price allocation adjustments	(9,408)	-	-
Total deferred tax liabilities, net	$ (9,408)	$ -	$ -
Recorded as:			
Deferred tax assets, net	$ 14,699	$ 8,340	$ 2,815
Deferred tax liabilities, net	(1,499)	-	-
Net deferred tax assets	$ 13,200	$ 8,340	$ 2,815

f. Uncertain tax positions:

	December 31, 2018	2017	2016
Balance at January 1,	$ 579	$ 249	$ -
Increases related to current year tax positions	8,499	330	249
Decreases related to prior year tax positions	(579)	-	-
Balance at December 31,	$ 8,499	$ 579	$ 249

g. Income before taxes are comprised as follows:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Domestic	$ 13,405	$ 7,461	$ 3,165	$ 3,758
Foreign	123,718	92,783	27,433	68,472
	$ 137,123	$ 100,244	$ 30,598	$ 72,230

U.S. dollars in thousands (except share and per share data)

NOTE 17:- INCOME TAXES (Cont.)

h. Taxes on income (tax benefit) are comprised as follows:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Current taxes:				
U.S. Federal & State	$ 13,894	$ 19,889	$ 1,047	$ 1,737
Foreign	2,276	1,639	518	263
Total current taxes	16,170	21,528	1,565	2,000
Deferred taxes:				
U.S. Federal & State	(1,284)	(42)	507	(1,380)
Foreign	(5,809)	(5,414)	3,145	(4,999)
Total deferred taxes	(7,093)	(5,456)	3,652	(6,379)
Income taxes, net	$ 9,077	$ 16,072	$ 5,217	$ (4,379)

i. Reconciliation of theoretical tax expense to actual tax expense:

The differences between the statutory tax rate of the Company and the effective tax rate are primarily accounted for by the non-recognition of tax benefits from accumulated net carryforward tax losses among the Company and various subsidiaries due to uncertainty of the realization of such tax benefits.

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company, and the actual tax expense (benefit) as reported in the consolidated statements of operations is as follows:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Income before taxes, as reported in the consolidated statements of operations	$ 137,123	$ 100,244	$ 30,598	$ 72,230
Statutory tax rate	21%	34%	34%	34%
Theoretical tax benefits on the above amount at the US statutory tax rate	28,796	34,083	10,403	24,558
Income tax at rate other than the U.S. statutory tax rate	(26,861)	(34,734)	(5,396)	(30,229)
Tax Cuts and Jobs Act of 2017	8,062	18,735	-	-
Non-deductible expenses	(644)	(1,545)	164	1,514
Other individually immaterial income tax items, net	(276)	(467)	46	(222)
Actual tax expense (tax benefit)	$ 9,077	$ 16,072	$ 5,217	$ (4,379)

NOTE 17:- INCOME TAXES (Cont.)

j. Tax assessments:

As of December 31, 2018, the Company and certain of its subsidiaries filed U.S. federal and various state and foreign income tax returns. The statute of limitations relating to the consolidated U.S. federal income tax return is closed for all tax years up to and including 2014. Net operating losses generated in years prior to 2015 and carried forward are available to adjustment and subject to the statute of limitation provisions of such year when the net operating losses were utilized.

The statute of limitations related to tax returns of the Company’s Israeli subsidiary for all tax years up to and including 2012 has lapsed.

The statute of limitations related to tax returns of Kokam for all tax years up to and including 2013 has lapsed.

The statute of limitations related to tax returns of the Company’s German subsidiary, one of its Chinese subsidiaries and Gamatronic UK for all tax years up to and including 2014 has lapsed.

With respect to the Company’s French subsidiary, the statute of limitations related to its tax returns for all tax years up to and including 2015 has lapsed.

The statute of limitations related to tax returns of the Company’s Japanese subsidiary for all tax years up to and including 2017 has lapsed.

With respect to the Company’s Australian, Dutch, UK, Italian, Bulgarian, Turkish, Belgian, Indian, Swedish, Korean, and Romanian subsidiaries as well as its other Chinese subsidiary, the statute of limitations with respect to these entities’ tax returns for all tax years since incorporation has yet to lapse.

The Company believes that it has adequately provided for reasonably foreseeable outcomes related to tax audits and settlements. The final tax outcome of any Company tax audits could be different from that which is reflected in the Company’s income tax provisions and accruals. Such differences could have a material effect on the Company’s income tax provision and net income (loss) in the period in which such determination is made.

k. Tax benefits for Israeli companies under the Law for the Encouragement of Capital Investments, 1959 (the “Investments Law”):

The Israeli subsidiary elected tax year 2012 as a "Year of Election" for “Benefited Enterprise” status under the Investments Law. According to the Investments Law, the Israeli subsidiary elected to participate in the alternative benefits program which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Benefited Enterprise benefits is taxed at a regular corporate tax rate (which depend on, inter alia, the geographic location in Israel). Upon meeting the requirements under the Investments Law, undistributed income derived from Benefited Enterprise from productive activity will be exempt from tax for two years from the year in which the Israeli subsidiary first has taxable income, provided that 12 years have not passed from the beginning of the year of election.

NOTE 17:- INCOME TAXES (Cont.)

In the six months ended December 31, 2016, the Israeli subsidiary utilized all of its operating loss carryforwards in Israel and became profitable for tax purposes.

On October 24, 2018, the Company's Israeli subsidiary received an approval from the Israeli Tax Authorities confirming the applicability of the two-year tax exemption as provided in the Encouragement of Capital Investments Law, 1959 until December 31, 2018.

If dividends (or deemed dividends) are distributed out of tax-exempt profits, the Israeli subsidiary will then become liable for tax, with respect of the gross amount of the dividend at the rate applicable to its profits from the Benefited Enterprise in the year in which the income was earned, at the applicable corporate tax that would otherwise have been payable on such income.

The dividend recipient is subject to withholding tax at the rate of 15% applicable to dividends from Benefited enterprises, or such lower rate as may be provided in an applicable tax treaty, which would generally be withheld at source by the distributing company.

The Israeli subsidiary currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

Through December 31, 2018, the Israeli subsidiary had generated income under the provision of the Investments Law.

As of December 31, 2018, approximately $289,900 was derived from tax exempt profits earned by the Israeli subsidiary "Benefited Enterprises". The Company has determined that such tax-exempt income will not be distributed as dividends and intends to reinvest the amount of its tax exempt income earned by the Israeli subsidiary. Accordingly, no provision for deferred income taxes has been provided on income attributable to the Israeli subsidiary "Benefited Enterprises" as such income is essentially permanently reinvested.

If the Israeli subsidiary retained tax-exempt income is distributed, the income would be taxed at the applicable corporate tax rate which depends on the foreign ownership in each tax year, and the tax rate can range between 10% (when foreign ownership exceeds 90%) to 25% (when foreign ownership is below 49%).

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the Israeli Parliament issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments (the "Amendment"). According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A (as defined therein and which details specific areas in development in Israel) will be 9%).

NOTE 17:- INCOME TAXES (Cont.)

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments (the "2017 Amendment") was published. According to the 2017 Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The Company's production facilities in Israel are not located in Development Zone A.

The Company notified the ITA of its election to implement the Amendment with effect on and from January 1, 2019.

The 2017 Amendment also prescribes special tax tracks for preferred technological enterprises ("PTE"), which are subject to rules that were issued by the Ministry of Finance.

The new tax tracks under the 2017 Amendment are as follows:

According to the 2017 Amendment, preferred technological enterprise, as defined in the Investments Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

A Preferred Company distributing dividends from Preferred Income or income derived from its PTE, would subject the recipient to a tax at the rate of 20% (or lower, if so provided under an applicable tax treaty). To benefit from any lower tax rates under an applicable tax treaty, a non-resident of Israel would need to receive in advance a valid certificate from the ITA allowing for a reduced tax rate, or to file an appropriate tax return with the ITA claiming a refund based on the lower rate under the applicable tax treaty.

NOTE 17:- INCOME TAXES (Cont.)

The 2017 Amendment further provides that, in certain circumstances, a dividend distributed to a corporate shareholder who is not an Israeli resident for tax purposes, would be subject to a tax at the rate of 4%. Such taxes would generally be withheld at source by the distributing company.

On June 14, 2017, the Encouragement of Capital Investments Regulations (Preferred Technological Income and Capital Gain for Technological Enterprise), 2017 (the "Regulations") were published. The Regulations applied Action 5 under the Action Plan on Base Erosion and Profit Shifting (BEPS). The Regulations describe, inter alia, the mechanism used to determine the calculation of the benefits under the PTE regime and determine certain requirements relating to documentation of intellectual property for the purpose of the PTE. According to these provisions, a company that complies with the terms under the PTE regime may be entitled to certain tax benefits with respect to income generated during the company's regular course of business and derived from the preferred intangible asset (as determined in the Investment Law), excluding income derived from intangible assets used for marketing and income attributed to production activity. In the event that intangible assets used for marketing purposes generate over 10% of the PTE's income, the relevant portion, calculated using a transfer pricing study, would be subject to regular corporate income tax. If such income does not exceed 10%, the PTE will not be required to exclude the marketing income from the PTE's total income. The Regulations establish a presumption of direct production expenses plus 10% with respect to income related to production, which can be countered by the results of a supporting transfer pricing study. Tax rates applicable to such production income expenses will be similar to the tax rates under the Preferred Enterprise regime to the extent such income would be considered as eligible. In order to calculate the preferred income, the PTE is required to take into account the income and the research and development expenses that are attributed to each single preferred intangible asset. Nevertheless, it should be noted that the transitional provisions allow companies to take into account the income and research and development expenses attributed to all of the preferred intangible assets they have.

The Israeli subsidiary is entitle to the above mentioned preferred technological enterprise benefits and will be subject to tax at a rate of 12% on profits deriving from intellectual property or 7.5% in development area A, under the 2017 Amendment.

U.S. dollars in thousands (except share and per share data)

NOTE 17:- INCOME TAXES (Cont.)

Tax Benefits for Research and Development:

Israeli tax law (section 20A to the Israeli Tax Ordinance (New Version), 1961) allows, under certain conditions, a tax deduction for research and development expenses, including capital expenses, for the year in which they are paid. Such expenses must relate to scientific research in industry, agriculture, transportation, or energy, and must be approved by the relevant Israeli government ministry, determined by the field of research. Furthermore, the research and development must be for the promotion of the company's business and carried out by or on behalf of the company seeking such tax deduction. However, the amount of such deductible expenses is reduced by the sum of any funds received through government grants for the finance of such scientific research and development projects. As for expenses incurred in scientific research that is not approved by the relevant Israeli government ministry, they will be deductible over a three-year period starting from the tax year in which they are paid. As of December 31, 2018, the Company's Israeli subsidiary did not obtain such approval.

l. Tax benefits under the Law for the Encouragement of Industry (Taxes), 1969:

The Company's Israeli subsidiary claim currently to be qualified as 'industrial company' as defined by this law and as such, is entitled to certain tax benefits, consisting mainly of accelerated depreciation and amortization of patents and certain other intangible property.

NOTE 18:- FINANCIAL EXPENSES (INCOME), NET

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Interest income on marketable securities	$ (5,629)	$ (4,398)	$ (1,504)	$ (1,112)
Exchange rate loss (income), net	4,725	(8,111)	3,521	(27)
Interest expenses	2,536	-	-	-
Amortization of marketable securities premium and accretion of discount, net	1,242	2,017	685	532
Expenses (income), net, related to hedging transactions	(698)	1,334	87	136
Other financial expenses, net	121	-	-	-
	$ 2,297	$ (9,158)	$ 2,789	$ (471)

U.S. dollars in thousands (except share and per share data)

NOTE 19:- SEGMENT, GEOGRAPHIC, MAJOR CUSTOMER AND PRODUCT INFORMATION

a. Segment Information:

The Company's chief operating decision maker ("CODM") is our Chief Executive Officer who makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis. Accordingly, we have determined that we have a single reportable segment - the solar segment.

Total segment assets include corporate assets, such as cash and cash equivalents, marketable securities and tax assets. Total segment assets reconciled to consolidated amounts are as follows:

	As of December 31,		
	2018	2017	2016
Solar	$ 866,868	$ 641,305	$ 424,743
Non-Solar	97,604	-	-
Total assets	$ 964,472	$ 641,305	$ 424,743

The reconciliations of non-reportable segments' revenues, profit or loss and other items of information to the Company's consolidated totals are immaterial.

The Company's Non-solar activities constituted 2.4% of the Company's consolidated revenues for the year ended December 31, 2018.

b. Geographic Information:

The following is a summary of revenues within geographic areas:

	Year ended December 31,		Six months ended December 31,	Year ended June 30,
	2018	2017	2016	2016
Revenues based on Customers' location:				
United States	$ 505,469	$ 348,949	$ 160,321	$ 334,260
Europe (*)	175,894	128,295	37,500	74,830
Netherlands	123,959	70,067	23,099	36,377
Rest of the world	131,915	59,734	19,077	44,376
Total revenues	$ 937,237	$ 607,045	$ 239,997	$ 489,843

(*) Except for Netherlands

c. Major Customers:

The following is a summary of major customer data as a percentage of total revenues:

	Year ended December 31,		Six months ended December 31,	Year ended June 30,
	2018	2017	2016	2016
Customer A	19.4%	14.8%	11.2%	11.6%
Customer B	6.8%	8.1%	8.4%	10.1%
Customer C	-	3.0%	8.7%	10.9%

d. Products:

The following is a summary of revenues by product family:

	Year ended December 31, 2018	Year ended December 31, 2017	Six months ended December 31, 2016	Year ended June 30, 2016
Inverters	$ 416,966	$ 290,632	$ 112,585	$ 223,756
Optimizers	432,410	286,856	115,229	244,852
Others	87,861	29,557	12,183	21,235
Total revenues	$ 937,237	$ 607,045	$ 239,997	$ 489,843

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands (except share and per share data)

NOTE 19:- SEGMENT, GEOGRAPHIC, MAJOR CUSTOMER AND PRODUCT INFORMATION (Cont.)

e. Long-lived assets by geographic region:

	As of December 31,		
	2018	**2017**	**2016**
Israel	$ 59,126	$ 43,273	$ 35,055
Korea	41,268	-	-
China	10,433	5,985	36
Europe	6,600	1,219	466
U.S.	1,369	567	515
Other	533	138	50
Total long-lived assets*	$ 119,329	$ 51,182	$ 36,122

* Long-lived assets are comprised of property and equipment, net (marketable securities, other non-current assets, goodwill, intangible assets and deferred tax assets are not included).

NOTE 20:- SUBSEQUENT EVENTS

On January 24, 2019, the Company completed its acquisition of a majority stake (approximately 56%) of the outstanding common shares of S.M.R.E Spa (“SMRE”), a provider of innovative integrated powertrain technology and electronics for electric vehicles. The Company’s total consideration was approximately $85 million in the form of approximately 1.2 million shares of the Company’s common stock and the remainder in cash. During the year ended December 31, 2018 the Company recognized $536 of acquisition-related costs in the consolidated statements of operations under general and administrative expenses.

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLAREDGE TECHNOLOGIES, INC.

By:	/s/ Guy Sella
	Name: Guy Sella
	Title: Chief Executive Officer and Chairman
Date:	February 28, 2019

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Guy Sella, Ronen Faier, and Rachel Prishkolnik, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person and in such person's name, place, and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-K, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Exchange Act of 1934, as amended, this report has been signed by the following persons on behalf of the registrant and in the capacities and on the dates indicated below.

Signature	Title	Date
/s/Guy Sella Guy Sella	Chief Executive Officer and Chairman (*Principal Executive Officer*)	February 28, 2019
/s/Ronen Faier Ronen Faier	Chief Financial Officer (*Principal Financial and Accounting Officer*)	February 28, 2019
/s/Dan Avida Dan Avida	Director	February 28, 2019
/s/Yoni Cheifetz Yoni Cheifetz	Director	February 28, 2019
/s/Marcel Gani Marcel Gani	Director	February 28, 2019
/s/Doron Inbar Doron Inbar	Director	February 28, 2019
/s/Avery More Avery More	Director	February 28, 2019
/s/Tal Payne Tal Payne	Director	February 28, 2019

EXHIBIT 10.16

Execution Copy

SHARE PURCHASE AGREEMENT

October [*], 2018

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SHARE PURCHASE AGREEMENT

THIS SHARE PURCHASE AGREEMENT (this "***Agreement***") is entered into on October [*], 2018 by and among:

(1) Ji Jun Hong, a citizen of the Republic of Korea ("Korea") residing at ______ ("***Chairman Hong***" or the "***Seller***"); and

(2) SolarEdge Technologies Korea Co., Ltd., a company incorporated under the laws of Korea, having its principal office at 3-307, 308, Office A, 17 Worldcupbuk-ro 54gil, Mapo-gu, Seoul, Korea (the "***Purchaser***").

The Seller and the Purchaser shall hereinafter be referred to individually as a "***Party***" and collectively as "***Parties***" as the context may require.

RECITALS

WHEREAS, the Seller owns 4,887,596 shares of common stock of Kokam Co., Ltd., a joint stock company (*chusik hoesa* in Korean) duly organized and existing under the Laws of Korea with its registered office at 30-78 1220 Beongil Gyeongsu-Daero, Jangan-gu, Suwon-si, Gyeonggi-do, Korea (the "***Company***"), representing 32.19% of the total issued and outstanding capital stock of the Company (the "***Sale Shares***"); and

WHEREAS, in accordance with the terms and conditions of this Agreement, the Seller desires to sell and transfer the Sale Shares owned by it to the Purchaser, and the Purchaser desires to purchase such Sale Shares from the Seller.

NOW, THEREFORE, in consideration of the premises and of the mutual representations, warranties and covenants herein contained, the Parties hereby agree as follows:

ARTICLE 1
DEFINITIONS

1.1 Defined Terms. As used in this Agreement, the following terms shall have the respective meanings set forth below:

"***Action***" means any action, litigation, lawsuit, arbitration, appeal, petition, proceeding, complaint, charge, allegation, claim, suit, mediation, hearing, or investigation by or before any Governmental Authority or inquiry or investigation by any Governmental Authority.

"***Affiliate***" means, with respect to any Person, any other Person who (at the time when the determination is to be made), directly or indirectly through one or more intermediaries, Controls, is Controlled by, or is under common Control with, the specified Person.

"***Agreement***" has the meaning set forth in the preamble of this Agreement, and shall include all Schedules and Exhibits.

"***Assets***" has the meaning set forth in Section 4.10 of Schedule 4.

"***Business***" means the business and operations of the Company or the Company Subsidiary as conducted and as proposed to be conducted as of the date hereof.

"***Business Day***" means any day on which commercial banks are open for business in Seoul, Tel Aviv and New York.

"***Chechen Project***" means a certain project conducted by the Company and completed in 2016 involving sale of battery pack assembly machinery in Chechen Republic.

"***Closing***" has the meaning set forth in Article 2.4.

"***Closing Date***" means the date on which the Closing occurs.

"***Company***" has the meaning set forth in the first recital of this Agreement.

"***Company Subsidiary***" means Kokam Electronics Co., Ltd.

"***Competing Activities***" has the meaning set forth in Article 6.8(a).

"***Contract***" means any contract, agreement, indenture, note, bond, loan or credit agreement, instrument, lease, mortgage, deed of trust, license, commitment or other arrangement, agreement or obligation, whether written or oral.

"***Control***" (including, with correlative meanings, the terms "***Controlled by***" and "***under common Control with***") means the possession, direct or indirect, of the power to direct or cause the direction of the management and policies of a Person, whether through the ownership of voting securities or partnership or other ownership interests, by contract or otherwise.

"***Corporate Sellers***" means Gyeonggi KT Green Growth Investment Association, Korea Investment Partners Venture Association No. 11, Korea Investment Partners Co., Ltd., Korean Investment Growth Capital Fund No. 17, KoFC Skylake Global Incuvest 4 Private Equity Fund 0901 Co., Ltd., Skylake Growth Champ 2010 5 PEF, IMM Green Tech Fund, IMM Investment 2nd Private Equity Inc., Mirae Asset Venture Investment Co., Ltd., Atinum Investment Co., Ltd., Leading Investment & Securities Co., Ltd., and E-Revolution Private Equity Fund No. 1.

"***Disclosed***" means matters disclosed in the Disclosure Schedule; provided that nothing in the Disclosure Schedule shall be deemed adequate to disclose an exception to a representation or warranty made herein, unless the Disclosure Schedule identifies the exception and describes the relevant facts and, without limiting the generality of the foregoing, the mere listing (or inclusion of a copy) of a document or other item shall not be deemed adequate to disclose an exception to a representation or warranty made herein (unless the representation or warranty pertains to the existence of the document or other item itself); provided, further that, the Disclosure Schedule will be arranged in paragraphs corresponding to the lettered or numbered paragraphs contained in the relevant provisions of this Agreement.

"***Disclosure Schedule***" means the disclosure schedule (including the updated Section 4.19(a) of the Disclosure Schedule in accordance with Section 4.19(a) of Schedule 4 which shall be executed and delivered by the Seller to the Purchaser in form satisfactory to the Purchaser) in respect of Articles 3 and 4 of this Agreement, attached hereto.

"***Elcom***" means Elcom Co., Ltd.

"***Employee Benefit Plan***" means any bonus, overtime and night-time (and compensation therefor), days-off, vacation and leave (and compensation for unused days-off, vacation or leave), deferred compensation, severance, termination payment, pension, profit sharing, stock option, Employee stock purchase or other Employee benefit plans, program, agreement, arrangement, fund, policies and rules applicable to a the Company.

"***Employees***" has the meaning set forth in Section 4.14(a) of Schedule 4.

"***Encumbrance***" means any liens, charges, encumbrances, security interests, easement, license, option, claim, pledge, mortgage, proxy, right of first refusal, voting trusts or agreements, restriction on title, use, receipt of income, voting sale, disposition, transfer or exercise of any other attribute of ownership, and other equities or third party rights of any nature whatsoever.

"***Environmental Law***" means any Law in Korea relating to pollution or protection of the environment, health, hygiene or safety, worker's health, including such Laws relating to the use, handling, transportation, treatment, storage, disposal, emission, release or discharge of hazardous materials.

"***ERBSA***" has the meaning set forth in Section 4.15(b) of Schedule 4.

"***Escrow Account***" means the account to be established with the Escrow Agent in accordance with the Escrow Agreement.

"***Escrow Amount***" means KRW 8,300,000,000.

"***Escrow Agent***" means the escrow agent as mutually agreed by the Parties.

"***Escrow Agreement***" means an escrow agreement to be entered into on or after the date of this Agreement between the Purchaser, the Seller and the Escrow Agent in form and substance satisfactory to the parties thereto.

"***Final Determination***" means the occurrence of any of the following: (i) the parties to the dispute have reached a final settlement agreement in writing with respect to all claims and damages, (ii) a Governmental Authority of competent jurisdiction shall have entered a final and non-appealable order or judgment, or (iii) an arbitration or like panel shall have rendered a final determination or award with respect to disputes the parties have agreed to submit thereto.

"***Financial Statements***" means (i) the consolidated audited balance sheets of the Company as of December 31, 2017 and the related audited statements of income, changes in shareholders' equity and cash flows for the year then ended, and (ii) the consolidated unaudited balance sheet of the Company as of June 30, 2018, and the related unaudited statements of income and cash flows as of June 30, 2018.

"***Government Official***" means any official or employee of any Governmental Authority, or any person acting in an official capacity on behalf of such government, instrumentality or public international organization, or any political party or official thereof, or any candidate for political office.

"***Governmental Approvals***" means any approval, authorization, consent, order, license, permit, certification qualification, exemption, registration, designation, declaration, filing, waiver or other authorization, issued, granted, given or otherwise made available by or under the authority of any Governmental Authority.

"***Governmental Authority***" means any government, state or political subdivision thereof, national or supranational body, court, tribunal or any person or body exercising executive, legislative, judicial, regulatory or administrative functions on behalf of any of them and includes all relevant securities commissions, stock exchange authorities, foreign exchange authorities, foreign investment authorities and similar entities or authorities.

"***Indebtedness***" has the meaning set forth in Article 6.3(f).

"***Indemnified Party***" means the Seller Indemnified Party or a Purchaser Indemnified Party, as the case may be.

"***Indemnifying Party***" has the meaning set forth in Article 8.4(a).

"***Intellectual Property***" means, collectively, all intellectual property and other similar proprietary rights in any jurisdiction or under any international convention, whether owned or held for use under license, whether registered or unregistered, including without limitation such rights in and to: (i) all patents and applications therefore, including all continuations, divisionals, continuations-in-part, and provisionals and patents issuing thereon, and all reissues, reexaminations, substitutions, renewals and extensions therefore, and inventions, invention disclosures, discoveries and improvements, whether or not patentable, (ii) all trademarks, service marks, trade names, brand names, trade dress rights, logos, slogans, corporate names and other source or business identifiers, Internet domain names and general intangibles of a like nature, together with the goodwill associated with any of the foregoing, and all applications, registrations, renewals and extensions thereof, (iii) all copyrights, copyrightable works, works of authorship and moral rights, and all registrations, applications, renewals, extensions and reversions thereof, (iv) all trade secrets (including know-how, recipes, formulae, manufacturing and production processes and techniques, technical data, designs, drawings and specifications), all trade secret rights in any information, formula, pattern, compilation, program, device, method, technique, or process and market and other data, and rights to limit the use or disclosure of any of the foregoing by any Person, (v) all material Software related to the business of the Company (including data and related documentation), (vi) all other intellectual property or proprietary rights in Technology and other proprietary or confidential information, including customer lists, supplier lists, pricing and cost information, and business and marketing plans and proposals, and (vii) all claims, causes of action and defenses relating to the enforcement of any of the foregoing used or held for use by or for the Company.

"***Interested Party***" has the meaning set forth in Section 4.20 of Schedule 4.

"***Interested Party Transaction***" has the meaning set forth in Section 4.20 of Schedule 4.

"***Israel***" means the State of Israel.

“*IT System*” means all computer systems, servers, network equipment and other computer hardware owned, leased or licensed by the Company.

“*Key Executive*” means each of Chairman Hong, Choong-Yeon Chong, Young-Jae Lee and Seong-Tae Ko.

“*Knowledge of Seller*” means the actual knowledge of any Key Executive, after due inquiry.

“*K-IFRS*” means the Korean International Financial Reporting Standards as amended from time to time.

“*Korea*” means the Republic of Korea.

“*Korean Won*” or “*KRW*” means the lawful currency of Korea.

“*Law*” means any constitution, law, legislation, treaty, statute, ordinance, code, regulation, rule, injunction, judgment, order, decree, ruling, charge, or other restriction of any Governmental Authority having competent jurisdiction.

“*Lease Deposit*” has the meaning set forth in Section 4.11(b) of Schedule 4.

“*Leased Real Property*” has the meaning set forth in Section 4.11(e) of Schedule 4.

“*Leases*” has the meaning set forth in Section 4.11(b) of Schedule 4.

“*Licensed Intellectual Property*” has the meaning set forth in Section 4.12(a) of Schedule 4.

“*Losses*” has the meaning set forth in Article 8.1(a).

“*Material Adverse Effect (or Change)*” means any circumstance, change, development, event, condition, occurrence, effect or state of facts that, individually or in the aggregate, may be materially adverse or would reasonably be expected to be materially adverse to the business, assets (including intangible assets), liabilities, or financial condition of the Company taken as a whole. Notwithstanding the foregoing, no circumstance, change, development, event, condition, occurrence, effect or state of facts will be deemed to be a Material Adverse Effect (or Change) if (a) it generally affects the industry in which the Company operates, (b) it is the result of any changes to K-IFRS or accounting standards or principles or any change in applicable Laws or the interpretation thereof, (c) it is caused by any and all changes in general economic or political conditions, or (d) it is the result of the execution of this Agreement or the public announcement of the Transaction.

“*Material Contracts*” has the meaning set forth in Section 4.9(c) of Schedule 4.

“*Order*” means any judgment, award, decree, ruling or any other order of any Governmental Authority.

“*Ordinary Course of Business*” means an action taken by a Person only if: (a) such action is consistent with the past practices of such Person and is taken in the ordinary course of the normal day-to-day operations of such Person in compliance with applicable Laws; (b) such action is not required to be authorized by the board of directors of such Person similar in nature and magnitude to actions customarily taken in the ordinary course of the normal day-to-day operations of other Persons that are in the same line of business as such Person.

"***Organizational Documents***" means the articles of incorporation, bylaws, regulations concerning the board resolutions, corporate registry and other similar documents, instruments or certificates executed, adopted or filed in connection with the creation, formation or organization of a Person, including any amendments thereto.

"***Owned Intellectual Property***" has the meaning set forth in Section 4.12(a) of Schedule 4.

"***Owned Real Property***" has the meaning set forth in Section 4.11(e) of Schedule 4.

"***Party***" or "***Parties***" has the meaning set forth in the preamble of this Agreement.

"***Person***" means any individual, partnership, private equity fund, limited liability company, corporation, association, joint stock company, trust, entity, joint venture, labor organization, unincorporated organization, or Governmental Authority.

"***Purchase Price***" has the meaning set forth in Article 2.2(a).

"***Purchaser***" has the meaning set forth in the preamble of this Agreement.

"***Purchaser Indemnified Parties***" has the meaning set forth in Article 8.1(a).

"***Relevant Companies***" means the Company and the Company Subsidiary.

"***Representatives***" means, in respect of a Person other than an individual, any of the current partners, owners, shareholders, directors, executives, officers, representatives, members, agents or employees, advisors or representatives.

"***Resigning Officers and Directors***" means those directors of the Company and officers of the Company, each of whom is listed in Schedule 6.9, who are to resign pursuant to Article 6.9.

"***Sale Shares***" has the meaning set forth in the first recital of this Agreement.

"***Seller***" has the meaning set forth in the preamble of this Agreement.

"***Seller Bank Account***" means the bank account into which the Purchase Price is to be deposited pursuant to Article 2.2(a), as notified by the Seller to the Purchaser in writing at least five Business Days prior to the Closing.

"***Seller Indemnifiable Claims***" means any Actions, injunctions, judgments, orders, decrees, rulings, damages, decreases in value, penalties, fines, amounts paid in settlement, Liabilities, losses, expenses and costs of defense, including, without limitation, attorneys' fees and expenses, whether or not involving a third party claim for which the Seller is responsible or otherwise liable hereunder.

"***Seller Indemnified Party***" has the meaning set forth in Article 8.2.

"***Service Agreement***" means the service agreement to be entered into on or about the date of this Agreement between the Purchaser and kamur partners co., ltd.

"***Shared Intellectual Property***" has the meaning set forth in Section 4.12(b) of Schedule 4.

"***Software***" means (a) any and all computer programs, including any and all software implementations of algorithms, models and methodologies, whether in source code or object code and (b) any and all available documentation, including user manuals and other training documentation, related to any of the foregoing.

"***Subsidiary***" when used with respect to any Party, shall mean any corporation, limited liability company, partnership, association, trust or other entity of which securities or other ownership interests representing more than 50% of the equity or more than 50% of the ordinary voting power (or, in the case of a partnership, more than 50% of the general partnership interests) are, as of such date, owned by such Party or one or more Subsidiaries of such party or by such party and one or more Subsidiaries of such party.

"***Tax***" means all forms of taxation whether direct or indirect and whether levied by reference to income, profits, gains, revenues, net wealth, asset values, turnover, added value, withholding, local or other reference and statutory, governmental, state, provincial, local or foreign governmental or municipal impositions, duties, contributions, rates and levies (including social security contributions and any other payroll taxes), whenever and wherever imposed (whether imposed by way of a withholding or deduction for or on account of tax or otherwise) and in respect of any Person and all penalties, fines, charges, costs and interest relating thereto.

"***Tax Return***" means any return, declaration, report, claim for refund, or information return or statement relating to Taxes, including any schedule or attachment thereto, and including any amendment thereof.

"***Technology***" means all Software, information, designs, formulae, patterns, algorithms, procedures, methods, techniques, ideas, know-how, discoveries, concepts, research and development, technical data, compilations, compositions, programs, subroutines, tools, databases, materials, specifications, processes, inventions (whether patentable, or unpatentable and whether or not reduced to practice), devices, apparatus, creations, improvements, works of authorship and other similar materials, and all recordings, graphs, drawings, reports, analyses and other writings, and other tangible embodiments of the foregoing, in any form whether or not specifically listed herein, and all related technology, documentation and other materials used in, incorporated in, embodied in or displayed by any of the foregoing, or used or useful in the design, development, reproduction, maintenance or modification of any of the foregoing.

"***Transaction***" means the transaction contemplated hereby, including the sale and purchase of the Sale Shares under this Agreement.

"***U.S.***" means the United States of America.

1.2 Construction and Interpretation.

(a) Every part of this Agreement shall be deemed to be supplementary and complementary with every other part of this Agreement and shall be read with and construed as a whole as much as practical. This Agreement has been fully reviewed and negotiated by the Parties and in interpreting this Agreement, no weight shall be placed upon which Party or its legal advisor drafted the provision being interpreted.

(b) Any reference to any documents (including this Agreement) shall be construed as references to that document as it may be modified, amended, supplemented from time to time. Any reference to any law shall include all statutory and administrative provisions consolidating or amending or replacing such law, and shall include all rules and regulations promulgated therein.

(c) Unless the context otherwise requires, (i) a term has the meaning assigned to it by this Agreement, (ii) the gender of all words used in this Agreement shall include the masculine, feminine, and neuter, (iii) the word "including" shall mean "including, but not limited to", (iv) terms defined in the singular shall have the corresponding meaning in the plural, and vice versa, (v) all references herein to Articles, Sections, Schedules and Exhibits shall refer to articles, sections, schedules and exhibits, respectively, of this Agreement, and (vi) all captions and headings to Articles and Sections of this Agreement have been inserted for identification and reference purposes only and shall not be used to construe or interpret this Agreement.

ARTICLE 2
PURCHASE AND SALE

2.1 Purchase and Sale. Subject to the terms and conditions contained herein (including the exhibits and schedules attached hereto) the Seller shall sell and transfer to the Purchaser the Sale Shares and the Purchaser shall purchase from the Seller, the Sale Shares, free and clear of any Encumbrance on the Closing Date, provided that the Closing shall only take place upon the contemporaneous closing of the sale and purchase of shares from other shareholders in the Company representing 11,309,718 shares of the Company.

2.2 Purchase Price.

(a) Subject to Article 2.3, the Purchaser shall pay the purchase price in the amount of KRW 37,782,724,516 (the "***Purchase Price***") less the Escrow Amount on the Closing Date to the Seller by wire transfer of immediately available funds to the Seller Bank Account.

(b) Upon payment of the Purchase Price in accordance with Paragraph (a) in this Article 2.2, the Seller acknowledges and agrees that the Purchaser shall be deemed to have fulfilled its payment obligations to the Seller under this Article 2.2.

2.3 Escrow. Subject to Article 10.7, the Purchaser shall deposit an amount equal to the Escrow Amount into the Escrow Account as security for any Seller Indemnifiable Claims in accordance with the Escrow Agreement. The Parties shall procure that the Escrow Amount is released and be transferred by the Escrow Agent to the Seller as follows.

(a) First Escrow Release. On the first anniversary of the Closing Date (the "***First Escrow Release Date***"), the Purchaser shall release and pay 50% of the Escrow Amount by wire transfer of immediately available funds to the Seller Bank Account, less the aggregate amount, if any, of amounts previously deducted from the Escrow Amount by the Purchaser in accordance with this Agreement to satisfy any Seller Indemnifiable Claims.

(b) Second Escrow Release. On the second anniversary of the Closing Date, the Purchaser shall release and pay 50% of the Escrow Amount by wire transfer of immediately available funds to the Seller Bank Account, less the aggregate amount, if any, of amounts previously deducted from the Escrow Amount by the Purchaser in accordance with this Agreement to satisfy any Seller Indemnifiable Claims from the First Escrow Release Date.

2.4 Closing. Subject to the satisfaction of each condition precedent set out in Article 7 or waiver in writing of such condition precedent by the Purchaser or the Seller, as applicable, the closing of the sale and purchase of the Sale Shares (the "***Closing***") shall take place at the office of Shin & Kim, commencing at 10:00 a.m. Seoul time within ten (10) Business Days following the satisfaction or waiver in writing of the conditions precedent set out in Article 7, or such other date and time as the Seller and the Purchaser shall agree in writing.

2.5 Deliveries at Closing. At the Closing, simultaneously with the payment by the Purchaser of the sum prescribed under Article 2.2, the Seller shall deliver to the Purchaser:

(a) the title to the Sale Shares and all rights attaching to them by effecting a book entry transfer to the Purchaser's securities account, the details of which shall be notified to the Seller by the Purchaser at least five Business Days prior to the Closing;

(b) an extract of the shareholders' registry of the Company duly certified as true and correct by the representative director of the Company evidencing the Purchaser as the registered owner of the Sale Shares;

(c) a receipt for the Purchase Price;

(d) an original counterpart or a certified copy of each document set out in Articles 7.3(e) and (g); and

(e) such other documents, instruments and materials reasonably requested by the Purchaser, including all of the documents required to be delivered under this Agreement.

ARTICLE 3
SELLER REPRESENTATIONS AND WARRANTIES
RELATING TO HIM

The Seller hereby represents and warrants to the Purchaser that the statements contained in this Article 3 are true and accurate as of the date hereof and as of the Closing Date (or, if made as of a date specified below, as of such date) with respect to himself.

3.1 Citizenship and Residence. The Seller is a citizen and resident of Korea.

3.2 Authorization. The Seller has full authority and capacity to execute and deliver this Agreement and to perform its obligations hereunder and all actions required to authorize the execution and performance of all obligations of it under this Agreement and any other agreements and documents to which it is a party and the execution of which is contemplated hereunder have been duly taken. This Agreement has been duly executed and delivered by the Seller, and this Agreement constitutes the legal, valid and binding obligation of it enforceable against it in accordance with its terms.

3.3 Absence of Conflicts. The execution, delivery and performance by him of this Agreement will not: (i) violate any applicable Law or Government Approval applicable to it, or (ii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default under, any agreement or instrument to which the Seller is a party or by which the Seller is bound.

3.4 No Proceeding. There is no Action pending or, to the Knowledge of Seller, threatened against the Seller, at law or in equity, that (i) involves, or could adversely affect, the Sale Shares or his rights thereto or (ii) may have the effect of preventing, delaying, or making illegal the consummation of the Transaction.

3.5 The Sale Shares. It is the record and beneficial owner of, owns, and has good and marketable title to and the legal right and power to sell and deliver, the Sale Shares, free and clear of any Encumbrances. The Sale Shares owned by it are not subject to any put option, tag-along or co-sale right or any similar option or right. Such Sale Shares have been duly authorized, are validly issued, fully paid and non-assessable. It is not a party to any shareholder agreement, voting agreement, subscription agreement, or repurchase or redemption agreement with respect to the Sale Shares owned by it, or any other contract pertaining to the payment of dividends, preemptive rights, capital contributions, director nomination, drag-along, anti-dilution, registration rights, rights of first refusal or other transfer restrictions, or any other rights or obligations with respect to the Sale Shares owned by it.

3.6 Government Approval. No Governmental Approval is required to be obtained by it under the relevant Law in connection with the execution, delivery and performance of this Agreement at or prior to the Closing Date.

3.7 Third Party Consent. The execution, delivery and performance by it of this Agreement and the consummation of the Transaction do not and will not require any consent, approval or action by or notification to any Person.

ARTICLE 4
SELLER REPRESENTATIONS AND WARRANTIES
RELATING TO THE COMPANY

The Seller hereby represents and warrants to the Purchaser that the statements contained in Schedule 4 are true and accurate as of the date hereof and as of the Closing Date (or, if made as of a date specified below, as of such date) with respect to the Relevant Companies, except as Disclosed.

ARTICLE 5
REPRESENTATIONS AND WARRANTIES OF THE PURCHASER

The Purchaser hereby represents and warrants to the Seller the statements contained in this Article 5 are true and accurate as of the date hereof and as of the Closing Date (or, if made as of a date specified below, as of such date).

5.1 Organization and Existence. It is duly organized, validly existing under the Laws of Korea and has all requisite power and authority required to perform each of its obligations under any agreement contemplated hereunder to which it is a party.

5.2 Due Authorization. It has full authority and capacity to execute and deliver this Agreement and to perform its obligations hereunder and all actions required to authorize the execution and performance of all its obligations under this Agreement and any other agreements and documents to which it is a party and the execution of which is contemplated hereunder have been duly taken. This Agreement has been duly executed and delivered by it, and this Agreement constitutes its legal, valid and binding obligation enforceable against it in accordance with its terms.

5.3 Absence of Conflicts. The execution, delivery and performance by it of this Agreement will not: (i) violate any applicable Law or Government Approval applicable to it, or (ii) violate or conflict with, or constitute (with due notice or lapse of time or both) a default under, any agreement or instrument to which it is a party or by which it is bound, or (iii) violate any term of its Organizational Documents.

5.4 No Proceeding. There is no Action pending or threatened against it, at law or in equity, that challenges, or may have the effect of preventing, delaying, making illegal or otherwise interfering with, the consummation of the Transaction.

5.5 Government Approval. Other than those Governmental Approvals listed in Schedule 5.5, no Governmental Approval is required to be obtained by it under the relevant Law in connection with the execution, delivery and performance of this Agreement at or prior to the Closing Date.

5.6 Third Party Consent. The execution, delivery and performance by it of this Agreement and the consummation of the Transaction do not and will not require any consent, approval or action by or notification to any Person.

5.7 Sufficient Funding. On or prior to the Closing Date, the Purchaser will have sufficient cash, available lines of credit or other sources of immediately available funds to satisfy its obligations under this Agreement at Closing, including the payment of the Purchase Price on the Closing Date.

ARTICLE 6
COVENANTS

6.1 General. During the period between the date hereof and the Closing Date, each Party will use its best efforts to take all actions and do all things necessary, proper or advisable to consummate, make effective, and comply with all of the terms of this Agreement and the Transaction applicable to such Party (including satisfaction, but not waiver, of the Closing conditions for which it is responsible or otherwise in control, as set forth in Article 7). Each Party shall cooperate with each other and use best efforts to satisfy each of the conditions precedent for which it is responsible.

6.2 Notices and Filings. Each Party will give any notices to, make any filings with, and use its best efforts to obtain, as soon as practicable any Governmental Approvals, if any, required of such Party for or in connection with the Transaction. Until the Closing, the Seller shall cause the Company to provide the Purchaser with all information and material relating to a business combination report in respect of the Transaction with the Korea Fair Trade Commission or any other filings required to be made with any other Governmental Authority without delay.

6.3 Conduct of Business Prior to Closing. During the period commencing on the date hereof and ending on the Closing Date, except with the prior written consent of the Purchaser, the Seller shall cause each Relevant Company to conduct its business in the Ordinary Course of Business except (i) in compliance with any change in applicable Law or (ii) as contemplated under this Agreement. Without limiting the generality of the foregoing, except as the Purchaser consents in writing in advance, which consent shall not be unreasonably withheld or delayed, the Seller shall cause each Relevant Company not to:

(a) issue, sell, pledge, transfer, grant, otherwise dispose of or encumber any shares of capital stock or other equity interests of any Relevant Company, convertible bonds, bonds with warrants or any other securities convertible into or exercisable for any shares of capital stock of any Relevant Company or equity interests, any rights, warrants, options, calls or commitments to acquire or related to any shares of capital stock or other equity interests with respect to the Company, any awards under any bonus, incentive or other compensation plan or arrangement which would result in the right to receive shares or other equity interests of any Relevant Company (including the grant of stock options) or modify or amend any right of any holder of outstanding shares of capital stock of, or any options with respect to any Relevant Company;

(b) enter into, assign, transfer, extend, modify or terminate any Material Contracts;

(c) amend any of the Organizational Documents of any Relevant Company or take any action with respect to any such amendment or any recapitalization, restructuring reorganization, liquidation or dissolution of any Relevant Company;

(d) declare, set aside, make or pay any dividend or other distribution, payable in cash, stock or property, with respect to any capital stock or other equity or ownership interest in any Relevant Company;

(e) take any action that would require resolutions of the shareholders meeting of any Relevant Company, except for those resolutions that may be required to effectuate and carryout the terms and conditions of this Agreement;

(f) borrow from financial institutions, issue any debt securities or otherwise incur any indebtedness or guarantee any indebtedness; assume, guarantee or endorse any obligations of any other Person ("***Indebtedness***") which would result in the increase of the outstanding amount of Indebtedness of any Relevant Company as of the date of this Agreement by more than KRW 50,000,000, in the aggregate;

(g) sell, transfer, lease, license or otherwise dispose of assets, properties or businesses of any Relevant Company other than inventory in any single transaction in excess of KRW 50,000,000 or series of related transactions in excess of KRW 200,000,000 in the aggregate; incur, create or assume any Encumbrance on any of the assets or properties of any Relevant Company;

(h) make any change in the accounting methods, policies, practices and procedures of any Relevant Company; change the normal level of inventories or supplies, or alter its practice or policy in collection of accounts receivable or payment of accounts payable, other than in the Ordinary Course of Business;

(i) split, combine, subdivide, reclassify or redeem, or purchase or otherwise acquire, any outstanding securities of any Relevant Company, or undertake a capital reduction of any Relevant Company;

(j) take any action to accelerate the payment, funding or vesting of any pension, retirement, savings, profit sharing, deferred compensation, severance, consulting, bonus, group insurance or other compensation or benefits payable thereunder, other than in the Ordinary Course of Business;

(k) assume or enter into or renegotiate or renew any collective bargaining agreement, contract or other agreement or understanding with a labor union or labor organization of any Relevant Company;

(l) make any loans or capital contributions to, or investments in, any other Person;

(m) settle any pending or threatened claims, actions, arbitrations, disputes or other proceedings;

(n) make any capital expenditure in excess of KRW 100,000,000 individually or in the aggregate;

(o) acquire (by merger, consolidation or acquisition of shares or assets) any corporation, partnership or other business organization or division or business unit or material asset thereof or any equity interest therein;

(p) terminate or permit to lapse any of the Governmental Approvals or any third party consents, exemptions or waivers used in or necessary for legal existence or compliance with Laws applicable to, or the conduct of the business of each Relevant Company;

(q) enter into any new transaction with its Affiliate, officer or director of any Relevant Company;

(r) other than pursuant to employment agreements and/or the rules of employment of any Relevant Company existing as of the date of this Agreement, (A) make any material change in the terms and conditions of employment of any Employee or (B) hire, employ or lay off Employees which may incur any liabilities; grant any increase in the compensation of their Employees other than pursuant to employment agreements and/or the rules of employment of any Relevant Company existing as of the date of this Agreement; pay or provide compensation or benefit to its Employees other than pursuant to employment agreements and/or the rules of employment of any Relevant Company existing as of the date of this Agreement;

(s) have any Tax election made or materially changed; have any claim, notice, audit report or assessment in respect of Taxes settled or compromised (or agreement with respect thereto); execute or agree upon any Tax allocation agreement, Tax sharing agreement, advance pricing agreement, cost sharing agreement, pre-filing agreement, Tax indemnity agreement or closing agreement relating to any Tax entered into; have any annual Tax accounting period or method of Tax accounting changed or adopted; file any Tax petition, Tax complaint or administrative Tax appeal filed; have any right to claim a Tax refund surrendered or foregone; or have any extension or waiver of the statute of limitations period applicable to any Tax claim or assessment consented to; or

(t) authorize, approve or enter into any agreement, arrangement or commitment with respect to any of the foregoing.

6.4 Preservation of Business. During the period commencing on the date hereof and ending on the Closing Date, except with the prior written consent of the Purchaser, the Seller shall cause each Relevant Company to keep its business and properties substantially intact in all material respects, including its present operations, physical facilities, working conditions, and relationships with lessors, licensors, suppliers, customers, and Employees.

6.5 Notice of Development. During the period commencing on the date hereof and ending on the Closing Date, the Seller will give prompt written notice to the Purchaser of any material adverse development causing a breach of any of the representations and warranties in Articles 3 and 4. No disclosure by the Seller pursuant to this Article 6.5, however, shall be deemed to amend or supplement the Disclosure Schedule or to prevent or cure any misrepresentation, breach of warranty, or breach of covenant.

6.6 Exclusivity. The Seller shall not, and shall cause its Affiliates and its Affiliates' Representatives not to, directly or indirectly, solicit any inquires or proposals, or enter into any discussions, negotiations, understandings, arrangements or agreements, relating to the direct or indirect disposition, whether by sale, merger or otherwise, of all or any portion of the Sale Shares or the Business or Assets of any Relevant Company to any Person or (ii) disclose, directly or indirectly, to any Person any confidential information concerning any Relevant Company or its Business or Assets except as necessary to consummate the Transaction. If the Seller or any of its advisors receives or becomes aware of an offer for such a transaction, the Seller shall provide the Purchaser with notice thereof no later than three Business Days after the receipt thereof, which notice shall include the identity of the prospective buyer or soliciting party and the terms of such offer.

6.7 Third Party Consents and Notices. Prior to the Closing, the Seller shall, and shall cause the Company to, take necessary actions to obtain written consents from or provide notice to, as applicable, each of the counterparties to the contracts listed on Schedule 6.7.

6.8 Restrictive Covenant.

(a) In order to ensure that the Purchaser will realize the benefits of the Transaction, the Seller hereby agrees that such Seller shall not, and shall cause its Affiliates not to (other than in case of Route Jade Co., Ltd. and Elcom in their respective Ordinary Course of Business as of the Closing Date), irrespective of any territory, and during five years after the Closing: (i) directly or indirectly, alone or as a partner, joint venture, officer, director, member, employee, consultant, agent, independent contractor or shareholder of, or landlord or lender to, any company or business, engage in any business that is the same, similar or competes with the relevant Business, and any other activity related to such Business (the "***Competing Activities***"), whether or not for compensation; (ii) induce or attempt to induce any suppliers of any Relevant Company to cease to supply or to restrict or vary supply terms to such company, (iii) solicit or induce any current customer of any Relevant Company to cease to procure products and services from, to restrict or vary terms of products and services procured from such Relevant Company, and/or (iv) solicit, entice or induce any employee of any Relevant Company to terminate his/her employment with such Relevant Company.

(b) The Parties agree and acknowledge that the breach of Article 6.8 may cause irreparable damage to any Relevant Company and/or the Purchaser and upon breach of any provision of Article 6.8, the Company shall be entitled to injunctive relief, specific performance, or other equitable relief without the requirement to post a bond or other security; provided, however, that the foregoing remedies shall in no way limit any other remedies which such Relevant Company and the Purchaser may have (including the right to monetary damages).

6.9 Resignation. On or prior to the Closing Date, the Seller shall procure that each of the Resigning Officers and Directors voluntarily resign from the Company as an officer or director (such resignation to be effective on the Closing Date), provide a waiver and release of all claims against the Company, and execute and deliver a resignation, waiver and release letter substantially in the form of Exhibit A.

6.10 Shareholders' Meeting. The Seller shall procure the Company to convene a shareholders' meeting as soon as possible for the appointment of the persons designated by the Purchaser as directors and the statutory auditor of the Company as of the Closing Date and the approval of the amendment of the articles of incorporation of the Company in the form attached as Exhibit B.

6.11 Release. The Purchaser shall use its reasonable efforts to ensure any guarantees provided by the Seller in respect of any Indebtedness incurred by the Company is released as promptly as possible after the Closing.

6.12 Company Subsidiary Dissolution. Each Party shall use its best efforts to cause the Company to initiate the dissolution and liquidation of the Company Subsidiary as expeditiously as possible.

ARTICLE 7
CONDITIONS PRECEDENT

7.1 Conditions Precedent to the Obligations of the Parties. The obligations of each of the Parties to consummate the Transaction shall be subject to the satisfaction or waiver of all of the following conditions; provided, however, that the foregoing shall be applicable only to a Party to whom the failure of any of the following conditions is not attributable:

(a) The consummation of the Transaction shall not have been restrained, enjoined or otherwise prohibited or made illegal by any applicable Law;

(b) No order, injunction, judgment or decree issued by any Governmental Authority or other legal restraint or prohibition preventing the consummation of Transaction shall be in effect; and

(c) No proceeding initiated by any Governmental Authority shall be pending or threatened that seek to restrain, enjoin or otherwise prevent the consummation of the Transaction.

7.2 Conditions Precedent to the Obligations of the Seller. The obligations of the Seller to consummate the Transaction shall be subject to the satisfaction or waiver by the Seller of all of the following conditions:

(a) The representations and warranties of the Purchaser set out in Article 5 shall be true and accurate as of the Closing Date;

(b) The Purchaser shall have in all material respects (except those agreements, covenants and conditions qualified by "materiality," "Material Adverse Change/Effect" or words of similar meaning, which must be true and correct in all respects) performed and complied with all agreements, covenants and conditions required by this Agreement to be performed or complied with by the Purchaser at or prior to the Closing; and

7 . 3 Conditions Precedent to the Obligation of the Purchaser. The obligation of the Purchaser to consummate the Transaction shall be subject to the satisfaction or waiver by the Purchaser of all of the following conditions:

(a) The Seller shall have in all material respects (except those agreements, covenants and conditions qualified by "materiality," "Material Adverse Change/Effect" or words of similar meaning, which must be true and correct in all such respects) performed and complied with all agreements, obligations, covenants and conditions required by this Agreement to be performed or complied with by the Seller at or prior to the Closing;

(b) The representations and warranties of the Seller set out in Article 3 shall be true and accurate and the representations and warranties set out in Article 4 shall be true and accurate in all material respects (except those representations and warranties qualified by "materiality," "Material Adverse Change/Effect" or words of similar meaning, which must be true and correct in all such respects) as of the Closing Date;

(c) Since the date hereof, there shall not have occurred any Material Adverse Change;

(d) Chairman Hong shall have delivered a resignation, waiver and release letter signed by each of the Resigning Officers and Directors in the form attached hereto as Exhibit A together with any other documents necessary to complete registration of their resignation;

(e) The Purchaser, the Seller and the Escrow Agent shall have entered into the Escrow Agreement in accordance with Article 2.3;

(f) The Seller shall have delivered to the Purchaser a document evidencing convening of a shareholders' meeting of the Company for the appointment of the persons designated by the Purchaser as directors and the statutory auditor of the Company as of the Closing Date and approval of the amendment to the articles of incorporation of the Company in the form attached hereto as Exhibit B.

7.4 Waiver.

(a) The Seller may at any time waive in whole or in part and conditionally or unconditionally the conditions set out in Article 7.2 by notice in writing to the Purchaser.

(b) The Purchaser may at any time waive in whole or in part and conditionally or unconditionally the conditions set out in Article 7.3 by notice in writing to the Seller.

ARTICLE 8
INDEMNIFICATION

8.1 Seller's Indemnification.

(a) General Indemnity. Subject to Article 8 and the other terms and conditions of this Agreement, the Seller shall indemnify and hold harmless the Purchaser and its respective Affiliates (the "***Purchaser Indemnified Parties***") from and against any and all losses, damages, liabilities, costs (including legal costs and experts' and consultants' fees), charges, expenses, actions, proceedings, loss of opportunities, claims, demands, fines, interest and penalties (collectively, the "***Losses***") that are sustained or incurred by any of the Purchaser Indemnified Parties by reason of, resulting from or arising out of any breach or inaccuracy in any representation or warranty made by such Seller contained in this Agreement, or any breach, violation or non-fulfillment of any covenant, obligation or agreement contained in this Agreement. Regardless of whether the Purchaser or any of its Affiliates or any of their respective Representatives had or should have had knowledge or notice of any facts or circumstances which would result in the breach of, or inaccuracy in, any representation or warranty or the failure of any condition to be satisfied or the breach of any covenant, agreement or obligation hereunder, for purposes of this Agreement, the Purchaser shall not be deemed to have waived such breach or inaccuracy or condition. Actual or constructive knowledge, due diligence investigations, access to information, sophistication, experience, notices and any other actual or deemed sources of information outside the express provisions of this Agreement shall in no way limit the scope of any representation, warranty or condition or heighten any materiality or Material Adverse Effect threshold herein or otherwise expand any qualification or other provision herein beyond what is expressly provided herein.

(b) Special Indemnities. Without limiting the generality of Article 8.1(a) and notwithstanding the following matters set forth in this Article 8.1(b) being Disclosed, Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with the matters set forth in this Article 8.1(b).

(i) Statutory Working Hours and Weekly Holiday Pay. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with (i) unpaid or underpaid work allowances under applicable Law payable to an Employee and/or a former employee of the Company; (ii) other payments due by Company to an Employee and/or former employee of the Company under applicable Law and/or by contract; and (iii) violation of any applicable Law relating to the employment of its current and former Employees.

(ii) Illegal Dispatch. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with any illegal dispatch of subcontract workers currently and/or formerly engaged by or related to the Company.

(iii) Use of Head Office. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with the Company's failure to obtain, or violation of, the relevant Governmental Approval for the use of its head office building located at 30-78 1220 Beongil Gyeongsu-Daero, Jangan-gu, Suwon-si, Gyeonggi-do, Korea.

(iv) Lease and Use of Warehouse in Agro-Industrial Complex. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with the Company's occupancy of its industrial sites without executing an occupancy contract in compliance with the Industrial Cluster Act.

(v) Affiliated Transactions. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with (A) the Company's failure to comply with the relevant Laws with respect to the entry into any and all transactions with any of its Affiliates or (B) the agreements entered into with such Affiliates not complying with the relevant Laws.

(vi) Firebreak at S&C Electric's Plant. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with any Action relating to a firebreak at S&C Electric's plant located at 3251 W.Franklin Drive, Franklin WI 53132, U.S.A on August 10, 2016 to which the Company is, or becomes, a party.

(vii) Tax. Chairman Hong shall indemnify and hold harmless the Purchaser Indemnified Parties from and against any and all Losses arising, directly or indirectly, from or in connection with any violation of the representation and warranty under Sections 4.13(g), (h) or (i) (Taxes) of Schedule 4.

(c) Limitation on the Seller's Liability:

(i) Notwithstanding any provision to the contrary in this Agreement, the aggregate liability of the Seller under this Agreement arising as a result of a breach of the representations and warranties contained in Articles 3.1 (Citizenship/Residence), 3.3 (Authorization), 3.6 (The Sale Shares) and Section 4.1 (Organization and Existence) of Schedule 4 shall be unlimited.

(ii) Subject to Paragraph (i) above, the Seller shall not have any liability for any Loss relating to any individual claim or series of related claims based on a similar set of operative facts unless Loss relating to such claim or series of related claims suffered by the Purchaser is greater than KRW 100,000,000 and the Seller shall not have any liability for the Losses unless and until the aggregate of all Losses for which the Seller shall be liable exceeds on a cumulative basis KRW 1,000,000,000 at which point the Seller shall be responsible for the full amount of such Losses.

(iii) Subject to Paragraph (i) above, in no event shall the aggregate liability of Chairman Hong under this Agreement arising as a result of a breach of a representation and warranty, whether pursuant to this Article 8.1 or otherwise exceed (i) the Escrow Amount for any and all Losses arising, directly or indirectly, from or in connection with Article 8.1(a), and (ii) KRW 16,600,000,000 for any and all Losses arising, directly or indirectly, from or in connection with the matters set forth in this Article 8.1(b) subject to Article 8.1(c)(iv).

(iv) For the avoidance of doubt, limitations on the Seller's liability under Article 8.1(c)(ii) shall not apply to any liability arising pursuant to Article 8.1(b), provided that the Seller shall not have any liability for any Loss under Article 8.1(b)(vi) unless and until the aggregate of all Losses for which the Seller shall be liable exceeds on a cumulative basis USD 1 million at which point the Seller shall be responsible for the full amount of such Losses up to USD 5 million.

(v) The amount of any Loss for which indemnification is provided under this Article 8 shall be determined net of any amounts actually recovered by the Purchaser Indemnified Party under or pursuant to any insurance policy to which or under which such Purchaser Indemnified Party is a party or has rights (it being agreed that if any insurance, indemnification, reimbursement or similar proceeds are recovered by the Purchaser Indemnified Party for any Loss after the Seller has made an indemnification payment in connection with such Loss, an amount equal to the lesser of such indemnification payment made by the Seller and such proceeds received by the Purchaser Indemnified Party shall as promptly as practicable be remitted to the Seller).

(vi) Notwithstanding anything to the contrary contained herein, the Parties shall not, in any event, be liable (whether based on breach of contract, tort or otherwise) for (i) any consequential, punitive, incidental or indirect damages or (ii) Losses that arise out of changes in any applicable Law or its interpretation after the date hereof.

8.2 Purchaser's Indemnification. Subject to the other terms and conditions of this Agreement, the Purchaser shall indemnify and hold harmless the Seller (the "***Seller Indemnified Party***") from and against any Losses that are sustained or incurred by any of the Seller by reason of, resulting from or arising out of any material breach or inaccuracy in any representation or warranty made by the Purchaser contained in this Agreement, or any material breach, violation or non-fulfillment of any covenant, obligation or agreement contained in this Agreement.

8.3 Survival Period.

(a) Except as provided for in Article 8.3(c), all of the representations and warranties contained herein shall survive the Closing hereunder and continue in full force and effect for a period of two years thereafter; provided, however, that (i) the representations and warranties contained in Sections 4.13 (Taxes) of Schedule 4 shall survive until the expiration of the applicable statute of limitations, and (ii) the representations and warranties contained in Section 4.17 (Environmental Matters) of Schedule 4, shall survive for a period of three years thereafter; it being understood that, if notice of any claim for indemnification has been given (within the meaning of Article 10.9) within the applicable survival period, the representations and warranties or the indemnification obligations that are the subject of such indemnification claim shall survive with respect to such claim until such time as such claim becomes the subject of a Final Determination.

(b) The special indemnification obligations of the Seller set out in Article 8.1(b)(i) (Statutory Working Hours and Weekly Holiday Pay), 8.1(b)(ii) (Illegal Dispatch), 8.1(b)(v) (Affiliated Transactions) and 8.1(b)(vi) (Firebreak at S&C Electric's Plant) shall survive the Closing hereunder and continue in full force and effect for a period of two years thereafter, and the special indemnification obligations of the Seller set out in Article 8.1(b)(iii) (Use of Head Office) special indemnification obligations of the Seller set out in Article 8.1(b)(iv) (Lease and Use of Warehouse in Agro-Industrial Complex) shall survive the Closing hereunder and continue in full force and effect for a period of three years thereafter, and special indemnification obligations of the Seller set out in Article 8.1(b)(vii) (Tax) shall survive until the expiration of the applicable statute of limitations.

(c) Representations and warranties set out in Articles 3.1 (Citizenship and Residence), 3.3 (Authorization), 3.6 (The Sale Shares) and Section 4.1 (Organization and Existence) of Schedule 4) shall survive indefinitely.

8.4 Procedure for Indemnification

(a) Notices of claims under this Agreement by any Indemnified Party shall be given to the Purchaser or the Seller, as the case may be (the "***Indemnifying Party***") within the relevant period specified in Article 8.3, but in any event no later than 60 calendar days after such Indemnified Party's first becoming aware of such claim. In case of claims for inaccuracy in or breach of representations and warranties, such notice shall be made within the relevant survival period pursuant to Article 8.3. Such notice of claim shall specify in reasonable detail the factual basis of the claim and a non-binding estimate of the amount of Losses which are, or are to be, the subject of the claim (including any Losses which are contingent on the occurrence of any future event). If any Party fails to give notice required pursuant to this Article 8.4(a) within the relevant period specified in Article 8.3, such Party shall not be entitled to make the relevant claim under this Agreement. Upon receipt of such notice, in the event that the Indemnifying Party does not agree with the contents of such notice of claim, it must notify the Indemnified Party of such disagreement within 14 Business Days of receiving the notice of claim, and the Parties agree to resolve such dispute through Article 10.3.

(b) If any claim is instituted by a third party against any Indemnified Party, the Indemnifying Party shall have the right, at its expense, to participate in or assume control of the negotiation, settlement or defense of such claim by advising the Indemnified Party of its election within 15 days of the date it receives notice of the claim. Even if the Indemnifying Party elects to participate in or assume control of such negotiation, settlement or defense, the Indemnified Party shall have the right to participate in the negotiation, settlement or defense of such third party claim and to retain counsel to act on its behalf; provided, however, that the fees and disbursements of such counsel shall be paid by the Indemnified Party. The Indemnified Party shall cooperate at the Indemnifying Party's expense with the Indemnifying Party so as to permit the Indemnifying Party to conduct such negotiation, settlement and defense and for this purpose shall preserve all relevant documents in relation to the third party claim, allow the Indemnifying Party access on reasonable notice to inspect and take copies of all such documents and require its personnel to provide such statements as the Indemnifying Party may reasonably require and to attend and give evidence at any trial or hearing in respect of the third party claim. If, having elected to assume control of the negotiation, settlement or defense of the third party claim, the Indemnifying Party thereafter fails to conduct such negotiation, settlement or defense with reasonable diligence, then the Indemnified Party shall be entitled to assume such control at its own cost and the Indemnifying Party shall be bound by the results obtained by the Indemnified Party with respect to such third part claim, provided, however, that in no event shall the Indemnified Party settle the proceeding without the prior written consent of the Indemnifying Party, which shall not be unreasonably withheld, delayed or conditioned.

8 . 5 Adjustment of Purchase Price. Any payment to the Indemnified Parties under this Article 8 will be, to the extent permitted by applicable Laws, an adjustment to the Purchase Price.

8 . 6 Governmental Approvals. In the event that any Governmental Approvals are necessary in connection with any payment to be made by the Seller pursuant to the Seller's indemnification obligations set forth under this Article 8, the Seller hereby agrees to execute and deliver all such documents, and do all such things, as may be required, for purposes of obtaining any such Governmental Approval.

ARTICLE 9
TERMINATION

9.1 Termination. This Agreement may be terminated by written notice to the other Party at any time prior to the Closing Date:

(a) by the written agreement of the Purchaser and the Seller;

(b) by either Party, if the other Party shall have breached, in any material respect, any of its representations, warranties, covenants or other obligations under this Agreement and such breach shall be incapable of cure or has not been cured within 15 Business Days following the giving of written notice of such breach to the other Party;

(c) by the Purchaser, if any of the conditions in Article 7.1 or 7.3 shall not have been, or is or becomes incapable of being satisfied, unless such failure shall be due to the failure of the Purchaser to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing, and the Purchaser has not waived such condition, and the non-satisfaction is not due to a failure by the Purchaser to fulfill its obligations under this Agreement;

(d) by the Seller, if any of the conditions in Article 7.1 or 7.2 shall not have been, or is or becomes incapable of being satisfied, unless such failure shall be due to the failure of the Seller to perform or comply with any of the covenants, agreements or conditions hereof to be performed or complied with by it prior to the Closing, and the Seller have not waived such condition, and the non-satisfaction is not due to a failure by the Seller to fulfill its obligations under this Agreement;

(e) by either Party, if a Law has been promulgated or enacted that makes illegal the performance of this Agreement as at the Closing, or an Order that enjoins or restrains the performance of this Agreement as at the Closing has become final and non-appealable;

(f) by the Purchaser, if a Material Adverse Effect (or Change) has occurred after the date hereof and before the Closing;

(g) by the Purchaser, if (i) an Order has been made, petition filed or resolution passed for the winding up, dissolution or liquidation of the Company or for the appointment of a liquidator, custodian or trustee for all or substantially all of the property or assets of the Company or for an administration order in respect of the Company, (ii) the Company has commenced any other proceeding for itself under any bankruptcy, reorganization, arrangement, adjustment of debt, release of debtors, dissolution, insolvency, liquidation or similar law of any jurisdiction, and there has not been commenced against the Company any such proceeding, or (iii) any public auction, foreclosure, attachment, execution or other process has been levied on any assets of the Company;

(h) by the Seller, if (i) an Order has been made, petition filed or resolution passed for the winding up, dissolution or liquidation of the Purchaser or for the appointment of a liquidator, custodian or trustee for all or substantially all of the property or assets of the Purchaser or for an administration order in respect of the Purchaser, (ii) the Purchaser has commenced any other proceeding for itself under any bankruptcy, reorganization, arrangement, adjustment of debt, release of debtors, dissolution, insolvency, liquidation or similar law, as applicable, of any jurisdiction, and there has not been commenced against the Purchaser any such proceeding, or (iii) any public auction, foreclosure, attachment, execution or other process has been levied on any assets of the Purchaser; or

9.2 Effect of Termination. If this Agreement is terminated pursuant to Article 9.1, this Agreement shall become void and of no effect without liability of any Party (or its Affiliates or any of its Representatives) to the other Party; provided, however, that nothing herein shall relieve any Party from liability for any breach hereof prior to such termination; provided, further, that the provisions of Articles 1, 8, 9 and 10 shall survive any termination of this Agreement.

ARTICLE 10
MISCELLANEOUS

10.1 Taxes and Expenses. Except as otherwise expressly provided in this Agreement, each Party shall be responsible for and bear its own taxes, fees, costs and expenses imposed, levied, assessed or incurred on or by the Party for or in connection with the negotiation, preparation, execution and performance of this Agreement and the Transaction, including, without limitation, fees and disbursements of legal counsel.

10.2 Confidentiality and Public Announcements. Each Party shall maintain in confidence, and shall cause its Representatives to maintain in confidence, any written, oral, or other information obtained in confidence from the other Party or the Company in connection with this Agreement or the Transaction, unless (i) such information is already known to such Party or to others not bound by a duty of confidentiality or such information becomes publicly available through no fault of such Party, (ii) the use of such information is necessary or appropriate in making any filing or obtaining any Governmental Approvals required for the consummation of the Transaction, or (iii) the furnishing or use of such information is required by applicable Laws. The foregoing confidentiality obligations shall not apply to the Purchaser with respect to confidential information concerning the Company from and after the Closing. Further, the Parties shall not make or issue any press release or public disclosure without the prior consent of the other Parties in relation to the execution, content, and termination of this Agreement; provided, however, that the Purchaser, alone or jointly with its Affiliate(s) and/or the Company, may, without the prior consent of the Seller, make or issue a press release(s) and/or a public announcement or disclosure(s) as may be required under applicable Laws or other relevant requirements of a securities exchange after it has notified the Seller of such fact.

10.3 Governing Law; Dispute Resolution.

(a) This Agreement and all disputes arising out of or in connection with this Agreement shall be governed by, interpreted under, and construed and enforceable in accordance with, the Laws of Korea.

(b) Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the International Chamber of Commerce, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be three. The seat, or legal place, of arbitration shall be Hong Kong. The language to be used in the arbitral proceedings shall be English. Any arbitration award shall be final and binding upon the Parties.

10.4 Assignment. This Agreement and each and every covenant, term and condition hereof shall be binding upon and inure to the benefit of the Parties and their respective successors and assigns. Neither Party may assign any of its rights or delegate any of its obligations under this Agreement without obtaining the prior written consent of the other Party; provided, however, that the Purchaser may assign all of its rights or delegate all of its obligation under this Agreement to its Affiliate by providing a written notice in advance to the Seller.

10.5 Entire Agreement. This Agreement and the Escrow Agreement constitute the entire agreement between the Purchaser on one hand and the Seller on the other hand in respect of the subject matter hereof and supersedes any prior expressions of intent or understandings with respect thereto; provided, however, that nothing in this Agreement, the Escrow Agreement or related agreements shall be deemed to terminate or supersede the provisions of any confidentiality and nondisclosure agreements executed by the Parties hereto prior to the date hereof, which agreements shall continue in full force and effect until terminated in accordance with their respective terms.

10.6 Amendments and Waivers; Remedies Cumulative. This Agreement may be amended or modified only by an instrument in writing duly executed by the Parties. Any amendment or waiver effected in accordance with this Article 10.6 shall be binding upon the Parties hereto their respective assigns, successors, heirs, executors and administrators. The failure or delay of either Party to require performance by the other Party of any provision of this Agreement shall not affect its right to require performance of such provision nor shall any single or partial exercise of the same preclude any further exercise thereof or the exercise of any other right, power or remedy.

10.7 Set off. The Purchaser shall utilize or exhaust in full the Escrow Amount before proceeding against the Seller with respect to any Seller Indemnifiable Claims.

10.8 Severability. If any provision of this Agreement is found to be invalid or unenforceable, then such provision shall be construed, to the extent feasible, so as to render the provision enforceable and to provide for the consummation of the Transaction on substantially the same terms as originally set forth herein, and if no feasible interpretation would save such provision, it shall be severed from the remainder of this Agreement, which shall remain in full force and effect unless the severed provision is essential to the rights or benefits intended by the Parties. In such event, the Parties shall use best efforts to negotiate, in good faith, a substitute, valid and enforceable provision or agreement which most nearly affects the Parties' intent in entering into this Agreement.

10.9 Notices. Each notice, demand or other communication to be given or made under this Agreement shall be in writing and delivered by hand or internationally recognized overnight air courier or transmitted by facsimile to the relevant Party at its address or fax number set out in Schedule 1 (or such other address or fax number as the addressee has by seven days' prior written notice specified to the other Party). Any notice, demand or other communication so addressed to the relevant Party shall be deemed to have been duly given (a) if delivered by hand or internationally recognized overnight air courier, when actually delivered to the relevant address, and (b) if transmitted by fax, when dispatched with a simultaneous confirmation of transmission, provided that if such day is not a working day in the place to which it is sent, such notice, demand or other communication shall be deemed delivered on the next following working day at such place.

10.10 No Third Party Beneficiary. This Agreement is solely for the benefit of the Parties and permitted assigns, and this Agreement shall not otherwise be deemed to confer upon or give to any other third party, including any creditor, any remedy, claim, liability, reimbursement, cause of action or other right.

10.11 Language; Counterparts. This Agreement shall be executed in the English language. This Agreement may be executed in counterparts, each of which shall be deemed to constitute an original but all of which shall constitute one and the same instrument. Any facsimile copy of another Party's executed counterpart of this Agreement (or its signature page thereof) shall be deemed to be an executed original thereof.

10.12 Effectiveness**.** This Agreement shall take effect and become legally binding upon the execution of all of this Agreement, the Service Agreement, and all of the share purchase agreements with each of the Corporate Sellers.

[Signature page follows]

<u>Signature Page to Share Purchase Agreement</u>

IN WITNESS WHEREOF, each of the Parties has caused this Agreement to be executed as of the date first above written.

<u>SELLER</u>:
JI JUN HONG
(홍지준)

By: ________________________

Date of Birth: ________________

Signature Page to Share Purchase Agreement

PURCHASER:
SolarEdge Technologies Korea Co., Ltd.

By: ________________________
Name:
Title:

EXHIBIT 10.17

FORM OF SHARE PURCHASE AGREEMENT

This Share Purchase Agreement (the "Agreement") is made and entered into on October [*], 2018, by and between:

(1) _______________ ("Korea"), having its principal office at _______________ (the "Seller"); and

(2) SolarEdge Technologies Korea Co., Ltd., a company incorporated under the laws of Korea, having its principal office at 3-307, 308, Office A, 17 Worldcupbuk-ro 54gil, Mapo-gu, Seoul, Korea (the "Purchaser").

The Seller and the Purchaser shall hereinafter be referred to individually as a "Party" and collectively as "Parties" as the context may require.

RECITALS

WHEREAS, the Seller owns __________ shares of common stock of Kokam Co., Ltd., a joint stock company (chusik hoesa in Korean) duly organized and existing under the Laws of Korea with its registered office at 30-78 1220 Beongil Gyeongsu-Daero, Jangan-gu, Suwon-si, Gyeonggi-do, Korea (the "Company"), representing __________% of the total issued and outstanding capital stock of the Company (the "Sale Shares");

WHEREAS, the Purchaser is interested in purchasing approximately 74% of the total issued and outstanding shares in the Company contemporaneously with the Closing contemplated hereunder; and

WHEREAS, in accordance with the terms and conditions of this Agreement, the Seller desires to sell and transfer the Sale Shares owned by it to the Purchaser, and the Purchaser desires to purchase such Sale Shares from the Seller.

NOW, THEREFORE, in consideration of the premises and of the mutual representations, warranties and covenants herein contained, the Parties hereby agree as follows:

Article 1. Sale and Purchase of the Shares

1.1 Sale and Purchase of Shares. Subject to the terms and conditions of this Agreement, the Seller shall sell to the Purchaser and the Purchaser shall purchase from the Seller the Sale Shares, free and clear of any and all liens, charges, security interests, pledges, encumbrances, claims and demands whatsoever.

1.2 Purchase Price. The purchase price for the Sale Shares sold by the Seller and purchased by the Purchaser (the "Purchase Price") shall be KRW __________ (KRW 6,444 per share).

Article 2. Closing

2.1 Closing Date. Subject to the terms of this Agreement, the closing (the "Closing") of the share transfer transaction contemplated hereunder shall take place at the office of Shin & Kim, commencing at 10:00 a.m. Seoul time on the date on which the closing of the sale and purchase of 4,887,596 shares of the Company between the Purchaser and Ji Jun Hong occurs or such other date mutually agreed upon between the parties (such date is hereinafter referred to as the "Closing Date"), provided that the Closing shall only take place upon the contemporaneous closing of the sale and purchase of shares from other shareholders in the Company representing 11,309,718 shares of the Company.

2.2 Closing Transactions. At the Closing, (i) the Seller shall deliver the share certificates representing the Sale Shares, (ii) the Purchaser shall pay the Purchase Price to the Seller by wire transfer of immediately available funds to the bank account of the Seller set forth below:

Bank Name: __________
Bank Account Number: __________
Account Holder: __________

2.3 Further Assurance. The Seller shall undertake to do and effect all actions required for the purposes of completing the transactions contemplated by the SPA and in particular the vesting of the rights in connection with the Sale Shares to the Purchaser.

Article 3. Representations and Warranties

3.1 Representations and Warranties of Seller. The Seller represents and warrants to the Purchaser, as of the Closing Date, as follows:

(a) It is an entity duly organized and validly existing under the laws of Korea, is a tax resident of Korea and has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder.

(b) The execution and delivery by it of this Agreement, and the performance by it of all of its obligations hereunder have been duly authorized by all necessary corporate action.

(c) This Agreement is, when executed by it will be, duly executed and delivered by it, and constitute, or will constitute, its legal, valid and binding obligation, enforceable against it in accordance with their respective terms.

(d) Neither the execution and delivery by it of this Agreement, nor the performance by it of its obligations hereunder, require the consent or approval of, or filing with, any Person or any Authority.

(e) It is the record and beneficial owner of, owns, and has good and marketable title to and the legal right and power to sell and deliver, the Sale Shares, free and clear of any Encumbrances. The Sale Shares owned by it are not subject to any put option, tag-along or co-sale right or any similar option or right. Such Sale Shares have been duly authorized, are validly issued, fully paid and non-assessable.

3.2 Representations and Warranties of Purchaser. The Purchaser represents and warrants to the Seller, as of the Closing Date, as follows:

(a) It is an entity duly organized and validly existing under the laws of Korea, and has full power and authority to execute and deliver this Agreement and to perform its obligations hereunder and thereunder.

(b) The execution and delivery by it of this Agreement, and the performance by it of all of its obligations hereunder have been duly authorized by all necessary corporate action.

(c) This Agreement is, when executed by it will be, duly executed and delivered by it, and constitute, or will constitute, its legal, valid and binding obligation, enforceable against it in accordance with their respective terms.

(d) Neither the execution and delivery by it of this Agreement, nor the performance by it of its obligations hereunder, require the consent or approval of, or filing with, any Person or any Authority.

Article 4. Governing Law and Jurisdiction

4.1 Governing Law. This Agreement and all disputes arising out of or in connection with this Agreement shall be governed by, interpreted under, and construed and enforceable in accordance with, the Laws of Korea.

4.2 Dispute Resolution. Any dispute arising out of or in connection with this Agreement, including any question regarding its existence, validity or termination, shall be referred to and finally resolved by arbitration under the Rules of the International Chamber of Commerce, which Rules are deemed to be incorporated by reference into this clause. The number of arbitrators shall be three. The seat, or legal place, of arbitration shall be Hong Kong. The language to be used in the arbitral proceedings shall be English. Any arbitration award shall be final and binding upon the Parties.

Article 5. Indemnification

5.1 Each Party (the "Indemnifying Party") shall indemnify and hold harmless the other Party (the "Indemnified Party") from and against any and all losses, damages, liabilities, costs (including legal costs and experts' and consultants' fees), charges, expenses, actions, proceedings, claims, demands, fines, interest and penalties that are sustained or incurred by the Indemnified Party by reason of, resulting from or arising out of any breach or inaccuracy in any representation or warranty or breach of any covenant of the Indemnifying Party contained in this Agreement.

Article 6. Miscellaneous

6.1 Effectiveness. This Agreement shall become effective as of the date the Purchaser executes the sale purchase agreements with the Seller and other shareholders in the Company representing the sale and purchase of 11,309,718 shares of the Company, including the sale and purchase of 4,887,596 shares of the Company from Ji Jun Hong.

6.2 Notices. All notices, consents, waivers, and other communications under this Agreement shall be (i) in writing, (ii) delivered by hand-delivery, registered first class mail (return receipt requested), facsimile, or air courier guaranteeing overnight delivery, (iii) deemed to have been given on the date on which it is received.

6.3 Assignment. This Agreement shall be binding upon and inure to the benefit of the parties and their respective successors and assigns, and no other Person shall have any right, benefit or obligation under this Agreement.

6.4 Amendments. This Agreement may be amended only by written agreement among the relevant parties.

6.5 Severability. If one of more provisions of this Agreement are held to be invalid or unenforceable to any extent under applicable law, such provision shall be interpreted as if it were written so as to be enforceable to the maximum extent permitted by applicable law, so as to effectuate the parties' intent to the maximum extent, and the remainder of this Agreement shall be interpreted as if such provision were excluded and shall be valid and enforceable in accordance with its terms to the maximum extent permitted by applicable law.

6.6 Costs, Expenses and Taxes. Each party shall bear its own costs, expenses and taxes incurred in connection with this Agreement, including, without limitation, the fees and expenses of their respective accountants and legal counsel, capital gains tax (in case of the Seller) and securities transaction tax (in case of the Seller), regardless of whether the transactions contemplated hereby shall be consummated.

6.7 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be deemed to be an original, and all of which together shall constitute one and the same document.

(Signature page to follow)

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed by their representatives as of the date first above written.

Name:
Title:

SolarEdge Technologies Korea Co., Ltd.

Name: Guy Sella
Title: Representative Director

EXHIBIT 21.1

LIST OF SUBSIDIARIES OF THE REGISTRANT

Name	Jurisdiction of organization
SolarEdge Technologies Ltd.	Israel
SolarEdge Technologies GmbH	Germany
SolarEdge Technologies China	China
SolarEdge Technologies (Australia) PTY LTD	Australia
SolarEdge Technologies (Canada) Ltd.	Canada
SolarEdge Technologies (Holland) B.V.	The Netherlands
SolarEdge Technologies (Japan) Co., Ltd.	Japan
SolarEdge Technologies (France) SARL.	France
SolarEdge Technologies (UK) Ltd.	United Kingdom
SolarEdge Technologies Italy S.R.L.	Italy
SolarEdge Technologies (Bulgaria) Ltd.	Bulgaria
Guangzhou SolarEdge Machinery Technical Consulting Co. Ltd	China
SOLAREDGE TEKNOLOJİ A.Ş.	Turkey
SolarEdge Technologies (Belgium) SPRL	Belgium
SolarEdge Technologies SRL.	Romania
SOLAREDGE TECHNOLOGIES (INDIA) PRIVATE LIMITED	India
SolarEdge Technologies (Sweden) AB	Sweden
SolarEdge Technologies Taiwan Co., Ltd.	Taiwan
SolarEdge Technologies Korea Co., Ltd.	South Korea
Kokam Co., Ltd.	Korea
Gamatronic (UK) Limited.	United Kingdom

EXHIBIT 23.1

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-203193) pertaining to the 2015 Global Incentive Plan, 2007 Global Incentive Plan and 2015 Employee Stock Purchase Plan of SolarEdge Technologies, Inc. and the Registration Statement (Form S-3 No. 333-229618) of our reports dated February 28, 2019, with respect to the consolidated financial statements of SolarEdge Technologies, Inc., and the effectiveness of internal control over financial reporting of SolarEdge Technologies, Inc. included in this Annual Report (Form 10-K) for the year ended December 31, 2018.

/s/ KOST FORER GABBAY & KASIERER

Tel-Aviv, Israel
February 28, 2019

KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

EXHIBIT 31.1

I, Guy Sella, certify that:

1. I have reviewed this Annual Report on Form 10-K of SolarEdge Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ Guy Sella
Chief Executive Officer and Chairman of the Board
(*Principal Executive Officer*)

EXHIBIT 31.2

I, Ronen Faier, certify that:

1. I have reviewed this Annual Report on Form 10-K of SolarEdge Technologies, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 28, 2019

/s/ Ronen Faier
Ronen Faier
Chief Financial Officer
(*Principal Financial Officer*)

EXHIBIT 32.1

Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. §1350

Solely for the purposes of complying with 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Executive Officer and Chairman of the Board of SolarEdge Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 28, 2019

/s/ Guy Sella
Guy Sella
Chief Executive Officer and Chairman of the Board
(*Principal Executive Officer*)

EXHIBIT 32.2

Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. §1350

Solely for the purposes of complying with 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Financial Officer of SolarEdge Technologies, Inc. (the “Company”), hereby certify, based on my knowledge, that the Annual Report on Form 10-K of the Company for the year ended December 31, 2018 (the “Report”) fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition, and results of operations of the Company.

Date: February 28, 2019

/s/ Ronen Faier
Ronen Faier
Chief Financial Officer
(*Principal Financial Officer*)