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

FORM 10-Q

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

For the quarterly period ended June 30, 2021
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 No. 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 4673335, Israel
(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	Trading Symbol(s)	Name of each exchange on which registered
Common stock, par value $0.0001 per share	SEDG	NASDAQ (Global Select Market)

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 during the preceding 12 months (or for such shorter period that the registrant was required to submit such files).

Yes ☒ No ☐

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, smaller reporting company, or an 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.

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	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 checkmark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act).

Yes ☐ No ☒

As of July 27, 2021, there were 52,270,276 shares of the registrant’s common stock, par value of $0.0001 per share, outstanding.

SOLAREDGE TECHNOLOGIES, INC.
FORM 10-Q
FOR THE QUARTER ENDED JUNE 30, 2021
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PART I. FINANCIAL INFORMATION

ITEM 1 FINANCIAL STATEMENTS

SOLAREDGE TECHNOLOGIES, INC.
AND ITS SUBSIDIARIES.

INTERIM CONSOLIDATED FINANCIAL STATEMENTS

AS OF JUNE 30, 2021

IN U.S. DOLLARS

UNAUDITED

INDEX

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited)

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

	June 30, 2021	December 31, 2020
ASSETS		
CURRENT ASSETS:		
Cash and cash equivalents	$ 524,112	$ 827,146
Short-term bank deposits	13,562	60,096
Restricted bank deposits	2,504	2,611
Marketable securities	145,686	143,687
Trade receivables, net of allowances of $2,826 and $2,886, respectively	343,652	218,706
Inventories, net	321,915	331,696
Prepaid expenses and other current assets	137,480	135,399
Total current assets	1,488,911	1,719,341
LONG-TERM ASSETS:		
Marketable securities	457,362	147,434
Deferred tax assets, net	19,962	11,676
Property, plant and equipment, net	340,319	303,408
Operating lease right-of-use assets, net	38,302	41,600
Intangible assets, net	61,855	67,818
Goodwill	135,981	140,479
Other long-term assets	21,633	5,353
Total long-term assets	1,075,414	717,768
Total assets	$ 2,564,325	$ 2,437,109

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

CONDENSED CONSOLIDATED BALANCE SHEETS (Unaudited) (Cont.)

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

	June 30, 2021	December 31, 2020
LIABILITIES AND STOCKHOLDERS' EQUITY		
CURRENT LIABILITIES:		
Trade payables, net	$ 141,174	$ 162,051
Employees and payroll accruals	58,340	63,738
Current maturities of bank loans and accrued interest	139	16,894
Warranty obligations	64,855	62,614
Deferred revenues and customers advances	16,144	24,648
Accrued expenses and other current liabilities	118,933	106,154
Total current liabilities	399,585	436,099
LONG-TERM LIABILITIES:		
Convertible senior notes, net	620,082	573,350
Warranty obligations	167,312	142,380
Deferred revenues	128,109	115,372
Deferred tax liabilities, net	-	8,593
Finance lease liabilities	25,525	26,173
Operating lease liabilities	31,153	35,194
Other long-term liabilities	14,766	14,191
Total long-term liabilities	986,947	915,253
COMMITMENTS AND CONTINGENT LIABILITIES		
STOCKHOLDERS' EQUITY:		
Common stock of $0.0001 par value - Authorized: 125,000,000 shares as of June 30, 2021 and December 31, 2020; issued and outstanding: 52,263,976 and 51,560,936 shares as of June 30, 2021 and December 31, 2020, respectively	5	5
Additional paid-in capital	625,268	603,891
Accumulated other comprehensive income (loss)	(3,536)	3,857
Retained earnings	556,056	478,004
Total stockholders' equity	1,177,793	1,085,757
Total liabilities and stockholders' equity	$ 2,564,325	$ 2,437,109

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

CONDENSED CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Revenues	$ 480,057	$ 331,851	$ 885,546	$ 763,069
Cost of revenues	323,865	228,888	589,280	520,098
Gross profit	156,192	102,963	296,266	242,971
Operating expenses:				
Research and development	52,664	38,098	99,641	74,793
Sales and marketing	29,458	20,936	56,369	45,189
General and administrative	19,370	13,964	39,219	30,149
Other operating expenses (income), net	(859)	-	1,350	(4,900)
Total operating expenses	100,633	72,998	196,579	145,231
Operating income	55,559	29,965	99,687	97,740
Financial income (expenses), net	(1,743)	11,565	(7,840)	(5,040)
Income before income taxes	53,816	41,530	91,847	92,700
Income taxes	8,724	4,862	16,679	13,784
Net income	$ 45,092	$ 36,668	$ 75,168	$ 78,916
Net income per share:				
Net basic earnings per share of common stock	$ 0.87	$ 0.74	$ 1.45	$ 1.59
Net diluted earnings per share of common stock	$ 0.82	$ 0.70	$ 1.36	$ 1.51
Weighted average number of shares used in computing net basic earnings per share of common stock	52,076,208	49,786,586	51,903,123	49,493,173
Weighted average number of shares used in computing net diluted earnings per share of common stock	55,930,562	52,536,437	55,965,369	52,357,838

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

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (Unaudited)

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

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Net income	$ 45,092	$ 36,668	$ 75,168	$ 78,916
Other comprehensive income (loss), net of tax:				
Net change related to available-for-sale securities	(691)	1,931	(1,876)	766
Net change related to cash flow hedges	439	(92)	311	446
Foreign currency translation adjustments on intra-entity transactions that are of a long-term investment nature	1,779	-	(1,896)	-
Foreign currency translation adjustments, net	1,698	109	(3,932)	(2,845)
Total other comprehensive income (loss)	3,225	1,948	(7,393)	(1,633)
Comprehensive income	$ 48,317	$ 38,616	$ 67,775	$ 77,283

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

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited)

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

	Common stock		Additional paid in Capital	Accumulated Other comprehensive income (loss)	Retained earnings	Total stockholder's equity
	Number	Amount				
Balance as of January 1, 2021	51,560,936	$ 5	$ 603,891	$ 3,857	$ 478,004	$ 1,085,757
Cumulative effect of adopting ASU 2020-06	-	-	(36,336)	-	2,884	(33,452)
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	405,239	* -	5,008	-	-	5,008
Equity based compensation expenses to employees and non-employees	-	-	23,153	-	-	23,153
Other comprehensive income (loss) adjustments	-	-	-	(10,618)	-	(10,618)
Net income	-	-	-	-	30,076	30,076
Balance as of March 31, 2021	51,966,175	$ 5	$ 595,716	$ (6,761)	$ 510,964	$ 1,099,924
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	297,801	* -	5,500	-	-	5,500
Equity based compensation expenses to employees and non-employees	-	-	24,052	-	-	24,052
Other comprehensive loss adjustments	-	-	-	3,225	-	3,225
Net income	-	-	-	-	45,092	45,092
Balance as of June 30, 2021	52,263,976	$ 5	$ 625,268	$ (3,536)	$ 556,056	$ 1,177,793

* Represents an amount less than $1.

CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDERS' EQUITY (Unaudited) (Cont.)

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

	Common stock					
	Number	Amount	Additional paid in Capital	Accumulated Other comprehensive loss	Retained earnings	Total stockholder's equity
Balance as of January 1, 2020	48,898,062	$ 5	$ 475,792	$ (1,809)	$ 337,682	$ 811,670
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	701,431	* -	3,308	-	-	3,308
Equity based compensation expenses to employees and non-employees	-	-	12,773	-	-	12,773
Other comprehensive loss adjustments	-	-	-	(3,581)	-	(3,581)
Net income	-	-	-	-	42,248	42,248
Balance as of March 31, 2020	49,599,493	$ 5	$ 491,873	$ (5,390)	$ 379,930	$ 866,418
Issuance of Common Stock upon exercise of employee and non-employees stock-based awards	476,258	* -	5,806	-	-	5,806
Equity based compensation expenses to employees and non-employees	-	-	13,961	-	-	13,961
Other comprehensive loss adjustments	-	-	-	1,948	-	1,948
Net income	-	-	-	-	36,668	36,668
Balance as of June 30, 2020	50,075,751	$ 5	$ 511,640	$ (3,442)	$ 416,598	$ 924,801

* Represents an amount less than $1.

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

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

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

	Six months ended June 30,	
	2021	**2020**
Cash flows provided by operating activities:		
Net income	$ 75,168	$ 78,916
Adjustments to reconcile net income to net cash provided by operating activities:		
Depreciation of property, plant and equipment	14,008	10,646
Amortization of intangible assets	4,871	4,615
Amortization of debt discount and debt issuance costs	1,450	-
Amortization of premium and accretion of discount on available-for-sale marketable securities, net	3,558	373
Stock-based compensation expenses	47,205	26,734
Deferred income taxes, net	(3,931)	(6,424)
Loss from disposal of assets	2,051	-
Exchange rate fluctuations and other items, net	12,983	(452)
Changes in assets and liabilities:		
Inventories, net	13,229	(94,230)
Prepaid expenses and other assets	(20,356)	37,066
Trade receivables, net	(128,564)	116,045
Trade payables, net	(20,120)	(1,823)
Employees and payroll accruals	9,734	1,457
Warranty obligations	27,298	20,198
Deferred revenues and customers advances	4,524	(31,834)
Other liabilities	19,660	5,768
Net cash provided by operating activities	62,768	167,055
Cash flows from investing activities:		
Investment in available-for-sale marketable securities	(422,470)	(36,815)
Proceeds from sales and maturities of available-for-sale marketable securities	103,763	89,739
Purchase of property, plant and equipment	(65,267)	(53,706)
Withdrawal from bank deposits, net	46,534	25,634
Other investing activities	1,442	2,024
Net cash provided by (used in) investing activities	$ (335,998)	$ 26,876

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited) (Cont.)

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

	Six months ended June 30, 2021	Six months ended June 30, 2020
Cash flows from financing activities:		
Repayment of bank loans	$ (16,385)	$ (15,119)
Proceeds from bank loans	-	15,113
Proceeds from exercise of stock-based awards and payment of withholding taxes	(4,196)	9,114
Other financing activities	(625)	(112)
Net cash provided by (used in) financing activities	(21,206)	8,996
Increase (decrease) in cash and cash equivalents	(294,436)	202,927
Cash and cash equivalents at the beginning of the period	827,146	223,901
Effect of exchange rate differences on cash and cash equivalents	(8,598)	1,544
Cash and cash equivalents at the end of the period	$ 524,112	$ 428,372

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

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

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 remote cloud-based monitoring platform, that collects and processes information from the power optimizers and inverters to enable customers and system owners, to monitor and manage the solar PV system (iv) a storage and backup 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, and (v) additional smart energy management solutions.

The Company and its subsidiaries sell products worldwide through large distributors, electrical equipment wholesalers, as well as directly to large solar installers and engineering, procurement and construction firms.

b. The Company has expanded its activity to other areas of smart energy technology organically and through acquisitions. The Company now offers a variety of energy solutions, which include lithium-ion cells, batteries and energy storage systems (“Energy Storage”), full powertrain kits for electric vehicles, or EVs (“e-Mobility”), uninterrupted power supply solutions or UPS (“Critical Power”), as well as automated machines for industrial use (“Automation Machines”).

c. Recently issued and adopted pronouncements:

In August 2020, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update No. 2020-06, Debt—Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging—Contracts in Entity's Own Equity (Subtopic 815-40): Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (ASU 2020-06), which simplifies the accounting for certain financial instruments with characteristics of liabilities and equity, including convertible instruments and contracts on an entity’s own equity. This guidance also eliminates the treasury stock method to calculate diluted earnings per share for convertible instruments and requires the use of the if-converted method. ASU 2020-06 will be effective for fiscal years beginning after December 15, 2021, with early adoption permitted. Effective January 1, 2021, the Company early adopted ASU 2020-06 using the modified retrospective approach. Adoption of the new standard resulted in an increase of retained earnings in an amount of $2,884, a decrease of an additional paid-in capital in an amount of $36,336, an increase of convertible senior notes, net, in an amount of $45,282 and a decrease of deferred tax liabilities, net, in an amount of $11,830. Interest expense recognized in future periods will be reduced as a result of accounting for the convertible debt instrument as a single liability measured at its amortized cost. The impact of adoption of this standard on the Company’s earnings per share was immaterial.

In January 2020, the FASB issued ASU 2020-01, Investments-Equity Securities (Topic 321), Investments-Equity Method and Joint Ventures (Topic 323), and Derivatives and Hedging (Topic 815), which clarifies the interaction between the accounting for equity securities in Topic 321, the accounting for equity method investments in Topic 323, and the accounting for certain forward contracts and purchased options in Topic 815. The guidance is effective for interim and annual periods beginning after December 15, 2020. Effective January 1, 2021, the Company adopted this standard on a prospective basis. The impact of adoption of this standard on the Company’s consolidated financial statements was immaterial.

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

NOTE 1:- GENERAL (Cont.)

d. Basis of Presentation:

The unaudited condensed consolidated financial statements and accompanying notes have been prepared in accordance with U.S. generally accepted accounting principles (“U.S. GAAP”). In management’s opinion, the unaudited condensed consolidated financial statements reflect all adjustments of a normal recurring nature that are necessary for a fair presentation of the results for the interim periods presented. The Company’s interim period results do not necessarily indicate the results that may be expected for any other interim period or for the full fiscal year.

The significant accounting policies applied in the annual consolidated financial statements of the Company as of December 31, 2020, contained in the Company’s Annual Report on Form 10-K/A filed with the SEC on February 19, 2021, have been applied consistently in these unaudited interim condensed consolidated financial statements, except for the adoption of ASU 2020-06, Accounting for Convertible Instruments and Contracts in an Entity’s Own Equity (Topic 470) (see Note 7).

e. Use of estimates:

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues, costs and expenses and related disclosures in the accompanying notes. The duration, scope and effects of the ongoing COVID-19 pandemic, government and other third party responses to it, and the related macroeconomic effects, including to the Company’s business and the business of the Company’s suppliers and customers are uncertain, rapidly changing and difficult to predict. As a result, the Company’s accounting estimates and assumptions may change over time in response to this evolving situation. Such changes could result in future impairments of goodwill, intangibles, long-lived assets, inventories, incremental credit losses on receivables and AFS debt securities, or an increase in the Company’s insurance liabilities as of the time of a relevant measurement event.

f. Concentrations of supply risks:

The Company depends on two contract manufacturers and several limited or single source component suppliers. Reliance on these vendors makes the Company vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields, and costs.

As of June 30, 2021, and December 31, 2020, two contract manufacturers collectively accounted for 35.7% and 48.5% of the Company’s total trade payables, net, respectively.

During 2020, the Company started production in its manufacturing facility in the North of Israel, “Sella 1”. During the second quarter of 2021, Sella 1 reached full manufacturing capacity.

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

NOTE 2:- INVENTORIES, NET

	June 30, 2021	December 31, 2020
Raw materials	$ 136,791	$ 128,363
Work in process	28,733	25,461
Finished goods	156,391	177,872
	$ 321,915	$ 331,696

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

NOTE 3:- MARKETABLE SECURITIES

The following is a summary of available-for-sale marketable debt securities as of June 30, 2021:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale – matures within one year:				
Corporate bonds	$ 139,063	$ 97	$ (107)	$ 139,053
Governmental bonds	6,645	-	(12)	6,633
	145,708	97	(119)	145,686
Available for-sale – matures after one year:				
Corporate bonds	448,774	86	(2,039)	446,821
Governmental bonds	10,612	-	(71)	10,541
	459,386	86	(2,110)	457,362
Total	$ 605,094	$ 183	$ (2,229)	$ 603,048

The following is a summary of available-for-sale marketable debt securities as of December 31, 2020:

	Amortized cost	Gross unrealized gains	Gross unrealized losses	Fair value
Available-for-sale – matures within one year:				
Corporate bonds	$ 141,824	$ 509	$ (57)	$ 142,276
Governmental bonds	1,400	11	-	1,411
	143,224	520	(57)	143,687
Available for-sale – matures after one year:				
Corporate bonds	142,701	65	(214)	142,552
Governmental bonds	4,895	-	(13)	4,882
	147,596	65	(227)	147,434
Total	$ 290,820	$ 585	$ (284)	$ 291,121

As of June 30, 2021, the Company didn’t record an allowance for credit losses for its available-for-sale marketable debt securities.

NOTE 4:- INVESTMENT IN PRIVATELY-HELD COMPANIES

On January 31, 2021, the Company completed an investment of $ 11,643 in the preferred stock of AutoGrid Systems, Inc ("AutoGrid"), a privately held company without readily determinable fair values.

On February 1, 2021, the Company signed on a preferred stock purchase agreement for an additional investment of $ 5,000 in AutoGrid's preferred stock (the "second investment"). On April 28, the Company completed the second investment.

Under ASU 2016-01 equity investments without readily determinable fair value include ownership rights that either (i) do not meet the definition of in-substance common stock or (ii) do not provide the Company with control or significant influence.

The Company adjusts the carrying value of its non-marketable equity securities to fair value upon observable transactions for identical or similar investments of the same issuer or upon impairment. All gains and losses on non-marketable equity securities, realized and unrealized, are recognized in financial income (expenses), net.

The Company accounted for the AutoGrid investment as an equity investment that does not have readily determinable fair values. As such, the Company’s non-marketable equity securities had a carrying value of $16,643 as of June 30, 2021. The maximum loss the Company can incur for its investments is their carrying value. Investments in privately-held companies are included within other long-term assets on the consolidated balance sheets.

The Company periodically evaluates the carrying value of the investments in privately-held companies when events and circumstances indicate that the carrying amount of the investment may not be recovered. These investments include the Company’s holdings in privately-held companies that are not traded and therefore not supported with observable market prices. The Company may determine the fair value by reviewing equity valuation reports, current financial results, long-term plans of the privately-held companies, the amount of cash that the privately-held companies have on-hand, the ability to obtain additional financing and overall market conditions in which the privately-held companies operate or based on the price observed from the most recent completed financing.

No impairment or other adjustments related to observable price changes in orderly transactions for identical or similar investments were identified for the three and six months ended June 30, 2021.

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

NOTE 5:- FAIR VALUE MEASUREMENTS

In accordance with ASC 820, the Company measures its cash equivalents and marketable securities, at fair value using the market approach valuation technique. Cash equivalents and marketable securities are classified within Level 1 and Level 2, respectively, 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.

The following table sets forth the Company’s assets that were measured at fair value as of June 30, 2021 and December 31, 2020 by level within the fair value hierarchy:

Description	Fair Value Hierarchy	Fair value measurements as of June 30, 2021	Fair value measurements as of December 31, 2020
Measured at fair value on a recurring basis:			
Assets:			
Cash equivalents:			
Money market mutual funds	Level 1	$ 93,085	$ 480,673
Derivative instruments asset:			
Options and forward contracts designated as hedging instruments	Level 2	$ 354	$ -
Options and forward contracts not designated as hedging instruments	Level 2	$ 2,346	3,786
Short-term marketable securities:			
Corporate bonds	Level 2	$ 139,053	$ 142,276
Governmental bonds	Level 2	$ 6,633	$ 1,411
Long-term marketable securities:			
Corporate bonds	Level 2	$ 446,821	$ 142,552
Governmental bonds	Level 2	$ 10,541	$ 4,882
Liabilities			
Derivative instruments liability:			
Options and forward contracts not designated as hedging instruments	Level 2	$ (523)	$ (5,819)

NOTE 6:- DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

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 denominated in the Israeli currency, the New Israeli Shekels (“NIS”), during the six months June 30, 2021, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll denominated in NIS for a period of one to nine months with hedging contracts.

Accordingly, when the dollar strengthens against the NIS, the decline in present value of future foreign currency expenses is offset by losses in the fair value of the hedging contracts. Conversely, when the dollar weakens, the increase in the present value of future foreign currency cash flows is offset by gains in the fair value of the hedging contracts. These hedging contracts are designated as cash flow hedges, as defined by ASC 815 and are all effective hedges.

As of June 30, 2021, the Company entered into forward contracts to sell U.S. dollars for NIS in the amount of $20,836.

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 income, as financial expenses, net.

As of June 30, 2021, the Company entered into forward contracts and put and call options to sell Australian dollars (“AUD”) for U.S. dollars in the amount of AUD 12 million and AUD 18 million, respectively.

As of June 30, 2021, the Company entered into forward contracts and put and call options to sell Euro (“EUR”) for U.S. dollars in the amount of EUR 69 million and EUR 51 million, respectively.

The fair value of derivative assets as of June 30, 2021 and December 31, 2020, was $2,700 and $3,786, respectively, which was recorded in prepaid expenses and other current assets in the consolidated balance sheets.

The fair value of derivative liabilities as of June 30, 2021 and December 31, 2020, was $523 and $5,819, respectively, which was recorded in accrued expenses and other current liabilities in the consolidated balance sheets.

For the three months ended June 30, 2021 and 2020, the Company recorded a gain in the amount of $820 and $491, respectively, in financial expense, net, related to the derivative instruments not designated as cash flow hedges.

For the three months ended June 30, 2021 and 2020, the Company recorded an unrealized gain in the amount of $841 and $343, net of tax effect, respectively, in “accumulated other comprehensive loss” related to the derivative assets designated as hedging instruments.

For the six months ended June 30, 2021 and 2020, the Company recorded a gain in the amount of $4,355 and $491, respectively, in financial expense, net, related to the derivative instruments not designated as cash flow hedges.

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

NOTE 6:- DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES (Cont.)

For the six months ended June 30, 2021 and 2020, the Company recorded unrealized gain (loss) in the amount of $713 and $881, net of tax effect, respectively, in “accumulated other comprehensive loss” related to the derivative assets designated as hedging instruments.

The following table provides details about reclassifications out of accumulated other comprehensive income (loss) for the three and six months ended June 30, 2021 and 2020:

Details about Accumulated Other Comprehensive Loss Components	Amount Reclassified from Accumulated Other Comprehensive Loss 2021	Amount Reclassified from Accumulated Other Comprehensive Loss 2020	Affected Line Item in the Statements of Income
Unrealized gains on cash flow hedges, net	$ 54	$ 99	Cost of revenues
	275	270	Research and development
	56	61	Sales and marketing
	72	66	General and administrative
	457	496	Total, before income taxes
	(55)	(61)	Income tax expense
	$ 402	$ 435	Total, net of income taxes

NOTE 7:- CONVERTIBLE SENIOR NOTES

On September 25, 2020, the Company sold $632,500 aggregate principal amount of its 0.00% convertible senior notes due 2025 (the “Notes”). The Notes were sold pursuant to an indenture, dated September 25, 2020 (the “Indenture”), between the Company and U.S. Bank National Association, as trustee (the “Trustee”). The Notes do not bear regular interest and mature on September 15, 2025, unless earlier repurchased or converted in accordance with their terms. The Notes are general senior unsecured obligations of the Company. Holders may convert their Notes prior to the close of business on the business day immediately preceding June 15, 2025 in multiples of $1,000 principal amount, only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on December 31, 2020 (and only during such calendar quarter), if the last reported sale price of the common stock for at least 20 trading days (whether or not consecutive) during the period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five-business-day period after any five consecutive trading day period in which the trading price per $1,000 principal amount of the Notes for each trading day of that five consecutive trading day period was less than 98% of the product of the last reported sale price of the common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events as described in the Indenture. In addition, holders may convert their Notes, in multiples of $1,000 principal amount, at their option at any time beginning on or after June 15, 2025, and prior to the close of business on the second scheduled trading day immediately preceding the stated maturity date of the Notes, without regard to the foregoing circumstances. The initial conversion rate for the Notes was 3.5997 shares of common stock per $1,000 principal amount of Notes, which is equivalent to an initial conversion price of approximately $277.80 per share of common stock, subject to adjustment upon the occurrence of certain specified events as set forth in the Indenture.

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

NOTE 7:- CONVERTIBLE SENIOR NOTES (Cont.)

Upon conversion, the Company may choose to pay or deliver, as the case may be, cash, shares of common stock or a combination of cash and shares of common stock.

In addition, upon the occurrence of a fundamental change (as defined in the Indenture), holders of the Notes may require the Company to repurchase all or a portion of their Notes, in multiples of $1,000 principal amount, at a repurchase price of 100% of the principal amount of the Notes, plus any accrued and unpaid special interest, if any, to, but excluding, the repurchase date. If certain fundamental changes referred to as make-whole fundamental changes occur, the conversion rate for the Notes may be increased.

The Convertible Senior Notes consisted of the following as of June 30, 2021 and December 31, 2020:

	As of June 30, 2021	As of December 31, 2020
Liability:		
Principal	$ 632,500	$ 632,500
Unamortized debt discount	-	(46,353)
Unamortized issuance costs	(12,418)	(12,797)
Net carrying amount	$ 620,082	$ 573,350
Equity component:		
Amount allocated to conversion option	$ -	$ 48,834
Deferred taxes liability, net	-	(11,368)
Allocated issuance costs	-	(1,130)
Equity component, net	$ -	$ 36,336

As of June 30, 2021, the debt issuance costs of the Notes will be amortized over the remaining term of approximately 4.2 years.

Prior to January 1, 2021, the Company separated the Notes into liability and equity components. On issuance, the carrying amount of the equity components was recorded as a debt discount and subsequently amortized to interest expense. Effective January 1, 2021, the Company early adopted ASU 2020-06 using the modified retrospective approach. The Notes are accounted for as a single liability measured at its amortized cost, as no other embedded features require bifurcation and recognition as derivatives.

Adoption of the new standard resulted in an increase of retained earnings in an amount of $2,884, a decrease of an additional paid-in capital in an amount of $36,336, an increase of convertible senior notes, net, in an amount of $45,282 and a decrease of deferred tax liabilities, net, in an amount of $11,830. The impact of adoption of this standard on the Company’s earnings per share was immaterial.

The annual effective interest rate of the Notes following the adoption of ASU 2020-06 is 0.47%.

Interest expense related to the amortization of debt issuance costs was $726 and $1,450 for the three and six months ended June 30, 2021, respectively.

As of June 30, 2021, the estimated fair value of the Notes, which the Company has classified as Level 2 financial instruments, is $801,631. The estimated fair value was determined based on the quoted bid price of the Notes in an over-the-counter market on the last trading day of the reporting period.

As of June 30, 2021, the if-converted value of the Notes exceeded the principal amount by $169,131.

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

NOTE 8:- WARRANTY OBLIGATIONS

Changes in the Company’s product warranty obligations for the six months ended June 30, 2021 and 2020, were as follows:

	As of June 30,	
	2021	2020
Balance, at the beginning of the period	$ 204,994	$ 172,563
Additions and adjustments to cost of revenues	66,314	47,369
Usage and current warranty expenses	(39,141)	(27,248)
Balance, at the end of the period	232,167	192,684
Less current portion	(64,855)	(68,674)
Long term portion	$ 167,312	$ 124,010

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Guarantees:

As of June 30, 2021, contingent liabilities exist regarding guarantees in the amounts of $18,373, $4,799 and $1,311 in respect of bank loans, office rent lease agreements and other transactions, respectively. Following the repayment of the bank loans, the related guarantees were closed at the beginning of July 2021.

b. 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, the Company acquires raw materials or other goods and services, including product components, by issuing authorizations to its suppliers to purchase materials based on its projected demand and manufacturing needs. As of June 30, 2021, the Company had non-cancelable purchase obligations totaling approximately $874,877 out of which the Company recorded a provision for loss in the amount of $4,568.

As of June 30, 2021, the Company had contractual obligations for capital expenditures totaling approximately $80,030. These commitments reflect purchases of automated assembly lines and other machinery related to the Company’s manufacturing process as well as capital expenditures associated with the construction of Sella 2, the Company’s planned second lithium-ion cell and battery factory in Korea which is under construction.

c. 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.

NOTE 9:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

In September 2018, the Company’s German subsidiary, SolarEdge Technologies GmbH received a complaint filed by competitor SMA Solar Technology AG (“SMA”).

The complaint, filed in the District Court Düsseldorf, Germany, alleged that the Company’s 12.5kW - 27.6kW inverters infringe two of the plaintiff’s patents. In its complaint, SMA asserted a value in dispute of EUR 5.5 million (approximately $6,537) for both patents. The Company challenged the validity of both patents. With respect to one of the claims, in October 2020, the German Patent Court rendered the SMA patent invalid and this invalidity has been appealed by SMA. With respect to the other claim, in November 2019, the first instance court stayed the infringement proceedings since it considered it to be highly likely that the second SMA patent would also be rendered invalid. The Company believes that it has meritorious defenses to the claims asserted and intends to vigorously defend against the remaining lawsuit.

In May 2019, the Company’s two Chinese subsidiaries and its equipment manufacturer in China were served with three lawsuits by Huawei Technologies Co., Ltd., a Chinese entity (“Huawei”).

The lawsuits, filed in the Guangzhou intellectual property court, alleged infringement of three patents and asked for an injunction of manufacture, use, sale and offer for sale, and damage awards. A first-instance judgment was issued on August 7, 2020 ordering the three defendants to collectively pay damages in the amount of approximately Chinese Yuan (“CNY”) 10.5 million (approximately $1,626), including court fees, with respect of one of the patents. The Company has filed an appeal with the Supreme People’s Court of China. The first instance court’s judgement is not effective or enforceable pending the appeal. In addition, in January 2021, Huawei filed a motion to increase its claimed monetary damages to CNY 50.5 million (approximately $7,818) and for a preliminary injunction with respect to the second lawsuit. In February 2021, a preliminary injunction was rendered by the Guangzhou intellectual property court with respect to such second lawsuit and applying to seven inverter models. In line with the court’s mandate, the Company took immediate action to make software changes to meet the court order and also appealed the decision. In addition, in February 22, 2021 a first-instance judgment was issued ordering the three defendants to collectively pay damages in the amount of CNY 50.5 million (approximately $7,818), including court fees, with respect to the second patent. The Company appealed this judgement with the Supreme People’s Court. The first instance court’s judgement is not effective or enforceable pending the appeal. The Company believes that it has meritorious defenses to the claims asserted by Huawei.

In December 2019, the Company received a lawsuit filed by a former consultant of the Company and its Israeli subsidiary in the amount of 25.5 million NIS (approximately $7,822) claiming damages caused relating to a terminated consulting agreement and stock options therein. The Company believes it has meritorious defenses to the claims asserted and intends to vigorously defend against this lawsuit.

As of June 30, 2021, accrued amounts for legal claims of $9,267, were recorded in accrued expenses and other current liabilities.

NOTE 10:- STOCK CAPITAL

a. 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.

b. Stock incentive 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 nonemployees of the Company and its subsidiaries.

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 became 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.

In the three months ended June 30, 2021, the Company granted under its 2015 Plan, performance-based restricted stock unit ("PRSU") awards to certain employees which vest upon the achievement of certain performance conditions subject to the employees' continued service relationship with the Company. The probability of vesting is assessed at each reporting period and compensation cost is adjusted based on this probability assessment. The Company recognizes such compensation expenses on an accelerated vesting method.

As of June 30, 2021, a total of 15,406,316 shares of common stock were reserved for issuance pursuant to stock awards under the 2015 Plan (the "Share Reserve").

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 June 30, 2021, an aggregate of 8,607,542 options are still available for future grant under the 2015 Plan.

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

NOTE 10:- STOCK CAPITAL (Cont.)

A summary of the activity in the stock options granted to employees and members of the board of directors for the six months ended June 30, 2021 and related information are as follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic Value
Outstanding as of December 31, 2020	691,732	31.86	5.07	$ 198,709
Granted	19,489	311.35		
Exercised	(167,578)	32.57		
Forfeited or expired	-	-		
Outstanding as of June 30, 2021	543,643	41.66	5.56	$ 128,282
Vested and expected to vest as of June 30, 2021	497,545	36.76	5.83	$ 119,691
Exercisable as of June 30, 2021	394,071	23.69	5.30	$ 99,616

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 six months ended June 30, 2021 was $46,157.

The weighted average grant date fair values of options granted to employees and executive directors during the six months ended June 30, 2021 was $168.36.

A summary of the activity in the RSUs and PRSUs granted to employees and directors for the six months ended June 30, 2021, is as follows:

	Number of RSUs	Weighted average grant date fair value
Unvested as of January 1, 2021	2,216,841	$ 103.79
Granted (1)	159,637	275.66
Vested	(502,176)	74.66
Forfeited	(46,761)	114.53
Unvested as of June 30, 2021	1,827,541	$ 127.06

(1) The number of PRSUs granted to employees was 24,078 with a weighted average grant date fair value of 283.39.

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

NOTE 10:- STOCK CAPITAL (Cont.)

c. Employee Stock Purchase Plan ("ESPP"):

The Company adopted an ESPP effective upon the consummation of the IPO. As of June 30, 2021, a total of 3,175,094 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 its discretion, including a reduction to zero.

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 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 June 30, 2021, 635,193 shares of common stock had been purchased under the ESPP.

As of June 30, 2021, 2,539,901 shares of common stock 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.

d. Stock-based compensation expenses for employees and non-employees:

The Company recognized stock-based compensation expenses related to stock options, RSUs and PRSUs granted to employees and nonemployees and ESPP in the condensed consolidated statement of income for the three and six months ended June 30, 2021 and 2020, as follows:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Cost of revenues	$ 4,291	$ 2,359	$ 10,081	$ 4,632
Research and development	9,805	5,847	18,603	11,225
Selling and marketing	5,780	3,445	11,215	6,637
General and administrative	4,176	2,310	7,306	4,240
Total stock-based compensation expenses	$ 24,052	$ 13,961	$ 47,205	$ 26,734

As of June 30, 2021, there were total unrecognized compensation expenses in the amount of $229,255 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 July 1, 2021 through May 31, 2026.

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

NOTE 11:- EARNINGS PER SHARE

Basic net EPS is computed by dividing the net earnings by the weighted-average number of shares of common stock outstanding during the period. Diluted net EPS is computed by giving effect to all potential shares of common stock, to the extent dilutive, including stock options, RSUs, PRSUs, shares to be purchased under the Company's ESPP, and the Notes due 2025, all in accordance with ASC No. 260, "Earnings Per Share."

The following table presents the computation of basic and diluted EPS:

	Three months ended June 30,		Six months ended June 30,	
	2021	**2020**	**2021**	**2020**
Basic EPS:				
Numerator:				
Net income	$ 45,092	$ 36,668	$ 75,168	$ 78,916
Denominator:				
Shares used in computing net earnings per share of common stock, basic	52,076,208	49,786,586	51,903,123	49,493,173
Diluted EPS:				
Numerator:				
Net income attributable to common stock, basic	$ 45,092	$ 36,668	$ 75,168	$ 78,916
Notes due 2025	536	-	1,071	-
Net income attributable to common stock, diluted	$ 45,628	$ 36,668	$ 76,239	$ 78,916
Denominator:				
Shares used in computing net earnings per share of common stock, basic	52,076,208	49,786,586	51,903,123	49,493,173
Notes due 2025	2,276,818	-	2,276,818	-
Effect of stock-based awards	1,577,536	2,749,851	1,785,428	2,864,665
Shares used in computing net earnings per share of common stock, diluted	55,930,562	52,536,437	55,965,369	52,357,838

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

NOTE 11:- EARNINGS PER SHARE (Cont.)

No shares were excluded from the calculation of diluted net EPS due to their anti-dilutive effect for the three and six months ended June 30, 2021 and 2020.

The vesting of PRSUs is contingent upon the achievement of certain performance conditions. The performance awards are not included in the diluted EPS calculation until the performance conditions have been met.

As of June 30, 2021, the performance conditions associated with these PRSUs were not eligible to be met and consequently none of these PRSUs were considered as issuable for the three and six months ended June 30, 2021.

NOTE 12:- OTHER OPERATING EXPENSES (INCOME)

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Kokam purchase escrow (1) (2)	$ (859)	$ -	$ (859)	$ (4,900)
Write-off of property, plant and equipment	-	-	2,209	-
Total other operating expenses (income)	$ (859)	$ -	$ 1,350	$ (4,900)

(1) In the three and six months ended June 30, 2021, the Company received a payment of $859 out of the Kokam acquisition escrow ("the escrow"), with regards to a working capital adjustment.

(2) In the six months ended June 30, 2020, the Company was indemnified for an amount of $4,900 out of the escrow, with regards to a legal claim of Kokam that was settled in arbitration.

NOTE 13:- INCOME TAXES

The effective tax rate for the three months ended June 30, 2021 and 2020 were 16.2% and 11.7%, respectively and for the six months ended June 30, 2021 and 2020 were 18.2% and 14.9%, respectively.

The increase in the effective tax rate in the current year is primarily due to presence of a full valuation allowance in various jurisdictions and different allocation of income among the Company's US, Israel, and foreign subsidiaries.

The Company's effective tax rate was lower than the U.S. federal statutory rate for the three and six months ended June 30, 2021, due to earnings taxed at lower rates in foreign jurisdictions and tax benefits relating to stock-based compensation, which were partially offset by full valuation allowance in various jurisdictions and Global intangible low-taxed income ("GILTI") tax.

As of June 30, 2021, and December 31, 2020, unrecognized tax benefits were $10,714 and $10,564, respectively. If recognized, such benefits would favorably affect the Company's effective tax rate. The Company accrues interest and penalties related to unrecognized tax benefits in its provision for income taxes. The total amount of penalties and interest were $177 and $127 as of June 30, 2021 and December 31, 2020, respectively. It is reasonably possible that the Company's gross unrecognized tax benefits will decrease by up to $8,937 in the next 12 months, primarily due to the lapse of the statute of limitations. These adjustments, if recognized, would positively impact the Company's effective tax rate, and would be recognized as additional tax benefits.

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

NOTE 14:- SEGMENT INFORMATION

The Company operates in five different operating segments: Solar, Energy Storage, e-Mobility, Critical Power and Automation Machines.

The Company's Chief Executive Officer, who is the chief operating decision maker ("CODM") , makes resource allocation decisions and assesses performance based on financial information presented on a consolidated basis, accompanied by disaggregated information about revenues and contributed profit by the operating segments.

The Company does not allocate to its operating segments revenue recognized due to advance payments received for performance obligations that extend for a period greater than one year ("financing component"), related to Accounting Standard Codification 606, "Revenue from Contracts with Customers" (ASC 606).

Segment profit is comprised of gross profit for the segment less operating expenses that do not include amortization, stock based compensation expenses and certain other items.

The Company manages its assets on a group basis, not by segments, as many of its assets are shared or co-mingled. The Company's CODM does not regularly review asset information by segments and, therefore, the Company does not report asset information by segment.

The Company identified one operating segment as reportable – the Solar segment. The other operating segments are insignificant individually and therefore their results are presented together under "All other".

The Solar segment includes the design, development, manufacturing, and sales of an intelligent inverter solution designed to maximize power generation at the individual PV module level. The solution consists mainly of the Company's power optimizers, inverters and cloud-based monitoring platform.

The "All other" category includes the design, development, manufacturing and sales of energy storage products, e-Mobility products, UPS products and automated machines.

The following table presents information on reportable segments profit (loss) for the periods presented:

	Three months ended June 30, 2021		Six months ended June 30, 2021	
	Solar	**All other**	**Solar**	**All other**
Revenues	$ 431,449	$ 48,509	$ 807,736	$ 77,625
Cost of revenues	270,249	46,921	497,082	77,404
Gross profit	161,200	1,588	310,654	221
Research and development	35,592	7,258	67,494	13,523
Sales and marketing	20,889	2,553	39,631	5,050
General and administrative	11,768	3,419	25,040	6,920
Segments profit (loss)	$ 92,951	$ (11,642)	$ 178,489	$ (25,272)

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

NOTE 14:- SEGMENT INFORMATION (Cont.)

The following table presents information on reportable segments reconciliation to consolidated operating income for the periods presented:

	Three months ended June 30, 2020		Six months ended June 30, 2020	
	Solar	All other	Solar	All other
Revenues	$ 310,048	$ 22,290	$ 717,695	$ 45,861
Cost of revenues	205,346	19,238	470,161	40,691
Gross profit	104,702	3,052	247,534	5,170
Research and development	26,374	5,852	53,457	10,060
Sales and marketing	15,020	2,179	33,643	4,322
General and administrative	8,718	2,927	17,874	8,018
Segments profit (loss)	$ 54,590	$ (7,906)	$ 142,560	$ (17,230)

The following table presents information on reportable segments reconciliation to consolidated revenues for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Solar segment revenues	$ 431,449	$ 310,048	$ 807,736	$ 717,695
All other segment revenues	48,509	22,290	77,625	45,861
Revenues from financing component	99	-	185	-
Intersegment revenues	-	(487)	-	(487)
Consolidated revenues	$ 480,057	$ 331,851	$ 885,546	$ 763,069

The following table presents information on reportable segments reconciliation to consolidated operating income for the periods presented:

	Three months ended June 30,		Six months ended June 30,	
	2021	2020	2021	2020
Solar segment profit	$ 92,951	$ 54,590	$ 178,489	$ 142,560
All other segment loss	(11,642)	(7,906)	(25,272)	(17,230)
Segments operating profit	81,309	46,684	153,217	125,330
Amounts not allocated to segments:				
Stock based compensation expenses	(24,052)	(13,961)	(47,205)	(26,734)
Amortization related to business combinations	(2,653)	(2,651)	(5,222)	(5,336)
Legal settlement	-	-	(1,103)	4,900
Other unallocated expenses, net	955	-	-	(313)
Adjustments:				
Intersegment profit	-	(107)	-	(107)
Consolidated operating income	$ 55,559	$ 29,965	$ 99,687	$ 97,740

NOTE 15:- SUBSEQUENT EVENT

On August 2, the Company entered into an agreement with Samsung SDI pursuant to which Samsung SDI will provide the Company with 1 gigawatt of lithium-ion cells during 2022.

ITEM 2 MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Forward-Looking Statements

Statements contained in this Form 10-Q or statements incorporated by reference from documents we have filed with the Securities and Exchange Commission may contain forward-looking statements that are based on our management's expectations, estimates, projections, beliefs and assumptions in accordance with information currently available to our management. Forward-looking statements should be read in conjunction with our unaudited condensed consolidated financial statements and related notes included in Part 1, Item 1 of this report. This discussion contains certain forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, technology developments, new products and services, financing and investment plans, competitive position, industry and regulatory environment, effects of acquisitions, 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:

- the duration, scope and effects of the ongoing COVID-19 pandemic, government and other third party responses to it and the related macroeconomic effects, including to our business and the business of our suppliers and customers;
- future demand for renewable energy including 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 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 customers' 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;
- our ability to service our debt; and
- the other factors set forth under "Item 1A. Risk Factors" in "Part II-OTHER INFORMATION" section of this report.

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.

Overview

We are a leading provider of an optimized inverter solution that has changed the way power is harvested and managed in a solar photovoltaic, known as PV systems. Our direct current or 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, for improved return on investment, or RoI. Additional benefits of the DC optimized inverter system include comprehensive and advanced safety features, improved design flexibility, and improved operating and maintenance, or O&M with module-level and remote monitoring. The typical SolarEdge optimized inverter system consists of power optimizers, inverters, a communication device which enables access to a cloud-based monitoring platform and in many cases, additional smart energy management solutions. Our solutions address a broad range of solar market segments, from residential solar installations to commercial and small utility-scale solar installations.

Since introducing the optimized inverter solution in 2010, SolarEdge has expanded its activity to other areas of smart energy technology, both through organic growth and through acquisitions. SolarEdge now offers energy solutions which include not only residential, commercial and small utility scale PV systems but also product offerings in the areas of energy storage systems or ESS and backup, electric vehicle, or EV components and charging capabilities, home energy management, grid services and virtual power plants, lithium-ion batteries and uninterrupted power supply, known as UPS solutions.

In the third quarter of 2020 we began commercial shipments to the U.S. from our manufacturing facility in the North of Israel, “Sella 1”. The proximity of Sella 1 to our R&D team and labs, enables us to accelerate new product development cycles as well as define equipment and manufacturing processes of newly developed products which can then be adopted by our contract manufacturers world-wide. During the second quarter of 2021, Sella 1 reached full manufacturing capacity. In 2020, we began construction of “Sella 2”, a 2GWh Li-Ion cell factory in Korea. The new factory is being constructed to meet the growing global demand for Li-Ion cells and batteries, specifically in the energy storage system (“ESS”) and e-mobility markets. Sella 2 is expected to initiate ramp-up of manufacturing in the first half of 2022.

We are a leader in the global module-level power electronics (“MLPE”) market. As of June 30, 2021, we have shipped approximately 74.1 million power optimizers and 3.1 million inverters. Over 2.15 million installations, many of which may include multiple inverters, are currently connected to, and monitored through, our cloud-based monitoring platform. As of June 30, 2021, we have shipped approximately 25.7 GW of our DC optimized inverter systems.

Our revenues for the three months ended June 30, 2021 and 2020 were $480.1 million and $331.9 million, respectively. Gross margin was 32.5% and 31.0% for the three months ended June 30, 2021 and 2020, respectively. Net income was $45.1 million and $36.7 million for the three months ended June 30, 2021 and 2020, respectively.

Our revenues for the six months ended June 30, 2021 and 2020 were $885.5 million and $763.1 million, respectively. Gross margin was 33.5% and 31.8% for the six months ended June 30, 2021 and 2020, respectively. Net income was $75.2 million and $78.9 million for the six months ended June 30, 2021 and 2020, respectively.

COVID-19 Impact

We continue to monitor the evolving impact of COVID-19 on our operations and business. Our first priority continues to be protecting and supporting our employees while maintaining company operations and support of our customers with as few disruptions as possible. We follow the guidance issued by applicable local authorities and health officials in each region in which we do business, including in our headquarters located in Israel, and have been able to continue our operations remotely or from our offices. We have maintained a flexible attendance policy that has allowed our employees to work remotely, where possible, in order to reduce the number of people who are in our offices while our labs and manufacturing facilities remain fully operational. Our manufacturing facilities in Korea, Italy and Israel and our contract manufacturers’ facilities in China, Vietnam and Hungary have remained operational and at almost full capacity, with some interruptions on a case-by-case basis in compliance with local laws and in order to minimize the spread of the COVID-19 virus. Specifically, in Vietnam, there have been and continue to be government enforced lockdowns that have led to the temporary shutdown of our manufacturing lines. Our customer support centers are working at full capacity, partially from home. Continued travel restrictions however continue to have an impact on our operations.

While our operations and operating expenses have not been significantly impacted by COVID-19, in the second quarter of 2021 we experienced and continue to experience an increase in the cost of goods sold due to an increase in shipping rates that resulted from a reduction in ocean freight capacity, the accumulation of containers in the United States and Europe that were not returned to Asia and the reduction in the availability of air freight that increased the demand for ocean freight.

Our second quarter revenues of $480.1 million reflect a healthy recovery from the impacts of the global pandemic, with an increase of 18.4% from the $405.5 million of revenues in the first quarter of 2021. This increase reflects a significant increase in demand for our products in all geographies in which we operate following the negative impacts on demand experienced in 2020 as a result of the COVID-19 pandemic.

Key Operating Metrics

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 shipments (inverters, power optimizers and megawatts shipped) to evaluate our sales performance and to track market acceptance of our products. We use metrics relating to monitoring (systems 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 nameplate 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.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
Inverters shipped	179,546	141,689	361,451	343,698
Power optimizers shipped	5,011,290	3,515,906	8,746,080	8,576,297
Megawatts shipped (1)	1,643	1,442	3,334	3,292

(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.

Results of Operations

The results of operations presented below should be reviewed in conjunction with the condensed consolidated financial statements and related notes included elsewhere in this report.

The following table sets forth selected consolidated statements of income data for each of the periods indicated.

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)		(In thousands)	
Revenues	$ 480,057	$ 331,851	$ 885,546	$ 763,069
Cost of revenues	323,865	228,888	589,280	520,098
Gross profit	156,192	102,963	296,266	242,971
Operating expenses:				
Research and development	52,664	38,098	99,641	74,793
Sales and marketing	29,458	20,936	56,369	45,189
General and administrative	19,370	13,964	39,219	30,149
Other operating expenses (income)	(859)	-	1,350	(4,900)
Total operating expenses	100,633	72,998	196,579	145,231
Operating income	55,559	29,965	99,687	97,740
Financial expenses (income), net	1,743	(11,565)	7,840	5,040
Income before taxes on income	53,816	41,530	91,847	92,700
Taxes on income	8,724	4,862	16,679	13,784
Net income	$ 45,092	$ 36,668	$ 75,168	$ 78,916

Comparison of the Three and Six Months Ended June 30, 2021 to the Three and Six Months Ended June 30, 2020

Revenues

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
	2021	2020	Change		2021	2020	Change	
Revenues (Dollars in thousands)	$ 480,057	$ 331,851	148,206	44.7%	$ 885,546	$ 763,069	$ 122,477	16.1%
Power optimizers (units)	4,937,986	3,741,646	1,196,340	32.0%	8,725,444	8,538,080	187,364	2.2%
Inverters (units)	178,693	141,732	36,961	26.1%	361,607	338,822	22,785	6.7%

Revenues increased by $148.2 million, or 44.7%, for the three months ended June 30, 2021 as compared to the three months ended June 30, 2020, primarily due to (i) an increase in the number of inverters and power optimizers sold, with significant growth in revenues in all geographies; and (ii) an increase in the numbers of powertrain kits supplied by SolarEdge e-Mobility SPA (“SolarEdge e-Mobility”), in an aggregate amount of $20.4 million. Revenues from outside of the U.S. comprised 63.4% of our revenues in the three months ended June 30, 2021, as compared to 62.0% in the three months ended June 30, 2020.

Our blended ASP per watt for solar products is calculated by dividing the solar revenues by the name plate capacity of inverters shipped. Our blended ASP per watt increased by $0.056, or 26.0%, in the three months ended June 30, 2021 as compared to the three months ended June 30, 2020. A primary contributor to this increase was a relatively higher number of power optimizers shipped compared to the number of inverters shipped, which increased our total solar revenues but did not impact the watt amount used for calculating the ASP per watt.

The increase in blended ASP per watt is also attributed to an increase in the sale of residential products out of our total solar product mix, mainly in Europe and in the U.S, that are characterized with higher ASP per watt as well as the strengthening of the Euro and other currencies against the U.S. Dollar.

This increase in blended ASP per watt was partially offset by a change in our customer mix in the U.S. toward larger customers that enjoy preferential pricing due to volume commitments.

Revenues increased by $122.5 million, or 16.1%, for the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, primarily due to (i) an increase in the number of inverters and power optimizers sold, with significant growth in revenues coming from Europe, and the rest of the world; and (ii) an increase in the numbers of powertrain kits supplied by SolarEdge e-Mobility in an aggregate amount of $30.8 million. This increase was partially offset by a decrease in revenues which we attribute principally to the high level of safe harbor-related revenues in the amount of $51.4 million generated in the U.S. in the first quarter of 2020 which did not occur in 2021 due to the expected extension of the Solar Investment Tax Credits. Revenues from outside of the U.S. comprised 61.7% of our revenues in the six months ended June 30, 2021, as compared to 51.0% in the six months ended June 30, 2020.

Our blended ASP per watt for solar products shipped increased by $0.022, or 9.9%, in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020. This increase is primarily attributed to an increase in the proportion of residential products sold out of our solar product mix, mainly in Europe and in the U.S, that are characterized with higher ASP per watt as well as the strengthening of the Euro and other currencies against the U.S. Dollar.

Cost of Revenues and Gross Profit

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
Dollars in thousands	2021	2020	Change		2021	2020	Change	
Cost of revenues	$ 323,865	$ 228,888	$ 94,977	41.5%	$ 589,280	$ 520,098	$ 69,182	13.3%
Gross profit	$ 156,192	$ 102,963	$ 53,229	51.7%	$ 296,266	$ 242,971	$ 53,295	21.9%

Cost of revenues increased by $95.0 million, or 41.5%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily due to:

- an increase in the volume of products sold;
- a significant increase in shipment costs in an aggregate amount of $10.4 million due to (i) an increase in shipment rates; and (ii) an increase in volumes shipped;
- an increase in personnel-related costs of $3.5 million mainly related to the expansion of our operations and support headcount in the solar business, which grew in parallel to our growing install base worldwide; and
- an increase in warranty expenses and warranty accruals of $15.2 million due to an increase in our install base and the costs associated with providing our warranty coverage.

These increases were partially offset by:

- decreased customs duties of $8.9 million attributed to lower tariff charges due to the manufacture of a higher portion of our products for the U.S. outside of China;

Gross profit as a percentage of revenue increased from 31.0% in the three months ended June 30, 2020 to 32.5% in the three months ended June 30, 2021, primarily due to:

- an increased rate of shipments generated from the sale of residential products, mainly in Europe and in the U.S that are characterized with higher gross margin;

- decreased customs duties in the United States attributed to lower tariff charges due to the manufacture of a higher portion of our products for the U.S. outside of China;

- favorable exchange rates on our sales outside of the U.S.; and

- continued cost reduction efforts.

These factors were partially offset by:

- an increase in support costs and warranty obligations due to an increase in our install base and costs associated with providing our warranty coverage;

- a change in our customer mix in the U.S. toward larger customers that enjoy preferential pricing due to volume commitments;

- a significant increase in shipping rates world-wide; and

- a negative impact on margins attributed to our non-solar businesses, that are characterized by a lower gross profit.

Cost of revenues increased by $69.2 million, or 13.3%, in the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to:

- an increase in the volume of products sold;

- an increase in warranty expenses and warranty accruals of $18.9 million due to an increase in our install base and the costs associated with providing our warranty coverage;

- an increase in shipping costs, in an aggregate amount of $4.3 million due to (i) an increase in shipment rates; and (ii) an increase in volumes shipped; and

- an increase in personnel-related costs of $6.4 million related to the expansion of our operations and support headcount in the solar business which grew in parallel to our growing install base worldwide;

These factors were partially offset by:

- decreased custom duties of $29.3 million attributed to lower tariff charges due to the manufacture of a higher portion of our products for the U.S. outside of China;

Gross profit as a percentage of revenue increased from 31.8% in the six months ended June 30, 2020 to 33.5% in the six months ended June 30, 2021, primarily due to:

- an increased rate of shipments generated from the sale of residential products, mainly in Europe and in the U.S that are characterized with higher gross margin;
- decreased custom duties in the U.S. mainly attributed to a decrease in the portion of products manufactured in China;
- the absence of safe harbor related sales, that were characterized with a lower gross margin in the first quarter of 2020;
- favorable exchange rates on our sales outside of the U.S.; and
- continued cost reduction efforts.

These were partially offset by:

- an increase in support costs related to our warranty obligations due to an increase in our install base and and the costs associated with providing our warranty coverage;
- a change in our customer mix in the U.S. toward larger customers that enjoy preferable pricing;
- a significant increase in shipping rates world-wide; and
- a negative impact on margin attributed to our non-solar businesses, that are characterized by a lower gross profit.

Research and Development

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
Dollars in thousands	**2021**	**2020**	**Change**		**2021**	**2020**	**Change**	
Research and development	$ 52,664	$ 38,098	$ 14,566	38.2%	$ 99,641	$ 74,793	$ 24,848	33.2%

Research and development costs increased by $14.6 million, or 38.2%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily due to:

- an increase in personnel-related costs of $13.7 million resulting from an increase in our research and development headcount, as well as salary expenses associated with employee equity-based compensation. The increase in headcount reflects our continuing investment in the enhancement of existing products as well as research and development expenses associated with bringing new products to the market;
- increased expenses related to other overhead costs in an amount of $1.1 million; and
- increase in depreciation expenses from property and equipment in an amount of $1.0 million.

These were partially offset by a reimbursement of costs charged to a customer, in an amount of $2.1 million, related to research and development activities performed by SolarEdge e-Mobility.

Research and development costs increased by $24.8 million, or 33.2%, in the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to:

- an increase in personnel-related costs of $22.5 million resulting from an increase in our research and development headcount as well as salary expenses associated with employee equity-based compensation. The increase in headcount reflects our continued investment in enhancements of existing products and research and development expenses associated with bringing new products to the market;

- increased expenses related to consultants and sub-contractors in an amount of $2.4 million;
- increased expenses related to other overhead costs in an amount of $1.9 million; and
- an increase in depreciation expenses of property and equipment in an amount of $1.9 million.

These increases were partially offset by a reimbursement of costs charged to a customer, in an amount of $4.6 million, related to the research and development activities performed by SolarEdge e-Mobility.

Sales and Marketing

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
Dollars in thousands	2021	2020	Change		2021	2020	Change	
Sales and Marketing	$ 29,458	$ 20,936	$ 8,522	40.7%	$ 56,369	$ 45,189	$ 11,180	24.7%

Sales and marketing expenses increased by $8.5 million, or 40.7%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily due to increased personnel-related costs of $7.3 million as a result of an increase in headcount supporting our growth in Israel, the U.S. and Asia, as well as salary expenses associated with employee equity-based compensation.

Sales and marketing expenses increased by $11.2 million, or 24.7%, in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020, primarily due to increased personnel-related costs of $11.2 million as a result of an increase in headcount supporting our growth in Israel, the U.S., and Asia, as well as salary expenses associated with employee equity-based compensation.

General and Administrative

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
Dollars in thousands	2021	2020	Change		2021	2020	Change	
General and Administrative	$ 19,370	$ 13,964	$ 5,406	38.7%	$ 39,219	$ 30,149	$ 9,070	30.1%

General and administrative expenses increased by $ 5.4 million, or 38.7%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily due to:

- increased personnel-related costs of $5.9 million resulting from an increase in headcount due to hiring of senior executives;
- the reinstatement of executive management salaries that were voluntarily reduced in early 2020 in order to mitigate the potential effects of COVID-19; and
- the expansion of certain general and administrative functions in the non-solar businesses in the second half of 2020, as well as salary expenses associated with employee equity-based compensation.

These expenses were partially offset by a decrease in expenses related to an accrual for doubtful debts in an amount of $1.9 million.

General and administrative expenses increased by $9.1 million, or 30.1%, in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020 primarily due to:

- increased personnel-related costs of $9.0 million resulting from an increase in headcount due to hiring of senior executives;

- the reinstatement of executive management salaries that were voluntarily reduced in early 2020 in order to mitigate the potential effects of COVID-19;

- the expansion of certain general and administrative functions in the non-solar businesses in the second half of 2020, as well as salary expenses associated with employee equity-based compensation; and

- an increased provision of $3.6 million in connection with legal claims.

These expenses were partially offset by a decrease in expenses related to an accrual for doubtful debts in an amount of $3.9 million.

Other operating expenses (income)

	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
Dollars in thousands	**2021**	**2020**	**Change**		**2021**	**2020**	**Change**	
Other operating expenses (income)	$ (859)	$ -	$ (859)	N/A	$ 1,350	$ (4,900)	$ 6,250	(127.6)%

Other operating income increased by $0.9 million, in the three months ended June 30, 2021 compared to the three months ended June 30, 2020 primarily due to a payment received by us out of the Kokam escrow account with regards to a capital adjustment in connection with the acquisition of Kokam Co., Ltd. (“Kokam”).

Other operating expenses were $1.3 million in the six months ended June 30, 2021, compared to other operating income of $4.9 million in six months ended June 30, 2020, primarily due to:

- a decrease in income in the amount of $4.9 million incurred in the first quarter of 2020 related to an acquired legal claim as part of the Kokam acquisition which was settled in arbitration; and

- an increase of $2.1 million in expenses related to write-offs of tangible assets in our solar business, which we ceased using during the first quarter of 2021.

These were partially offset by an increase of $0.9 million in income related to a payment made to us from an escrow account with regards to a working capital adjustment in connection with the Kokam acquisition.

Financial expenses (income), net

Dollars in thousands	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
	2021	**2020**	**Change**		**2021**	**2020**	**Change**	
Financial expenses (income), net	$ 1,743	$ (11,565)	$ 13,308	(115.1)%	$ 7,840	$ 5,040	$ 2,800	55.6%

Financial expenses were $1.7 million in the three months ended June 30, 2021 compared to an income in the amount of $11.6 million in the three months ended June 30, 2020, primarily due to a decrease of $12.8 million in foreign exchange fluctuations income, mainly between the Euro, the New Israeli Shekel and the South Korean Won against the U.S. Dollar.

Financial expenses increased by $2.8 million, or 55.6% in the six months ended June 30, 2021 compared to the six months ended June 30, 2020, primarily due to:

- an increase of $5.6 million in foreign exchange fluctuations expenses, mainly between the Euro, the New Israeli Shekel and the South Korean Won against the U.S. Dollar;
- an increase of $1.4 million in expenses related to amortization of issuance costs on our convertible senior notes (“Notes”); and
- an increase of $0.7 million in accretion (amortization) of discount (premium) on marketable securities, net of interest income.

These expenses were partially offset by an increase of $3.9 million in finance income related to hedging transactions.

Taxes on Income

Dollars in thousands	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
	2021	**2020**	**Change**		**2021**	**2020**	**Change**	
Taxes on Income	$ 8,724	$ 4,862	$ 3,862	79.4%	$ 16,679	$ 13,784	$ 2,895	21.0%

Taxes on income increased by $3.9 million, or 79.4%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020, primarily due to a decrease of $1.5 million in deferred tax assets (presented as tax expenses), net, an increase of $2.0 million of current tax expenses mainly attributed to an increase in taxable income in foreign subsidiaries that are profitable in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020 and an increase of $0.4 million in prior year tax expenses.

Taxes on income increased by $ 2.9 million, or 21.0% in the six months ended June 30, 2021, as compared to the six months ended June 30, 2020, primarily due to a decrease of $2.8 million in deferred tax assets (presented as tax expenses), net and an increase of $0.3 million in prior year tax expenses. These were partially offset by a decrease of $0.2 million in current tax expenses, net, mainly related to a decrease in profit before tax;

Net Income

Dollars in thousands	Three Months Ended June 30, 2021 to 2020				Six Months Ended June 30, 2021 to 2020			
	2021	**2020**	**Change**		**2021**	**2020**	**Change**	
Net Income	$ 45,092	$ 36,668	$ 8,424	23.0%	$ 75,168	$ 78,916	$ (3,748)	(4.7)%

As a result of the factors discussed above, net income increased by $8.4 million, or 23.0%, in the three months ended June 30, 2021, as compared to the three months ended June 30, 2020.

As a result of the factors discussed above, net income decreased by $3.7 million, or 4.7% in the six months ended June 30, 2021 as compared to the six months ended June 30, 2020.

Liquidity and Capital Resources

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

	Three Months Ended June 30,		Six Months Ended June 30,	
	2021	2020	2021	2020
	(In thousands)			
Net cash provided by operating activities	$ 38,685	$ 59,310	$ 62,768	$ 167,055
Net cash provided by (used in) investing activities	$ (182,416)	$ 46,800	$ (335,998)	$ 26,876
Net cash provided by (used in) financing activities	$ (19,144)	$ 5,681	$ (21,206)	$ 8,996
Increase (decrease) in cash and cash equivalents	$ (162,875)	$ 111,791	$ (294,436)	$ 202,927

As of June 30, 2021, our cash and cash equivalents were $524.1 million. This amount does not include $603.0 million invested in available for sale marketable securities, $2.5 million invested in restricted bank deposits and $13.6 million invested in short-term bank deposits. Our principal uses of cash are for funding our operations and other working capital requirements. As of June 30, 2021, we have open commitments for capital expenditures in an amount of approximately $80.0 million. These commitments reflect purchases of automated assembly lines and other machinery related to our manufacturing operations. We also have purchase obligations in the amount of $874.9 million related to raw materials and commitments for the future manufacturing of our products. 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 including the self-funding of our capital expenditure commitments.

Operating Activities

During the six months ended June 30, 2021, cash provided by operating activities was $62.8 million, derived mainly from a net income of $75.2 million that included $82.2 million of non-cash expenses, an increase of $27.3 million in warranty obligations, $19.7 million in accrued expenses and other accounts payable, $9.7 million in accruals for employees, $4.5 million in deferred revenues and customer advances and a decrease of $13.2 million in inventories. This was offset by an increase of $128.6 million in trade receivables, $20.3 million in prepaid expenses and other accounts receivable and a decrease of $20.1 million in trade payables.

For the six months, ended June 30, 2020, cash provided by operating activities was $167.1 million derived mainly from net income of $78.9 million that included $35.5 million of non-cash expenses, a decrease of $116.0 million in trade receivables and $37.1 million in prepaid expenses and other accounts receivable, an increase of $5.8 million in accrued expenses and other accounts payable, $20.2 million in warranty obligations, and $1.4 million in accruals for employees. This was offset by a decrease of $31.8 million in deferred revenues and customer advances, $1.8 million in trade payables and an increase of $94.2 million in inventories.

Investing Activities

During the six months ended June 30, 2021, net cash used in investing activities was $336.0 million, of which $422.5 million was invested in available-for-sale marketable securities and $65.3 million was related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements. Net cash used in investing activities was offset by $103.8 million from sales and maturities of available-for-sale marketable securities, $46.5 million from the withdrawal from bank deposits, net and $1.5 million related to other investing activities.

During the six months ended June 30, 2020 net cash provided by investing activities was $26.9 million, of which $89.7 million was proceeds from sales and maturities of available-for-sale marketable securities which we sold in order to maintain high cash balances to mitigate risks associated with COVID-19, $25.6 million was from the withdrawal from restricted bank deposits, net, and $2.1 million related to other investing activities. This was offset by $36.8 million which was invested in available-for-sale marketable securities, and $53.7 million related to capital investments in laboratory equipment, end of line testing equipment, automated assembly lines, manufacturing tools and leasehold improvements.

Financing Activities

During the six months ended June 30, 2021, net cash used in financing activities was $21.2 million, of which $16.4 related to repayment of loans, $4.2 million was attributed to cash received from the exercise of employee and non-employee stock-based awards net of withholding taxes remitted to the tax authorities and $0.6 million related to other financing activities.

For the six months ended June 30, 2020, net cash provided by financing activities was $9.0 million, of which, $15.2 million was related to proceeds from new bank loans of Kokam and $9.1 million was attributed to cash received from the exercise of employee and non-employee stock-based awards. This was offset by $15.2 million used for repayment of loans we acquired as part of the Kokam acquisition and $0.1 million related to other financing activities.

Convertible Senior Note

On September 25, 2020, we issued $632.5 million aggregate principal amount of our Notes in a transaction exempt from registration pursuant to Rule 144A and Regulation S under the Securities Act. Net proceeds from the offering, after underwriters' discount and commissions and offering expenses, was $617.9 million. We intend to use the proceeds of the Notes for general corporate purposes. See Note 7 to our interim financial statements for more information.

Debt Obligations

During 2020, we redeemed all outstanding loans, including the bank loan obligations acquired as part of the acquisition of Kokam and entered into new bank loans in an aggregate amount of $15.2 million. During the second quarter of 2021 we redeemed the new bank loans. In addition, during 2020, we entered into a second bank loan in an aggregate amount of $1.4 million. The second bank loan matures in September 2030, with a monthly interest rate of 2.5%. As of June 30, 2021, the aggregate outstanding amount of the second bank loan was $1.4 million.

Off-Balance Sheet Arrangements

We do not have any off-balance sheet arrangements.

ITEM 3 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 56.4% and 45.6% of our revenues for the six months ended June 30, 2021 and 2020, 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 and South Korean Won. 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 during the six months ended June 30, 2021, between the Euro and the U.S. Dollar would increase or decrease our net income by $32.9 million for the six months ended June 30, 2021. A hypothetical 10% change in foreign currency exchange rates during the six months ended June 30, 2021 between the New Israeli Shekel and the U.S. Dollar would increase or decrease our net income by $10.5 million for the six months ended June 30, 2021. A hypothetical 10% change in foreign currency exchange rates during the six months ended June 30, 2021, between the South Korean Won and the U.S. Dollar would increase or decrease our net income by $22.7 million for the six months ended June 30, 2021

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 to manage exposure to foreign currency risks by hedging portions of the anticipated payroll payments denominated in New Israeli Shekels (“NIS”). Our foreign currency forward contracts are expected to mitigate exchange rate changes related to the hedged assets. Those hedging contracts are designated as cash flow hedges.

In addition, we also entered into derivative instrument arrangements to hedge the Company’s exposure to currencies other than the U.S. dollar, mainly forward contracts and put and call options to sell Euro for U.S. dollars, forward contracts and put and call options to sell Australian dollars (“AUD”) for U.S. dollars and forward contracts to sell U.S. dollars for South Korean Won (“KRW”). These derivative instruments are not designated as cash flow hedges.

Concentrations of Major Customers

Our trade accounts receivables potentially expose us to a concentration of credit risk with our major customers. As of June 30, 2021, two customers accounted for approximately 30.46% of our consolidated trade receivables, net balance. We currently do not foresee a credit risk associated with these receivables other than the amount included in our financial statements.

ITEM 4 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 the end of the period covered by this report. 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 were effective and operating 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 to provide reasonable assurance 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.

Changes in Internal Control over Financial Reporting

Based on an evaluation by our chief executive officer and chief financial officer, such officers concluded that there have been no other changes in our internal control over financial reporting (as defined in Rule 13a-15(f) of the Exchange Act) that occurred during our most recent fiscal quarter that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

ITEM 1 LEGAL PROCEEDINGS

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), including the matters described in Item 3 – "Legal Proceedings" of our Annual Report on Form 10-K/A for the period ended December 31, 2020 and Part II – Other Information; Item 1- "Legal Proceedings" of our Quarterly Report on form 10-Q for the period ended March 31, 2021. It is impossible to predict with certainty whether any resulting liability from any such legal claims, actions or complaints would have a material adverse effect on our financial position, results of operations or cash flows.

ITEM 1A RISK FACTORS

There have been no material changes to the risk factors as described in Part I, Item 1A, "Risk Factors", in our Annual Report on Form 10-K/A for the year ended December 31, 2020.

ITEM 2 UNREGISTERED SALES OF EQUITY SECURITIES AND USE OF PROCEEDS

None.

ITEM 3 DEFAULTS UPON SENIOR SECURITIES

None.

ITEM 4 MINE SAFETY DISCLOSURES

Not applicable.

ITEM 5 OTHER INFORMATION

None.

ITEM 6 EXHIBITS

Exhibit No.	Description	Incorporation by Reference (where a report is indicated below, that document has been previously filed with the SEC and the applicable exhibit is incorporated by reference thereto)
31.1	Certification of Chief Executive Officer Pursuant to Rule 13a-14(a)	*Filed with this report.*
31.2	Certification of Chief Financial Officer Pursuant to Rule 13a-14(a).	*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	The following financial statements from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021, formatted in Inline XBRL: (i) Condensed Consolidated Balance Sheets, (ii) Condensed Consolidated Statements of Income, (iii) Condensed Consolidated Statements of Comprehensive Income, (iv) Condensed Consolidated Statements of Stockholders' Equity, (v) Condensed Consolidated Statements of Cash Flows, and (vi) Notes to Condensed Consolidated Financial Statements.	*Filed with this report.*
104	The cover page from the Company's Quarterly Report on Form 10-Q for the quarter ended June 30, 2021 formatted in Inline XBRL	*Included in Exhibit 101.*

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

SOLAREDGE TECHNOLOGIES, INC.

Date: August 4, 2021

/s/ Zvi Lando

Zvi Lando
Chief Executive Officer
(Principal Executive Officer)

Date: August 4, 2021

/s/ Ronen Faier

Ronen Faier
Chief Financial Officer
(Principal Financial and Accounting Officer)

Exhibit 31.1

I, Zvi Lando, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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: August 4, 2021

/s/ Zvi Lando

Zvi Lando
Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

I, Ronen Faier, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) 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: August 4, 2021

/s/ Ronen Faier
Ronen Faier
Chief Financial Officer
(Principal Financial Officer)

<u>Exhibit 32.1</u>

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER PURSUANT TO 18 U.S.C. SECTION 1350, AS ADOPTED PURSUANT TO SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Zvi Lando, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of SolarEdge Technologies, Inc. for the quarterly period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of SolarEdge Technologies, Inc.

August 4, 2021

/s/ Zvi Lando
Zvi Lando
Chief Executive Officer
(*Principal Executive Officer*)

Exhibit 32.2

CERTIFICATION OF CHIEF EXECUTIVE OFFICER AND CHIEF FINANCIAL OFFICER
PURSUANT TO
18 U.S.C. SECTION 1350,
AS ADOPTED PURSUANT TO
SECTION 906 OF THE SARBANES-OXLEY ACT OF 2002

I, Ronen Faier, certify, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, that the Quarterly Report on Form 10-Q of SolarEdge Technologies, Inc. for the quarterly period ended June 30, 2021 fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, and that the information contained in such Quarterly Report on Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of SolarEdge Technologies, Inc.

August 4, 2021

/s/ Ronen Faier
Ronen Faier
Chief Financial Officer
(Principal Financial Officer)