

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

FORM 10-KT (Mark one)

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

For the fiscal year ended

OR

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

For the transition period from July 1, 2016 to December 31, 2016

Commission File Number: 001-36894

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

Delaware
(State or other jurisdiction of
incorporation or organization)

20-5338862
(IRS Employer
Identification No.)

1 HaMada Street
Herziliya Pituach, Israel
(Address of Principal Executive Offices)

4673335
(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
Common stock, par value \$0.0001 per share

Name of each exchange on which registered
NASDAQ (Global Select Market)

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

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

Yes No

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

Yes No

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

Yes No

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

Yes No

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

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

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

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

Yes No

The aggregate market value of the registrant's voting and non-voting common stock held by non-affiliates of the registrant on June 30, 2016, the last business day of the registrant's most recently completed second fiscal quarter was approximately \$644,870,301 (assuming that the registrant's only affiliates are its officers, directors and non-institutional 10% stockholders) based upon the closing market price on that date of \$19.60 per share as reported on the Nasdaq Global Select Market.

As of February 10, 2017, there were 41,265,925 shares of the registrant's common stock, par value of \$0.0001 per share, outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

The information required by Part III of this report, to the extent not set forth herein, is incorporated herein by reference from our definitive proxy statement relating to the Annual Meeting of Stockholders to be held in 2017, which definitive proxy statement shall be filed with the Securities and Exchange Commission within 120 days after the end of the transition period to which this report relates.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS

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

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

- our limited history of profitability, which may not continue in the future;
- our limited operating history, which makes it difficult to predict future results;
- future demand for solar energy solutions;
- changes to net metering policies or the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar energy applications;
- the results of the 2016 U.S. presidential and congressional elections may create regulatory uncertainty for the clean energy sector and the solar energy sector in particular and may materially harm our business, financial condition and results of operations;
- 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 cyclicalities 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;
- capacity constraints, delivery schedules, manufacturing yields and costs of our contract manufacturers and availability of components;

- delays, disruptions and quality control problems in manufacturing;
- shortages, delays, price changes or cessation of operations or production affecting our suppliers of key components;
- business practices and regulatory compliance of our raw material suppliers;
- performance of distributors and large installers in selling our products;
- our customer's financial stability, creditworthiness and debt leverage ratio;
- our ability to retain key personnel and attract additional qualified personnel;
- our ability to effectively design, launch, market and sell new generations of our products and services;
- our ability to maintain our brand and to protect and defend our intellectual property;
- our ability to retain, and events affecting, our major customers;
- our ability to manage effectively the growth of our organization and expansion into new markets;
- fluctuations in currency exchange rates;
- unrest, terrorism or armed conflict in Israel;
- general economic conditions in our domestic and international markets;
- consolidation in the solar industry among our customers and distributors; and
- the other factors set forth under "Item 1A. Risk Factors."

Except as required by law, we assume no obligation to update these forward-looking statements, or to update the reasons actual results could differ materially from those anticipated in these forward-looking statements, even if new information becomes available in the future.

PART I

ITEM 1. BUSINESS

Change in Fiscal Year

The Board of Directors of SolarEdge Technologies, Inc. has changed our fiscal year end from June 30 to December 31. We made this change to align our fiscal year end with other companies within our industry. This Form 10-KT is intended to cover the transition report for the period July 1, 2016 through December 31, 2016 (the “transition period”). Subsequent to this, our Form 10-K will cover the calendar year January 1 to December 31. We refer to the period beginning July 1, 2015 and ending June 30, 2016 as “fiscal 2016”, the period beginning July 1, 2014 and ending June 30, 2015 as “fiscal 2015” and the period beginning July 1, 2013 and ending June 30, 2014 as “fiscal 2014” .

Introduction

We have invented an intelligent inverter solution that has changed the way power is harvested and managed in a solar PV system. Our direct current (“DC”) optimized inverter system maximizes power generation at the individual PV module level while lowering the cost of energy produced by the solar PV system and providing comprehensive and advanced safety features. Our system consists of our power optimizers, inverters and cloud-based monitoring platform and addresses a broad range of solar market segments, from residential solar installations to commercial and small utility-scale solar installations. Since we began commercial shipments in 2010, we have shipped approximately 4.2 gigawatts (“GW”) of our DC optimized inverter systems and our products have been installed in solar PV systems in 100 countries.

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

Our system allows for superior power harvesting and module management relative to traditional inverter systems by deploying power optimizers at each PV module while maintaining a competitive system cost by keeping the AC inversion and grid interaction centralized using a simplified DC-AC inverter. The entire system is monitored through our cloud-based monitoring platform that enables reduced system operation and maintenance (“O&M”) costs. Our system enables each PV module to operate at its own maximum power point (“MPP”), rather than a system-wide average, enabling dynamic response to real-world conditions, such as atmospheric conditions, PV module aging, soiling and shading and offering improved energy yield relative to traditional inverter systems. In addition to higher efficiency, our system’s installed cost per watt is competitive with traditional inverter systems of leading manufacturers and generally lower than comparable microinverter systems of leading manufacturers. Furthermore, our architecture allows for complex rooftop system designs and enhanced safety and reliability. Our technology and system architecture are protected by 84 awarded patents and 123 patent applications filed worldwide as of December 31, 2016.

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

We were founded in 2006 and began commercial shipments in 2010. As of December 31, 2016, we have shipped approximately 15.4 million power optimizers and 633,000 inverters. More than 374,000 installations, many of which may include multiple inverters, are currently connected to, and monitored through, our cloud-based monitoring platform.

Limitations of Existing Technologies

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

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

- **Module mismatch.** Traditional inverter systems are unable to consistently produce maximum energy from PV modules. Each PV module in a system has a unique power production profile driven by differences in manufacturing and installation parameters. The architecture of traditional inverter systems does not allow each PV module to operate at its unique MPP. When PV modules are wired in series in a traditional inverter architecture, the entire string's output is reduced, sometimes correlated directly to the output of the lowest-performing PV module on the string. Output reduction can result from subtle variations in PV module composition, atmospheric conditions, soiling, individual PV module locations and orientations, or varying levels of PV module degradation over time.
- **Partial shading.** Many real-world factors can cause a subset of the PV modules in a system to be partially shaded, which can significantly affect the power output of the entire string. For instance, electric wires, a chimney or even adjacent solar panels may cast a shadow during particular hours of the day, or debris may accumulate. This partial shading reduces the yield of a traditional solar PV system by decreasing, or in extreme cases eliminating, power output from the shaded modules. Overall losses to system production from such partial shading can range from small to substantial.
- **Dynamic maximum power point tracking loss.** The MPP of a PV module shifts constantly throughout the day as a result of atmospheric conditions. A traditional inverter system's inability to coordinate output on a module-by-module basis makes it difficult for the system to respond dynamically to the shifting MPP. This inability to respond to the shifting MPP can reduce the potential power output of a traditional solar PV system by 3-10%.

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

- **Rooftop system design complexities.** A traditional inverter system requires each string to be of the same length, use the same type of PV modules and be positioned at the same angle toward the sun. Consequently, rooftop asymmetries and obstructions result in either wasted roof space or inefficient duplication of system components.
- **Safety hazards.** Traditional inverter systems cannot shut down the DC output voltage at the PV module level. The DC cables from these modules carry high voltages as long as the sun is shining, even when the traditional inverter or the grid connection has been shut down. This poses serious risks to installers, fire fighters and anyone else who performs work on or around the installation. Such safety hazards have recently prompted heightened safety installation and operation procedures and regulations in a growing number of geographies, compliance with which increases the cost of traditional PV systems.
- **No module level monitoring.** A traditional inverter system cannot track power output, temperature or any other attribute of a single PV module. Consequently, a system operator cannot perform remote diagnostics, track performance of PV system components or receive alerts about individual PV module status, and may be unaware of specific module-level problems or breakdowns.

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

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

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

The SolarEdge Solution

Our DC optimized inverter system maximizes power generation at the individual PV module level while lowering the cost of energy produced by the solar PV system and providing comprehensive and advanced safety features. Our solution consists of our power optimizers, inverters and cloud-based monitoring platform and addresses a broad range of solar market segments, from residential solar installations to commercial and small utility-scale solar installations.

The key advantages of our solution include:

- **Maximized PV module power output.** Our power optimizers provide module-level MPP tracking and real-time adjustments of current and voltage to the optimal working point of each individual PV module. This enables each PV module to continuously produce its maximum power potential independent of other modules in the same string, thus minimizing module mismatch and partial shading losses. By performing these adjustments at a very high rate, our power optimizers also solve the dynamic MPP losses associated with traditional inverters. Independent testing from Photon Laboratories as well as tests performed by PV Evolution Labs according to the National Renewable Energy Laboratory shade test have confirmed that our technology provides power harvesting that is superior to traditional inverter systems.
- **Optimized architecture with economies of scale.** Our system shifts certain functions of the traditional inverter to our power optimizers while keeping the DC to AC function and grid interaction in our inverter. As a result, our inverter is smaller, more efficient, more reliable and less expensive than inverters used in traditional inverter systems. The cost savings that we have achieved on the inverter enable our system to be priced at a cost per watt that is comparable with traditional inverter systems of leading manufacturers. As a PV system grows in size, our inverter benefits from economies of scale, making our technology viable for large commercial and utility-scale applications.
- **Enhanced system design flexibility.** Unlike a traditional inverter system that requires each string to be the same length, use the same type of PV modules and be positioned at the same angle toward the sun, our system allows significant design flexibility by enabling the installer to place PV modules in uneven string lengths and on multiple roof facets. This design flexibility:
 - increases the amount of the available roof that can be utilized for power production. Unlike traditional inverter systems, our system does not require each string to be the same length, use the same type of PV modules or be positioned at the same angle toward the sun. As a result, our system is significantly less prone to wasted roof space resulting from rooftop asymmetries and obstructions.
 - reduces the number of field change orders. For example, some installers use remote tools to estimate the size and configuration of an installation in connection with the customer acquisition process. This is especially common for high-volume residential arrays, where an exhaustive survey of rooftop obstructions would be uneconomical. In some cases, installers discover that their preliminary design, based on remote tools, cannot be implemented due to unexpected shading or other obstructions. With traditional inverter system designs, an obstructed module may require a significant system redesign and a modification of the customer contract to take into account the changed system design. Our DC optimized inverter solution enables an installer to compensate or adjust for most obstructions without materially changing the original design or requiring a modification to the customer contract.

- **Reduced balance of system costs.** Our DC optimized inverter system allows significantly longer strings to be connected to the same inverter (as compared to a traditional inverter system). This minimizes the cost of cabling, fuse boxes and other ancillary electric components. These factors together result in easier installation with shorter design times and a lower initial cost per watt, while enabling larger installations per rooftop.
- **Continuous monitoring and control to reduce operation and maintenance costs.** Our cloud-based monitoring platform provides full data visibility at the module level, string level, inverter level and system level. The data can be accessed remotely by any web-enabled device, allowing comprehensive analysis, immediate fault detection and alerts. These monitoring features reduce O&M costs for the system owner by identifying and locating faults, enabling remote testing and reducing field visits.
- **Enhanced safety.** We have incorporated module-level safety mechanisms in our system to protect installers, electricians and firefighters. Each power optimizer is configured to reduce output to 1 volt unless the power optimizer receives a fail-safe signal from a functioning inverter. As a result, if the inverter is shut down (e.g., for system maintenance, due to malfunction, in the event of a fire or otherwise), the DC voltage throughout the system is reduced to a safe level. In recent years, new safety standards have been introduced in the U.S. and in Europe that require or encourage the installation of safety measures such as these. Our DC optimized inverters comply with the applicable safety requirements of the areas in which they are sold, providing incremental cost savings to installers by eliminating the need for additional hardware such as DC breakers, switches or fire-proof ducts required by traditional inverter systems.
- **High reliability.** Solar PV systems are typically expected to operate for at least 25 years under harsh outdoor conditions. High reliability is critical and is facilitated by systems and components that have low heat generation, solid and stable materials, and an absence of moving parts. We have designed our system to meet these stringent requirements. Our power optimizers dissipate much less heat than microinverters because no DC-AC inversion occurs at the module level. As a result, less heat is dissipated beneath the PV module, which improves lifetime expectancy and reliability of our power optimizers. Our power optimizers' high switching frequency allows the use of ceramic capacitors with a low, fixed rate of aging and a proven life expectancy in excess of 25 years. Further, we use automotive-grade application specific integrated circuits ("ASICs") that embed many of the required electronics into the ASIC. This reduces the number of components and consequently the potential points of failure.

Our Products

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

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

Our power optimizers are designed to withstand high temperatures and harsh environmental conditions, and contain multiple bypass features that localize failures and enable continued system operation in the vast majority of cases of power optimizer failure. Our power optimizers are compatible with the vast majority of modules on the market today and carry a 25-year product warranty. Our power optimizers are designed to be used with our inverters as well as third party inverters to provide power optimization. Monitoring and safety features can also be achieved with third party inverters by adding supplemental communications hardware. During fiscal 2014, 2015 and 2016 and the six months ended December 31, 2016 revenues derived from the sale of power optimizers represented 48.8%, 48.8%, 50.0% and 48.0% of total revenues, respectively.

SolarEdge Inverter. Our DC-to-AC inverters contain sophisticated digital control technology with efficient power conversion architecture resulting in superior solar power harvesting and high reliability and are designed to work exclusively with our DC power optimizers. A proprietary power line communication receiver is integrated into each inverter, receiving data from our power optimizers, storing this data and transmitting it to our monitoring server when an internet connection exists. Since each string which is equipped with our power optimizers provides fixed input voltage to our inverter, the inverter is able to operate at its highest efficiency at all times and therefore is more cost-efficient, energy efficient and reliable. Like our power optimizers, our inverters are designed to withstand harsh environmental conditions. Since the power rating of an inverter determines how many PV modules it can serve, larger installations require inverters with higher power ratings. We currently offer our second generation of inverters which come in two models: a one-phase inverter designed to address the residential market (2.2 kilowatts (“kW”) to 11.4 kW) and a three-phase inverter designed to address the residential market in certain European countries and the commercial market (4 kW to 33.3 kW). In June 2016, we introduced an extended commercial solution that consists of various inverters, sized 25kW, 27.6kW, and 33.3kW for the Europe, Middle East, Africa and Asia Pacific markets and 14.4kW and 33.3kW for the North American market. These inverters which are identical in size and enclosure as other SolarEdge inverters are designed for commercial installations, reduce the number of required inverters and increase the system return on investment. The vast majority of our inverters are sold with a 12-year warranty that is extendable to 20 or 25 years for an additional cost. During fiscal 2014, 2015, 2016 and the six months ended December 31, 2016, revenues derived from the sale of inverters represented 46.6%, 48.3 %, 45.7 % and 46.7% of total revenues, respectively.

We have completed the development of and have started shipping our HD-Wave technology inverter. The HD-Wave inverter technology provides significant improvements in efficiency, while decreasing the magnetics and cooling components in order to reduce inverter size and cost.

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

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

Product Roadmap

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

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

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

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

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

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

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

Sales and Marketing Strategy

Since commencing sales activities in early 2010, our strategy has been to focus on markets where electricity prices, irradiance and government policies make solar PV installations economically viable. Today, our products have been installed in over 100 countries, including the U.S., Canada, Belgium, France, Germany, Italy, the Netherlands, the United Kingdom, Israel, Australia Japan, Singapore and China.

We target our sales and marketing efforts to the largest distributors, electrical equipment wholesalers, EPC contractors and installers in each of the countries where we operate. In the U.S., Germany, Italy, the United Kingdom and Australia, our products are carried and actively sold by most of the top solar PV distributors as well as the largest electrical distribution companies that are active in solar PV. We anticipate that an increasing percentage of solar PV equipment sales will also occur through electrical equipment wholesalers who sell to a broad range of electrical contractors, and we are focused on cultivating these global relationships. As of December 31, 2016, according to the data available on our monitoring portal, approximately 15,600 installers around the world have installed SolarEdge solar PV systems, including an average of approximately 367 new installers per month since the beginning of 2016. We also sell our power optimizers to several PV module manufacturers that offer PV modules with our power optimizer physically embedded into their modules.

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

Our Customers

We derive a significant portion of our revenues from key solar distributors, electrical equipment wholesalers and large installers in the U.S. and worldwide. In fiscal 2015 and 2016 three of our customers represented 39.0% and 32.5% of our revenues, respectively. For the six months ended December 31, 2016, three of our customers (two distributors and one large installer) represented 28.4% of our revenues. Out of these three customers, Consolidated Electrical Distributors Inc. (CED), a leading electric-equipment wholesaler in the U.S., was our largest customer and accounted for 11.2% of our revenues. We fill orders primarily as they are received and as such, do not have significant backlog.

Training and Customer Support

We offer our installer base a comprehensive package of customer support and training services which include pre-sales support, ongoing trainings, and technical support before, during, and after installation. We also provide customized support programs to PV module manufacturers, large installers and distributors to help prioritize and track support issues, thereby enabling short cycle times for issue resolution. During the six months ended December 31, 2016, we conducted approximately 172 training events in 20 countries, with an aggregate of approximately 5,260 attendees.

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

Customer service and satisfaction has been a key component of our business and we expect it to continue to be integral to our success in the future. We maintain high levels of customer engagement through our call centers in California, Germany and Israel. In addition to our call centers, we have field service engineers located in the geographies where we are active, and support our customers with commissioning of large projects, introduction of new technologies and features and on-the-job training of new installers. As of December 31, 2016, our customer support and training organization consisted of 116 employees worldwide.

Our Technology

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

Power optimizers

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

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

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

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

Inverters

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

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

Manufacturing

We have designed our manufacturing processes to produce high quality products at competitive costs. The strategy is threefold: outsource, automate and localize. We have entered into outsourcing contracts with two of the world's leading global electronics manufacturing service providers, Jabil Circuit, Inc. and Flextronics Industrial Ltd. By using these contract manufacturers rather than building our own manufacturing infrastructure, we are able to access advanced manufacturing equipment, processes, skills and capacity on a "capital light" budget. Our contract manufacturers are responsible for funding the capital expenses incurred in connection with the manufacture of our products, except with regard to end of line testing equipment and other specific manufacturing equipment utilized in assembling our products or sub-components. We expect to continue this funding arrangement in the future, with respect to any expansions to such existing lines. Further, contracting with global providers such as Jabil and Flextronics gives us added flexibility to manufacture certain products in China, closer to target markets in Asia and the North American west coast and other products in Hungary, closer to target markets in Europe and the North American east coast, potentially increasing responsiveness to customers while reducing costs and delivery times.

We have completed the development of our first proprietary automated assembly line for use at the Hungary Flextronics manufacturing plant and it is in operation and has manufacturing capacity of approximately 4,000 power optimizers per day. We have replicated this first automated assembly line and have three additional automated assembly lines expected to be deployed in the first half of 2017. We are investing resources in additional automated assembly lines as well as in automated machinery for subassembly of certain components used in our products, and we will own and be responsible for funding all of the capital expenses related thereto. The current and expected capital expenses associated with these automated assembly lines and other machinery are not significant and will be funded out of our cash flows. In addition, we are in the process of designing an automatic assembly line for the production of embedded optimizers.

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

Reliability and Quality Control

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

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

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

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

Certifications

Our products and systems comply with the applicable regulatory requirements of the jurisdictions in which they are sold as well as all other major markets around the world, collectively covering approximately 80% of the global solar PV market as measured by MW capacity shipped. These include safety regulations, electromagnetic compatibility standards and grid compliance.

Research and Development

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

We have a strong research and development team with wide-ranging experience in power electronics, semiconductors, power line communications and networking, and software engineering. In addition, many members of our team have expertise in solar technologies. As of December 31, 2016, our research and development organization had a headcount of 258 people. Our research and development expense, net totaled \$18.3 million, \$22.0 million and \$33.2 million for fiscal 2014, 2015 and 2016, respectively and \$20.3 million for the six months ended December 31, 2016.

Intellectual Property

The success of our business depends, in part, on our ability to maintain and protect our proprietary technologies, information, processes and know-how. We rely primarily on patent, trademark, copyright and trade secrets laws in the U.S. and similar laws in other countries, confidentiality agreements and procedures and other contractual arrangements to protect our technology. As of December 31, 2016, we had 62 issued U.S. patents, 22 issued non-U.S. patents, 64 patent applications pending for examination in the U.S. and 59 patent applications pending for examination in other countries, all of which are related to U.S. applications. A majority of our patents relate to DC power optimization and DC to AC conversion for alternative energy power systems, power system monitoring and control and management systems. Our issued patents are scheduled to expire between 2027 and 2037. We continually assess opportunities to seek patent protection for those aspects of our technology, designs and methodologies and processes that we believe provide significant competitive advantages.

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

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

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

Competition

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

- product and system performance and features;
- total cost of ownership;
- PV module compatibility and interoperability;
- reliability and duration of product warranty;
- customer service and support;
- breadth of product line;
- local sales and distribution capabilities;
- compliance with applicable certifications and grid codes;
- size and financial stability of operations; and
- size of installed base.

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

Government Incentives

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

Seasonality

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

Employees

As of December 31, 2016, we had 718 full-time employees. Of these full-time employees, 258 were engaged in research and development, 163 in sales and marketing, 244 in operations and support and 53 in general and administrative capacities. Of our employees, 439 were based in Israel, 113 were based in the U.S., 62 were based in China, 34 were based in Germany and an additional 70 were based elsewhere.

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

Corporate Information

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

We file annual, quarterly and current reports, proxy statements and other documents with the Securities and Exchange Commission (the "SEC"), pursuant to the Securities Exchange Act of 1934 (the "Exchange Act"). You may read and copy any materials that we file with the SEC at the SEC's Public Reference Room at 100 F Street N.E., Washington, D.C. 20549. You may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-732-0330. Our reports, proxy statements and other documents filed electronically with the SEC are available at the website maintained by the SEC at www.sec.gov.

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

ITEM 1A. RISK FACTORS

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

Risks Related to Our Business and Our Industry

We cannot be certain that we will sustain profitability in the future.

We incurred net losses of \$21.4 million for fiscal 2014, and we achieved a net profit of \$21.1 million, \$76.6 million and \$25.4 million in fiscal 2015, fiscal 2016 and in the six months ended December 31, 2016, respectively. We expect to incur additional costs and expenses related to the continued development and expansion of our business, including in connection with marketing and developing our products, expanding into new product markets and geographies, maintaining and enhancing our research and development operations and hiring additional personnel. In addition, as a public company, we incur significant additional legal, accounting and other expenses that we did not incur as a private company. We do not know whether our revenues will grow rapidly enough to absorb these costs, and our limited operating history makes it difficult to assess the extent of these expenses or their impact on our results of operations.

Further, revenue growth may slow or revenue may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our products, increased competition, a decrease in the growth of the solar industry or our market share, or our failure to continue to capitalize on growth opportunities. If we fail to maintain sufficient revenue to support our operations, we may not be able to sustain profitability.

Our limited operating history makes it difficult to evaluate our current business and future prospects.

Our first full fiscal year of commercial shipments was 2011. Much of our growth has occurred in recent periods. Our limited history, combined with the rapidly evolving and competitive nature of our industry, makes it difficult to evaluate our current business and future prospects. In addition, we have limited insight into emerging trends that may adversely affect our business, financial condition, results of operations and prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including unpredictable and volatile revenues and increased expenses as we continue to grow our business. The viability and demand for solar energy solutions, and in turn, our products, may be affected by many factors outside of our control, including:

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

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

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

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

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

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

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

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

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

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

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

The results of the 2016 United States presidential and congressional elections may create regulatory uncertainty.

The results of the U.S. presidential election may create regulatory uncertainty in the clean energy sector and in the solar energy sector in particular. The new administration has made statements suggesting that support of various renewable energy programs and initiatives designed to fight global warming may be halted. While it remains unclear whether solar energy regulations and policies will be effected, any attempt by the new administration to withdraw from or materially change clean energy policies and regulations may result in a decrease in demand for our products in the United States and other geographical markets and may materially harm our business, financial condition and results of operations.

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

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

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

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

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

- construction of a significant number of new power generation plants, including plants utilizing natural gas, nuclear, coal, renewable energy or other generation technologies;

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

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

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

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

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

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

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

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

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

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

Our industry has historically been cyclical and experienced periodic downturns.

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

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

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

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

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

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

Our products are manufactured according to our estimates of customer demand, which requires us to make multiple forecasts and assumptions relating to demand from solar PV installers and distributors, their end customers and general market conditions. Because we sell a large portion of our products to larger solar installers and various distributors, who in turn sell to local installers, who in turn sell to their end customers, the system owner, we have limited visibility as to end customer demand and it is difficult to forecast future end-user demand to plan our operations. If we overestimate demand for our products, or if purchase orders are cancelled or shipments are delayed, we may have excess inventory that we cannot sell. Conversely, if we underestimate demand, we may not have sufficient inventory to meet end customer demand or to ramp up production at our contract manufacturers in a timely manner, or we could incur additional costs, lose market share, damage relationships with our distributors and end customers and forego potential revenue opportunities. For example, in fiscal 2014, unexpectedly high customer demand forced us to shorten transportation time from our factories in China and Hungary by using air freight rather than less expensive ocean freight.

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

We rely on commercial ocean transportation for the delivery of a large percentage of our products to our customers in North America. We also rely on more expensive air transportation when ocean transportation is not available or compatible with the delivery time requirements of our customers. Our ability to deliver our products via ocean transportation could be adversely impacted by shortages in available cargo capacity, changes by carriers and transportation companies in policies and practices, such as scheduling, pricing, payment terms and frequency of service or increases in the cost of fuel, taxes and labor, and other factors, such as labor strikes and work stoppages, not within our control. If we are unable to use ocean transportation and are required to substitute more expensive air transportation, our financial condition and results of operations could be materially and adversely impacted. In the first calendar quarter of 2015, contentious negotiations between the Pacific Maritime Association and the International Longshore & Warehouse Union resulted in port slowdowns caused port congestion and major delays in the transfer of cargo in the United States West Coast. Accordingly, in the quarter ended March 31, 2015 we shipped a higher percentage of our products to our customers in North America via air transportation. Material interruptions in service or stoppages in transportation, such as the aforementioned dispute, whether caused by strike, work stoppage, lock-out, slowdown or otherwise, could materially and adversely impact our business, results of operations and financial condition.

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

We do not have internal manufacturing capabilities, and currently rely upon two contract manufacturers to build all of our products. Our reliance on a small number of contract manufacturers makes us vulnerable to possible capacity constraints and reduced control over component availability, delivery schedules, manufacturing yields and costs.

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

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

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

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

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

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

Any interruption in the supply of limited source components or raw materials for our products would adversely affect our ability to meet scheduled product deliveries to our customers, could result in lost revenue or higher expenses and would harm our business.

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

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

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

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

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

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

If we fail to retain our key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our anticipated level of growth and our business could suffer.

Our future success and ability to implement our business strategy depends, in part, on our ability to attract and retain key personnel, and on the continued contributions of members of our senior management team and key technical personnel, each of whom would be difficult to replace. All of our employees, including our senior management, are free to terminate their employment relationships with us at any time. Competition for highly skilled individuals with technical expertise is extremely intense, and we face challenges identifying, hiring and retaining qualified personnel in many areas of our business. Integrating new employees into our team could prove disruptive to our operations, require substantial resources and management attention and ultimately prove unsuccessful. An inability to retain our senior management and other key personnel or to attract additional qualified personnel could limit or delay our strategic efforts, which could have a material adverse effect on our business, financial condition, results of operations and prospects.

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

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

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

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

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

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

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

For the six months ended December 31, 2016, three of our major customers in the U.S. together, accounted for 28.4% of our revenues. Our next five largest customers for the six months ended December 31, 2016, together, accounted for 23.8% of our revenues. For the six months ended December 31, 2016, our largest customer was Consolidated Electrical Distributors Inc. (CED), accounting for 11.2% of our revenues. Our customers' decisions to purchase our products are influenced by a number of factors outside of our control, including retail energy prices and government regulation and incentives, among others. In addition, these customers may decide to no longer use our products and services for other reasons which may be out of our control. Although we have agreements with some of our largest customers, these agreements do not have long-term purchase commitments and are generally terminable by either party after a relatively short notice period. The loss of, or events affecting, one or more of these customers could have a material adverse effect on our business, financial condition and results of operations. For example, in April 2016 one of our customers, SunEdison (SUNEQ), filed for reorganization under Chapter 11 of the U.S. bankruptcy laws.

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

There has been an increase in consolidation activity among distributors, large installers and other strategic partners in the solar industry. For example, in July 2015 SunEdison (SUNEQ) announced its intention to purchase Vivint Solar for \$2 billion, in March 2016 Vivint Solar announced it is terminating the merger due to SunEdison's "willful breach of the merger agreement". In June 2016, Tesla Motors (TSLA) announced that it has submitted a proposal to acquire all of the outstanding shares of common stock of SolarCity Corporation (SCTY). This trend could further increase our reliance on a small number of customers for a significant portion of our sales and may negatively impact our competitive position in the solar market.

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

In the six months ended December 31, 2016, we sold our products to approximately 200 direct customers in 45 countries, including the U.S., Canada, Belgium, France, Germany, Israel, Italy, the Netherlands, the United Kingdom, Australia, Japan and China. We have in the past, and may in the future, evaluate opportunities to expand into new geographic markets and introduce new product offerings and services that are a natural extension of our existing business. We also may from time to time engage in acquisitions of businesses or product lines with the potential to strengthen our market position, enable us to enter attractive markets, expand our technological capabilities or provide synergy opportunities. For example, we intend to introduce new products targeted at large commercial and utility-scale installations and to expand into other international markets.

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

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

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

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

We have experienced significant growth in recent periods with our annual product sales growing rapidly from approximately 8,400 inverters and approximately 181,000 power optimizers in fiscal 2011 (the period beginning July 1, 2010 and ending June 30, 2011), our first full fiscal year of commercial shipments, to annual product sales exceeding 224,000 inverters and 5.7 million power optimizers in fiscal 2016. We intend to continue to expand our business significantly within existing and new markets. This growth has placed, and any future growth may place, a significant strain on our management, operational and financial infrastructure. In particular, we will be required to expand, train and manage our growing employee base and scale and otherwise improve our IT infrastructure in tandem with that headcount growth. Our management will also be required to maintain and expand our relationships with customers, suppliers and other third parties and attract new customers and suppliers, as well as manage multiple geographic locations.

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

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

Although our financial results are reported in U.S. dollars, U.S. dollar revenues accounted for 72.3 % of our revenues in the six months ended December 31, 2016. In addition, a significant portion of our operating expenses are accrued in New Israeli Shekels (primarily related to payroll) and, to a lesser extent, the Euro and other currencies. Our profitability is affected by movements of the U.S. dollar against the Euro, and, to a lesser extent, the New Israeli Shekel and other currencies in which we generate revenues, incur expenses and maintain cash balances. Foreign currency fluctuations may also affect the prices of our products. Our prices are denominated primarily in U.S. dollars. If there is a significant devaluation of a particular currency, the prices of our products will increase relative to the local currency and may be less competitive. Despite our efforts to minimize foreign currency risks, primarily by entering into forward hedging transactions to sell Euro for U.S. dollars at a predefined rate, and maintaining cash balances in New Israeli Shekels, significant long-term fluctuations in relative currency values, in particular a significant change in the relative values of the Euro and, to a lesser extent, the New Israeli Shekel and other currencies, against the U.S. dollar could have an adverse effect on our profitability and financial condition.

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

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

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

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

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

Risks Related to Operations in Israel

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

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

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

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

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

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

The terms of Israeli government grants that we have received restrict our ability to transfer technologies outside of Israel, and we may be required to pay penalties in such a case or upon the sale of our Company.

In the six months ended December 31, 2016, we did not receive any grants from the Office of the Chief Scientist in the Israel Ministry of Economy (“OCS”). We do not expect to receive additional grants from the OCS. The terms of the previous grants require us to pay royalties at a rate of 4% to 4.5% on sales of products developed under these grants, up to the total grant amount, linked to the U.S. dollar and bearing interest at an annual rate of LIBOR applicable to dollar deposits. Even after payment in full, we will still be required to comply with the requirements of the Israeli Encouragement of Industrial Research and Development Law, 1984 (the “R&D Law”), and related regulations, with respect to those past grants. When a company develops know-how, technology or products under an OCS grant, the grant terms and the R&D Law restrict the transfer outside of Israel of such know-how without the prior approval of the OCS. Consequently, if aspects of our technologies are deemed to have been developed with OCS funding, the discretionary approval of an OCS committee would be required for any transfer to third parties outside of Israel of know-how related to those aspects of our technologies. The OCS may impose conditions on any arrangement under which it permits us to transfer technology or development out of Israel or may not grant such approval at all.

Any transfer of OCS-supported technology or know-how outside of Israel may require payment of significant amounts to the OCS, depending on the value of the transferred technology or know-how, the amount of OCS support, the time of completion of the OCS-supported research project and other factors. These restrictions and requirements for payment may impair our ability to sell our technology assets outside of Israel. Furthermore, the consideration available to our shareholders in a transaction involving the transfer outside of Israel of technology or know-how developed with OCS funding (such as a merger or similar transaction) would be reduced by any amounts that we are required to pay to the OCS.

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

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

Risks Related to the Ownership of Our Common Stock

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

The trading price of our common stock has been volatile since our initial public offering. Since shares of our common stock were sold in our initial public offering in March 2015 at a price of \$18.00 per share, during the six months ended December 31, 2016, the reported high and low prices of our common stock has ranged from \$11.35 to \$20.54 per share. The price of our stock may change in response to fluctuations in our results of operations in future periods and also may change in response to other factors, including factors specific to companies in our industry, many of which are beyond our control. As a result, our share price may experience significant volatility and may not necessarily reflect the value of our expected performance. Among other factors that could affect our stock price are:

- the addition or loss of significant customers;

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

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

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

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

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

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

- authorizing “blank check” preferred stock that our board of directors could issue to increase the number of outstanding shares to discourage a takeover attempt;
- providing for a classified board of directors with staggered, three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- limiting the ability of stockholders to call a special stockholder meeting;
- prohibiting stockholders from acting by written consent;
- establishing advance notice requirements for nominations for election to our board of directors or for proposing matters that can be acted upon by stockholders at stockholder meetings;
- the removal of directors only for cause and only upon the affirmative vote of the holders of at least 66 $\frac{2}{3}$ % in voting power of all the then-outstanding shares of common stock of the Company entitled to vote thereon, voting together as a single class;
- providing that our board of directors is expressly authorized to amend, alter, rescind or repeal our by-laws; and
- requiring the affirmative vote of holders of at least 66 $\frac{2}{3}$ % of the voting power of all of the then outstanding shares of common stock, voting as a single class, to amend provisions of our certificate of incorporation relating to the management of our business, our board of directors, stockholder action by written consent, advance notification of stockholder nominations and proposals, calling special meetings of stockholders, forum selection and the liability of our directors, or to amend, alter, rescind or repeal our by-laws.

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

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

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

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

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

ITEM 1B. UNRESOLVED STAFF COMMENTS

Not applicable.

ITEM 2. PROPERTIES

Our corporate headquarters are located in Herziliya Pituach, Israel, in an office consisting of approximately 56,000 square feet of office, testing and product design space. We have a ten-year lease on our corporate headquarters, which expires on December 31, 2024.

In addition to our corporate headquarters, we lease approximately 27,000 square feet of general office space in Fremont, California, under a lease that will expire on March 31, 2020. We also lease sales and support office space in China, Germany, Netherlands, Italy, France, Australia, UK, Japan, and Bulgaria.

We outsource all of our manufacturing to our manufacturing partners, and currently do not own or lease any manufacturing facilities.

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

ITEM 3. LEGAL PROCEEDINGS

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

ITEM 4. MINE SAFETY DISCLOSURES

Not applicable.

PART II

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

Market Information

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

Holders of Record

As of December 31, 2016, there were 46 holders of record of our common stock. Because many of our shares of common stock are held by brokers and other institutions on behalf of stockholders, we are unable to estimate the total number stockholders represented by these record holders.

Price Range of Our Common Stock

The following table set for the high and low sales prices for our common stock for the periods indicated, in each case as regularly on the NASDAQ Global Select Market:

	Price Range	
	High	Low
<u>Fiscal Year 2015</u>		
Third Quarter (March 26 – March 31)	\$ 22.50	\$ 19.49
Fourth Quarter (March 31 – June 30)	\$ 43.00	\$ 21.71
<u>Fiscal Year 2016</u>		
First Quarter (July 1 – September 30)	\$ 38.11	\$ 15.60
Second Quarter (October 1 – December 31)	\$ 29.50	\$ 15.02
Third Quarter (January 1 – March 31)	\$ 30.50	\$ 21.92
Fourth Quarter (March 31 – June 30)	\$ 28.80	\$ 17.10
<u>Six Months ended December 31, 2016</u>		
First Quarter (July 1 – September 30)	\$ 20.54	\$ 14.41
Second Quarter (October 1 – December 31)	\$ 17.34	\$ 11.35

Dividend Policy

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

Recent Sales of Unregistered Securities; Use of Proceeds from Registered Securities

On March 25, 2015, our registration statement on Form S-1 (No. 333-202159) was declared effective for our initial public offering and on March 31, 2015, we consummated the initial public offering consisting of 8,050,000 shares of our common stock at a public offering price of \$18.00 per share. The offering terminated after the sale of all securities registered in the offering. Goldman, Sachs & Co. and Deutsche Bank Securities Inc. acted as joint book-running managers for the offering. Needham & Company, Canaccord Genuity Inc. and Roth Capital Partners acted as co-managers. As a result of the offering, we received total net offering proceeds of \$131.2 million, after deducting total expenses of \$13.7 million, consisting of underwriting discounts and commissions of \$10.1 million and offering related expenses of \$3.6 million. No payments for such expenses were made directly or indirectly to (i) any of our officers or directors or their associates, (ii) any persons owning 10% or more of any class of our equity securities, or (iii) any of our affiliates.

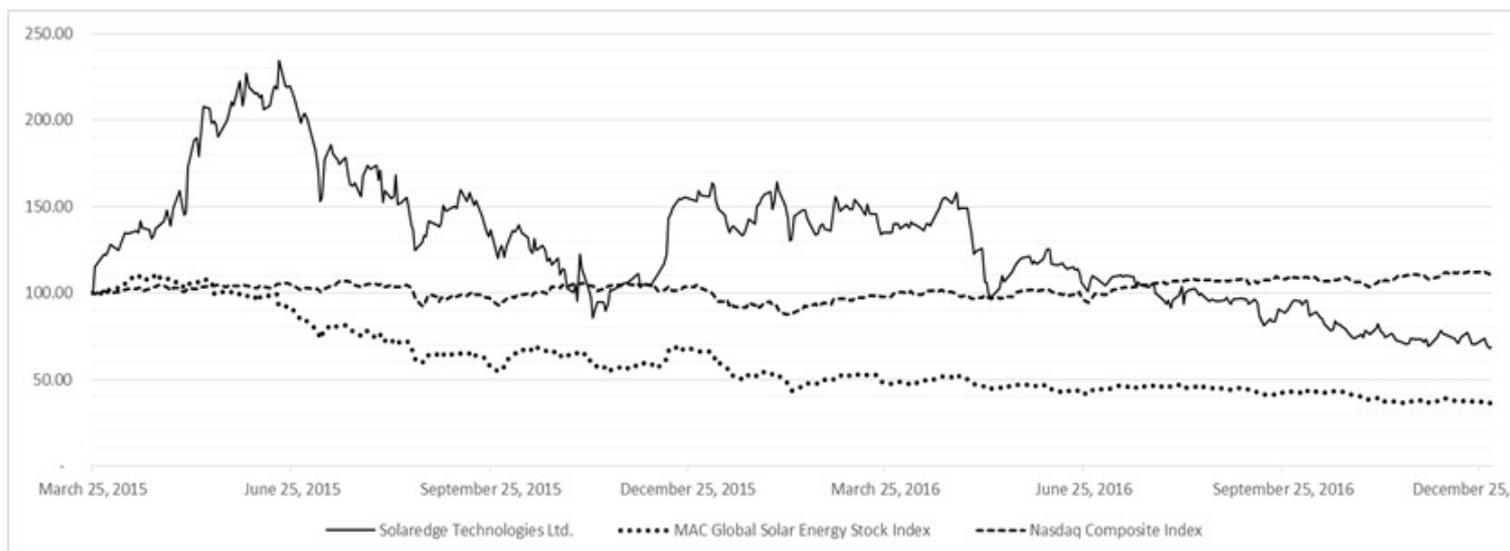
We maintain our funds received in cash and cash equivalents and available-for-sale marketable securities. Our principal use of proceeds from the initial public offering is for general corporate purposes, including working capital and expansion of our business into additional markets. The funds have not been used to make payments directly or indirectly to (i) any of the Company's officers or directors or their associates, (ii) any persons owning 10% or more of any class of the Company's equity securities, (iii) any of the Company's affiliates, or (iv) others.

Purchases of Equity Securities by the Issuer and Affiliated Purchases

There were no purchases of equity securities by the issuer and affiliated purchases during the six months ended December 31, 2016.

Performance Graph

The following graph compares the cumulative total shareholder return on our common stock from March 26, 2015 (using the price of which our shares of common stock were initially sold to the public) to December 31, 2016 to that of the total return of the Nasdaq Composite Index and the MAC Global Solar Energy Index. The comparison assumes \$100 was invested in our common stock on March 26, 2015 and in each of the forgoing indices on March 26, 2015 and assumes the reinvestment of dividends. This graph is furnished and not "filed" with the Securities and Exchange Commission or "soliciting material" under the Securities Exchange Act of 1934 and shall not be incorporated by reference into any such filings, irrespective of any general incorporation contained in such filing.



ITEM 6. SELECTED FINANCIAL DATA
Selected Financial Data

The selected consolidated statement of operations data for each of fiscal 2014, 2015 and 2016 and the six months ended December 31, 2016 and the selected consolidated balance sheet data as of June 30, 2015 and 2016 and as of December 31, 2016 are derived from our audited consolidated financial statements included elsewhere in this annual report. The selected consolidated statement of operations data for fiscal 2012 and 2013 and the selected consolidated balance sheet data as of June 30, 2012, 2013 and 2014 are derived from our audited financial statements not included in this annual report. Our historical results are not necessarily indicative of our results to be expected in any future period. These selected financial data should be read together with our consolidated financial statements and the related notes, as well as the section captioned “Management’s Discussion and Analysis of Financial Condition and Results of Operations” appearing elsewhere in this annual report.

	Fiscal Years Ended June 30					Six Months Ended December 31,
	2012	2013	2014	2015	2016	2016
	(In thousands)					
Consolidated Statements of Operations						
Data:						
Revenues	\$ 75,351	\$ 79,035	\$ 133,217	\$ 325,078	\$ 489,843	\$ 239,997
Cost of revenues	76,028	74,626	111,246	243,295	337,887	159,097
Gross profit (loss)	(677)	4,409	21,971	81,783	151,956	80,900
Operating expenses:						
Research and development, net	13,783	15,823	18,256	22,018	33,231	20,279
Sales and marketing	9,926	12,784	17,792	24,973	34,833	20,444
General and administrative	3,074	3,262	4,294	6,535	12,133	6,790
Total operating expenses	26,783	31,869	40,342	53,526	80,197	47,513
Operating income (loss)	(27,460)	(27,460)	(18,371)	28,257	71,759	33,387
Financial income (expenses)	(287)	(612)	(2,787)	(5,077)	471	(2,789)
Other expenses	—	—	—	104	—	—
Income (loss) before taxes on income	(27,747)	(28,072)	(21,158)	23,076	72,230	30,598
Taxes on income (tax benefit)	36	108	220	1,955	(4,379)	5,217
Net income (loss)	\$ (27,783)	\$ (28,180)	\$ (21,378)	\$ 21,121	\$ 76,609	\$ 25,381
Net basic earnings (loss) per share of common stock	\$ (10.30)	\$ (10.28)	\$ (7.64)	\$ 0.30	\$ 1.92	\$ 0.62
Net diluted earnings (loss) per share of common stock	\$ (10.30)	\$ (10.28)	\$ (7.64)	\$ 0.27	\$ 1.73	\$ 0.58
Weighted average number of shares used in computing net basic earnings (loss) per share of common stock	2,698,093	2,741,370	2,798,894	11,902,911	39,987,935	41,026,926
Weighted average number of shares used in computing net diluted earnings (loss) per share of common stock	2,698,093	2,741,370	2,798,894	15,269,448	44,376,075	43,839,342

	Fiscal Years Ended June 30					Six Months
	2012	2013	2014	2015	2016	Ended
						December 31
						2016
(In thousands)						
Consolidated Balance Sheet Data:						
Cash and cash equivalents	\$ 19,437	\$ 13,142	\$ 9,754	\$ 144,750	\$ 74,032	\$ 104,683
Available-for-sale marketable securities	-	-	-	-	111,609	118,727
Total assets	55,894	49,086	74,998	305,658	397,438	424,743
Total debt	3,515	12,823	20,244	-	-	-
Total stockholders' equity (deficiency)	\$ (87,990)	\$ (115,014)	\$ (135,294)	\$ 166,944	\$ 256,108	\$ 288,778

Key Operating Metrics

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

	Fiscal Years Ended June 30		Six Months
	2015	2016	Ended
			December 31,
	2015	2016	2016
Inverters shipped	150,428	223,589	120,117
Power optimizers shipped	3,533,528	5,738,546	2,904,858
Megawatts shipped(1)	920	1,615	880

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

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

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

Overview

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

We are a leader in the global module level power electronics (“MLPE”) market according to GTM Research, and as of December 31, 2016, we have shipped approximately 15.4 million power optimizers and 633,000 inverters. More than 374 thousand installations, many of which may include multiple inverters, are currently connected to, and monitored through, our cloud-based monitoring platform. As of December 31, 2016, we have shipped approximately 4.2GW of our DC optimized inverter systems. Our products have sold in approximately 50 countries, and are installed in solar PV systems in 100 countries.

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

In the six months ended December 31, 2016, we sold our products to approximately 200 direct customers in 45 countries and as of December 31, 2016, approximately 214,340 indirect customers had registered with us through our cloud-based monitoring platform. In the six months ended December 31, 2016, one customer accounted for revenues of above 10% and our top three customers (two distributors and one large installer) together represented 28.4% of our revenues.

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

- In 2012, we shipped our millionth power optimizer and increased our sales personnel presence in the U.S. market.
- In 2013, we opened an additional manufacturing site with Flextronics in Hungary to accommodate our accelerated growth, replacing the Flextronics manufacturing site in Israel.
- In 2013, we introduced our third generation power optimizer, based on our third generation ASIC, with a power rating of up to 700 watts and improved heat dissipation capabilities for high reliability and lower cost.
- In March 2015, we completed our initial public offering and started to trade on the NASDAQ Global Select Market under the ticker SEDG.

- In September 2015, we released information about the development of our new HD-Wave inverter technology.
- In January 2016, we announced the immediate international availability of our StorEdge™ solution
- In February 2016, we shipped our ten millionth power optimizer.
- In June 2016, we received the Intersolar Award in the Photovoltaics category for our HD-Wave technology inverter and began shipments of our HD-Wave inverter.
- In 2016, we commenced commercial shipments of our HD-Wave inverters to Europe.

Our revenues were \$133.2 million, \$325.1 million and 489.8 million for fiscal 2014, 2015 and 2016, respectively and \$240.0 for the six months ended December 31, 2016. Gross margins were 16.5%, 25.2% and 31.0%, for fiscal 2014, 2015 and 2016, respectively and 33.7% for the six months ended December 31, 2016. Net loss was \$ \$21.4 million for fiscal 2014, and net profits were \$21.1 million \$76.6 and \$25.4 million for fiscal 2015 and 2016, and for the six months ended December 31, 2016, respectively.

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

We believe that our strategy results in a lean operating base with low expenses that will enable profitability on lower revenues relative to our competitors. We believe that our sales and marketing, research and development and general and administrative costs will decrease as a percentage of revenue in the long-term as we continue to grow due to economies of scale. With this increased operating leverage, we expect our gross and operating margins to increase in the long-term.

Performance Measures

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

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

Key Components of Our Results of Operations

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

Revenues

We generate revenues from the sale of DC optimized inverter systems for solar PV installations which include power optimizers, inverters and our cloud-based monitoring platform. Our customer base includes large solar installers, distributors, wholesalers, EPCs and PV module manufacturers.

Our revenues are affected by changes in the volume and average selling prices of our DC optimized inverter systems. The volume and average selling price of our systems is driven by the supply and demand for our products, changes in the product mix between our residential and commercial products, the customer mix between large and small customers, the geographical mix of our sales, sales incentives, end-user government incentives, seasonality and competitive product offerings.

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

Cost of Revenues and Gross Profit

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

We outsource our manufacturing to third-party manufacturers and negotiate product pricing on a quarterly basis. Our third-party manufacturers are responsible for funding the capital expenses incurred in connection with the manufacture of our products, except with regard to end of line testing equipment and the automated assembly lines for our power optimizers, as further described below (which resulted in capital expenditures of \$2.8 million and \$5.2 million for fiscal 2015 and 2016, respectively and \$1.4 million for the six months ended December 31, 2016). We expect to continue this funding arrangement in the future, with respect to any expansions to such existing lines. We also procure strategic and critical components from various approved vendors on behalf of our contract manufacturers. At times, higher than anticipated demand has exceeded the production capacities of these manufacturers. In 2014 and early 2015, for example, such production shortfalls, as well as shortages in the supply of certain raw materials, required us to use air freight, rather than less expensive ocean freight, to deliver the majority of our products. The expansion of current manufacturing sites by our contract manufacturers allowed us to reduce these expenses in fiscal 2015 as well as to build sufficient inventory to continue our growth without the need to ship substantial amounts of products by air. In 2016 we managed to continuously increase the efficiency of our supply chain, reduce our reliance on airfreight to a minimum and use ocean freight for the majority of our shipments. We believe that continued expansion of the current manufacturing sites by our contract manufacturers, and the development and deployment of our proprietary automated assembly line (described below), will provide sufficient manufacturing capacity to meet our forecasted demands with minimal shipment of products by air freight.

We completed development of our first proprietary automated assembly line for our power optimizers and have 3 additional automated assembly lines expected to be deployed in the first half of 2017. We expect to continue to invest in additional automated assembly lines in the future. We have designed and are responsible for funding all of the capital expenses associated with existing and future automated assembly lines. The current and expected capital expenses associated with these automated assembly lines will be funded out of our cash flows.

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

Cost of revenues also includes our operations and support departments' costs. The operations department is responsible for production management such as planning, procurement, supply chain, production methodologies and machinery planning, logistics management and manufacturing support to our contract manufacturers as well as the quality assurance of our products. Our support department provides customer and technical support at various levels through our call centers around the world as well as second and third level support services which are provided by support personnel located in our headquarters. Our full-time employee headcount in our operations and support departments has grown from 57 as of June 30, 2014 to 106 as of June 30, 2015 to 175 as of June 30, 2016 to 244 as of December 31, 2016.

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

Operating Expenses

Operating expenses consist of research and development, sales and marketing and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories and include salaries, benefits, payroll taxes, commissions and stock-based compensation. Our full-time employee headcount in our research and development, sales and marketing and general and administrative departments has grown from 239 as of June 30, 2014 to 334 as of June 30, 2015 to 434 as of June 30, 2016, to 475 as of December 31, 2016. We expect to continue to hire significant numbers of new employees to support our growth. The timing of these additional hires could materially affect our operating expenses in any particular period, both in absolute dollars and as a percentage of revenue. We expect to continue to invest substantial resources to support our growth and anticipate that each of the following categories of operating expenses will increase in absolute dollar amounts for the foreseeable future.

Research and development expenses, net

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

Research and development expenses are presented net of the amount of any grants we receive for research and development in the period in which we receive the grant. We previously received grants and other funding from the Binational Industrial Research and Development Foundation and the OCS. Certain of those grants require us to pay royalties on sales of certain of our products, which are recorded as cost of revenues.

Sales and marketing expenses

Sales and marketing expenses consist primarily of personnel-related expenses such as salaries, sales commissions, benefits, payroll taxes and stock-based compensation. These expenses also include travel, fees of independent consultants, trade shows, marketing, costs associated with the operation of our sales offices and other indirect costs. The expected increase in sales and marketing expenses is due to an expected increase in the number of sales and marketing personnel and the expansion of our global sales and marketing footprint, enabling us to increase our penetration of new markets. While most of our sales in fiscal 2012 (the period beginning July 1, 2011 and ending June 30, 2012) were in Europe, sales in the U.S. have grown steadily since fiscal 2012. Revenues generated in the U.S. represented 73.3% and 68.2% of our revenues in fiscal 2015 and 2016, respectively and 66.8% in the six months ended December 31, 2016. Sales in Europe, which represented most of our sales until fiscal 2013 (the period beginning July 1, 2012 and ending June 30, 2013) also increased in absolute numbers and represented 20.1% and 22.7 % of our revenues in fiscal 2015 and 2016, respectively and 25.3% of our revenues in the six months ended December 31, 2016. We currently have a sales presence in the U.S., Canada, France, Germany, Italy, the Netherlands, the United Kingdom, Israel, Turkey Japan, Australia and China. We intend to continue to expand our sales presence to additional countries.

General and administrative expenses

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

Non-Operating Expenses

Financial income (expenses)

Financial income (expenses) consist primarily of interest income, interest expense, gains or losses from foreign currency fluctuations and hedging transactions and gains or losses related to re-measurement of warrants granted in relation to long-term debt incurred by the Company in December 2012.

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

Interest expense consists of interest and other charges paid to Silicon Valley Bank ("SVB") in connection with our revolving line of credit which expired on December 31, 2016, and interest on our term loan from Kreos, which was fully repaid on January 26, 2015 (both described below).

Gains or losses related to re-measurement of warrants granted in relation to long-term debt incurred by the Company in December 2012 are not expected to occur in the future as the warrants were fully exercised on June 18, 2015.

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

Taxes on income

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

From incorporation through the end of fiscal 2014, we experienced operating losses and consequently accumulated a significant amount of operating loss carryforwards in several jurisdictions. By the end of fiscal 2015, we fully utilized our unused operating loss carryforwards with respect to U.S. federal tax obligations. In fiscal 2015, we recorded an income tax expense of \$1.7 million for federal and state taxes in the U.S. In fiscal 2016, we recorded a net income tax expenses of \$0.4 million for federal and state tax in the U.S, which consists of \$1.8 million current income tax expenses and \$1.4 million deferred tax asset. In the six months ended December 31, 2016 we recorded a net income tax expenses of \$1.6 million for federal and state tax in the U.S, which consists of \$1.1 million current income tax expenses and \$0.5 million deferred tax realized.

SolarEdge Technologies Ltd., our Israeli subsidiary, is taxed under Israeli law. Income not eligible for benefits under the Investment Law is taxed at the corporate tax rate. The corporate tax rate in Israel was 26.5% in fiscal 2014 and 2015. Recent amendments of the Israeli Income Tax Ordinance decreased the corporate tax rate to 25% commencing on January 1, 2016, 24% starting January 1, 2017, and 23% starting January 1, 2018. However, our Israeli subsidiary elected tax year 2012 as a "Year of Election" for "Beneficiary Enterprise" under the Israeli Investment Law, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Beneficiary Enterprise benefits is taxed at the then prevailing regular corporate tax rate. Upon meeting the requirements under the Israeli Investment Law, income derived from productive activity under the Beneficiary Enterprise status will be exempt from tax for two years from the year in which the Israeli subsidiary first generated taxable income, provided that 12 years have not passed from the beginning of the Year of Election. Capital gains derived by an Israeli company are subject to tax at the prevailing corporate tax rate.

Our subsidiaries are subject to taxes in each of the countries in which they operate. All of our products are developed and manufactured by our subsidiary, SolarEdge Technologies Ltd., which sells our products to its customers as well as to other entities in the SolarEdge group, which then sell them to their customers. All intercompany sales of products and services are paid for or reimbursed pursuant to transfer price policies established for each of the countries in which we operate, consistent with arm's length profit levels.

Due to our history of losses from inception through the end of fiscal 2014, we have recorded a full valuation allowance on our deferred tax assets. In fiscal 2015, the first fiscal year in which we were profitable, we used a portion of our carryforward losses from previous years in Israel and California. In fiscal 2016, we continued being profitable, stopped recording valuation allowances and started recording deferred tax assets in the amount of \$5.0 million in Israel, most of which is related to operating loss carryforward. In the six months ended December 31, 2016 we utilized all of our operating loss carryforwards in Israel and became profitable for tax purposes. As of December 31, 2016, we are entitled to benefit from a two-year tax exemption as part of the Beneficiary Enterprise Tax Incentive Program extended by the Israeli government.

Results of Operations

The following tables set forth our consolidated statement of operations for the six months ended December 31, 2015 and 2016 and for the fiscal 2014, 2015 and 2016. We have derived this data from our consolidated financial statements included elsewhere in this annual report. This information should be read in conjunction with our consolidated financial statements and related notes included elsewhere in this this annual report. The results of historical periods are not necessarily indicative of the results of operations for any future period.

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

Six Months Ended December 31, 2016 vs. Six Months Ended December 31, 2015:

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

	Fiscal Year Ended June 30,			2014 to 2015		2015 to 2016	
	2014	2015	2016	Change		Change	
	(In thousands)						
Revenues	\$ 133,217	\$ 325,078	\$ 489,843	\$ 191,861	144.0%	\$ 164,765	50.7%
Cost of revenues	111,246	243,295	337,887	132,049	118.7%	94,592	38.9%
Gross profit	21,971	81,783	151,956	59,812	272.2%	70,173	85.8%
Operating expenses:							
Research and development, net	18,256	22,018	33,231	3,762	20.6%	11,213	50.9%
Sales and marketing	17,792	24,973	34,833	7,181	40.4%	9,860	39.5%
General and administrative	4,294	6,535	12,133	2,241	52.2%	5,598	85.7%
Total operating expenses	40,342	53,526	80,197	13,184	32.7%	26,671	49.8%
Operating income (loss)	(18,371)	28,257	71,759	46,628	N/A	43,502	154.0%
Financial income (expenses)	(2,787)	(5,077)	471	(2,290)	82.2%	5,548	N/A
Other expenses	-	104	-	104	N/A	(104)	N/A
Income (loss) before taxes on income	(21,158)	23,076	72,230	44,234	N/A	49,154	213.0%
Taxes on income (tax benefit)	220	1,955	(4,379)	1,735	788.6%	(6,334)	N/A
Net income (loss)	<u>\$ (21,378)</u>	<u>\$ 21,121</u>	<u>\$ 76,609</u>	<u>\$ 42,499</u>	<u>N/A</u>	<u>\$ 55,488</u>	<u>262.7%</u>

Comparison of fiscal year 2015 and 2016

Revenues

	Fiscal Year Ended		2015 to 2016	
	June 30,		Change	
	2015	2016		
	(In thousands)			
Revenues	\$ 325,078	\$ 489,843	\$ 164,765	50.7%

Revenues increased by \$164.8 million, or 50.7%, in fiscal 2016 as compared to fiscal 2015, primarily due to an increase in the number of systems sold worldwide with the U.S. being the largest market. The number of power optimizers sold increased by approximately 2.2 million units, or 62.1%, from approximately 3.5 million units in fiscal 2015 to approximately 5.7 million units in fiscal 2016. The number of inverters sold increased by approximately 72,000 units, or 47.4%, from approximately 152,000 units in fiscal 2015 to approximately 224,000 units in fiscal 2016. The increase in the number of units sold was mainly attributable to an increase in the number of systems sold in the U.S. market and certain countries in Europe. In general, our increase in revenues in fiscal 2016 was attributable to rapid expansion in the U.S. market. Our blended average selling price per watt for units shipped decreased by \$0.048, or 13.5%, in fiscal 2016 as compared to fiscal 2015, primarily due to increased sales of our commercial products which are characterized with lower average selling price per watt and a change in our customer mix, which included larger portion of sales to distribution channels and large customers to whom we provide volume discounts.

Cost of Revenues and Gross Profit

	Fiscal Year Ended		2015 to 2016	
	June 30,		Change	
	2015	2016		
	(In thousands)			
Cost of revenues	\$ 243,295	\$ 337,887	\$ 94,592	38.9%
Gross profit	\$ 81,783	\$ 151,956	\$ 70,173	85.8%

Cost of revenues increased by \$94.6 million, or 38.9%, in fiscal 2016 as compared to fiscal 2015, primarily due to (i) an increase in the volume of products sold; (ii) an increase in personnel-related costs resulting from an increase in our operations and support headcount; (iii) increased warranty expenses -associated with the increase in our install base; and (iv) an inventory write off of \$1.0 million related to unrecognized revenues from a customer that filed for bankruptcy. These increases were offset by reductions derived from increased efficiency in our supply chain including a decrease in shipping costs associated with the minimal use of airfreight. Gross profit as a percentage of revenue increased from 25.2% fiscal 2015 to 31.0% in fiscal 2016 primarily due to reductions in per unit production costs, cost increased efficiency in our supply chain including the use of more ocean freight shipments rather than air shipments, lower costs associated with warranty product replacements, and general economies of scale in our personnel-related costs and other costs associated with our support and operations departments.

Operating Expenses:

Research and Development, Net

	Fiscal Year Ended June 30,		2015 to 2016	
	2015	2016	Change	
	(In thousands)			
Research and development, net	\$ 22,018	\$ 33,231	\$ 11,213	50.9%

Research and development, net increased by \$11.2 million, or 50.9%, in fiscal 2016 as compared to fiscal 2015, primarily due to an increase in personnel related costs of \$8.0 million as a result of an increased headcount of engineers. The increase in headcount reflects our continuing investment in enhancements of existing products as well as development associated with bringing new products to market. Expenses related to consultants and sub-contractors, other directly related overhead costs, depreciation related to lab equipment and materials consumption for development increased by, \$0.7 million, \$0.7 million, \$0.6 million and \$0.4 million, respectively, in fiscal 2016 as compared to fiscal 2015. In addition, grants received from the OCS decreased by \$0.8 million in fiscal 2016 as compared to fiscal 2015.

Sales and Marketing

	Fiscal Year Ended June 30,		2015 to 2016	
	2015	2016	Change	
	(In thousands)			
Sales and marketing	\$ 24,973	\$ 34,833	\$ 9,860	39.5%

Sales and marketing expenses increased by \$9.9 million, or 39.5%, in fiscal 2016 as compared to fiscal 2015, primarily due to an increase in personnel related costs of \$7.3 million as a result of an increase in headcount supporting our growth in the U.S. and Europe. In addition, expenses associated with our worldwide sales offices, travel and other directly related overhead costs, costs related to trade shows and marketing activities and the use of third party vendors, increased by \$1.5 million, \$0.9 million and \$0.2 million, respectively, in fiscal 2016 as compared to fiscal 2015.

General and Administrative

	Fiscal Year Ended June 30,		2015 to 2016	
	2015	2016	Change	
	(In thousands)			
General and administrative	\$ 6,535	\$ 12,133	\$ 5,598	85.7%

General and administrative expenses increased by \$5.6 million, or 85.7%, in fiscal 2016 as compared to fiscal 2015, primarily due to an increase in personnel-related costs of \$3.3 million related to (i) higher headcount in the legal, finance, human resources, and information technology department functions required of a fast-growing public company and (ii) increased expenses related to equity-based compensation and changes in management compensation. In addition, costs related to accounting, tax, legal and information systems consulting, costs related to being a public company, travel and other directly related overhead costs and costs related to the accrual of doubtful debts increased by \$0.9 million, \$0.9 million, \$0.3 million, and \$0.2 million, respectively, in the fiscal 2016 as compared to the fiscal 2015.

Financial Income (Expenses)

	Fiscal Year Ended June 30,		2015 to 2016	
	2015	2016	Change	
	(In thousands)			
Financial Income (Expenses)	\$ (5,077)	\$ 471	\$ 5,548	N/A

Financial income was \$0.5 million in fiscal 2016 as compared to financial expenses of \$5.1 million in fiscal 2015, primarily due to \$6.7 expenses related to re-measurement of certain warrants granted to Kreos in relation to the Kreos Loan in fiscal 2015, and expenses related to interest expenses on a term loan received from Kreos Capital IV (Expert Fund) Limited ("Kreos") in December 2012 (the "Kreos Loan") and the revolving line of credit from SVB (described below) as compared to no such expenses in the fiscal 2016 due to full repayment of the Kreos Loan and exercise of the warrants by Kreos. Additionally, income of \$1.9 million generated from hedging transactions and foreign exchange fluctuations between the Euro and the New Israeli Shekel against the U.S. Dollar in fiscal 2015 as compared to \$0.2 million in fiscal 2016 and \$0.7 million interest income, net of accretion (amortization) of discount (premium) on marketable securities and time deposits were generated in fiscal 2016 compared to \$0.1 million in fiscal 2015.

Other expenses

	Fiscal Year Ended		2015 to 2016	
	June 30,		Change	
	2015	2016		
	(In thousands)			
Other expenses	\$ 104	-	\$ (104)	N/A

Other expenses of \$104 recorded in fiscal 2015 are related to the disposal of furniture and other equipment related to the move to our new offices in Israel.

Taxes on Income

	Fiscal Year Ended		2015 to 2016	
	June 30,		Change	
	2015	2016		
	(In thousands)			
Taxes on income (tax benefit)	\$ 1,955	\$ (4,379)	\$ (6,334)	N/A

Tax benefits were \$4.4 million in fiscal 2016 compared to taxes on income of \$2.0 million in fiscal 2015, primarily due to the recognizing of a \$6.4 million deferred tax asset for the first time in fiscal 2016 and an increase of \$0.1 million in current tax expenses for fiscal 2016 as compared to fiscal 2015.

Net Income

	Fiscal Year Ended		2015 to 2016	
	June 30,		Change	
	2015	2016		
	(In thousands)			
Net income	\$ 21,121	\$ 76,609	\$ 55,488	262.7%

Net income was \$76.6 million in fiscal 2016 as compared to a net income of \$21.1 million in fiscal 2015.

Comparison of fiscal 2014 and 2015

Revenues

	Fiscal Year Ended		2014 to 2015	
	June 30,		Change	
	2014	2015		
	(In thousands)			
Revenues	\$ 133,217	\$ 325,078	\$ 191,861	144.0%

Revenues increased by \$191.9 million, or 144.0%, in fiscal 2015 as compared to fiscal 2014, primarily due to an increase in the number of systems sold worldwide with the U.S. being the largest market. The number of power optimizers sold increased by approximately 2.2 million units, or 169.5%, from approximately 1.3 million units in fiscal 2014 to approximately 3.5 million units in fiscal 2015. The number of inverters sold increased by approximately 91,000 units, or 148.8%, from approximately 61,000 units in fiscal 2014 to approximately 152,000 units in fiscal 2015. The increase in the number of units sold was mainly attributable to an increase in the number of systems sold in the U.S. market and certain countries in Europe. In general, our increase in revenues in fiscal 2015 was attributable to rapid expansion in the U.S. market. Our blended average selling price per watt for units shipped decreased by \$0.017, or 4.5%, in fiscal 2015 as compared to fiscal 2014, primarily due to a change in our customer mix, which included larger portion of sales to large customers to whom we provide volume discounts.

	Fiscal Year Ended		2014 to 2015	
	June 30,		Change	
	2014	2015		
	(In thousands)			
Cost of revenues	\$ 111,246	\$ 243,295	\$ 132,049	118.7%
Gross profit	\$ 21,971	\$ 81,783	\$ 59,812	272.2%

Cost of revenues increased by \$132.0 million, or 118.7%, in fiscal 2015 as compared to fiscal 2014, primarily due to an increase in the number of units sold, an increase in personnel related costs as a result of an increase in our operations and support headcount and an increase in spending on air shipments. Gross profit as a percentage of revenue increased from 16.5% fiscal 2014 to 25.2% in fiscal 2015. Product costs generally decreased at a rate consistent with our blended selling price. In addition, costs associated with air shipments decreased, as a percentage of revenues, as did costs associated with our warranty expenses, warranty provisions, personnel related costs and other costs associated with our support and operations departments.

Operating Expenses:

Research and Development, Net

	Fiscal Year Ended		2014 to 2015	
	June 30,		Change	
	2014	2015		
	(In thousands)			
Research and development, net	\$ 18,256	\$ 22,018	\$ 3,762	20.6%

Research and development, net increased by \$3.8 million, or 20.6%, in fiscal 2015 as compared to fiscal 2014, primarily due to an increase in personnel related costs of \$2.3 million as a result of an increased headcount of engineers. The increase in headcount reflects our continuing investment in enhancements of existing products as well as development associated with bringing new products to market. In addition, expenses related to materials consumption for development, consultants and sub-contractors and other directly related overhead costs increased by \$0.9 million, \$0.6 million and \$0.5 million, respectively, in fiscal 2015 as compared to fiscal 2014. These amounts were partially offset by \$0.5 million received pursuant to a grant from the OCS during fiscal 2015 as compared to fiscal 2014.

Sales and Marketing

	Fiscal Year Ended		2014 to 2015	
	June 30,		Change	
	2014	2015		
	(In thousands)			
Sales and marketing	\$ 17,792	\$ 24,973	\$ 7,181	40.4%

Sales and marketing expenses increased by \$7.2 million, or 40.4%, in fiscal 2015 as compared to fiscal 2014, primarily due to an increase in personnel related costs of \$5.4 million as a result of an increase in headcount supporting our growth in the U.S. and Europe. In addition, expenses associated with our worldwide sales offices, travel and other directly related overhead costs and costs related to trade shows and marketing activities and the use of third party vendors, increased by \$0.8 million, \$0.7 million and \$0.3 million, respectively, in fiscal 2015 as compared to fiscal 2014.

General and Administrative

	Fiscal Year Ended		2014 to 2015	
	June 30,		Change	
	2014	2015		
	(In thousands)			
General and administrative	\$ 4,294	\$ 6,535	\$ 2,241	52.2%

General and administrative expenses increased by \$2.2 million, or 52.2%, in fiscal 2015 as compared to fiscal 2014, primarily due to an increase in personnel related costs of \$1.5 million as a result of an increase in headcount as part of our ongoing efforts to enhance the legal, finance, human resources, recruiting and information technology functions required of a growing company and increased expenses related to bonuses and equity-based compensation. In addition, costs related to accounting, tax, legal and information systems consulting and costs related to being a public company increased by \$0.4 million and 0.3 million, respectively, in the fiscal 2015 as compared to fiscal 2014.

Financial Expenses

	Fiscal Year Ended June 30,		2014 to 2015	
	2014	2015	Change	
	(In thousands)			
Financial expenses	\$ 2,787	\$ 5,077	\$ 2,290	82.2%

Financial expenses increased by \$2.3 million in fiscal 2015 as compared to fiscal 2014, primarily due to increased expenses of \$5.4 million related to the remeasurement of certain warrants, which were fully exercised on June 18, 2015 and \$0.3 million related to an early prepayment fee related to long term debt. These amounts were partially offset by gains associated with hedging transactions of the U.S. Dollar against the Euro and New Israeli Shekel in the amount of \$1.7 million in fiscal 2015, compared to a loss of \$0.2 million in fiscal 2014, a decrease of \$1.1 million in interest expenses due to the full repayment of our borrowings under our revolving line of credit and other long term debt as well as a decrease of \$0.4 million in expenses from foreign exchange fluctuations and bank charges.

Other expenses

	Fiscal Year Ended June 30,		2014 to 2015	
	2014	2015	Change	
	(In thousands)			
Other expenses	-	\$ 104	\$ 104	N/A

Other expenses of \$104,000 recorded in fiscal 2015 are related to the disposal of furniture and other equipment related to the move to our new offices in Israel.

Taxes on Income

	Fiscal Year Ended June 30,		2014 to 2015	
	2014	2015	Change	
	(In thousands)			
Taxes on income	\$ 220	\$ 1,955	\$ 1,735	788.6%

Taxes on income increased by \$1.7 million in fiscal 2015 as compared to fiscal 2014, primarily due to tax payments and tax accruals with respect to U.S. federal taxes and taxes in certain U.S. states in which we operate.

Net Income (loss)

	Fiscal Year Ended June 30,		2014 to 2015	
	2014	2015	Change	
	(In thousands)			
Net income (loss)	\$ (21,378)	\$ 21,121	\$ 42,499	N/A

As a result of the factors discussed above, the Company reached profitability in fiscal 2015. Net income was \$21.1 million in fiscal 2015 as compared to a net loss of \$21.4 million in fiscal 2014.

Liquidity and Capital Resources

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

	Fiscal Year ended June 30			Six Months Ended
	2014	2015	2016	December 31, 2016
	(In thousands)			
Net cash provided by (used in) operating activities	\$ (17,845)	\$ 12,054	\$ 52,427	\$ 49,098
Net cash used in investing activities	(3,147)	(13,937)	(125,837)	(19,747)
Net cash provided by financing activities	17,676	136,953	2,779	1,284
Increase (decrease) in cash and cash equivalents	<u>\$ (3,316)</u>	<u>\$ 135,070</u>	<u>\$ (70,631)</u>	<u>\$ 30,635</u>

As of December 31, 2016, our cash and cash equivalents were \$105 million. This amount does not include \$118.7 million invested in available for sale marketable securities and \$0.9 million of restricted cash (primarily held to secure letters of credit to vendors and bank guarantees securing office lease payments). On March 31, 2015, we consummated our initial public offering in which we sold 8,050,000 shares of our common stock at a price of \$18.00 per share, resulting in net proceeds of \$131.2 million, after deducting underwriting discounts and commissions and \$3.6 million in offering expenses. As of December 31, 2016, we maintain the net proceeds received from our initial public offering as well as cash provided by operating activities in cash and cash equivalents and in available-for-sale marketable securities. Our principal uses of cash are funding our operations and other working capital requirements. We believe that cash provided by operating activities as well as our cash and cash equivalents, including the net proceeds from our initial public offering will be sufficient to meet our anticipated cash needs for at least the next 12 months.

Operating Activities

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

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

For fiscal 2015, cash provided by operating activities was \$12.1 million derived mainly from a net income in the amount of \$21.1 million that included \$9.7 million of non-cash expenses. An increase of \$46.3 million in trade payables and other accounts payable, \$13.7 million in warranty obligations, \$4.0 million in deferred revenues and \$1.7 million in accruals for employees was offset by an increase of \$48.5 million in inventories, \$19.6 million in prepaid expenses and other receivables and \$16.3 million in trade receivables.

For fiscal 2014, cash used in operating activities was \$17.8 million mainly due to a net loss of \$21.4 million that included \$3.5 million of non-cash expenses. Although revenue grew 68.6% during fiscal 2014, we incurred a deficit in working capital while extending payments to our vendors to match collections from our customers and inventory management. Increases in fiscal 2014 compared to fiscal 2013 of \$9.9 million in trade receivables, \$7.4 million in prepaid expenses and other receivables and \$10.7 million in inventories, were offset by an increase of \$19.4 million in trade payables, \$7.8 million increase in warranty obligations and another \$1.3 million in accruals for employees and other accounts payable.

Investing Activities

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

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

During fiscal 2015, net cash used in investing activities was \$13.9 million, of which \$11.8 million related to capital investments in laboratory equipment, end of line testing equipment, manufacturing tools and leasehold improvements, \$2.0 million related to security deposits held to secure letters of credit to vendors and bank guarantees securing office lease payments, and \$0.1 million related to an increase of long term deposits.

During fiscal 2014, net cash used in investing activities was \$3.1 million, mostly attributed to capital investments in laboratory equipment, end of line testing equipment and manufacturing tools.

Financing Activities

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

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

For fiscal 2015, net cash provided by financing activities was \$137.0 million, of which \$131.4 million was net proceeds from our initial public offering, \$24.7 million was net proceeds from our Series E convertible preferred stock issuance, \$23.0 million was from short-term borrowings under our revolving line of credit with SVB and \$0.1 million was proceeds from exercise of employee stock options, offset by \$36.3 million of repayment of the revolving line of credit with SVB and \$5.9 million of repayment of a term loan.

For fiscal 2014, net cash provided by financing activities was \$17.7 million, of which \$10.7 million was net proceeds from our Series D-2 and Series D-3 convertible preferred stock issuances in fiscal 2014 and \$9.4 million was from short-term borrowings under our \$20 million revolving line of credit with SVB, offset by \$2.4 million of repayment of the Kreos term loan.

Debt Obligations

\$20 million Revolving Line of Credit.

In June 2011, we entered into an agreement with SVB for a revolving line of credit, which permitted borrowings of up to \$20 million subject to certain limitations based on our accounts receivable and inventories. The average interest rate on our outstanding borrowings during fiscal 2014 was 4.9%. In October, 2014, we had entirely repaid the revolving line of credit with SVB.

\$40 Million Revolving Line of Credit

In February 2015, we amended and restated an agreement with SVB for a revolving line of credit, which permits aggregate borrowings of up to \$40 million in an amount not to exceed 80% of the eligible accounts receivable and bears interest, payable monthly, at SVB's prime rate plus a margin of 0.5% to 2.0%. The revolving line of credit terminated on December 31, 2016 and we had not made borrowings under this revolving line of credit with SVB.

On December 28, 2012, we entered into a term loan agreement with Kreos, providing for a term loan of up to \$10 million, which was fully drawn on the closing date. The borrowings under the term loan were primarily used to finance working capital needs. On January 26, 2015, we repaid the entire outstanding balance of the Kreos term loan.

Interest on the term loan was payable monthly at a rate of 11.90% per year, compounded on a monthly basis. Principal is paid in 33 equal monthly installments from September 1, 2013 through May 1, 2016, the last of which was prepaid in advance pursuant to the terms of the term loan. Payments of principal and interest on the term loan were in Euros.

In connection with the term loan agreement, we granted Kreos 563,014 D-1 Warrants to purchase Series D-1 convertible preferred shares at an exercise price of \$2.309. The D-1 Warrants were exercised on June 18, 2015 and we issued to Kreos 154,768 shares of common stock. We believe that cash provided by operating activities as well as our cash and cash equivalents, including the net proceeds from our initial public offering and cash generated from our operations will be sufficient to meet our anticipated cash needs for at least the next 12 months. In the future, we expect our operating and capital expenditures to increase as we expand our business and grow our revenue, which results in increased accounts receivable and inventory balances, and increased headcount. Our ability to generate cash from operations is subject to substantial risks described under the caption "Risk Factors." If any of these risks materialize, we may be unable to generate or sustain positive cash flow from operating activities or raise additional capital. We would then be required to use existing cash and cash equivalents to support our working capital and other cash requirements. If additional sources of liquidity are required to support our working capital requirements or operational expansion, we may seek to raise funds through debt financing or from other sources in the future, but we can provide no assurance that these transactions could be consummated on terms acceptable to us or at all. Failure to raise sufficient capital when needed could have a material adverse effect on our business, results of operations and financial position.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2016:

	Payment Due By Period				
	Total	Less Than 1 Year	1 – 3 Years	4 – 5 Years	More Than 5 Years
			(In thousands)		
Operating leases(1)	15,645	3,151	6,490	3,030	2,974
Purchase commitments under agreements(2)	65,345	65,345	-	-	-
Total	80,990	68,496	6,490	3,030	2,974

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

Off-Balance Sheet Arrangements

In fiscal 2015 and 2016 and in the six months ended December 31, 2016 we did not have any off-balance sheet arrangements.

Critical Accounting Policies and Significant Management Estimates

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

Revenue Recognition

We generate revenues from the sale of DC optimized inverter systems for solar PV installations which include our power optimizers, inverters and cloud-based monitoring platform. Our worldwide customer base includes large solar installers, distributors, EPCs and PV module manufacturers. Our products are fully functional at the time of shipment to the customer and do not require production, modification or customization. We recognize revenues when all of the following conditions are met: (i) persuasive evidence of an arrangement exists; (ii) delivery has occurred; (iii) the price is fixed or determinable and (iv) collectability is reasonably assured. Provisions for rebates, sales incentives, and discounts to customers are accounted for as reductions in revenue in the same period that the related sales are recorded.

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

We provide our full web-based monitoring platform free of charge and revenues associated with the service since that date are being recognized ratably over 25 years. In the absence of vendor-specific objective evidence or third party comparable pricing for such service, management determines the revenue levels of this service based on the costs associated with providing the service plus appropriate margins that reflect management's best estimate of the selling price. Since May 2013, these revenues were minimal and we do not expect this to become a significant source of revenue in the near future.

In May 2014, the Financial Accounting Standards Board ("FASB") issued a new standard related to revenue recognition. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standard, including a clarification on identifying performance obligations. The guidance permits two methods of modification: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). We currently anticipate adopting the standard using the modified retrospective method rather than full retrospective method. The new standard will be effective for the Company beginning January 1, 2018, and adoption as of the original effective date of January 1, 2017 is permitted. We will adopt the new standard as of January 1, 2018.

We have made progress toward completing our evaluation of the potential changes from adopting this new standard in our financial reporting and disclosures. We have evaluated the impact of the standard on all of our revenue streams and most of our contracts. We expect to complete the contract evaluations and validate the results during the first half of 2017. During this time frame and the remainder of 2017, we will also draft a new accounting policies and evaluate the new disclosure requirements. We formed an implementation work group and expect to complete the evaluation of the impact of the accounting and disclosure changes on our business processes, controls and systems throughout 2017, design any changes to such business processes, controls and systems, and implement the changes before the end of 2017.

Under the new standard, an entity recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to the customer, either at a point in time or over time. We expect to continue to recognize most of our revenue at a point in time upon delivery of our products. Based on our current analysis the most significant effect, if any, will be related to certain services that may no longer be considered as distinct performance obligations which are separate from the main revenue products.

Product Warranty

We provide a standard limited product warranty against defects in materials and workmanship under normal use and service conditions. Our standard warranty period is 25 years for our power optimizers, 12 years for our inverters and 10 years for our storage interface. In certain cases, customers can purchase extended warranties for inverters that increase the warranty period to up to 25 years.

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

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

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

Since the MTBF model does not take into account additional non-systematic failures such as failures caused by workmanship or manufacturing or design-related issues, and since warranty claims are at times opened for cases in which the error has been triggered by an improper installation, we have developed a supplemental model to predict such cases and recognize the associated expenses ratably over the expected claim period. This model, which is based on actual root cause analysis of returned products, identification of the causes of claims and time until each identified problem is revealed, allows us to better predict actual warranty expenses and is updated periodically based on our experience, taking into account the installed base of approximately 15.4 million power optimizers and approximately 633,000 inverters as of December 31, 2016.

If actual warranty costs differ significantly from these estimates, adjustments may be required in the future, which could adversely affect our gross profit and results of operations. Warranty obligations are classified as short term and long term warranty obligations based on the period in which the warranty is expected to be claimed. The warranty provision (short and long term) was \$31.9 million, \$51.2 million and \$58.4 million in fiscal 2015 and 2016 and as of December 31, 2016 respectively.

Inventory Valuation

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

Sellable finished goods and raw material inventories are valued at the lower of cost or market, based on the moving average cost method. Certain factors could affect the realizable value of our inventories, including market and economic conditions, technological changes, existing product changes (mainly due to cost reduction activities) and new product introductions. We consider historic usage, expected demand, anticipated sales price, the effect of new product introductions, product obsolescence, product merchantability and other factors when evaluating the value of inventories. Inventory write-downs are equal to the difference between the cost of inventories and their estimated fair market value. Inventory write-downs are recorded as cost of revenues in the accompanying statements of operations and were, \$1.0 million, \$2.5 million and \$0.1 million in fiscal 2015 and 2016 and in the six months ended December 31, 2016, respectively.

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

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

Stock-Based Compensation Expense

We account for stock-based compensation granted to employees, non-employee directors and independent contractors in accordance with ASC 718, "Compensation — Stock Compensation" and ASC 505-50, "Equity-Based Payments to Non-Employees," which require the measurement and recognition of compensation expense for all stock-based payment awards based on fair value.

The fair value of each option award is estimated on the grant date using the Black-Scholes-Merton option-pricing model. The stock-based compensation expense, net of forfeitures, is recognized using a straight-line basis over the requisite service period of the award, which is generally four years. Estimated forfeitures are based on actual historical pre-vesting forfeitures.

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

Key Assumptions

The Black-Scholes-Merton option-pricing model requires the input of highly subjective assumptions, including the fair value of the underlying common stock, the expected volatility of the price of our common stock, the expected term of the option, risk-free interest rates and the expected dividend yield of our common stock. These estimates involve inherent uncertainties and the application of management's judgment. If factors change and different assumptions are used, our stock-based compensation expense could be materially different in the future. These assumptions are estimated as follows:

- *Fair value of our common stock.* Because our stock was not publicly traded prior to March 26, 2015, for periods prior to our initial public offering we have estimated the fair value of our common stock by using, among other factors, third party valuations at the time of grant of the option by considering a number of objective and subjective factors, including data from other comparable companies, issuance of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook. The fair value of the underlying common stock was determined by the management until such time as the Company's common stock is listed on an established stock exchange or national market system. Since the completion of our initial public offering, we have valued our common stock by reference to the trading price of our common stock in the public market.
- *Expected term.* The expected term represents the period that our stock-based awards are expected to be outstanding. For stock option awards that were at the money when granted, we have based our expected term on the simplified method available under SAB 110, as we do not have sufficient historical experience for determining the expected term of the stock option awards granted. For stock option awards that were in the money when granted prior to the time that our common stock traded in the public market, we use an expected term that we believe is appropriate under these circumstances, which does not produce a materially different result than determining the expected term for our stock options that were granted with an exercise price at least equal to the then current fair market value of our common stock.
- *Risk-free rate.* The risk-free interest rate is based on the yields of U.S. Treasury securities with maturities similar to the expected terms of the options for each option group.
- *Dividend yield.* We have never declared or paid any cash dividends and do not presently plan to pay cash dividends in the foreseeable future. Consequently, we used an expected dividend yield of zero.

If any of the assumptions used in the Black-Scholes-Merton model change significantly, future stock-based compensation awards for employees may differ materially compared with the awards granted previously.

The following table presents the assumptions used to estimate the fair value of options granted to employees during the periods presented:

	Fiscal Year Ended June 30		Six Months Ended
	2015	2016	December 31, 2016
Expected term (in years)	5.50 – 6.27 years	5.50 – 6.11 years	6.06 years
Expected volatility		55.45% -	
	46.5% - 55.1%	56.03%	55.33% - 55.34%
Risk-free rate	1.39% - 2.06%	1.39% - 1.97%	1.28% - 1.34%
Dividend yield	0.00%	0.00%	0.00%

During fiscal 2015 and 2016 and the six months ended December 31, 2016, we incurred a non-cash stock-based compensation expense of \$2,956,000, \$9,044,000 and \$6,600,000, respectively. We expect to continue to grant stock-base awards in the future, and to the extent that we do, our actual share-based compensation expense for employees and consultants recognized will likely increase.

Income taxes:

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

We recognize a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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

ITEM 7A. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Foreign Currency Exchange Risk

Approximately 21.8%, 24.0% and 27.7% of our revenues for fiscal 2015 fiscal 2016 and the six months ended December 31, 2016, 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 British pound sterling. Our New Israeli Shekel-denominated expenses consist primarily of personnel and overhead costs. Our consolidated results of operations and cash flows are, therefore, subject to fluctuations due to changes in foreign currency exchange rates and may be adversely affected in the future due to changes in foreign exchange rates. A hypothetical 10% change in foreign currency exchange rates between the Euro and the U.S. dollar would increase or decrease our net income by \$4.6 million for the six months ended December 31, 2016. A hypothetical 10% change in foreign currency exchange rates between the New Israeli Shekel and the U.S. dollar would increase or decrease our net income by \$2.8 million for the six months ended December 31, 2016.

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

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

We had cash and cash equivalents of \$144.8 million, \$74.0 million and \$104.7 million at the end of fiscal 2015, 2016 and on December 31, 2016, respectively, which was held for working capital purposes. In addition, we had available-for-sale marketable securities with an estimated fair value of \$111.6 and \$118.7 million on June 30 and December 31, 2016, respectively. Since most of our investments and cash and cash equivalents are held in U.S. dollar-denominated money market funds, we believe that our cash and cash equivalents do not have any material exposure to changes in exchange rates.

Interest Rate Risk

As of December 31, 2016, we had no outstanding borrowings.

Concentrations of Major Customers

Our trade accounts receivables potentially expose us to a concentration of credit risk with our major customers. For the six months ended December 31, 2016, one major customer accounted for 11.2% of total revenues, and as of December 31, 2016 this same customer accounted for approximately 20.2% of our consolidated trade receivables balance. We currently do not foresee a credit risk associated with these receivables. In fiscal 2015, one major customer accounted for 24.6% of our total revenues and in fiscal 2016 three major customers accounted for 32.5% of our total revenues.

Inflation

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

Commodity Price Risk

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

ITEM 8. FINANCIAL STATEMENTS AND SUPPLEMENTARY DATA.

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

Consolidated Financial Statements

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Unaudited Quarterly Results of Operations

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

	Three Months Ended									
	<u>Sept. 30,</u> <u>2014</u>	<u>Dec. 31,</u> <u>2014</u>	<u>Mar. 31,</u> <u>2015</u>	<u>June 30,</u> <u>2015</u>	<u>Sept. 30,</u> <u>2015</u>	<u>Dec. 31,</u> <u>2015</u>	<u>Mar. 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>	<u>Sept. 30,</u> <u>2016</u>	<u>Dec. 31,</u> <u>2016</u>
	(In thousands, unaudited)									
Revenues	\$ 66,969	\$ 73,290	\$ 86,399	\$ 98,420	\$ 115,054	\$ 124,832	\$ 125,205	\$ 124,752	\$ 128,484	\$ 111,513
Cost of revenues	52,939	57,509	62,698	70,149	81,527	86,250	84,471	85,639	86,609	72,488
Gross profit	<u>14,030</u>	<u>15,781</u>	<u>23,701</u>	<u>28,271</u>	<u>33,527</u>	<u>38,582</u>	<u>40,734</u>	<u>39,113</u>	<u>41,875</u>	<u>39,025</u>
Operating expense										
Research and development, net	5,059	4,768	5,490	6,701	6,991	8,299	8,709	9,232	9,935	10,344
Sales and marketing	5,461	5,658	6,422	7,432	8,244	8,833	8,826	8,930	10,036	10,408
General and administrative	1,159	1,121	1,990	2,265	3,418	2,188	3,460	3,067	3,664	3,126
Total operating expenses	<u>11,679</u>	<u>11,547</u>	<u>13,902</u>	<u>16,398</u>	<u>18,653</u>	<u>19,320</u>	<u>20,995</u>	<u>21,229</u>	<u>23,635</u>	<u>23,878</u>
Operating income	<u>2,351</u>	<u>4,234</u>	<u>9,799</u>	<u>11,873</u>	<u>14,874</u>	<u>19,262</u>	<u>19,739</u>	<u>17,884</u>	<u>18,240</u>	<u>15,147</u>
Financial income (expenses)	516	(458)	(3,436)	(1,699)	(72)	(959)	2,029	(527)	390	(3,179)
Other expenses	-	-	-	104	-	-	-	-	-	-
Income before taxes on income	<u>2,867</u>	<u>3,776</u>	<u>6,363</u>	<u>10,070</u>	<u>14,802</u>	<u>18,303</u>	<u>21,768</u>	<u>17,357</u>	<u>18,630</u>	<u>11,968</u>
Taxes on income (tax benefit)	347	401	398	809	370	(5,802)	969	84	3,014	2,203
Net income	<u>\$ 2,520</u>	<u>\$ 3,375</u>	<u>\$ 5,965</u>	<u>\$ 9,261</u>	<u>\$ 14,432</u>	<u>\$ 24,105</u>	<u>\$ 20,799</u>	<u>\$ 17,273</u>	<u>\$ 15,616</u>	<u>\$ 9,765</u>

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

None.

ITEM 9A. CONTROLS AND PROCEDURES

Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures pursuant to Rule 13a-15 under the Securities Exchange Act of 1934, as amended (the “Exchange Act”), as of December 31, 2016. In designing and evaluating the disclosure controls and procedures, management recognized that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives. In addition, the design of disclosure controls and procedures must reflect the fact that there are resource constraints and that management is required to apply its judgment in evaluating the benefits of possible controls and procedures relative to their costs.

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

Management’s Report on Internal Control Over Financial Reporting

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

Management assessed our internal control over financial reporting as of December 31, 2016, the end of the transition period covered by this Form 10-KT. Management based its assessment on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework). Management’s assessment included evaluation of elements such as the design and operating effectiveness of key financial reporting controls, process documentation, accounting policies, and our overall control environment.

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

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

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

Changes in Internal Control over Financial Reporting

There have been no 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.

ITEM 9B. OTHER INFORMATION

None.

PART III

ITEM 10. DIRECTORS, EXECUTIVE OFFICERS AND CORPORATE GOVERNANCE

Except as set forth below, the information required by Item 10 will be included under the captions “Directors and Corporate Governance”, “The Board’s Role in Risk Oversight”, “Board Committees”, “Director Compensation”, “Compensation Committee Report” and “Section 16(a) Beneficial Ownership Reporting Compliance” in our definitive Proxy Statement for the 2017 Annual Meeting of Stockholders to be filed with the SEC within 120 days of the year ended December 31, 2016 (the “2017 Proxy Statement”) and is incorporated herein by reference.

Our Executive Officers

Name	Age ⁽¹⁾	Position(s) Held
Guy Sella	52	Chief Executive Officer and Chairman of the Board
Ronen Faier	45	Chief Financial Officer
Rachel Prishkolnik	48	Vice President, General Counsel & Corporate Secretary
Zvi Lando	52	Vice President, Global Sales
Lior Handelsman	43	Vice President, Marketing and Product Strategy
Yoav Galin	43	Vice President, Research & Development
Meir Adest	41	Vice President, Core Technologies

⁽¹⁾ As of December 31, 2016.

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

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

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

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

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

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

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

Our Board of Directors

The following table sets forth certain information concerning our directors:

Name	Age (1)	Position(s) Held
Guy Sella	52	Chief Executive Officer and Chairman of the Board
Dan Avida	53	Director*
Yoni Cheifetz	56	Director*
Marcel Gani	64	Director*
Doron Inbar	67	Director*
Avery More	62	Director*
Tal Payne	45	Director*

(1) As of December 31, 2016

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

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

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

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

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

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

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

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

ITEM 11. EXECUTIVE COMPENSATION

The information required by Item 11 will be included under the captions “Executive Compensation” in our 2017 Proxy Statement and is incorporated herein by reference.

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

Except as set forth below, the information required by Item 12 will be included under the captions “Security Ownership of Certain Beneficial Owners and Management” in our 2017 Proxy Statement and is incorporated herein by reference.

Equity Compensation Plan Information

The following table summarizes information as of December 31, 2016, about shares of common stock that may be issued under our equity compensation plans.

Plan Category	Number of securities to be issued upon exercise of outstanding options and warrants (a)	Weighted-average exercise price of outstanding options and warrants (b)	Number of securities remaining available for future issuance under equity compensation plans (excluding securities reflected in column (a)) (c)
Equity compensation plans approved by security holders ⁽¹⁾	6,480,689	\$ 3.83	2,327,318
Equity compensation plans not approved by security holders	—	—	—
Total	6,480,689	\$ 3.83	2,327,318

(1) Includes in column (a) 1,986,743 shares of common stock issuable upon exercise of options outstanding under the Company’s 2015 Global Incentive Plan, 4,493,946 shares of common stock issuable upon exercise of options outstanding under the Company’s 2007 Global Incentive Plan. Includes in column (c) 1,522,068 shares of common stock available for future issuance under the Company’s 2015 Global Incentive Plan and 805,250 shares of common stock available for future issuance under the Company’s Employee Stock Purchase Plan. Upon consummation of our initial public offering, the Company’s 2007 Global Incentive Plan was terminated and no further awards can be granted under this plan.

Employee Stock Purchase Plan

We have adopted an employee stock purchase plan (“ESPP”), pursuant to which our eligible employees and eligible employees of our subsidiaries may elect to have payroll deductions made during the offering period in an amount not exceeding 10% of the compensation which the employees receive on each pay day during the offering period. In the second quarter of calendar 2016, we started granting eligible employees the right to purchase our common stock under the ESPP. As of December 31, 2016, a total of 888,569 shares were reserved for issuance under the ESPP. The number of shares of common stock reserved for issuance under the ESPP will increase annually on January 1st, for ten years, by the lesser of 1% of the total number of shares of the Company’s common stock outstanding on December 31st of the preceding calendar year or 487,643 shares. Our board of directors may reduce the number of shares to be added to the share reserve for the ESPP in any particular year at their discretion. As of June 30, 2016, no shares of our common stock had yet been purchased under the ESPP. As of December 31, 2016, 83,319 common stock shares had been purchased under the ESPP.

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

The information required by Item 13 will be included under the captions “Transactions with Related Persons” in our 2017 Proxy Statement and is incorporated herein by reference.

ITEM 14. PRINCIPAL ACCOUNTING FEES AND SERVICES

The information required by Item 14 will be included under the captions “Audit and Related Fees” in our 2017 Proxy Statement and is incorporated herein by reference.

PART IV

ITEM 15. EXHIBITS, FINANCIAL STATEMENT SCHEDULES

1. Our Consolidated Financial Statements and Notes thereto are included in ITEM 8 of this Annual Report on Form 10-KT. See Index to ITEM 8 for more detail.
2. All financial schedules have been omitted either because they are not applicable or because the required information is provided in our Consolidated Financial Statements and Notes thereto, included in ITEM 8 of this Annual Report on Form 10-KT.
3. The Index to Exhibits, which appears immediately following the signature page and is incorporated herein by reference, is filed as part of this Annual Report on Form 10-KT.

SOLAREEDGE TECHNOLOGIES, INC.
AND ITS SUBSIDIARIES.

CONSOLIDATED FINANCIAL STATEMENTS

AS OF DECEMBER 31, 2016

IN U.S. DOLLARS

AUDITED

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SOLAREEDGE TECHNOLOGIES, INC.

We have audited the accompanying consolidated balance sheets of SolarEdge Technologies, Inc. and its subsidiaries (the "Company") as of December 31, 2016 and June 30, 2016 and June 30, 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficiency) and cash flows for the period from July 1, 2016 to December 31, 2016, and each of the three fiscal years in period ended June 30, 2016. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2016 and June 30, 2016 and June 30, 2015, and the consolidated results of its operations and its cash flows period from July 1, 2016 to December 31, 2016, and each of the three fiscal years in the period ended June 30, 2016, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the Company's internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2017 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
February 21, 2017

/s/ KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global



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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

To the Board of Directors and Stockholders of

SOLAREEDGE TECHNOLOGIES, INC.

We have audited SolarEdge Technologies, Inc. and its subsidiaries (the "Company") internal control over financial reporting as of December 31, 2016, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). SolarEdge Technologies, Inc.'s management is responsible for maintaining effective internal control over financial reporting, and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit.

We conducted our audit in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects. Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

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

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

In our opinion, the Company maintained, in all material respects, effective internal control over financial reporting as of December 31, 2016, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States), the consolidated balance sheets of the Company as of December 31, 2016 and June 30, 2016 and June 30, 2015, and the related consolidated statements of operations, comprehensive income (loss), changes in stockholders' equity (deficiency) and cash flows for the period from July 1, 2016 to December 31, 2016 and each of the three fiscal years in the period ended June 30, 2016 and our report dated February 21, 2017 expressed an unqualified opinion thereon.

Tel-Aviv, Israel
February 21, 2017

/s/ KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

CONSOLIDATED BALANCE SHEETS

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

	<u>December 31,</u> <u>2016</u>	<u>June 30,</u> <u>2016</u>	<u>June 30,</u> <u>2015</u>
ASSETS			
CURRENT ASSETS:			
Cash and cash equivalents	\$ 104,683	\$ 74,032	\$ 144,750
Restricted cash	897	928	3,639
Marketable Securities	74,465	59,163	-
Trade receivables, net	71,041	72,737	35,428
Prepaid expenses and other accounts receivable	21,347	21,340	32,645
Inventories	<u>67,363</u>	<u>81,550</u>	<u>73,950</u>
Total current assets	<u>339,796</u>	<u>309,750</u>	<u>290,412</u>
LONG-TERM ASSETS:			
Marketable securities	44,262	52,446	-
Property, equipment and intangible assets, net	37,381	28,547	14,717
Prepaid expenses and lease deposits	489	399	529
Deferred tax assets, net	<u>2,815</u>	<u>6,296</u>	<u>-</u>
Total long term assets	<u>84,947</u>	<u>87,688</u>	<u>15,246</u>
Total assets	<u>\$ 424,743</u>	<u>\$ 397,438</u>	<u>\$ 305,658</u>

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

CONSOLIDATED BALANCE SHEETS

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

	December 31, 2016	June 30, 2016	June 30, 2015
LIABILITIES AND STOCKHOLDERS' EQUITY			
CURRENT LIABILITIES:			
Trade payables	\$ 34,001	\$ 48,481	\$ 80,684
Employees and payroll accruals	13,018	10,092	6,814
Warranty obligations	13,616	14,114	9,431
Deferred revenues	1,202	3,859	1,676
Accrued expenses and other accounts payable	8,648	10,725	6,987
Total current liabilities	70,485	87,271	105,592
LONG-TERM LIABILITIES:			
Warranty obligations	44,759	37,078	22,448
Deferred revenues	18,660	14,684	8,289
Lease incentive obligation	2,061	2,297	2,385
Total long-term liabilities	65,480	54,059	33,122
COMMITMENTS AND CONTINGENT LIABILITIES			
STOCKHOLDERS' EQUITY:			
Share capital			
Common stock of \$0.0001 par value - Authorized: 125,000,000 shares as of December 31, 2016, June 30, 2016 and 2015; issued and outstanding: 41,259,391, 40,889,922 and 39,297,539 shares as of December 31, 2016, June 30, 2016 and 2015, respectively.	4	4	4
Additional paid-in capital	307,098	299,214	287,152
Accumulated other comprehensive income (loss)	(324)	271	(222)
Accumulated deficit	(18,000)	(43,381)	(119,990)
Total stockholders' equity	288,778	256,108	166,944
Total liabilities and stockholders' equity	\$ 424,743	\$ 397,438	\$ 305,658

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended	Year ended		
	December 31,	2016	2015	2014
	2016	2016	2015	2014
Revenues	\$ 239,997	\$ 489,843	\$ 325,078	\$ 133,217
Cost of revenues	159,097	337,887	243,295	111,246
Gross profit	80,900	151,956	81,783	21,971
Operating expenses:				
Research and development, net	20,279	33,231	22,018	18,256
Sales and marketing	20,444	34,833	24,973	17,792
General and administrative	6,790	12,133	6,535	4,294
Total operating expenses	47,513	80,197	53,526	40,342
Operating income (loss)	33,387	71,759	28,257	(18,371)
Other expenses	-	-	104	-
Financial income (expenses), net	(2,789)	471	(5,077)	(2,787)
Income (loss) before taxes on income	30,598	72,230	23,076	(21,158)
Taxes on income (tax benefit)	5,217	(4,379)	1,955	220
Net income (loss)	\$ 25,381	\$ 76,609	\$ 21,121	\$ (21,378)
Net basic earnings (loss) per share of common stock	\$ 0.62	\$ 1.92	\$ 0.30	\$ (7.64)
Net diluted earnings (loss) per share of common stock	\$ 0.58	\$ 1.73	\$ 0.27	\$ (7.64)
Weighted average number of shares used in computing net basic earnings (loss) per share of common stock	41,026,926	39,987,935	11,902,911	2,798,894
Weighted average number of shares used in computing net diluted earnings (loss) per share of common stock	43,839,342	44,376,075	15,269,448	2,798,894
Reconciliation of net income (loss) to net income (loss) available to common stock used for net basic earnings (loss) per share calculations				
Net income (loss)	\$ 25,381	\$ 76,609	\$ 21,121	\$ (21,378)
Dividends accumulated for the period	-	-	(17,550)	-
Net income (loss) available to shareholders of common stock	\$ 25,381	\$ 76,609	\$ 3,571	\$ (21,378)

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

CONSOLIDATED STATEMENTS OF OPERATIONS

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

	Six months ended December 31, 2016	2016	Year ended June 30, 2015	2014
Reconciliation of net income (loss) to net income (loss) available to common stock used for net diluted earnings (loss) per share calculations				
Net income (loss)	\$ 25,381	\$ 76,609	\$ 21,121	\$ (21,378)
Dividends accumulated for the period	-	-	(16,971)	-
Net income (loss) available to shareholders of common stock	<u>\$ 25,381</u>	<u>\$ 76,609</u>	<u>\$ 4,150</u>	<u>\$ (21,378)</u>

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

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

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

	Six months ended	Year ended		
	December 31, 2016	2016	2015	2014
Net income (loss)	\$ 25,381	\$ 76,609	\$ 21,121	\$ (21,378)
Other comprehensive income (loss):				
Available-for-sale securities:				
Changes in unrealized gains, net of tax benefit	(193)	56	-	-
Reclassification adjustments for losses included in net income	-	1	-	-
Net change	(193)	57	-	-
Cash flow hedges:				
Changes in unrealized gains, net of tax expense	93	412	-	-
Reclassification adjustments for gains, net of tax expense included in net income	(317)	(169)	-	-
Net change	(224)	243	-	-
Foreign currency translation adjustments, net	(178)	193	(161)	(35)
Total other comprehensive income (loss)	(595)	493	(161)	(35)
Comprehensive income (loss)	\$ 24,786	\$ 77,102	\$ 20,960	\$ (21,413)

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

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (DEFICIENCY)

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

	Convertible Preferred stock		Receipt on account of Convertible Preferred stock	Common stock		Additional paid in Capital	Accumulated other comprehensive Income (loss)	Accumulated deficit	Total stockholders' equity (deficiency)
	Number	Amount		Number	Amount				
Balance as of June 30, 2013	68,493,373	\$ 100,229	\$ 5,314	2,782,491	\$ * -	\$ 4,745	\$ (26)	\$ (119,733)	\$ (115,014)
Issuance of Common Stock upon exercise of employee stock options	-	-	-	27,459	* -	51	-	-	51
Issuance of Series D-2 Convertible Preferred stock, net of issuance expenses in the amount of \$17	2,598,528	5,983	(5,314)	-	-	-	-	-	-
Issuance of Series D-3 Convertible Preferred stock, net of issuance expenses in the amount of \$9	4,330,872	9,991	-	-	-	-	-	-	-
Equity based compensation expenses to employees and non-employee consultants	-	-	-	-	-	1,082	-	-	1,082
Change in accumulated other comprehensive loss related to foreign currency translation adjustments	-	-	-	-	-	-	(35)	-	(35)
Net loss	-	-	-	-	-	-	-	(21,378)	(21,378)
Balance as of June 30, 2014	75,422,773	\$ 116,203	\$ -	2,809,950	\$ * -	\$ 5,878	\$ (61)	\$ (141,111)	\$ (135,294)

* Represents an amount less than \$1.

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

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

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

	Convertible Preferred stock		Receipt on account of Convertible Preferred stock	Common stock		Additional paid in Capital	Accumulated other comprehensive Income (loss)	Accumulated deficit	Total stockholders' equity (deficiency)
	Number	Amount		Number	Amount				
Balance as of June 30, 2014	75,422,773	\$ 116,203	\$ -	2,809,950	\$ * -	\$ 5,878	\$ (61)	\$ (141,111)	\$ (135,294)
Issuance of Common Stock upon exercise of employee stock options	-	-	-	34,898	* -	84	-	-	84
Issuance of Series E Convertible Preferred stock, net of issuance expenses in the amount of \$288	9,321,019	24,712	-	-	-	-	-	-	-
Equity based compensation expenses to employees and non-employee consultants	-	-	-	-	-	2,956	-	-	2,956
Conversion of convertible preferred stock into ordinary shares	(84,743,792)	(140,915)	-	28,247,923	3	140,912	-	-	140,915
Issuance of common stock in initial public offering, net of issuance expenses in an amount of \$13,692	-	-	-	8,050,000	1	131,207	-	-	131,208
Exercise of warrants into common stock	-	-	-	154,768	* -	6,115	-	-	6,115
Change in accumulated other comprehensive loss related to foreign currency translation adjustments	-	-	-	-	-	-	(161)	-	(161)
Net income	-	-	-	-	-	-	-	21,121	21,121
Balance as of June 30, 2015	-	\$ -	\$ -	39,297,539	\$ 4	\$ 287,152	\$ (222)	\$ (119,990)	\$ 166,944

* Represents an amount less than \$1.

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

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

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

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

* Represents an amount less than \$1.

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

CONSOLIDATED STATEMENTS OF CASH FLOWS

U.S. dollars in thousands

	Six months ended	Year ended		
	December 31,	June 30,		
	2016	2016	2015	2014
<u>Cash flows provided by (used in) operating activities:</u>				
Net income (loss)	\$ 25,381	\$ 76,609	\$ 21,121	\$ (21,378)
Adjustments to reconcile net income (loss) to net cash provided by (used in) operating activities:				
Depreciation and amortization of property, equipment and intangible assets	2,759	3,847	2,253	1,978
Amortization of premium and accretion of discount on available-for-sale marketable securities	681	532	-	-
Stock-based compensation	6,600	9,089	2,956	1,082
Financial expenses (income), net related to term loan	-	-	(992)	431
Remeasurement of warrants to purchase convertible preferred stock	-	-	5,350	(53)
Capital loss from disposal of property	-	-	104	-
Interest expenses related to short term bank loan	-	-	-	44
Changes in assets and liabilities:				
Inventories	14,022	(7,356)	(48,507)	(10,681)
Prepaid expenses and other accounts receivable	(367)	10,542	(19,563)	(7,409)
Trade receivables, net	1,555	(37,271)	(16,333)	(9,911)
Deferred tax assets, net	3,652	(6,380)	-	-
Trade payables	(14,464)	(32,200)	41,111	19,441
Employees and payroll accruals	2,996	3,278	1,668	1,726
Warranty obligations	7,183	19,313	13,698	7,803
Deferred revenues	1,335	8,578	3,989	(500)
Accrued expenses and other accounts payable	(1,999)	3,934	2,530	(418)
Lease incentive obligation	(236)	(88)	2,669	-
Net cash provided by (used in) operating activities	49,098	52,427	12,054	(17,845)
<u>Cash flows from investing activities:</u>				
Purchase of property and equipment	(11,025)	(15,690)	(11,765)	(2,990)
Purchase of intangible assets	(600)	(800)	-	-
Decrease (increase) in restricted cash	31	2,711	(2,038)	(156)
Decrease (increase) in long-term lease deposit	(77)	103	(134)	(1)
Investment in available-for-sale marketable securities	(40,858)	(118,511)	-	-
Maturities of available-for-sale marketable securities	32,782	6,350	-	-
Net cash used in investing activities	(19,747)	(125,837)	(13,937)	(3,147)

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

CONSOLIDATED STATEMENTS OF CASH FLOWS (Cont.)

U.S. dollars in thousands

	Six months ended	Year ended		
	December 31,	June 30,		
	2016	2016	2015	2014
<u>Cash flows from financing activities:</u>				
Proceeds from short term bank loan	-	-	23,000	21,813
Repayment of short term bank loan	-	-	(36,326)	(12,447)
Repayments of term loan	-	-	(5,919)	(2,401)
Proceeds from issuance of Series D-2 Convertible Preferred stock, net	-	-	-	669
Proceeds from issuance of Series D-3 Convertible Preferred stock, net	-	-	-	9,991
Proceeds from issuance of Series E Convertible Preferred stock, net	-	-	24,712	-
Proceeds from initial public offering, net	-	-	131,402	-
Issuance costs related to initial public offering	-	(194)	-	-
Proceeds from issuance of shares under stock purchase plan and upon exercise of stock-based awards	1,284	2,973	84	51
Net cash provided by financing activities	1,284	2,779	136,953	17,676
Increase (decrease) in cash and cash equivalents	30,635	(70,631)	135,070	(3,316)
Cash and cash equivalents at the beginning of the period	74,032	144,750	9,754	13,142
Effect of exchange rate differences on cash and cash equivalents	16	(87)	(74)	(72)
Cash and cash equivalents at the end of the period	\$ 104,683	\$ 74,032	\$ 144,750	\$ 9,754
<u>Supplemental disclosure of non-cash financing activities:</u>				
Deferred issuance costs related to initial public offering	\$ -	\$ -	\$ 194	\$ -
Cashless exercise of warrants to purchase common stock	\$ -	\$ -	\$ 6,115	\$ -
<u>Supplemental disclosure of cash flow information:</u>				
Cash paid for interest	\$ -	\$ -	\$ 896	\$ 1,085
Cash paid for income taxes	\$ 1,103	\$ 1,178	\$ 4,040	\$ 92

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except 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) and (iii) a related cloud-based monitoring platform, that collects and processes information from the power optimizers and inverters of a solar PV system to enable customers and system owners as applicable, to monitor and manage the solar PV systems. In addition, the Company has a storage solution that is used to increase energy independence and maximize self-consumption for homeowners by utilizing a battery that is sold separately by third party manufacturers, to store and supply power as needed (the “StorEdge solution”). The StorEdge solution is designed to provide smart energy functions such as maximizing self-consumption, Time-of-Use programming for desired hours of the day, and home energy backup solutions.

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

The Company was incorporated in Delaware in August 2006 and began commercial sale of its products in January 2010.

- b. Basis of presentation:

Effective December 31, 2016, the Company changed its fiscal year end from June 30 to December 31. This change is being made in order to align the Company’s fiscal year end with other companies within the industry. As a result of this change, the consolidated financial statements include presentation of the six month transition period from July 1, 2016 through December 31, 2016. The Company refers to the period beginning July 1, 2015 and ending June 30, 2016 as “fiscal 2016”, the period beginning July 1, 2014 and ending June 30, 2015 as “fiscal 2015” and the period beginning July 1, 2013 and ending June 30, 2014 as “fiscal 2014”.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 1:- GENERAL (Cont.)

c. Initial Public Offering:

On March 31, 2015, the Company closed its initial public offering (“IPO”) whereby 8,050,000 shares of common stock were sold by the Company to the public (inclusive of 1,050,000 shares of common stock pursuant to the full exercise of an overallotment option granted to the underwriters). The aggregate net proceeds received by the Company from the offering were approximately \$131,208, net of underwriting discounts and commissions and offering expenses. Upon the closing of the IPO, all shares of the Company’s outstanding convertible preferred stock automatically converted into 28,247,923 shares of common stock, and outstanding warrants to purchase convertible preferred stock automatically converted into warrants to purchase 187,671 shares of common stock (See Note 10).

d. As of December 31, 2016, June 30, 2016 and 2015, the Company had one, three and one major customers (customers with attributable revenues that represents more than 10% of total revenues) that accounted for approximately 11.2%, 32.5% and 24.6% of the Company’s consolidated revenues, respectively (see Note 20).

e. 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. Two vendors collectively accounted for 61%, 69% and 79% of the Company’s total trade payables as of December 31, 2016, June 30, 2016 and 2015, respectively.

The Company has the right to offset its payables to one of its contract manufacturers against vendor non-trade receivables. As of December 31, 2016, a total of \$2,008 of these receivables met the criteria for net recognition and were offset against the corresponding accounts payable balances for this contract manufacturer in the accompanying Consolidated Balance Sheets.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES**

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

a. Principles of consolidation:

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

b. Use of estimates:

The preparation of financial statements, in conformity with U.S. GAAP, requires management to make estimates and assumptions that affect the amounts reported in the financial statements and accompanying notes. The Company evaluates on an ongoing basis its assumptions, including those related to warranty obligation, inventory valuation, contingencies, share-based compensation cost, marketable securities, deferred tax assets and liabilities, intangible assets as well as in estimates used in applying the revenue recognition policy. The Company's management believes that the estimates, judgment and assumptions used are reasonable based upon information available at the time they are made. These estimates, judgments and assumptions can affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the dates of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting periods. Actual results could differ from those estimates.

c. Financial statements in U.S. dollars:

The functional currency of the Company and its Israeli subsidiary is the U.S. dollar, as the U.S. dollar is the currency of the primary economic environment in which the Company has operated and expects to continue to operate in the foreseeable future. The Company's and its Israeli subsidiary's operations are currently primarily conducted in Israel and a significant portion of its expenses are currently paid in U.S. dollars. Financing activities including loans and cash investments, are mainly made in U.S. dollars.

Accordingly, monetary accounts maintained in currencies other than the U.S. dollar are translated into U.S. dollars in accordance with Financial Accounting Standards Board Accounting Standards Codification ("ASC") 830 ("Foreign Currency Matters"). All transaction gains and losses of the re-measurement of monetary balance sheet items are reflected in the statements of operations as financial income or expenses, as appropriate.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The resulting translation adjustments are reported as a component of stockholders' equity (deficiency) in accumulated other comprehensive income (loss).

Accumulated other comprehensive loss related to foreign currency translation adjustments, net amounted to \$207, \$29 and \$222 as of December 31, 2016, June 30, 2016 and 2015, respectively.

d. Basic and Diluted Net Earnings (Loss) Per Share:

Basic net earnings (loss) per share is computed by dividing the net earnings (loss) by the weighted-average number of shares of common stock outstanding during the period.

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

The total weighted average number of shares related to the outstanding stock options, convertible preferred stock and warrants to purchase convertible preferred stock, excluded from the calculation of diluted net earnings (loss) per share due to their anti-dilutive effect was 374,156, 16,208, 20,565,747 and 25,234,818 for the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014, respectively.

Basic and diluted earnings (loss) per share is presented in conformity with the two-class method for participating securities for the periods prior to their conversion. Under this method the earnings per share for each class of shares are calculated assuming 100% of the Company's earnings are distributed as dividends to each class of shares based on their contractual rights. In addition, since all classes other than common stock do not participate in losses, for the year ended June 30, 2014 these shares are not included in the computation of basic loss per share.

For the year ended June 30, 2014, basic and diluted net loss per share was the same for each period presented as the inclusion of all potential shares of common stock outstanding would have been anti-dilutive.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table presents the computation of basic and diluted net earnings (loss) per share for the periods presented (in thousands, except share and per share data):

	Six months Ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Net basic earnings (loss) per share of common stock:				
Numerator:				
Net income (loss)	25,381	76,609	21,121	(21,378)
Dividends accumulated for the period	-	-	(17,550)	-
Net income (loss) available to shareholders of common stock	<u>25,381</u>	<u>76,609</u>	<u>3,571</u>	<u>(21,378)</u>
Denominator:				
Shares used in computing net earnings (loss) per share of common stock, basic	<u>41,026,926</u>	<u>39,987,935</u>	<u>11,902,911</u>	<u>2,798,894</u>
Net diluted earnings (loss) per share of common stock:				
Numerator:				
Net income (loss)	25,381	76,609	21,121	(21,378)
Dividends accumulated for the period	-	-	(16,971)	-
Net income (loss) available to shareholders of common stock	<u>25,381</u>	<u>76,609</u>	<u>4,150</u>	<u>(21,378)</u>
Denominator:				
Shares used in computing net earnings per share of common stock, basic	41,026,926	39,987,935	11,902,911	2,798,894
Effect of stock-based awards	<u>2,812,416</u>	<u>4,388,140</u>	<u>3,366,537</u>	<u>-</u>
Shares used in computing net earnings (loss) per share of common stock, diluted	<u>43,839,342</u>	<u>44,376,075</u>	<u>15,269,448</u>	<u>2,798,894</u>

e. Cash and cash equivalents:

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

f. Marketable Securities:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

g. Restricted cash:

Restricted cash is primarily invested in short-term bank deposits, which are primarily used to guarantee a letter of credit which has been issued to one of the Company's major vendors, to the Company's landlords for its office leases and as security for the Company's credit cards.

h. Inventories:

Inventories are stated at the lower of cost or market value. Inventory reserves are provided to cover risks arising from slow-moving items or technological obsolescence.

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

i. Property, equipment and intangible assets:

Property and equipment:

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

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

Intangible assets:

Intangible assets are stated at cost, net of accumulated amortization. Amortization is calculated by the straight-line method over the estimated useful lives of the assets (see Note 7).

j. Impairment of long-lived assets:

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

If such assets are considered to be impaired, the impairment to be recognized is measured by the amount by which the carrying amount of the assets exceeds their fair value. For the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014, no impairment losses have been identified.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

k. Severance pay:

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

For the six months ended December 31, 2016, and the years ended June 30, 2016, 2015 and 2014, the Company recorded \$1,131, \$1,761, \$1,273 and \$1,109, severance expenses, respectively.

l. Revenue recognition:

The Company and its subsidiaries generate their revenues mainly from the sale of power optimizers, inverters and cloud-based monitoring services, to distributors, installers and PV module manufacturers.

Revenues from product sales and related services are recognized in accordance with ASC 605 ("Revenue Recognition"), when persuasive evidence of an arrangement exists, delivery has occurred, the selling price is fixed or determinable, collectability is reasonably assured and no significant obligations remain.

Persuasive evidence of an arrangement exists. The Company's customers mainly consist of distributors and installers (the "Customers"). The Company's sales arrangements with Customers are pursuant to written documentation, either a written contract or purchase order. The actual documentation used is dependent on the business practice with each Customer. Therefore, the Company determines that persuasive evidence of an arrangement exists with respect to a Customer when it has a written contract, or a binding purchase order from the Customer.

Delivery has occurred. Each item of written documentation relating to a sale arrangement that is agreed upon with the Customer specifically sets forth when risk of loss and title are being transferred (based on the agreed International Commercial terms, or "INCOTERMS"). Unless a different written arrangement with the Customer exists, the Company determines that risk of loss and title are transferred to the Customer when the applicable INCOTERMS are satisfied and thus delivery of its products has occurred.

The fee is fixed or determinable. The Company does not provide any price protection, stock rotation and/or right of return and thus the Company considers all the Customers as end-users and the fee is considered fixed and determinable upon execution of the written documentation with the Customers.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

Additionally, payments that are due within the normal course of the Company's credit terms, which are currently no more than three months from the delivery date, are deemed to be fixed and determinable. Fees and arrangements with payment terms extending beyond customary payment terms are considered not to be fixed or determinable, in which case revenues are deferred and recognized when payments become due, provided that all other revenue recognition criteria have been met.

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

Provisions for rebates, sales incentives, and discounts to customers are accounted for as reductions in revenue in the same period the related sales are recorded.

The Company increases a credit limit only after it has established a successful collection history with the Customer. If the Company determines at any time that collectability is not reasonably assured under a particular arrangement based upon its credit review process, the Customer's payment history or information that comes to light about a Customer's financial position, it recognizes revenue under that arrangement as Customer payments are actually received.

Revenues related to cloud-based monitoring and other services are recognized ratably on a straight-line basis over the estimated service period.

For multiple-element arrangements, the Company allocates revenue to all deliverables based on their relative selling prices. In such circumstances, the Company uses a hierarchy to determine the selling price to be used for allocating revenue to deliverables: (i) vendor-specific objective evidence of fair value ("VSOE"), (ii) third-party evidence of selling price ("TPE"), and (iii) best estimate of the selling price ("ESP").

VSOE generally exists only when the Company sells the deliverable separately and is the price actually charged by the Company for that deliverable. ESPs reflect the Company's best estimates of what the selling prices of elements would be if they were sold regularly on a stand-alone basis. The Company has allocated revenue between its deliverables based on their relative selling prices. Because the Company has neither VSOE nor TPE for its deliverables, the allocation of revenue has been based on the Company's ESPs. Amounts allocated to the delivered elements are recognized at the time of sale provided the other conditions for revenue recognition have been met.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The Company's process for determining its ESP considers multiple factors that may vary depending upon the unique facts and circumstances related to each deliverable.

Key factors considered by the Company in developing the ESPs for its products include prices charged by the Company for similar offerings, the Company's historical pricing practices and product-specific business objectives.

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

m. Cost of revenues:

Cost of revenues sold includes the following: product costs consisting of purchases from contract manufacturers and other suppliers, indirect manufacturing, support, warranty expenses and changes in warranty provision, provision for losses related to slow moving and dead inventory, personnel and logistics costs and royalty expense payments to the Office of the Chief Scientist of Israel (see Note 2q).

n. Shipping and handling costs:

Shipping and handling costs, which amounted to \$8,131, \$21,922, \$26,931 and \$14,066 for the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014, respectively, are included in cost of revenues in the consolidated statements of operations. Shipping and handling costs include all costs associated with the distribution of finished products from the Company's point of selling directly to its Customers.

o. Warranty obligations:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

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

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

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

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

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

p. Royalty-bearing grants from the Binational Industrial Research and Development Foundation:

Royalty-bearing grants from the Binational Industrial Research and Development Foundation ("BIRD-F") for funding of approved research and development projects are recognized, as a deduction from research and development expenses, at the time the Company is entitled to such grants (see Note 14c).

No grants were recorded in the six months ended December 31, 2016 and in the years ended June 30, 2016, 2015 and 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

q. Government grants:

Government grants received by the Company's Israeli subsidiary relating to categories of operating expenditures are credited to the consolidated statements of operations during the period in which the expenditure to which they relate is charged. Royalty bearing grants from the Israeli Office of the Chief Scientist ("OCS") for funding certain approved research and development projects are recognized at the time when the Company's Israeli subsidiary is entitled to such grants, on the basis of the related costs incurred, and are included as a deduction from research and development expenses.

The Company recorded grants in the amount of \$763 and \$275 for the year ended June 30, 2015 and 2014, respectively, which was deducted from research and development expenses.

No grants were recorded for the six months ended December 31, 2016 and for the year ended June 30, 2016.

r. Research and development costs:

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

s. Concentrations of credit risks:

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

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

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

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

As of December 31, 2016 and June 30, 2016, the amortized cost of the Company's marketable securities was \$118,950 and \$111,514, respectively, and their stated market value was \$118,727 and \$111,609, respectively, representing a net unrealized loss of \$223 and a net unrealized gain of \$95, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The trade receivables of the Company are derived from sales to Customers located primarily in North America, Europe and Australia.

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

An allowance for doubtful accounts is determined with respect to specific debts that are doubtful of collection. The Company accrued \$226, \$235 and \$13 as allowance for doubtful accounts as of December 31, 2016, June 30, 2016 and 2015, respectively.

In addition, an accrual for rebates is allocated to specific debts. The Company accrued \$9,089, \$4,294 and \$659 for rebates as of December 31, 2016, June 30, 2016 and 2015, respectively.

As of December 31, 2016, June 30, 2016 and 2015, the Company had one, two and one major customers (customers with a balance that represents more than 10% of total trade receivables) which accounted in the aggregate for approximately 20.2%, 34.4% and 30.0%, respectively, of the Company's consolidated trade receivables.

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

t. Fair value of financial instruments:

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

The carrying value of cash and cash equivalents, restricted cash, trade receivables, prepaid expenses and other accounts receivable, short term bank loan, trade payables, employees and payroll accruals and accrued expenses and other accounts payable approximate their fair values due to the short-term maturities of such instruments.

Assets measured at fair value on a recurring basis as of December 31, 2016 and June 30, 2016 are comprised of foreign currency derivative contracts and marketable securities. (see Note 4)

Assets measured at fair value on a recurring basis as of June 30, 2015 are comprised of foreign currency forward contracts.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

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

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

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

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

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

u. Warrants to Purchase Convertible Preferred Stock:

The Company accounts for freestanding warrants to purchase shares of its convertible preferred stock as a liability on the balance sheets at fair value. The warrants to purchase convertible preferred stock are recorded as a liability because of a provision calling for minimum proceeds upon or after an "Exit Event", as described in Note 10.

The fair value of warrants to purchase convertible preferred stock on the issuance date and on subsequent reporting dates was determined using a hybrid method utilizing the assumptions noted below. The fair value of the underlying preferred stock price was determined by the board of directors considering, among others, third party valuations. The valuation of the Company was performed using the hybrid method, a hybrid between the probability-weighted estimated return method ("PWERM") and Option Pricing Method ("OPM") estimating the probability-weighted value across multiple scenarios but using the OPM to estimate the allocation of value within one or more of those scenarios. The OPM was used to allocate the Company's equity value between the preferred stock, common stock and warrants in a scenario of other liquidation events.

The expected terms of the warrants were based on the remaining contractual expiration period. The expected share price volatility for the shares was determined by examining the historical volatilities of a group of the Company's industry peers as there was insufficient trading history of the Company's shares. The risk-free interest rate was calculated using the average of the published interest rates for U.S. Treasury zero-coupon issues with maturities that approximate the expected term.

The dividend yield assumption was zero as there is no history of dividend payments and the Company does not expect to pay any dividends in the foreseeable future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following assumptions were used to estimate the value of the warrants to purchase convertible preferred stock:

	<u>June 30, 2014</u>
Expected volatility	45.0%
Risk-free rate	0.09%
Dividend yield	0%
Expected term (in years)	1.21

The warrants to purchase convertible preferred stock were subject to re-measurement to fair value at each balance sheet date and any change in fair value was recognized as a component of financial expenses, net, on the statements of operations.

The change in the fair value of warrants to purchase convertible preferred stock is summarized below:

	<u>Balance at beginning of period</u>	<u>Issuance of warrants to purchase preferred stock</u>	<u>Exercise of warrants to purchase common stock (*)</u>	<u>Change in fair value</u>	<u>Balance at end of period</u>
June 30, 2015	\$ 765	\$ -	\$ (6,115)	\$ 5,350	\$ -
June 30, 2014	\$ 818	\$ -	\$ -	\$ (53)	\$ 765

(*) Upon the closing of the IPO, all outstanding warrants to purchase convertible preferred stock automatically converted into warrants to purchase 187,671 shares of common stock (See Note 1c).

On June 18, 2015 the warrants were redeemed in a cashless exercise into 154,768 common shares. Immediately before the cashless exercise the warrants were remeasured to fair value based on their intrinsic value which amounted to \$6,115 (see Note 10).

v. Accounting for stock-based compensation:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

In March 2016, the FASB issued Accounting Standards Update No. 2016-09, "Compensation — Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting" ("ASU 2016-09"). ASU 2016-09 simplifies several aspects of the accounting for share-based payment transactions, including the income tax consequences, classification of awards as either equity or liabilities, and classification on the statement of cash flows. For public entities, ASU 2016-09 is effective for fiscal years beginning after December 15, 2016, and interim periods within those fiscal years. Early adoption is permitted. The Company has early adopted this guidance.

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

The Company selected the Black-Scholes-Merton option pricing model as the most appropriate fair value method for its stock-option awards and Employee Stock Purchase Plan. The option-pricing model requires a number of assumptions, of which the most significant are the fair market value of the underlying common stock, expected stock price volatility and the expected option term. Expected volatility was calculated based upon certain peer companies that the Company considered to be comparable. The expected option term represents the period of time that options granted are expected to be outstanding. The expected option term is determined based on the simplified method in accordance with SAB No. 110, as adequate historical experience is not available to provide a reasonable estimate. The simplified method will continue to apply until enough historical experience is available to provide a reasonable estimate of the expected term. The risk-free interest rate is based on the yield from U.S. treasury bonds with an equivalent term. The Company has not declared or paid any dividends on its common stock and does not expect to pay any dividends in the foreseeable future.

The fair value of the shares of common stock underlying the stock options has historically been determined by the Company's management and approved by the board of directors. Because until March 31, 2015, there was no public market for the Company's common stock, the Company's management determined the fair value of the common stock by using, among other factors, third party valuations at the time of grant of the option by considering a number of objective and subjective factors, including data from other comparable companies, issuance of convertible preferred stock to unrelated third parties, operating and financial performance, the lack of liquidity of capital stock and general and industry specific economic outlook.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of the underlying common stock was determined by the management until such time as the Company's common stock is listed on an established stock exchange or national market system. The Company's management determined the value of the shares of common stock based on valuations performed using the OPM for the year ended June 30, 2014 and for the period from July 1, 2014 and up to March 31, 2015. The common stock of the Company has been publicly traded since March 31, 2015.

Since the distributions and participation rights to security holders until March 31, 2015 are different in a sale/liquidation scenario versus an IPO, the valuation of the Company's equity was performed using a discounted cash flow (DCF) model or a new investment round by external investors. The allocation of the Company's equity value between the convertible preferred stock, common stock and warrants was performed using a hybrid method between the PWERM and OPM estimating the probability-weighted value across multiple scenarios for liquidation events other than an IPO.

Before the per share value was determined, a discount for lack of marketability and a voting right differential was applied, as applicable, to the common stock.

The fair value for options granted to employees and executive directors and Employee Stock Purchase Plan in the six months ended December 31, 2016 and the years ended June 30, 2015 and 2014 is estimated at the date of grant using a Black-Scholes-Merton option pricing model with the following assumptions:

	Six months ended December 31, 2016	Year ended June 30,		
		2016	2015	2014
Employee Stock Options				
Risk-free interest	1.28% - 1.34%	1.39% - 1.97%	1.39% - 2.06%	1.62% - 1.94%
Dividend yields	0%	0%	0%	0%
Volatility	55.33% - 55.34%	55.45%-56.03%	46.5%-55.1%	46.3%-55.8%
Expected option term in years	6.06	5.50-6.11	5.50-6.27	6.02-6.27
Estimated forfeiture rate	0%	10.3%	12.5%-18.7%	14.0%
Employee Stock Purchase Plan				
Risk-free interest	0.60%	0.40%	-	-
Dividend yields	0%	0%	-	-
Volatility	48.08%	62.84%	-	-
Expected term	6 months	6 months	-	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The following table set forth the parameters used in computation of the options compensation to non-employee consultants in the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014, using a Black-Scholes-Merton option pricing model with the following assumptions:

	Six Months ended December 31, 2016	2016	Year ended June 30, 2015	2014
	Risk-free interest	1.16% - 2.45%	1.15%-2.21%	1.59%-2.58%
Dividend yields	0%	0%	0%	0%
Volatility	55.33% - 58.57%	55.37%-55.75%	45.5%-56.2%	45.0%-55.8%
Contractual life in years	6 - 10	6.4-10	7.4-10	8.3 - 10

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

w. Income taxes:

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

The Company and its subsidiaries provide a valuation allowance, if necessary, to reduce deferred tax assets to their estimated realizable value.

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

x. Derivative financial instruments:

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

To protect against the increase in value of forecasted foreign currency cash flows resulting from salary and lease payments of its Israeli facilities denominated in the Israeli currency, the New Israeli Shekel (“NIS”), during the six months ended December 31, 2016 and the year ended June 30, 2016, the Company instituted a foreign currency cash flow hedging program. The Company hedges portions of the anticipated payroll and lease payments denominated in NIS for a period of one to twelve months with hedging contracts. These hedging contracts are designated as cash flow hedges, as defined by ASC 815 and are all effective hedges.

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

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

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

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

As of June 30, 2016, the Company entered into forward contracts and put and call options to sell U.S. dollars for NIS and Euros for U.S. dollars in the amount of \$17,693 and €30,000, respectively. These hedging contracts do not contain any credit-risk-related contingency features.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)

The fair value of derivative assets as of December 31, 2016 was \$19, which was recorded in other accounts receivable and prepaid expenses in the consolidated balance sheets (see Note 13).

The fair value of derivative assets and derivative liabilities as of June 30, 2016 was \$504 and \$23, respectively, which was recorded at net amount in other accounts receivable and prepaid expenses in the consolidated balance sheets.

y. Comprehensive income (loss):

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

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

z. The impact of recently issued accounting standards still not effective for the Company as of December 31, 2016 is as follows:

In May 2014, the FASB issued a new standard related to revenue recognition. Under the new standard, revenue is recognized when a customer obtains control of promised goods or services and is recognized in an amount that reflects the consideration which the entity expects to receive in exchange for those goods or services. In addition, the standard requires disclosure of the nature, amount, timing, and uncertainty of revenue and cash flows arising from contracts with customers. The FASB has recently issued several amendments to the standard, including clarification on identifying performance obligations.

The guidance permits two methods of modification: retrospectively to each prior reporting period presented (full retrospective method), or retrospectively with the cumulative effect of initially applying the guidance recognized at the date of initial application (the cumulative catch-up transition method). The Company currently anticipates adopting the standard using the modified retrospective method rather than full retrospective method.

The new standard will be effective for the Company beginning January 1, 2018, and adoption as of the original effective date of January 1, 2017 is permitted. The Company will adopt the new standard as of January 1, 2018.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data**NOTE 2:- SIGNIFICANT ACCOUNTING POLICIES (Cont.)**

The Company has made progress toward completing its evaluation of the potential changes from adopting this new standard on its financial reporting and disclosures. The Company has evaluated the impact of the standard on all of its revenue streams and most of its contracts. The Company expects to complete the contract evaluations and validate the results during the first half of 2017. During this time frame and the remainder of 2017, the Company will also draft a new accounting policies and evaluate the new disclosure requirements. The Company formed an implementation work group and expects to complete the evaluation of the impact of the accounting and disclosure changes on its business processes, controls and systems throughout 2017, design any changes to such business processes, controls and systems, and implement the changes before the end of 2017.

Under the new standard, an entity recognizes revenue when or as it satisfies a performance obligation by transferring a good or service to the customer, either at a point in time or over time. The Company expects to continue to recognize most of its revenue at a point in time upon delivery of its products. Based on its current analysis the most significant effect, if any, will be related to certain services that may no longer be considered as a distinct performance obligations separate from the main revenue products.

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

In November 2016, the FASB issued Accounting Standards Update No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash (ASU 2016-18), which requires companies to include amounts generally described as restricted cash and restricted cash equivalents in cash and cash equivalents when reconciling beginning-of-period and end-of-period total amounts shown on the statement of cash flows. This guidance will be effective for the Company in the first quarter of 2018 and early adoption is permitted. The Company is still evaluating the effect that this guidance will have on its consolidated financial statements and related disclosures.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 3:- MARKETABLE SECURITIES

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

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Corporate bonds	\$ 111,188	\$ 23	\$ (213)	\$ 110,998
Governmental bonds	\$ 7,762	-	\$ (33)	\$ 7,729
	<u>\$ 118,950</u>	<u>\$ 23</u>	<u>\$ (246)</u>	<u>\$ 118,727</u>

The following is a summary of available-for-sale marketable securities at June 30, 2016:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Corporate bonds	\$ 103,494	\$ 136	\$ (42)	\$ 103,588
Governmental bonds	\$ 8,020	\$ 7	\$ (6)	\$ 8,021
	<u>\$ 111,514</u>	<u>\$ 143</u>	<u>\$ (48)</u>	<u>\$ 111,609</u>

As of June 30, 2015, the Company had no investments in marketable securities.

The amortized cost of available-for-sale marketable securities at December 31, 2016, by contractual maturities, is shown below:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Due in one year or less	\$ 74,511	\$ 20	\$ (66)	\$ 74,465
Due after one year to two years	\$ 44,439	\$ 3	\$ (180)	\$ 44,262
	<u>\$ 118,950</u>	<u>\$ 23</u>	<u>\$ (246)</u>	<u>\$ 118,727</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 3:- MARKETABLE SECURITIES (Cont.)

The amortized cost of available-for-sale marketable securities at June 30, 2016, by contractual maturities, is shown below:

	<u>Amortized cost</u>	<u>Gross unrealized gains</u>	<u>Gross unrealized losses</u>	<u>Fair value</u>
Due in one year or less	\$ 59,124	\$ 50	\$ (11)	\$ 59,163
Due after one year to two years	\$ 52,390	\$ 93	\$ (37)	\$ 52,446
	<u>\$ 111,514</u>	<u>\$ 143</u>	<u>\$ (48)</u>	<u>\$ 111,609</u>

As of December 31, 2016 and June 30, 2016, management believes the impairments are not other than temporary and therefore the impairment losses were recorded in accumulated other comprehensive income (loss). The Company has no intent to sell these securities and it is more likely than not that the Company will not be required to sell these securities prior to the recovery of the entire amortized cost basis.

Proceeds from maturity of available-for-sale marketable securities during the six months ended December 31, 2016 and the year ended June 30, 2016 were \$32,782 and \$6,350, respectively. The Company had no proceeds from sales of available-for-sale marketable securities during the six months ended December 31, 2016 and the year ended June 30, 2016, therefore no realized gains or losses from the sale of available-for-sale marketable securities were recognized. The Company determines realized gains or losses on the sale of available-for-sale marketable securities based on a specific identification method.

NOTE 4:- FAIR VALUE MEASUREMENTS

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

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

Description	Balance as of December 31, 2016	Fair value measurements		
		Level 1	Level 2	Level 3
Cash equivalents:				
Money market mutual funds	\$ 6,510	\$ 6,510	-	-
Derivative instruments asset				
Derivative instruments asset	\$ 19	-	\$ 19	-
Short-term marketable securities:				
Corporate bonds	\$ 71,719	-	\$ 71,719	-
Governmental bonds	\$ 2,746	-	\$ 2,746	-
Long-term marketable securities:				
Corporate bonds	\$ 39,279	-	\$ 39,279	-
Governmental bonds	\$ 4,983	-	\$ 4,983	-

The following table sets forth the Company's assets that were measured at fair value as of June 30, 2016 by level within the fair value hierarchy:

Description	Balance as of June 30, 2016	Fair value measurements		
		Level 1	Level 2	Level 3
Cash equivalents:				
Money market mutual funds	\$ 13,373	\$ 13,373	-	-
Derivative instruments asset				
Derivative instruments asset	\$ 481	-	\$ 481	-
Short-term marketable securities:				
Corporate bonds	\$ 57,158	-	\$ 57,158	-
Governmental bonds	\$ 2,005	-	\$ 2,005	-
Long-term marketable securities:				
Corporate bonds	\$ 46,430	-	\$ 46,430	-
Governmental bonds	\$ 6,016	-	\$ 6,016	-

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 4:- FAIR VALUE MEASUREMENTS (Cont.)

The following table sets forth the Company's assets that were measured at fair value as of June 30, 2015 by level within the fair value hierarchy:

Description	Balance as of June 30, 2015	Fair value measurements		
		Level 1	Level 2	Level 3
Derivative instruments asset	\$ 859	-	\$ 859	-

NOTE 5:- PREPAID EXPENSES AND OTHER ACCOUNTS RECEIVABLE

	December 31,	June 30,	
	2016	2016	2015
Vendor non-trade receivables (*)	\$ 15,209	\$ 15,375	\$ 24,814
Government authorities	2,585	2,727	3,729
OCS	-	-	249
Prepaid expenses and other	3,534	2,756	2,994
Foreign currency derivative contracts	19	482	859
	<u>\$ 21,347</u>	<u>\$ 21,340</u>	<u>\$ 32,645</u>

(*) Vendor non-trade receivables related to contract manufacturers derive from the sale of components to manufacturing vendors who manufacture products for the Company. The Company purchases these components directly from suppliers. The Company does not reflect the sale of these components in revenues (see also Note 14e).

NOTE 6:- INVENTORIES

	December 31,	June 30,	
	2016	2016	2015
Raw materials	\$ 10,053	\$ 9,805	\$ 14,405
Finished goods	57,310	71,745	59,545
	<u>\$ 67,363</u>	<u>\$ 81,550</u>	<u>\$ 73,950</u>

The Company recorded inventory write-downs of \$113, \$2,539, \$992 and \$1,131 for the six months ended on December 31, 2016 and for the years ended June 30, 2016, 2015 and 2014, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 7:- PROPERTY AND EQUIPMENT AND INTANGIBLE ASSETS

a. Property and equipment:

	December 31,	June 30,	
	2016	2016	2015
Cost:			
Computers and peripheral equipment	\$ 6,053	\$ 5,190	\$ 3,139
Office furniture and equipment	1,505	1,289	779
Laboratory and testing equipment	9,589	8,590	7,205
Machinery and equipment	26,285	18,433	6,936
Leasehold improvements	5,898	5,450	4,047
Vehicles	13	13	13
	<u>49,343</u>	<u>38,965</u>	<u>22,119</u>
Less - accumulated depreciation	<u>13,221</u>	<u>11,134</u>	<u>7,402</u>
Depreciated cost	<u>\$ 36,122</u>	<u>\$ 27,831</u>	<u>\$ 14,717</u>

Property in progress under construction and development with a cost basis of \$10,698, \$5,519 and \$1,765 was included in Machinery and equipment as of December 31, 2016, June 30, 2016 and 2015, respectively.

Depreciation expenses for the six months ended December 31, 2016 and for the years ended June 30, 2016, 2015 and 2014 were \$2,702, \$3,763, \$2,253 and \$1,978, respectively.

b. Intangible assets:

On March 9, 2015, the Company and Beacon Power LLC, a Delaware limited liability company ("Beacon") entered into a patent purchase agreement pursuant to which the Company agreed to purchase all rights in the patents. In July 2015, the Company completed the purchase of the patents for \$800.

In October 2016 the Company and Accurate Solar Power, LLC, a limited liability corporation, entered into a patent purchase agreement, under which the Company agreed to purchase certain patents, provisional patent applications and pending patent applications. The Company completed the purchase in return for total consideration of \$600.

Intangible assets include an acquired patents with an original cost of \$1,400 and \$800 as of December 31, 2016 and June 30, 2016, respectively, and accumulated amortization of \$141 and \$84 as of December 31, 2016 and June 30, 2016, respectively. The patents are amortized over a 10 years period.

Amortization expenses for the six months ended December 31, 2016 and for year ended June 30, 2016 were \$57 and \$84, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 8:- ACCRUED EXPENSES AND OTHER ACCOUNTS PAYABLE

	December 31,	June 30,	
	2016	2016	2015
Accrued expenses	\$ 4,209	\$ 5,615	\$ 4,735
Government authorities	1,568	1,406	536
Provision for contractual inventory purchase obligations *	2,009	2,834	1,304
Other	862	870	412
	<u>\$ 8,648</u>	<u>\$ 10,725</u>	<u>\$ 6,987</u>

* See also Note 14e.

NOTE 9:- WARRANTY OBLIGATIONS

Changes in the Company's product warranty liability for the six months ended December 31, 2016 and the years ended on June 30, 2016 and 2015 were as follows:

	December 31,	June 30,	
	2016	2016	2015
Balance, at beginning of year	\$ 51,192	\$ 31,879	\$ 18,181
Additions and adjustments to cost of revenues	13,749	28,848	19,407
Usage and current warranty expenses	(6,566)	(9,535)	(5,709)
Balance, at end of year	58,375	51,192	31,879
Less current portion	(13,616)	(14,114)	(9,431)
Long term portion	<u>\$ 44,759</u>	<u>\$ 37,078</u>	<u>\$ 22,448</u>

NOTE 10:- TERM LOAN AND WARRANTS TO PURCHASE CONVERTIBLE PREFERRED STOCK

On December 28, 2012 (the "Agreement Date"), the Company entered into a loan facility agreement (the "Loan Agreement") with a lender (the "Lender"), pursuant to which the Lender agreed to loan the Company up to \$10,000. On the Agreement Date, the Company received a total of \$10,000, less a \$100 loan transaction fee paid to the Lender (the "Loan"). The Loan is for a period of 42 months and bears annual interest of 11.90%, which is to be paid monthly.

The principal of the loan is to be paid in 33 monthly payments, beginning in September 2013, except for the last loan payment which was paid in advance on the Agreement Date. Repayment of the Loan and payment of all other amounts owed to the Lender is paid in Euro.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 10:- TERM LOAN AND WARRANTS TO PURCHASE CONVERTIBLE PREFERRED STOCK (Cont.)

Borrowings pursuant to the Loan Agreement are secured by a first priority security interest in all existing and future assets of the Company.

In connection with the Loan Agreement, the Company granted the Lender 563,014 warrants to purchase Series D-1 convertible preferred stock at an exercise price of \$2.309 (the "Warrants"). The Warrants were exercisable in whole or in part prior to earliest of (i) the tenth anniversary of the Agreement Date or (ii) 12 months after a qualified initial public offering or (iii) immediately prior to the consummation of a merger or sale of all or substantially all of the Company's assets ("M&A Transaction", and together with a qualified initial public offering, an "Exit Event").

If (i) the Lender exercised all Warrants in full upon or after an Exit Event, and (ii) the intrinsic value of the Warrants upon such exercise is lower than \$750, the Company should pay to the Lender, in addition to any other amounts due to the Lender under the Loan Agreement, an amount equal to the difference between \$750 and the Warrants' intrinsic value.

On the Agreement Date, the Company recorded its freestanding Warrants to purchase its convertible preferred stock in the amount of \$778 as a liability at their fair value upon issuance, by utilizing an option pricing method. The fair value of the Warrants was subject to remeasurement at each balance sheet date with any change in value being reflected as financial expenses, net.

Upon exercise or expiration, the Warrants will be reclassified to stockholders' equity (deficiency), at which time the Warrant liability will no longer be subject to fair value accounting.

The fair value of the Warrants liability on the Agreement Date in the amount of \$778 represented a loan discount which was amortized to financial expenses over the period of the Loan by using the effective interest method. The residual amount of \$9,122 (net of the \$100 loan transaction fee) was allocated to the Loan.

Issuance expenses in the amount of \$75 were allocated to the warrants to purchase convertible preferred stock liability and to the Loan, according to the above recorded values ratio. Issuance expenses in the amount of \$6 related to the Warrants liability were immediately expensed and recorded as financial expenses, net. Issuance expenses in the amount of \$69 related to the Loan were recorded as deferred charge assets (classified to short-term and long-term assets). The deferred charge assets were amortized over the period of the Loan by using the effective interest method.

Upon the closing of the IPO, all outstanding warrants to purchase convertible preferred stock automatically converted into warrants to purchase 187,671 shares of common stock (See Note 1c).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data**NOTE 10:- TERM LOAN AND WARRANTS TO PURCHASE CONVERTIBLE PREFERRED STOCK (Cont.)**

As of June 30, 2014, the Warrants liability has been measured at fair value in the amount of \$765.

In January 2015, the Company fully settled the amount borrowed from the Lender under the Term Loan.

On June 18, 2015 the Lender elected to exercise its cashless exercise rights under which the Company issued 154,768 shares of common stock. The fair value of the Warrants liability as of the exercise date in the amount of \$6,115 was reclassified to stockholders' equity (deficiency).

NOTE 11:- REVOLVING CREDIT LINE

In June 2011, the Company entered into an agreement for a revolving line of credit from a Bank Lender (the "Bank Lender"), which, as amended to date, permits aggregate borrowings of up to \$20,000 in an amount not to exceed 80% of the eligible trade receivables plus 65% of inventories in transit to customers and bears interest, payable monthly, at the Bank Lender's prime rate plus a margin of 0.75% to 2.75%.

On February 17, 2015, the Company amended and restated the agreement with the Bank Lender for a revolving line of credit, which permits aggregate borrowings of up to \$40,000 in an amount not to exceed 80% of the eligible accounts receivable and bears interest, payable monthly, at the Bank Lender's prime rate plus a margin of 0.5% to 2.0%. As of December 31, 2016, the revolving line of credit was terminated and the Company had no outstanding borrowings related to this revolving line of credit.

As of June 30, 2016 and 2015, the Company met all its Bank Lender covenants.

As of June 30, 2016 and 2015, the Company had no outstanding borrowings related to this revolving line of credit.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)

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

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

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

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Cont.)

The following table summarizes the changes in accumulated balances of other comprehensive loss, net of taxes, for the year ended June 30, 2015:

	Unrealized gains (losses) on available-for-sale marketable securities	Unrealized gains (losses) on cash flow hedges	Unrealized gains (losses) on foreign currency translation	Total
Beginning balance	\$ -	\$ -	\$ (61)	\$ (61)
Other comprehensive income (loss) before reclassifications	-	-	(161)	(161)
Losses (gains) reclassified from accumulated other comprehensive income (loss)	-	-	-	-
Net current period other comprehensive income (loss)	-	-	(161)	(161)
Ending balance	\$ -	\$ -	\$ (222)	\$ (222)

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Cont.)

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

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) <u>Six months ended December 31, 2016</u>	Affected Line Item in the Statements of Operations
Unrealized gains (losses) on cash flow hedges	\$ 47	Cost of revenues
	227	Research and development
	58	Sales and marketing
	<u>46</u>	General and administrative
	378	Total, before income taxes
	<u>(61)</u>	Income tax expense (benefit)
	<u>\$ 317</u>	Total, net of income taxes
Unrealized gains (losses) on available-for-sale marketable securities	\$ -	Financial income, net
	<u>-</u>	Income tax expense (benefit)
	<u>\$ -</u>	Total, net of income taxes
	<u><u>\$ 317</u></u>	Total, net of income taxes

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 12:- ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS) (Cont.)

Details about Accumulated Other Comprehensive Income (Loss) Components	Amount Reclassified from Accumulated Other Comprehensive Income (Loss) Year ended June 30, 2016	Affected Line Item in the Statements of Operations
Unrealized gains (losses) on cash flow hedges	\$ 30	Cost of revenues
	115	Research and development
	33	Sales and marketing
	24	General and administrative
	202	Total, before income taxes
	(33)	Income tax expense (benefit)
	<u>\$ 169</u>	Total, net of income taxes
Unrealized gains (losses) on available-for-sale marketable securities	\$ (1)	Financial income, net
	-	Income tax expense (benefit)
	<u>\$ (1)</u>	Total, net of income taxes
	<u>\$ 168</u>	Total, net of income taxes

No amounts were reclassified from accumulated other comprehensive income for the years ended June 30, 2015 and 2014.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 13:- DERIVATIVE INSTRUMENTS

The fair value of the Company's outstanding derivative instruments is as follows:

	As of December 31, 2016	As of June 30, 2016 2015	
Derivative assets:			
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ -	\$ 214	\$ -
Derivatives designated as cash flow hedging instruments:			
Foreign exchange forward contracts	19	290	-
Total	\$ 19	\$ 504	\$ -
Derivative liabilities:			
Derivatives not designated as cash flow hedging instruments:			
Foreign exchange option contracts	\$ -	\$ (23)	\$ -
Total	\$ -	\$ (23)	\$ -

The Company recorded the fair value of derivative assets and liabilities, net in "prepaid expenses and other accounts receivable" on the Company's consolidated balance sheets.

The increase (decrease) in unrealized gains (losses) recognized in "accumulated other comprehensive income (loss)" on derivatives, net of tax effect, is as follows:

	Six months ended December 31, 2016	2016	Year ended June 30, 2015 2014	
Derivatives designated as cash flow hedging instruments:				
Foreign exchange forward contracts	\$ 93	\$ 412	\$ -	\$ -
Total	\$ 93	\$ 412	\$ -	\$ -

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 13:- DERIVATIVE INSTRUMENTS (Cont.)

The net (gains) losses reclassified from “accumulated other comprehensive income (loss)” into income (loss), are as follows:

	Six months ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Derivatives designated as cash flow hedging instruments:				
Foreign exchange forward contracts	\$ (317)	\$ (169)	\$ -	\$ -
Total	<u>\$ (317)</u>	<u>\$ (169)</u>	<u>\$ -</u>	<u>\$ -</u>

The Company recorded in the financial income (expenses), a net gain (loss) of \$(87), \$(136), \$1,721 and \$(189) during the six months ended December 31, 2016 and years ended June 30, 2016, 2015 and 2014, respectively related to derivatives not qualified as hedging instruments.

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES

a. Lease commitments:

The Company and its subsidiaries lease their operating facilities under non-cancelable operating lease agreements, which expire over the next eight years, with the last ending in December 2024.

The future minimum lease commitments of the Company and its subsidiaries under various non-cancelable operating lease agreements in respect of premises, that are in effect as of December 31, 2016, are as follows:

2017	\$	3,151
2018		2,561
2019		2,231
2020		1,698
2021		1,538
2022 and thereafter		4,466
	<u>\$</u>	<u>15,645</u>

Rent expenses for the six months ended December 31, 2016 and for the years ended June 30, 2016, 2015 and 2014, were approximately \$1,199, \$2,238, \$1,714 and \$1,200, respectively.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

b. Guarantees:

As of December 31, 2016, contingent liabilities exist regarding guarantees in the amount of \$617, \$52 and \$166 in respect of office rent lease agreements, customs transactions and credit card limits, respectively.

c. Royalty commitments:

On April 12, 2009, the Company received approval for a grant in a total amount of \$703, from the BIRD-F in conjunction with a mutual development project with an American corporation.

Under the Company's research and development agreements with the BIRD-F, and pursuant to applicable law, the Company is required to pay royalties at the rate of 5% of gross sales of products developed with funds provided by the BIRD-F, up to an amount equal to 150% of the research and development grants (dollar-linked) received from the BIRD-F. The obligation to pay these royalties is contingent on actual sales of the products and, in the absence of such sales, no payment is required. Royalties payable with respect to grants received from the BIRD-F are linked to the Consumer Price Index in the U.S.

At the end of 2011, the American corporation that had partnered with the Company announced the discontinuation of its solar business, resulting in the termination of the mutual development agreements. As a result, the development has not advanced into a commercial product. The Company does not expect any revenues from such project or the utilization of the technology mutually developed.

As of December 31, 2016, the aggregate contingent liability to the BIRD-F amounted to approximately \$1,148 which would be payable by the Company if the project were to generate revenues.

d. Governmental commitments:

The Company has received royalty-bearing grants sponsored by the Israeli government for the support of research and development activities. Through June 30, 2015, the Company had obtained grants from the OCS for certain of the Company's research and development projects. The Company is obligated to pay royalties to the OCS, amounting to 4% in the first three years, and 4.5% thereafter, of the sales of the products and other related revenues (based on the dollar equivalent amount of the grant) generated from such projects, up to 100% of the grants received. The royalty payment obligations also bear interest at the LIBOR rate. The obligation to pay these royalties is contingent on actual sales of the applicable products and in the absence of such sales, no payment is required.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

As of December 31, 2016, the aggregate contingent liability to the OCS with respect to royalty-bearing participation, net of royalties accrued, amounted to \$1,022 out of which the Company already recorded a provision for royalties in the amount of \$260. The total research and development grants that the Company has received from the OCS as of December 31, 2016 were \$990. The accumulated interest as of December 31, 2016 was \$32.

Royalty expenses relating to the OCS grants included in cost of revenues for the six months ended December 31, 2016, amounted to \$260.

As of June 30, 2016 and 2015, there have been no sales or revenues on which royalties are payables.

The Israeli Research and Development Law provides that know-how developed under an approved research and development program may not be transferred to third parties without the approval of the OCS. Such approval is not required for the sale or export of any products resulting from such research or development.

The OCS, under special circumstances, may approve the transfer of OCS-funded know-how outside Israel, in the following cases: (a) the grant recipient pays to the OCS a portion of the sale price paid in consideration for such OCS-funded know-how or in consideration for the sale of the grant recipient itself, as the case may be, which portion will not exceed six times the amount of the grants received plus interest (or three times the amount of the grant received plus interest, in the event that the recipient of the know-how has committed to retain the R&D activities of the grant recipient in Israel after the transfer); (b) the grant recipient receives know-how from a third party in exchange for its OCS-funded know-how; (c) such transfer of OCS-funded know-how arises in connection with certain types of cooperation in research and development activities; or (d) if such transfer of know-how arises in connection with a liquidation by reason of insolvency or receivership of the grant recipient.

e. Contractual purchase obligations:

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

In addition, it acquires raw materials or other goods and services, including product components, by issuing to suppliers authorizations to purchase based on its projected demand and manufacturing needs. As of December 31, 2016, the Company had non-cancelable purchase obligations totaling approximately \$65,345 out of which the Company already recorded a provision for loss in the amount of \$2,009 (see also Note 8).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 14:- COMMITMENTS AND CONTINGENT LIABILITIES (Cont.)

f. 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 15:- LEASE INCENTIVE OBLIGATION

The Company has an operating lease agreement for building in Herzlia, Israel. In connection with this lease, the Company and its third party lessor (the "Lessor"), agreed that the Lessor would pay approximately \$2,938 for certain leasehold improvements on behalf of the Company.

As of December 31, 2016, the Company received in cash the entire amount of \$2,938 from the Lessor in connection with such leasehold improvements. These leasehold improvements are accounted for as a lease incentive obligation, which is recorded under long-term liabilities, net of the current portion recorded in accrued expenses and other accounts payable under current liabilities. The lease incentive obligation is being amortized over the life of the lease and as a reduction to rent expense. As of December 31, 2016, the net amortized amount of lease incentive obligation is \$2,345, out of which \$2,061 was recorded under long-term liabilities.

NOTE 16:- CONVERTIBLE PREFERRED STOCK

a. Composition of convertible preferred stock of the Company:

	Authorized			Issued and outstanding		
	Number of shares					
	December 31, 2016	June 30,		December 31,	June 30,	
	2016	2015	2016	2016	2015	
Stock of \$0.0001 par value:						
Preferred stock	95,000,000	95,000,000	95,000,000	-	-	-

The Company issued Series A through E Preferred stock between the years 2006 and 2015. The Company classified the convertible preferred stock outside of stockholders' equity (deficiency) as required by ASC 480-10-S99-3A and ASR 268, since the shares possessed deemed liquidation features that could trigger a distribution of cash or assets not solely within the Company's control.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 16:- CONVERTIBLE PREFERRED STOCK (Cont.)

- b. Prior to the consummation of the Company's IPO on March 31, 2015, the Company had the following convertible preferred stock outstanding, all of which was converted into common stock following with the IPO on March 31, 2015 (see Note 1c) which resulted in classification of convertible preferred stock temporary equity in the amount of \$140,915 into stockholders' equity (deficiency):

	<u>Shares outstanding</u>	<u>Number of shares of Common Stock issued upon conversion</u>
Series A Preferred stock	15,558,830	5,186,276
Series B Preferred stock	18,760,196	6,253,398
Series C Preferred stock	15,984,655	5,328,217
Series D Preferred stock	16,024,251	5,341,416
Series D-1 Preferred stock	2,165,441	721,813
Series D-2 Preferred stock	2,598,528	866,175
Series D-3 Preferred stock	4,330,872	1,443,623
Series E Preferred stock	9,321,019	3,107,005
	<u>84,743,792</u>	<u>28,247,923</u>

NOTE 17:- STOCK CAPITAL

- a. Composition of common stock capital of the Company:

	<u>Authorized</u>			<u>Issued and outstanding</u>		
	<u>Number of shares</u>					
	<u>December 31, 2016</u>	<u>June 30,</u>		<u>December 31,</u>	<u>June 30,</u>	
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2016</u>	<u>2016</u>	<u>2015</u>
Stock of \$0.0001 par value:						
Common stock	<u>125,000,000</u>	<u>125,000,000</u>	<u>125,000,000</u>	<u>41,259,391</u>	<u>40,889,922</u>	<u>39,297,539</u>

- b. Common stock rights:

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

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

- c. On March 23, 2015, the Company's board of directors and the requisite holders of the Company's capital stock consented to a 1-for-3 reverse stock split of the Company's common stock.
- d. As a result of the reverse stock split, (i) every 3 shares of authorized, issued and outstanding common stock was decreased to one share of authorized, issued and outstanding common stock, (ii) the number of shares of common stock into which each outstanding warrant or option to purchase common stock is exercisable was proportionally decreased on a 1-for-3 basis, (iii) all share prices and exercise prices were proportionately increased. All of the share numbers, share prices, and exercise prices have been adjusted within these consolidated financial statements, on a retroactive basis, to reflect this 1-for-3 reverse stock split.
- e. Stock option plans:

The Company's 2007 Global Incentive Plan (the "2007 Plan") was adopted by the board of directors on August 30, 2007. The 2007 Plan terminated upon the Company's IPO on March 31, 2015 and no further awards may be granted thereunder. All outstanding awards will continue to be governed by their existing terms and 379,358 available options for future grant were transferred to the Company's 2015 Global Incentive Plan (the "2015 Plan") and are reserved for future issuances under the 2015 plan.

The 2015 Plan became effective upon the consummation of the IPO. The 2015 Plan provides for the grant of options, RSUs and other share-based awards to directors, employees, officers and consultants of the Company and its Subsidiaries. As of December 31, 2016, a total of 3,827,117 shares of common stock were reserved for issuance pursuant to stock awards under the 2015 Plan (the "Share Reserve").

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

The aggregate maximum number of shares of common stock that may be issued on the exercise of incentive stock options is 10,000,000. As of December 31, 2016, an aggregate of 1,522,068 options are still available for future grant under the 2015 Plan.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

A summary of the activity in the share options granted to employees and members of the board of directors for the six months ended December 31, 2016 and related information follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term in years</u>	<u>Aggregate intrinsic Value</u>
Outstanding as of July 1, 2016	4,837,364	4.50	6.58	74,292
Granted	197,821	16.79		
Exercised	(133,666)	2.54		
Forfeited or expired	(37,050)	4.94		
Outstanding as of December 31, 2016	<u>4,864,469</u>	<u>5.05</u>	<u>6.24</u>	<u>39,585</u>
Vested and expected to vest as of December 31, 2016	<u>4,741,728</u>	<u>4.97</u>	<u>6.21</u>	<u>38,853</u>
Exercisable as of December 31, 2016	<u>3,388,429</u>	<u>3.50</u>	<u>5.42</u>	<u>31,105</u>

A summary of the activity in the share options granted to employees and members of the board of directors for the year ended June 30, 2016 and related information follows:

	<u>Number of options</u>	<u>Weighted average exercise price</u>	<u>Weighted average remaining contractual term in years</u>	<u>Aggregate intrinsic Value</u>
Outstanding as of July 1, 2015	6,034,782	\$ 3.14	7.06	\$ 200,438
Granted	238,400	24.92		
Exercised	(1,379,668)	2.07		
Forfeited or expired	(56,150)	4.03		
Outstanding as of June 30, 2016	<u>4,837,364</u>	<u>\$ 4.50</u>	<u>6.58</u>	<u>\$ 74,292</u>
Vested and expected to vest as of June 30, 2016	<u>4,673,944</u>	<u>\$ 4.42</u>	<u>6.54</u>	<u>\$ 72,114</u>
Exercisable as of June 30, 2016	<u>3,146,546</u>	<u>\$ 3.10</u>	<u>5.63</u>	<u>\$ 52,141</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

A summary of the activity in the share options granted to employees and members of the board of directors for the year ended June 30, 2015 and related information follows:

	Number of options	Weighted average exercise price	Weighted average remaining contractual term in years	Aggregate intrinsic Value
Outstanding as of July 1, 2014	4,007,116	\$ 2.13	6.82	\$ 6,384
Granted	2,116,123	\$ 5.05		
Exercised	(31,981)	\$ 2.36		
Forfeited or expired	(56,476)	\$ 3.42		
Outstanding as of June 30, 2015	<u>6,034,782</u>	<u>\$ 3.14</u>	<u>7.06</u>	<u>\$ 200,438</u>
Vested and expected to vest as of June 30, 2015	<u>5,742,327</u>	<u>\$ 3.08</u>	<u>6.97</u>	<u>\$ 191,067</u>
Exercisable as of June 30, 2015	<u>3,551,239</u>	<u>\$ 2.17</u>	<u>5.71</u>	<u>\$ 121,373</u>

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 December 31, 2016 and the years ended June 30, 2016 and 2015 was \$1,790, \$30,670 and \$484, respectively.

The weighted average grant date fair values of options granted to employees and executive directors during the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014 were \$8.86, \$13.27, \$4.24 and \$1.98, respectively.

The options outstanding as of December 31, 2016, have been separated into exercise price ranges as follows:

Range of exercise price	Options outstanding as of December 31, 2016	Weighted average remaining contractual Life in years	Options exercisable as of December 31, 2016	Weighted average remaining contractual Life in years
\$0.87 - \$1.50	677,625	2.14	677,625	2.14
\$1.68 - \$2.46	1,340,663	4.71	1,338,271	4.71
\$3.03 - \$3.96	482,216	7.03	330,770	7.00
\$5.01	1,901,081	7.90	945,130	7.90
\$9.36	26,663	8.08	12,775	8.08
\$15.34	39,000	9.73	2,436	9.73
\$17.14	158,821	9.65	9,922	9.65
\$20.81	9,600	9.40	-	-
\$25.09	228,800	8.64	71,500	8.64
	<u>4,864,469</u>	6.24	<u>3,388,429</u>	5.42

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

The options outstanding as of June 30, 2016, have been separated into exercise price ranges as follows:

Range of exercise price	Options outstanding as of June 30, 2016	Weighted average remaining contractual Life in years	Options exercisable as of June 30, 2016	Weighted average remaining contractual Life in years
\$0.87 - \$1.50	707,091	2.65	707,091	2.65
\$1.68 - \$2.46	1,411,951	5.22	1,381,725	5.20
\$3.03 - \$3.96	514,489	7.55	287,763	7.52
\$5.01	1,933,216	8.42	715,300	8.41
\$9.36	32,217	8.44	11,767	8.19
\$20.81	9,600	9.91	-	-
\$25.09	228,800	9.14	42,900	9.14
	<u>4,837,364</u>	6.58	<u>3,146,546</u>	5.63

The options outstanding as of June 30, 2015, have been separated into exercise price ranges as follows:

Range of exercise price	Options outstanding as of June 30, 2015	Weighted average remaining contractual Life in years	Options exercisable as of June 30, 2015	Weighted average remaining contractual Life in years
\$0.87	490,165	3.14	490,165	3.14
\$1.50 - \$1.68	771,321	4.04	771,321	4.04
\$2.01 - \$2.46	2,075,550	6.30	1,794,228	6.24
\$3.03 - \$3.96	668,270	8.54	247,767	8.46
\$5.01	1,996,148	9.42	247,758	9.40
\$9.36	33,328	9.59	-	-
	<u>6,034,782</u>	7.08	<u>3,551,239</u>	5.71

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

A summary of the activity in the RSUs granted to employees and members of the board of directors for the six months ended December 31, 2016, is as follows:

	No. of RSUs	Weighted average grant date fair value
Unvested as of July 1, 2016	834,186	24.74
Granted	874,032	15.74
Vested	(143,303)	22.01
Forfeited	(49,897)	24.11
Unvested as of December 31, 2016	<u>1,515,018</u>	19.74

A summary of the activity in the RSUs granted to employees and members of the board of directors for the year ended June 30, 2016, is as follows:

	No. of RSUs	Weighted average grant date fair value
Unvested as of July 1, 2015	67,440	25.09
Granted	981,321	24.77
Vested	(161,173)	24.36
Forfeited	(53,402)	18.46
Unvested as of June 30, 2016	<u>834,186</u>	24.74

A summary of the activity in the RSUs granted to employees and members of the board of directors for the year ended June 30, 2015, is as follows:

	No. of RSUs	Weighted average grant date fair value
Unvested as of July 1, 2014	-	-
Granted	67,440	25.09
Vested	-	-
Forfeited	-	-
Unvested as of June 30, 2015	<u>67,440</u>	25.09

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

Options and RSUs issued to non-employee consultants:

The Company has granted options to purchase common shares and RSU's to non-employee consultants as of December 31, 2016 as follows:

Issuance Date	Options & RSU's outstanding as of December 31, 2016	Exercise price	Exercisable as of December 31, 2016	Exercisable Through
July 31, 2008	33,333	0.87	33,333	July 31, 2018
October 24, 2012	5,166	2.46	5,166	October 24, 2022
January 23, 2013	3,333	3.03	3,333	January 23, 2023
January 27, 2014	4,148	3.51	2,552	January 27, 2024
May 1, 2014	3,250	3.51	1,542	May 1, 2024
September 17, 2014	10,830	3.96	6,823	September 17, 2024
October 29, 2014	5,638	5.01	1,860	October 29, 2024
August 19, 2015	17,699	0.00	-	
November 8, 2015	2,491	0.00	-	
April 18, 2016	2,084	0.00	-	
July 11, 2016	2,667	0.00	-	
September 21, 2016	4,000	15.34	250	September 21, 2026
September 21, 2016	6,563	0.00	-	
	<u>101,202</u>		<u>54,859</u>	

The Company has granted options to purchase common shares and RSU's to non-employee consultants as of June 30, 2016 as follows:

Issuance Date	Options & RSU's outstanding as of June 30, 2016	Exercise price	Exercisable as of June 30, 2016	Exercisable Through
July 31, 2008	33,333	0.87	33,333	July 31, 2018
October 24, 2012	5,166	2.46	4,749	October 24, 2022
January 23, 2013	3,333	3.03	2,986	January 23, 2023
January 27, 2014	4,248	3.51	2,069	January 27, 2024
May 1, 2014	6,000	3.51	3,542	May 1, 2024
September 17, 2014	10,830	3.96	5,466	September 17, 2024
October 29, 2014	5,638	5.01	1,192	October 29, 2024
August 19, 2015	21,501	0.00	-	
November 8, 2015	4,167	0.00	-	
April 18, 2016	2,500	0.00	-	
	<u>96,716</u>		<u>53,337</u>	

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

The Company has granted options to purchase common shares to non-employee consultants as of June 30, 2015 as follows:

Issuance Date	Options outstanding as of June 30, 2015	Exercise price	Exercisable as of June 30, 2015	Exercisable Through
July 31, 2008	33,333	\$ 0.87	33,333	July 31, 2018
January 26, 2011	5,000	\$ 2.01	5,000	January 26, 2021
January 26, 2012	33,333	\$ 2.46	33,333	January 26, 2022
October 24, 2012	6,666	\$ 2.46	4,583	October 24, 2022
January 23, 2013	3,333	\$ 3.03	2,153	January 23, 2023
January 27, 2014	4,998	\$ 3.51	1,652	January 27, 2024
May 1, 2014	6,000	\$ 3.51	2,042	May 1, 2024
September 17, 2014	19,163	\$ 3.96	3,662	September 17, 2024
October 29, 2014	6,668	\$ 5.01	890	October 29, 2024
	<u>118,494</u>		<u>86,648</u>	

The Company accounts for its options granted to non-employee consultants under the fair value method of ASC 505-50 (“Equity-Based Payments to Non-Employees”).

In connection with the grant of stock options to non-employee consultants, the Company recorded stock compensation expenses in the six months ended December 31, 2016 and the years ended June 30, 2016, 2015 and 2014 in the amounts of \$66, \$524, \$563 and \$55, respectively.

f. Employee Stock Purchase Plan (“ESPP”):

The Company adopted an Employee Stock Purchase Plan (the “ESPP”) effective upon the consummation of the IPO. As of December 31, 2016, a total of 888,569 shares were reserved for issuance under this plan. The number of shares of common stock reserved for issuance under the ESPP will increase automatically on January 1st of each year, for ten years, by the lesser of 1% of the total number of shares of the Company’s common stock outstanding on December 31st of the preceding calendar year or 487,643 shares.

However, the Company’s board of directors may reduce the amount of the increase in any particular year at their discretion, including a reduction to zero.

The ESPP is implemented through an offering every six months. According to the ESPP, eligible employees may use up to 10% of their salaries to purchase common stock shares up to an aggregate limit of \$10 per participant for every six months plan. The price of an ordinary share purchased under the ESPP is equal to 85% of the lower of the fair market value of the ordinary share on the subscription date of each offering period or on the purchase date.

As of December 31, 2016, 83,319 common stock shares had been purchased under the ESPP.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 17:- STOCK CAPITAL (Cont.)

As of December 31, 2016, 805,250 common stock shares were available for future issuance under the ESPP.

In accordance with ASC No. 718, the ESPP is compensatory and as such results in recognition of compensation cost.

- g. Stock-based compensation expense for employees and non-employee consultants:

The Company recognized stock-based compensation expenses related to stock options and RSUs granted to employees and non-employee consultants and ESPP in the consolidated statement of operations for the six months ended December 31, 2016 and for the years ended June 30, 2016, 2015 and 2014, as follows:

	Six months ended December 31,		Year ended June 30,	
	2016	2016	2015	2014
Cost of revenues	\$ 871	\$ 945	\$ 442	\$ 108
Research and development, net	2,061	2,364	635	397
Selling and marketing	1,852	2,915	809	297
General and administrative	1,816	2,820	1,070	280
Total stock-based compensation expense	\$ 6,600	\$ 9,044	\$ 2,956	\$ 1,082

As of December 31, 2016, there was a total unrecognized compensation expense of \$36,461 related to non-vested equity-based compensation arrangements granted under the Company's Plans. These expenses are expected to be recognized during the period from January 1, 2017 through November 30, 2020.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES

a. Tax rates in U.S. and Germany:

The Company is subject to U.S. federal tax at the rate of 34%, and the Company's German subsidiary is subject to German tax at the rate of 33%.

b. Corporate tax in Israel:

Taxable income of Israeli companies is subject to corporate tax at the rate of 26.5% in the year ended June 30, 2014 and 2015, and 25% in the year ended June 30, 2016 onwards (see also Note 18i).

In January 2016, the Law for Amending the Income Tax Ordinance (No. 216) (Reduction of Corporate Tax Rate), 2016 was approved, which includes a reduction of the corporate tax rate from 26.5% to 25%, effective from January 1, 2016.

In December 2016, the Israeli Parliament approved the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which reduces the corporate income tax rate to 24% (instead of 25%) effective from January 1, 2017 and to 23% effective from January 1, 2018.

c. Carryforward tax losses:

As of December 31, 2016, the Company has no federal or state carryforward tax losses.

As of December 31, 2016, the Israeli subsidiary has no Israeli net carryforward tax losses.

d. Deferred income taxes:

Deferred income taxes reflect the net tax effect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes.

The Company's Israeli subsidiary's tax-exempt profit from Approved Enterprises and Benefited Enterprises is permanently reinvested as the Company's management has determined that the Company does not currently intend to distribute dividends. Therefore, deferred taxes have not been provided for such tax-exempt income. The Company intends to continue to reinvest these profits and does not currently foresee a need to distribute dividends out of such tax-exempt income."

The Company does not have a provision for U.S. Federal income taxes on the undistributed earnings of its international subsidiaries because such earnings are considered to be indefinitely reinvested.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

e. Uncertain tax positions:

The Company recognized for the first time a total liability for uncertain tax positions in the amount of \$0.3 million as of December 31, 2016.

Significant components of the Company's deferred tax liabilities and assets are as follows:

	December 31,	June 30,	
	2016	2016	2015
Assets in respect of:			
Carryforward tax losses	\$ -	\$ 4,186	\$ 23,033
Research and Development carryforward expenses- temporary differences	908	743	5,173
Other reserves	1,907	1,367	1,346
	<u>2,815</u>	<u>6,296</u>	<u>29,552</u>
Valuation allowance (1)	<u>-</u>	<u>-</u>	<u>(29,552)</u>
Deferred tax assets, net	<u>\$ 2,815</u>	<u>\$ 6,296</u>	<u>\$ -</u>

(1) ASC 740 requires that deferred tax assets be reduced by a valuation allowance if it is more likely than not that some portion or all of the deferred tax assets will not be realized. The Company evaluated the net deferred tax assets for each separate tax entity. As of June 30, 2015, the Company concluded that it is not more likely than not that the net deferred tax assets will be realized and a full valuation allowance has been recorded against these assets. The Company's estimate of future book-taxable income considers available evidence, both positive and negative, about its operating businesses and investments, including an aggregation of individual projections for each significant operating business and investment, estimated apportionment factors for state and local taxing jurisdictions and includes all future years that the Company estimated it would have available net operating loss carryforwards.

During fiscal year 2016, the Company determined that the positive evidence outweighs the negative evidence for deferred tax assets and concluded that these deferred tax assets are realizable on a "more likely than not" basis. This determination was mainly due to expected future results of positive operations and earnings history.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

f. Income before taxes is comprised as follows:

	Six months ended December 31, 2016	Year ended June 30,	
	<u>2016</u>	<u>2016</u>	<u>2015</u>
Domestic	\$ 3,165	\$ 3,758	\$ 2,830
Foreign	27,433	68,472	20,246
	<u>\$ 30,598</u>	<u>\$ 72,230</u>	<u>\$ 23,076</u>

g. Taxes on income (tax benefit) are comprised as follows:

	Six months ended December 31, 2016	Year ended June 30,		
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Domestic taxes:				
Current	1,047	1,737	1,655	100
Deferred	507	(1,380)	-	-
Foreign taxes:				
Current	518	263	300	120
Deferred	3,145	(4,999)	-	-
	<u>\$ 5,217</u>	<u>\$ (4,379)</u>	<u>\$ 1,955</u>	<u>\$ 220</u>

h. Reconciliation of theoretical tax expense to actual tax expense:

The differences between the statutory tax rate of the Company and the effective tax rate are primarily accounted for by the non-recognition of tax benefits from accumulated net carryforward tax losses among the Company and various subsidiaries due to uncertainty of the realization of such tax benefits.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

A reconciliation between the theoretical tax expense, assuming all income is taxed at the statutory tax rate applicable to income of the Company, and the actual tax expense (benefit) as reported in the consolidated statements of operations is as follows:

	Six months ended December 31, 2016	Year ended June 30,		
	<u>2016</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Income (loss) before taxes, as reported in the consolidated statements of operations	\$ 30,598	\$ 72,230	\$ 23,076	\$ (21,158)
Statutory tax rate	34%	34%	35%	35%
Theoretical tax benefits on the above amount at the US statutory tax rate	10,403	24,558	8,077	(7,405)
Income tax at rate other than the U.S. statutory tax rate	(5,396)	(30,229)	(9,305)	9,172
Impact of Israel corporate tax rate change	-	-	-	(2,103)
Non-deductible expenses	164	1,514	3,003	467
Other individually immaterial income tax items	46	(222)	180	89
Actual tax expense (tax benefit)	<u>\$ 5,217</u>	<u>\$ (4,379)</u>	<u>\$ 1,955</u>	<u>\$ 220</u>

i. Tax assessments:

As of December 31, 2016, the Company and certain of its subsidiaries filed U.S. federal and various state and foreign income tax returns. The statute of limitations relating to the consolidated U.S. federal income tax return is closed for all tax years up to and including 2013.

The statute of limitations related to tax returns of the Company's Israeli subsidiary is closed for all tax years up to and including 2011.

The statute of limitations related to tax returns of the Company's German subsidiary is closed for all tax years up to and including 2011.

With respect to the Company's, Chinese, Australian, Canadian, Dutch, Japanese, UK, French, Italian, Bulgarian and Turkish subsidiaries, the statute of limitations related to its tax returns is open for all tax years since incorporation.

The Company believes that it has adequately provided for reasonably foreseeable outcomes related to tax audits and settlements. The final tax outcome of any Company tax audits could be different from that which is reflected in the Company's income tax provisions and accruals. Such differences could have a material effect on the Company's income tax provision and net income (loss) in the period in which such determination is made.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

- j. Tax benefits for Israeli companies under the Law for the Encouragement of Capital Investments, 1959 (the "Investment Law"):

The Israeli subsidiary elected tax year 2012 as a "Year of Election" for "Beneficiary Enterprise" status under the Investment Law, which provides certain benefits, including tax exemptions and reduced tax rates. Income not eligible for Beneficiary Enterprise benefits is taxed at a regular corporate tax rate. Upon meeting the requirements under the Investment Law, income derived from Beneficiary Enterprise from productive activity will be exempt from tax for two years from the year in which the Israeli subsidiary first has taxable income, provided that 12 years have not passed from the beginning of the year of election. In the six months ended December 31, 2016 Israeli subsidiary utilized all of her operating loss carryforwards in Israel and became profitable for tax purposes. As of December 31, 2016, Israeli subsidiary is entitled to benefit from a two year tax exemption as part of the Beneficiary Enterprise .

If dividends are distributed out of tax exempt profits, the Israeli subsidiary will then become liable for tax at the rate applicable to its profits from the Beneficiary Enterprise in the year in which the income was earned, as if it had not chosen the alternative track of benefits.

The dividend recipient is subject to withholding tax at the rate of 15% applicable to dividends from Beneficiary enterprises, if the dividend is distributed during the tax benefits period or within twelve years thereafter. This limitation does not apply to a foreign investors' company. The Israeli subsidiary currently has no plans to distribute dividends and intends to retain future earnings to finance the development of its business.

Through December 31, 2016, the Israeli subsidiary had generated income under the provision of the Investment Law.

As of December 31, 2016, approximately \$26,459 was derived from tax exempt profits earned by the Israeli subsidiary "Beneficiary Enterprises." The Company has determined that such tax-exempt income will not be distributed as dividends and intends to reinvest the amount of its tax exempt income earned by the Israeli subsidiary. Accordingly, no provision for deferred income taxes has been provided on income attributable to the Israeli subsidiary "Beneficiary Enterprises" as such income is essentially permanently reinvested.

If the Israeli subsidiary retained tax-exempt income is distributed, the income would be taxed at the applicable corporate tax rate which depend on the foreign ownership in each tax year, the tax rate can range between 10% (when foreign ownership exceeds 90%) to 20% (when foreign ownership exceeds 49%). There can be no assurance that the Israeli subsidiary will continue to qualify as a foreign investor company in the future or that the benefits described herein will be granted in the future.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 71):

On August 5, 2013, the Israeli Parliament issued the Law for Changing National Priorities (Legislative Amendments for Achieving Budget Targets for 2013 and 2014), 2013 which consists of Amendment 71 to the Law for the Encouragement of Capital Investments ("the Amendment"). According to the Amendment, the tax rate on preferred income from a preferred enterprise in 2014 and thereafter will be 16% (in development area A - 9%).

The Amendment also prescribes that any dividends distributed to individuals or foreign residents from the preferred enterprise's earnings as above will be subject to tax at a rate of 20%.

Amendment to the Law for the Encouragement of Capital Investments, 1959 (Amendment 73):

In December 2016, the Economic Efficiency Law (Legislative Amendments for Applying the Economic Policy for the 2017 and 2018 Budget Years), 2016 which includes Amendment 73 to the Law for the Encouragement of Capital Investments ("the Amendment") was published. According to the Amendment, a preferred enterprise located in development area A will be subject to a tax rate of 7.5% instead of 9% effective from January 1, 2017 and thereafter (the tax rate applicable to preferred enterprises located in other areas remains at 16%).

The Amendment also prescribes special tax tracks for technological enterprises, which are subject to rules that are to be issued by the Minister of Finance by March 31, 2017.

The new tax tracks under the Amendment are as follows:

Technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries are less than NIS 10 billion. A technological preferred enterprise, as defined in the Law, which is located in the center of Israel will be subject to tax at a rate of 12% on profits deriving from intellectual property (in development area A - a tax rate of 7.5%).

Special technological preferred enterprise - an enterprise for which total consolidated revenues of its parent company and all subsidiaries exceed NIS 10 billion. Such enterprise will be subject to tax at a rate of 6% on profits deriving from intellectual property, regardless of the enterprise's geographical location.

Any dividends distributed to "foreign companies", as defined in the Law, deriving from income from the technological enterprises will be subject to tax at a rate of 4%.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 18:- INCOME TAXES (Cont.)

Since as of December 31, 2016 definitive criteria to determine the tax benefits had not yet been established, it cannot be concluded that the legislation in respect of technological enterprises had been enacted or substantively enacted as of that date. Accordingly, the above changes in the tax rates relating to technological enterprises were not taken into account in the computation of deferred taxes as of December 31, 2016.

k. The Law for Encouragement of Industry (Taxation), 1969:

The Israeli entity has the status of an "industrial company", as defined by this law. According to this status and by virtue of regulations published thereunder, The Israeli entity is entitled to claim a deduction of accelerated depreciation on equipment used in industrial activities, as determined in the regulations issued under the Inflationary Law. The Israeli entity is also entitled to amortize a patent or rights to use a patent or intellectual property that are used in the enterprise's development or advancement, to deduct issuance expenses for shares listed for trading, and to file consolidated financial statements under certain conditions.

Eligibility for benefits under the Industry Encouragement Law is not contingent upon approval of any governmental authority.

There can be no assurance that the Company will continue to qualify as an Industrial Company or that the benefits described above will be available in the future.

NOTE 19:- FINANCIAL EXPENSES (INCOME), NET

	Six months ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Remeasurement of warrants to purchase convertible preferred stock	\$ -	\$ -	\$ 5,350	\$ (53)
Interest on term loan	-	-	579	1,475
Other financial expenses related to term loan	-	-	373	31
Expenses (income) related to hedging transaction	87	136	(1,721)	189
Interest on short- term loan	-	-	316	537
Interest on marketable securities	(1,504)	(1,112)	-	-
Amortization of marketable securities premium and accretion of discount, net	685	532	-	-
Exchange rate loss (income), net, bank charges and other finance expenses	3,521	(27)	180	608
	<u>\$ 2,789</u>	<u>\$ (471)</u>	<u>\$ 5,077</u>	<u>\$ 2,787</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 20:- GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER AND PRODUCT DATA

Summary information about geographic areas:

ASC 280 (“Segment Reporting”) establishes standards for reporting information about operating segments. Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker in deciding how to allocate resources and in assessing performance. The Company manages its business on the basis of one reportable segment, and derives revenues from selling its products (see Note 1a for a brief description of the Company’s business).

The following is a summary of revenues within geographic areas:

	Six months ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Revenues based on Customers’ location:				
United States	\$ 160,321	\$ 334,260	\$ 238,340	\$ 64,607
Germany	11,076	22,207	13,290	15,133
Europe (*)	49,523	89,000	52,163	38,655
Rest of the World	19,077	44,376	21,285	14,822
Total revenues	<u>\$ 239,997</u>	<u>\$ 489,843</u>	<u>\$ 325,078</u>	<u>\$ 133,217</u>

(*) Except for Germany

Major Customers data as a percentage of total revenues:

	Six months ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Customer A	11.2%	11.6%	4.9%	1.8%
Customer B	8.7%	10.9%	24.6%	19.1%
Customer C	8.4%	10.1%	5.4%	3.1%

The following is a summary of revenues by product family :

	Six months ended December 31,	Year ended June 30,		
	2016	2016	2015	2014
Inverters	\$ 112,585	\$ 223,756	\$ 156,984	\$ 62,085
Optimizers	115,229	244,852	158,513	65,018
Others	12,183	21,235	9,581	6,114
Total revenues	<u>\$ 239,997</u>	<u>\$ 489,843</u>	<u>\$ 325,078</u>	<u>\$ 133,217</u>

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 20:- GEOGRAPHIC INFORMATION AND MAJOR CUSTOMER AND PRODUCT DATA (Cont.)

Long-lived assets by geographic region:

	Six months ended December 31, 2016	Year ended June 30,	
		2016	2015
Israel	\$ 35,055	\$ 26,751	\$ 14,136
U.S.	515	518	342
Europe	466	508	230
Other	86	54	9
Total long-lived assets*	<u>\$ 36,122</u>	<u>\$ 27,831</u>	<u>\$ 14,717</u>

* Long-lived assets are comprised of property and equipment, net (marketable securities, prepaid expenses and lease deposits, intangible assets and deferred tax assets are not included).

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

U.S. dollars in thousands, except share data

NOTE 21:- TRANSITION PERIOD COMPARATIVE DATA

The following table presents certain financial information (U.S. dollars in thousands except share and per share data):

	Six months ended December 31,	
	2016	2015 (Unaudited)
Revenues	\$ 239,997	\$ 239,886
Cost of revenues	159,097	167,777
Gross profit	80,900	72,109
Operating expenses:		
Research and development, net	20,279	15,290
Sales and marketing	20,444	17,077
General and administrative	6,790	5,606
<u>Total operating expenses</u>	<u>47,513</u>	<u>37,973</u>
Operating income	33,387	34,136
Financial expenses, net	2,789	1,031
Income before taxes on income	30,598	33,105
Taxes on income (tax benefit)	5,217	(5,432)
Net income	<u>\$ 25,381</u>	<u>\$ 38,537</u>
Net basic earnings per share of common stock	<u>\$ 0.62</u>	<u>\$ 0.98</u>
Net diluted earnings per share of common stock	<u>\$ 0.58</u>	<u>\$ 0.87</u>
Weighted average number of shares used in computing net basic earnings per share of common stock	41,026,926	39,406,797
Weighted average number of shares used in computing net diluted earnings per share of common stock	43,839,342	44,231,660

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, as amended, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

SOLAREEDGE TECHNOLOGIES, INC.

By: /s/ Guy Sella

Name: Guy Sella

Title: Chief Executive Officer and Chairman

Date: February 21, 2017

POWER OF ATTORNEY

Know all persons by these presents, that each person whose signature appears below constitutes and appoints Guy Sella, Ronen Faier and Rachel Prishkolnik, or any of them, as such person's true and lawful attorney-in-fact and agent, with full power of substitution and resubstitution, for such person and in such person's name, place and stead, in any and all capacities, to sign any and all amendments to this Annual Report on Form 10-KT, and to file the same, with all exhibits thereto, and other documents in connection therewith, with the Securities and Exchange Commission, granting unto said attorney-in-fact and agent, and each of them, full power and authority to do and perform each and every act and thing requisite and necessary to be done in connection therewith, as fully to all intents and purposes as such person might or could do in person, hereby ratifying and confirming all that said attorney-in-fact and agent, or any of them or their or such person's substitute or substitutes, may lawfully do or cause to be done by virtue thereof.

Pursuant to the requirements of the Securities Act of 1933, as amended, this registration statement has been signed by the following persons in the capacities and on the dates indicated below.

<u>Signature</u>	<u>Title</u>	<u>Date</u>
<u>/s/Guy Sella</u> Guy Sella	Chief Executive Officer and Chairman <i>(Principal Executive Officer)</i>	February 21, 2017
<u>/s/Ronen Faier</u> Ronen Faier	Chief Financial Officer <i>(Principal Financial and Accounting Officer)</i>	February 21, 2017
<u>/s/Dan Avida</u> Dan Avida	Director	February 21, 2017
<u>/s/Yoni Cheifetz</u> Yoni Cheifetz	Director	February 21, 2017
<u>/s/Marcel Gani</u> Marcel Gani	Director	February 21, 2017
<u>/s/Doron Inbar</u> Doron Inbar	Director	February 21, 2017
<u>/s/Avery More</u> Avery More	Director	February 21, 2017
<u>/s/Tal Payne</u> Tal Payne	Director	February 21, 2017

EXHIBIT INDEX

Exhibit No.	Description	Incorporation by Reference
3.1	Amended and Restated Certificate of Incorporation	Incorporated by reference to Exhibit 4.1 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
3.2	Amended and Restated By-Laws	Incorporated by reference to Exhibit 4.2 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
4.1	Specimen Common Stock Certificate of the Registrant	Incorporated by reference to Exhibit 4.1 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
4.2	Fifth Amended and Restated Investors' Rights Agreement, dated as of September 17, 2014, among SolarEdge Technologies, Inc. and the investors party thereto	Incorporated by reference to Exhibit 4.2 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
4.3	Warrant to Purchase Shares of SolarEdge Technologies, Inc., dated December 28, 2012	Incorporated by reference to Exhibit 4.3 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
10.1	Second Amended and Restated Loan and Security Agreement, dated as of February 17, 2015, among Silicon Valley Bank, SolarEdge Technologies Ltd., SolarEdge Technologies, Inc. and SolarEdge Technologies GmbH	Incorporated by reference to Exhibit 10.1 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.2†	Employment Agreement, dated August 26, 2007, between SolarEdge Technologies, Inc. and Guy Sella	Incorporated by reference to Exhibit 10.2 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.3	Employment Agreement, dated December 1, 2010, between SolarEdge Technologies, Inc. and Ronen Faier	Incorporated by reference to Exhibit 10.3 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.4†	Employment Agreement, dated May 17, 2009, between SolarEdge Technologies, Inc. and Zvi Lando	Incorporated by reference to Exhibit 10.3 of Amendment No. 1 to Form S-1 (Registration No. 333-202159) filed with the SEC on March 11, 2015
10.5†	SolarEdge Technologies, Inc. 2007 Global Incentive Plan.	Incorporated by reference to Exhibit 99.3 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.6†	SolarEdge Technologies, Inc. 2015 Global Incentive Plan	Incorporated by reference to Exhibit 99.1 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.7†	SolarEdge Technologies, Inc. 2015 Employee Stock Purchase Plan	Incorporated by reference to Exhibit 99.2 to Form S-8 (Registration No. 333-203193) filed with the SEC on April 2, 2015
10.8	Manufacturing Services Agreement, dated February 14, 2010 between Flextronics (Israel) Ltd. and SolarEdge Technologies Ltd. (previously filed as Exhibit 10.10 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015	Incorporated by reference to Exhibit 10.10 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015

10.9#	Interim Agreement, dated April 7, 2013 among Flextronics Industrial Ltd. between Flextronics (Israel) Ltd. and SolarEdge Technologies Ltd. (previously filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015)	Incorporated by reference to Exhibit 10.11 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
10.10#	Manufacturing Services Agreement, dated June 9, 2011 between Jabil Circuit Inc. and SolarEdge Technologies Inc. (previously filed as Exhibit 10.11 to the Company's Registration Statement on Form S-1, filed with the Commission on February 18, 2015)	Incorporated by reference to Exhibit 10.12 to Form S-1 (Registration No. 333-202159) filed with the SEC on February 18, 2015
10.11 †	Form of Non-Employee Director RSU Award Agreement	Incorporated by reference to Exhibit 10.11 to Form 10-K filed with the SEC on August 20, 2015
10.12 †	Form of Non-Employee Director Stock Option Award Agreement	Incorporated by reference to Exhibit 10.12 to Form 10-K filed with the SEC on August 20, 2015
10.13 †	Form of Employee RSU Award Agreement	Incorporated by reference to Exhibit 10.13 to Form 10-K filed with the SEC on August 20, 2015
10.14 †	Form of Employee Stock Option Award Agreement	Incorporated by reference to Exhibit 10.14 to Form 10-K filed with the SEC on August 20, 2015
21.1	List of Subsidiaries of the Registrant	Filed with this report.
23.1	Consent of Kost Forer Gabbay & Kasierer, independent registered public accounting firm	Filed with this report.
24.1	Power of Attorney (included in signature page)	Filed with this report.
31.1	Certification of Chief Executive Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed with this report.
31.2	Certification of Chief Financial Officer Pursuant to Rules 13a-14(a) and 15d-14(a) of the Securities Exchange Act of 1934, as amended	Filed with this report.
32.1	Certification of Chief Executive Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this report.
32.2	Certification of Chief Financial Officer, pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002	Filed with this report.
101.INS	XBRL Instance Document	Filed with this report.
101.SCH	XBRL Taxonomy Extension Schema Document	Filed with this report.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document	Filed with this report.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document	Filed with this report.
101.LAB	XBRL Taxonomy Extension Label Linkbase Document	Filed with this report.
101.PRE	XBRL Taxonomy Extension Presentation Linkbase Document	Filed with this report.

† Management contract or compensatory plan or arrangement.

Confidential treatment has been requested with respect to certain portions of this exhibit. Omitted portions have been filed separately with the Securities and Exchange Commission.

LIST OF SOLAREEDGE SUBSIDIARIES

Name	Jurisdiction of organization
SolarEdge Technologies Ltd.	Israel
SolarEdge Technologies GmbH	Germany
SolarEdge Technologies China	China
SolarEdge Technologies (Australia) PTY Ltd.	Australia
SolarEdge Technologies (Canada) Ltd.	Canada
SolarEdge Technologies (Holland) B.V.	The Netherlands
SolarEdge Technologies (Japan) Co., Ltd.	Japan
SolarEdge Technologies (France) SARL.	France
SolarEdge Technologies (UK) Ltd.	United Kingdom
SolarEdge Technologies Italy S.R.L.	Italy
SolarEdge Technologies (Bulgaria) Ltd.	Bulgaria
Guangzhou SolarEdge Machinery Technical Consulting Co. Ltd	China
Solaredge Teknoloji A.Ş.	Turkey

CONSENT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM

We consent to the incorporation by reference in the Registration Statement (Form S-8 No. 333-203193) pertaining to the 2015 Global Incentive Plan, 2007 Global Incentive Plan and 2015 Employee Stock Purchase Plan of SolarEdge Technologies, Inc. of our reports dated February 21, 2017, with respect to the consolidated financial statements of SolarEdge Technologies, Inc., and the effectiveness of internal control over financial reporting of SolarEdge Technologies, Inc. included in this Transition Report (Form 10-KT) for the period from July 1, 2016 to December 31, 2016.

Tel-Aviv, Israel
February 21, 2017

/s/ KOST FORER GABBAY & KASIERER
KOST FORER GABBAY & KASIERER
A Member of Ernst & Young Global

I, Guy Sella, certify that:

1. I have reviewed this Annual Report on Form 10-KT 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 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2017

/s/ Guy Sella

Guy Sella
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

I, Ronen Faier, certify that:

1. I have reviewed this Annual Report on Form 10-KT 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 15(d)-15(f)) for the registrant and have:

(a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

(b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

(c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

(d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's fourth fiscal quarter that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

(a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

(b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: February 21, 2017

/s/ Ronen Faier

Ronen Faier
Chief Financial Officer
(Principal Financial Officer)

**Certification of the Chief Executive Officer
Pursuant to 18 U.S.C. §1350**

Solely for the purposes of complying with 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Executive Officer and Chairman of the Board of SolarEdge Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-KT of the Company for the transition period July 1, 2016 to December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2017

/s/ Guy Sella

Guy Sella
Chief Executive Officer and Chairman of the Board
(Principal Executive Officer)

**Certification of the Chief Financial Officer
Pursuant to 18 U.S.C. §1350**

Solely for the purposes of complying with 18 U.S.C. § 1350, as adopted pursuant to § 906 of the Sarbanes-Oxley Act of 2002, I, the undersigned Chief Financial Officer of SolarEdge Technologies, Inc. (the "Company"), hereby certify, based on my knowledge, that the Annual Report on Form 10-KT of the Company for the transition period July 1, 2016 to December 31, 2016 (the "Report") fully complies with the requirements of Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934, as amended, and that information contained in the Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

Date: February 21, 2017

/s/ Ronen Faier

Ronen Faier
Chief Financial Officer
(Principal Financial Officer)