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

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**Form 10-Q**

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(Mark One)

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

For the quarterly period ended September 30, 2015

or

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_  
Commission File Number: 001-35480

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**Enphase Energy, Inc.**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or other jurisdiction of  
incorporation or organization)

**1420 N. McDowell Blvd.**  
**Petaluma, California**  
(Address of principal executive offices)

**20-4645388**  
(I.R.S. Employer  
Identification No.)

**94954**  
(Zip Code)

**(707) 774-7000**  
(Registrant's telephone number, including area code)

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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 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	<input type="checkbox"/>	Accelerated filer	<input checked="" type="checkbox"/>
Non-accelerated filer	<input type="checkbox"/> (Do not check if a smaller reporting company)	Smaller reporting company	<input type="checkbox"/>

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes  No

As of November 2, 2015, there were 45,333,255 shares of the registrant's common stock outstanding, \$0.00001 par value per share.

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## ENPHASE ENERGY, INC.

## FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2015

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## PART I. FINANCIAL INFORMATION

## Item 1. Financial Statements (Unaudited)

**ENPHASE ENERGY, INC.**  
**CONDENSED CONSOLIDATED BALANCE SHEETS**  
(In thousands, except par value)  
(Unaudited)

	September 30, 2015	December 31, 2014
<b>ASSETS</b>		
Current assets:		
Cash and cash equivalents	\$ 22,491	\$ 42,032
Accounts receivable, net of allowances of \$802 and \$569 at September 30, 2015 and December 31, 2014, respectively	75,322	45,119
Inventory	36,717	21,590
Prepaid expenses and other assets	7,080	6,155
Total current assets	141,610	114,896
Property and equipment, net	31,240	30,824
Goodwill	3,745	3,745
Intangibles, net	1,489	1,811
Other assets	4,879	916
Total assets	\$ 182,963	\$ 152,192
<b>LIABILITIES AND STOCKHOLDERS' EQUITY</b>		
Current liabilities:		
Accounts payable	\$ 32,707	\$ 22,316
Accrued liabilities	18,986	26,036
Deferred revenues, current	3,834	2,747
Warranty obligations, current (includes \$2,468 and \$1,125 measured at fair value at September 30, 2015 and December 31, 2014, respectively)	6,612	7,607
Borrowings under revolving credit facility	17,000	—
Total current liabilities	79,139	58,706
Long-term liabilities:		
Deferred revenues, noncurrent	22,701	16,612
Warranty obligations, noncurrent (includes \$4,348 and \$2,437 measured at fair value at September 30, 2015 and December 31, 2014, respectively)	26,194	26,333
Other liabilities	1,963	3,589
Total liabilities	129,997	105,240
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, \$0.00001 par value, 10,000 shares authorized; none issued and outstanding	—	—
Common stock, \$0.00001 par value, 100,000 shares authorized; 45,004 and 43,756 shares issued and outstanding at September 30, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	220,467	208,022
Accumulated deficit	(167,290)	(160,991)
Accumulated other comprehensive loss	(211)	(79)
Total stockholders' equity	52,966	46,952
Total liabilities and stockholders' equity	\$ 182,963	\$ 152,192

See notes to condensed consolidated financial statements.

## ENPHASE ENERGY, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS**  
(In thousands, except per share data)  
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net revenues	\$ 102,874	\$ 99,113	\$ 291,620	\$ 238,697
Cost of revenues	71,408	66,592	199,103	160,689
Gross profit	31,466	32,521	92,517	78,008
Operating expenses:				
Research and development	12,059	12,112	38,275	32,346
Sales and marketing	10,510	9,884	34,955	29,205
General and administrative	7,118	8,632	23,425	22,837
Total operating expenses	29,687	30,628	96,655	84,388
Income (loss) from operations	1,779	1,893	(4,138)	(6,380)
Other income (expense), net:				
Interest expense	(140)	(356)	(305)	(1,291)
Other income (expense)	(704)	(597)	(1,152)	(432)
Total other expense, net	(844)	(953)	(1,457)	(1,723)
Income (loss) before income taxes	935	940	(5,595)	(8,103)
Provision for income taxes	(311)	(127)	(704)	(351)
Net income (loss)	\$ 624	\$ 813	\$ (6,299)	\$ (8,454)
Net income (loss) per share:				
Net loss per share, basic and diluted				
Basic	\$ 0.01	\$ 0.02	\$ (0.14)	\$ (0.20)
Diluted	\$ 0.01	\$ 0.02	\$ (0.14)	\$ (0.20)
Shares used in per share calculation:				
Basic	44,734	43,128	44,339	42,664
Diluted	47,996	48,786	44,339	42,664

See notes to condensed consolidated financial statements.

## ENPHASE ENERGY, INC.

## CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)

(In thousands)

(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Net income (loss)	\$ 624	\$ 813	\$ (6,299)	\$ (8,454)
Other comprehensive income (loss):				
Foreign currency translation adjustments	187	(292)	(132)	(285)
Comprehensive income (loss)	\$ 811	\$ 521	\$ (6,431)	\$ (8,739)

See notes to condensed consolidated financial statements.

## ENPHASE ENERGY, INC.

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS**  
**(In thousands)**  
**(Unaudited)**

	Nine Months Ended September 30,	
	2015	2014
<b>Cash flows from operating activities:</b>		
Net loss	\$ (6,299)	\$ (8,454)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	7,704	6,004
Provision for doubtful accounts	344	711
Net loss on disposal of assets	479	247
Non-cash interest expense	120	256
Stock-based compensation	9,579	7,037
Revaluation of contingent consideration liability	(1,600)	—
Changes in operating assets and liabilities:		
Accounts receivable	(30,547)	(17,897)
Inventory	(15,127)	1,092
Prepaid expenses and other assets	(5,008)	(1,867)
Accounts payable, accrued and other liabilities	5,004	22,638
Warranty obligations	(1,134)	1,875
Deferred revenues	7,176	3,700
Net cash (used in) provided by operating activities	(29,309)	15,342
<b>Cash flows from investing activities:</b>		
Purchases of property and equipment	(9,682)	(9,836)
Net cash used in investing activities	(9,682)	(9,836)
<b>Cash flows from financing activities:</b>		
Borrowings under revolving credit facility	34,000	—
Payments toward revolving credit facility	(17,000)	—
Repayments of term loans	—	(2,847)
Proceeds from issuance of common stock under employee stock plans	2,866	3,958
Net cash provided by financing activities	19,866	1,111
Effect of exchange rate changes on cash	(416)	(270)
Net (decrease) increase in cash and cash equivalents	(19,541)	6,347
Cash and cash equivalents—Beginning of period	42,032	38,190
Cash and cash equivalents—End of period	\$ 22,491	\$ 44,537
<b>Supplemental disclosures of non-cash investing and financing activities:</b>		
Purchases of property and equipment included in accounts payable	\$ 584	\$ 1,291

See notes to condensed consolidated financial statements.

**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS  
(Unaudited)****1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES*****Description of Business***

Enphase Energy, Inc. and subsidiaries (the “Company”) designs, develops, and sells microinverter systems for the solar photovoltaic industry. The Company was incorporated in 2006 and began selling its products in 2008. The Company’s microinverter system consists of (i) an Enphase microinverter and related accessories that convert direct current (“DC”) power to grid-compliant alternating current (“AC”) power; (ii) an Envoy communications gateway device that collects and transmits performance information from each solar module to the Company’s hosted data center; and (iii) the Enlighten web-based software platform that collects and processes this information to enable customers to monitor and manage their solar power systems. The Company sells microinverter systems primarily to distributors who resell them to solar installers. The Company also sells directly to large installers as well as through original equipment manufacturers (“OEMs”) and strategic partners. The Company also offers operations and maintenance services for photovoltaic (“PV”) systems including preventive and corrective maintenance, solar panel cleaning and solar system commissioning.

***Basis of Presentation and Consolidation***

The accompanying condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the U.S. or GAAP. The condensed consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. All intercompany balances and transactions have been eliminated in the consolidation.

***Unaudited Interim Financial Information***

These accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the Securities and Exchange Commission (the “SEC”) for interim financial reporting. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, considered necessary to present fairly the Company’s financial condition, results of operations, comprehensive income (loss) and cash flows for the interim periods indicated. The results of operations for the three and nine months ended September 30, 2015 are not necessarily indicative of the operating results for the full year. Certain information and footnote disclosures typically included in annual consolidated financial statements have been condensed or omitted. Accordingly, these unaudited interim condensed consolidated financial statements should be read in conjunction with the consolidated financial statements and related notes included in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014.

There have been no material changes in the Company’s significant accounting policies during the nine months ended September 30, 2015, as compared to the significant accounting policies described in the Company’s Annual Report on Form 10-K for the year ended December 31, 2014. Reference is made to the disclosures therein for a summary of all of the Company’s significant accounting policies.

***Use of Estimates***

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates and assumptions reflected in the financial statements include revenue recognition, inventory valuation and accrued warranty obligations. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ materially from management’s estimates using different assumptions or under different conditions.

***Recent Accounting Pronouncements Not Yet Effective***

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under US GAAP. The updated standard’s core principle is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard generally requires an entity to identify performance obligations in its contracts, estimate the amount of variable consideration to be received in the transaction price, allocate the transaction price to each separate performance obligation, and recognize revenue as obligations are satisfied. In addition, the updated standard requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The effective date was recently deferred for one year to the interim and annual periods beginning on or after December 15, 2017.

Early adoption is permitted for interim and annual periods beginning on or after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. The Company has not yet selected a transition method and is currently evaluating the effect that the updated standard will have on its consolidated financial statements and related disclosures.

## 2. INVENTORY

Inventory as of September 30, 2015 and December 31, 2014 consists of the following (in thousands):

	September 30, 2015	December 31, 2014
Raw materials	\$ 2,882	\$ 3,429
Finished goods	33,835	18,161
Total inventory	<u>\$ 36,717</u>	<u>\$ 21,590</u>

## 3. WARRANTY OBLIGATIONS

The Company's warranty activities during the three and nine months ended September 30, 2015 and 2014 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Warranty obligations, beginning of period	\$ 33,763	\$ 32,969	\$ 33,940	\$ 30,432
Accruals for warranties issued during period	1,400	1,361	3,707	3,112
Changes in estimates	498	1,146	736	5,506
Settlements	(2,615)	(3,041)	(5,480)	(6,666)
Increase due to accretion expense	272	47	643	87
Other	(512)	(175)	(740)	(164)
Warranty obligations, end of period	<u>\$ 32,806</u>	<u>\$ 32,307</u>	<u>\$ 32,806</u>	<u>\$ 32,307</u>
Less current portion			\$ (6,612)	\$ (7,749)
Noncurrent			<u>\$ 26,194</u>	<u>\$ 24,558</u>

For the three and nine months ended September 30, 2015, incremental charges from changes in estimates resulted from higher projected estimated replacement costs. For the three and nine months ended September 30, 2014, incremental charges from changes in estimates, each related to the Company's second generation microinverter, consisted of \$1.1 million and \$4.2 million, respectively, to reflect higher than originally estimated failure rates. The remaining \$1.3 million incremental charge for the nine months ended September 30, 2014 was due to higher projected estimated replacement costs.

As of September 30, 2015, the \$32.8 million in warranty obligations included \$6.8 million measured at fair value (see Note 4—Fair Value Measurements).

## 4. FAIR VALUE MEASUREMENTS

The accounting guidance defines fair value as the price that would be received from selling an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. When determining the fair value measurements for assets and liabilities recorded at fair value, the Company considers the principal or most advantageous market in which it would transact and considers assumptions that market participants would use when pricing the asset or liability, such as inherent risk, transfer restrictions, and risk of nonperformance.

The fair value hierarchy requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. An asset's or liability's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. Three levels of inputs may be used to measure fair value:

- Level 1—Valuations based on quoted prices in active markets for identical assets or liabilities that the Company is able to access. Since valuations are based on quoted prices that are readily and regularly available in an active market, valuation of such assets or liabilities do not entail a significant degree of judgment.



- Level 2—Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.
- Level 3—Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

The following table presents the Company's assets and liabilities that were measured at fair value on a recurring basis and its categorization within the fair value hierarchy at September 30, 2015 and December 31, 2014 (in thousands):

	Fair Value Hierarchy	September 30, 2015	December 31, 2014
<b>Assets:</b>			
Foreign currency forward contracts	Level 2	\$ 116	\$ 76
<b>Liabilities:</b>			
Foreign currency forward contracts	Level 2	\$ 32	\$ —
Warranty obligations	Level 3	6,816	3,562
Contingent consideration	Level 3	700	2,300

#### Derivative Instruments

The Company utilizes foreign currency forward contracts from time to time to reduce the impact of foreign currency fluctuations arising from both sales and purchases denominated in Euros and the British Pound Sterling. At September 30, 2015 and December 31, 2014, the notional amounts of the Company's foreign currency forward contracts outstanding were \$7.1 million and \$1.5 million, respectively. For the nine months ended September 30, 2015 and 2014, the Company recorded net gains of \$0.1 million and \$0.1 million, respectively, related to foreign currency forward contracts in other income (expense), net.

#### Fair Value Option for Warranty Obligations Related to Microinverters Sold Since January 1, 2014

The Company's warranty obligations related to microinverters sold since January 1, 2014 provide the Company the right, but not the requirement, to assign its warranty obligations to a third-party. Under Accounting Standards Codification ("ASC") 825—Financial Instruments, ("fair value option"), an entity may choose to elect the fair value option for such warranties at the time it first recognizes the eligible item. The Company made an irrevocable election to account for all eligible warranty obligations associated with microinverters sold since January 1, 2014 at fair value. This election was made to reflect the underlying economics of the time value of money for an obligation that will be settled over an extended period of up to 25 years.

The Company estimates the fair value of warranty obligations by calculating the warranty obligations in the same manner as for sales prior to January 1, 2014 and applying an expected present value technique to that result. The expected present value technique, an income approach, converts future amounts into a single current discounted amount. In addition to the key estimates of failure rates, claim rates and replacement costs, the Company used certain Level 3 inputs which are unobservable and significant to the overall fair value measurement. Such additional assumptions included a discount rate based on the Company's credit-adjusted risk-free rate and compensation comprised of a profit element and risk premium required of a market participant to assume the obligation.

The following table provides information regarding changes in nonfinancial liabilities related to the Company's warranty obligations measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated (in thousands):

	Nine Months Ended September 30,	
	2015	2014
Balance at beginning of period	\$ 3,562	\$ —
Accruals for warranties issued during period	3,510	2,913
Changes in estimates	—	117
Settlements	(159)	(15)
Increase due to accretion expense	643	87
Other	(740)	(141)
Balance at end of period	<u>\$ 6,816</u>	<u>\$ 2,961</u>

### Contingent Consideration Liability

In December 2014, the Company acquired substantially all of the assets of Next Phase Solar, Inc. In connection with the acquisition, the Company recorded a contingent consideration liability. The selling party may be entitled to receive two contingent payments, each based on achievement of defined revenue targets for the two annual periods subsequent to the acquisition date. The range of undiscounted amounts the Company could be required to pay for each contingent payment is between zero and \$2.8 million. Any amounts due will be payable in early 2016 and 2017 based on achievement of defined 2015 and 2016 revenue targets, respectively.

During the two-year earnout period, the Company is required to reevaluate the fair value of the contingent consideration liability at each reporting period based on any new developments and record any changes in fair value. The fair value of the contingent consideration liability was estimated by applying the income approach. That measure is based on significant Level 3 inputs not observable in the market. Key assumptions include (i) probability adjusted level of revenues and the resultant payout; and (ii) a risk-adjusted discount rate estimated using a capital asset pricing model, which reflects an expected rate of return required by a market participant holding a financial instrument with risk attributes similar to the Company's contingent consideration liability.

The following table provides information regarding changes in financial liabilities related to the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the nine months ended September 30, 2015 (in thousands):

Balance—December 31, 2014	\$ 2,300
Revaluations	(1,600)
Balance—September 30, 2015	<u>\$ 700</u>

The decrease in fair value of the contingent consideration liability for the nine months ended September 30, 2015 was attributable to changes in management estimates related to the probability adjusted level of revenues. The gain was recorded in sales and marketing expenses in the condensed consolidated statements of operations.

### Quantitative and Qualitative Information about Level 3 Fair Value Measurements

As of September 30, 2015, the significant unobservable inputs used in the fair value measurement of the Company's liabilities designated as Level 3 are as follows:

Item Measured at Fair Value	Valuation Technique	Description of Significant Unobservable Input	Percent Used (Weighted-Average)
Warranty obligations for microinverters sold since January 1, 2014	Discounted cash flows	Profit element and risk premium	17%
		Credit-adjusted risk-free rate	21%
Contingent consideration liability	Probability-weighted discounted cash flows	Risk-adjusted discount rate	17%

## Sensitivity of Level 3 Inputs

### Warranty Obligations

Each of the significant unobservable inputs is independent of the other. The profit element and risk premium are estimated based on requirements of a third-party participant willing to assume the Company's warranty obligations. The discount rate is determined by reference to the Company's own credit standing at the fair value measurement date. Increasing or decreasing the profit element and risk premium input by 100 basis points would not have a material impact on the fair value measurement of the liability. Increasing the credit-adjusted risk-free rate ("discount rate") by 100 basis points would result in a \$0.2 million reduction of the liability. Decreasing the discount rate by 100 basis points would result in a \$0.2 million increase to the liability.

### Contingent Consideration Liability

Changes in assumed probability adjustments with respect to achievement of target metrics can materially impact the fair value measurement of contingent consideration as of the acquisition date and for each subsequent period. Assumptions about the probability and amount of payout require less subjectivity over the course of the earnout period as management refines estimates based on actual events. Due to the short duration of the earnout period of two years, increasing or decreasing the risk-adjusted discount rate by 100 basis points would not have a material impact on the fair value measurement of the contingent consideration liability.

## 5. GOODWILL AND INTANGIBLE ASSETS

	September 30, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill	\$ 3,745	\$ —	\$ 3,745	\$ 3,745	\$ —	\$ 3,745
Other indefinite-lived intangibles	\$ 286	\$ —	\$ 286	\$ 286	\$ —	\$ 286
Intangibles assets with finite lives:						
Customer relationships	900	(135)	765	900	—	900
Patents	750	(312)	438	750	(125)	625
Total	\$ 1,650	\$ (447)	\$ 1,203	\$ 1,650	\$ (125)	\$ 1,525

In July 2014, the Company purchased certain patents related to system interconnection and photovoltaic AC module construction. The patents are being amortized over their legal life of 3 years. The acquired customer relationships from the Company's December 2014 NPS acquisition are being amortized on a straight-line basis over its estimated useful life of 5 years.

For the nine months ended September 30, 2015, amortization expense related to intangible assets was \$0.3 million. As of September 30, 2015, estimated future amortization expense related to finite-lived intangible assets was as follows:

Year	(In thousands)
2015 (remaining 3 months)	\$ 108
2016	430
2017	305
2018	180
2019	180
Total	\$ 1,203

## 6. SHORT-TERM BORROWINGS

The Company has a \$50.0 million revolving credit facility (the "Revolver") with Wells Fargo Bank, N.A. ("Wells Fargo") that was entered into in November 2012 and subsequently amended in February 2014 to extend the maturity date to November 7, 2016. The amount of credit available under the Revolver is subject to a borrowing base calculation that limits

availability to a percentage of eligible domestic accounts receivable plus a percentage of the value of eligible domestic inventory, less certain reserves. Amounts advanced under the Revolver bear interest at an annual rate equal to, at the Company's option, either LIBOR or a "base rate" that is comprised of, among other things, the prime rate, plus a margin that is between 1.5% and 4.25% depending on the currency borrowed and the specific term of repayment. Advances under the Revolver may be drawn, repaid and redrawn until November 7, 2016, at which time all amounts borrowed must be repaid. The Revolver contains customary affirmative and negative covenants and events of default, and requires the Company to maintain at least \$15.0 million in liquidity, consisting of cash, cash equivalents, and availability on the Revolver. Of this \$15.0 million liquidity requirement, at least \$5.0 million must be undrawn availability. The Company was in compliance with all financial covenants of the Revolver as of September 30, 2015.

As of September 30, 2015, the Company's net availability under the Revolver, reflecting outstanding borrowings of \$17.0 million, was \$22.0 million.

## 7. COMMITMENTS AND CONTINGENCIES

**Contingencies**—The Company is not currently involved in any material legal proceedings. The Company may become involved in various legal proceedings and claims that arise in the ordinary course of business. Such matters are subject to uncertainty and there can be no assurance that such legal proceedings will not have a material adverse effect on its business, results of operations, financial position or cash flows.

## 8. STOCK-BASED COMPENSATION

The Company has adopted certain equity incentive and stock purchase plans as described in the consolidated financial statements and related notes included in the Company's Annual Report on Form 10-K for the year ended December 31, 2014.

### *Equity Awards Activity*

#### *Stock Options*

The following is a summary of stock option activity for the nine months ended September 30, 2015 (in thousands, except per share data):

	Number of Shares Outstanding	Weighted- Average Exercise Price per Share
Outstanding at December 31, 2014	8,632	\$ 4.75
Granted	1,041	9.48
Exercised	(647)	2.11
Canceled	(350)	9.56
Outstanding at September 30, 2015	8,676	5.32

The intrinsic value of options exercised in the nine months ended September 30, 2015 was \$4.2 million. As of September 30, 2015, the intrinsic value of options outstanding was \$9.9 million based on the closing price of the Company's stock as of September 30, 2015.

*Restricted Stock Units*

The following is a summary of restricted stock unit activity for the nine months ended September 30, 2015 (in thousands, except per share data):

	RSUs	Weighted Average Fair Value per Share at Grant Date
Outstanding at December 31, 2014	1,345	\$ 8.25
Granted	613	12.25
Vested	(429)	8.58
Canceled	(120)	11.32
Outstanding at September 30, 2015	<u>1,409</u>	<u>9.63</u>

The total fair value of restricted stock units that vested in the nine months ended September 30, 2015 was \$4.1 million. As of September 30, 2015, the intrinsic value of restricted stock units outstanding was \$5.2 million based on the closing price of the Company's stock as of September 30, 2015.

**Stock-Based Compensation Expense**

Compensation cost for all stock-based awards expected to vest is measured at fair value on the date of grant and recognized ratably over the requisite service period. The following table summarizes the components of total stock-based compensation expense included in the condensed consolidated statements of operations for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Cost of revenues	\$ 331	\$ 229	\$ 913	\$ 572
Research and development	1,141	824	3,379	2,215
Sales and marketing	803	635	2,510	1,816
General and administrative	1,008	842	2,777	2,434
Total	<u>\$ 3,283</u>	<u>\$ 2,530</u>	<u>\$ 9,579</u>	<u>\$ 7,037</u>

The following table summarizes stock-based compensation associated with stock options, restricted stock units, and employee stock purchase plan shares for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Stock options and restricted stock units	\$ 2,753	\$ 2,317	\$ 8,153	\$ 6,465
Employee stock purchase plan	530	213	1,426	572
Total	<u>\$ 3,283</u>	<u>\$ 2,530</u>	<u>\$ 9,579</u>	<u>\$ 7,037</u>

The following table presents the weighted-average grant date fair value of options granted for the periods presented and the assumptions used to estimate those values using a Black-Scholes option pricing model:

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Weighted average grant date fair value	\$ 3.01	\$ 6.98	\$ 5.40	\$ 5.43
Expected term (in years)	4.6	4.6	4.5	4.5
Expected volatility	72.2%	68.3%	72.1%	67.3%
Annual risk-free rate of return	1.5%	1.5%	1.4%	1.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%

The fair value of restricted stock units granted is determined based on the price of the Company's common stock on the date of grant.

As of September 30, 2015, there was approximately \$21.8 million of total unrecognized compensation cost related to unvested equity awards expected to be recognized over a weighted-average period of 2.6 years.

## 9. INCOME TAXES

The Company has used the discrete tax approach in calculating the tax expense for the three and nine months ended September 30, 2015 and 2014 due to the fact that a relatively small change in the Company's projected pre-tax net income (loss) could result in a volatile effective tax rate. Under the discrete method, the Company determines its tax (expense) benefit based upon actual results as if the interim period was an annual period. The tax provisions recorded were primarily related to income taxes in jurisdictions outside of the U.S.

## 10. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted income (loss) per share is computed in a similar manner, but it also includes the effect of potential common shares outstanding during the period, when dilutive. Potential common shares include outstanding in-the-money stock options, restricted stock units, shares to be purchased under the Company's employee stock purchase plan and warrants to purchase common stock. The dilutive effect of potentially dilutive common shares is reflected in diluted earnings per share by application of the treasury stock method. To the extent these potential common shares are antidilutive, they are excluded from the calculation of diluted net income (loss) per share.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Numerator:				
Net income (loss)	\$ 624	\$ 813	\$ (6,299)	\$ (8,454)
Denominator:				
Weighted average common shares outstanding for basic calculation	44,734	43,128	44,339	42,664
Effect of dilutive securities				
Employee stock-based awards	3,261	5,591	—	—
Warrants	1	67	—	—
Weighted average common shares outstanding for diluted calculation	47,996	48,786	44,339	42,664
Net income (loss) per share, basic	\$ 0.01	\$ 0.02	\$ (0.14)	\$ (0.20)
Net income (loss) per share, diluted	\$ 0.01	\$ 0.02	\$ (0.14)	\$ (0.20)

For the three months ended September 30, 2015 and 2014, the Company excluded 6.3 million and 0.6 million, respectively, of potential common shares outstanding from the calculation of diluted net income per share because their effect would have been antidilutive. In periods of net loss, all potential common shares were excluded from the diluted calculation because their effect would have been antidilutive. The following table summarizes the potential common shares excluded from the diluted calculation (in thousands):

	<b>Three Months Ended September 30,</b>		<b>Nine Months Ended September 30,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
Employee stock options	4,817	557	8,718	8,474
Restricted stock units	1,523	3	1,551	1,229
Warrants to purchase common stock	—	—	111	223
Total	6,340	560	10,380	9,926

## Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

### Forward-Looking Statements

*The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and the other financial information appearing elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations and involves risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential" or "continue" or the negative of these terms or other comparable terminology. For example, statements regarding our expectations as to future financial performance, expense levels and liquidity sources are forward-looking statements. Our actual results and the timing of events may differ materially from those discussed in our forward-looking statements as a result of various factors, including those discussed below and those discussed in the section entitled "Risk Factors" included in this Quarterly Report on Form 10-Q and our Annual Report on Form 10-K for the year ended December 31, 2014.*

### Overview

We deliver microinverter technology for the solar industry that increases energy production, simplifies design and installation, improves system uptime and reliability, reduces fire safety risk and provides a platform for intelligent energy management. We were founded in March 2006 and have grown rapidly to become the market leader in the microinverter category. Since our first commercial shipment in mid-2008, we have sold approximately 9.8 million microinverters as of September 30, 2015, which represents over 2.1 gigawatts (AC) of solar PV generating capacity. We currently offer microinverter systems targeting the residential and commercial markets in the United States, Canada, Mexico and other Latin America countries, the United Kingdom, France, the Benelux region, certain other European markets, Australia and New Zealand.

We sell our microinverter systems primarily to distributors who resell them to solar installers. We also sell directly to large installers and through original equipment manufacturers ("OEMs") and strategic partners.

### Components of Condensed Consolidated Statements of Operations

#### *Net Revenues*

We primarily generate net revenues from sales of our microinverter systems, which include microinverter units and related accessories, an Envoy communications gateway device, and our Enlighten web-based monitoring service. We sell to distributors, large installers, OEMs and strategic partners.

Our revenue is affected by changes in the volume and average selling prices of our microinverter systems, driven by supply and demand, sales incentives, and competitive product offerings. Our revenue growth is dependent on our ability to develop and introduce new products to meet the changing technology and performance requirements of our customers, the diversification and expansion of our revenue base, and our ability to market our products in a manner that increases awareness for microinverter technology and differentiates us in the marketplace.

#### *Cost of Revenues and Gross Profit*

Cost of revenues is comprised primarily of product costs, warranty, manufacturing personnel, logistics and freight costs, depreciation and amortization of test equipment and hosting services costs. Our product costs are impacted 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. Certain costs, primarily personnel and depreciation and amortization of test equipment, are not directly affected by sales volume.

We outsource our manufacturing to third-party contract manufacturers and generally negotiate product pricing with them on a quarterly basis. We believe our contract manufacturing partners have sufficient production capacity to meet the demand for our products for the foreseeable future.

In addition, third parties, including one of our contract manufacturers, serve as our logistics providers by warehousing and delivering our products in North America, Europe, Australia and New Zealand.

Gross profit may vary from quarter to quarter and is primarily affected by our average selling prices, product cost, product mix, warranty costs (including changes in estimates) and sales volume fluctuations.



### **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, recruiting costs, sales commissions and incentive and stock-based compensation.

Research and development expense includes personnel-related expenses such as salaries, incentive and stock-based compensation and employee benefits. Research and development employees are engaged in the design and development of power electronics, semiconductors, powerline communications and networking and software functionality. Research and development expense also includes third-party design and development costs, testing and evaluation costs, depreciation expense and other indirect costs. We devote substantial resources in ongoing research and development programs that focus on enhancements to and cost efficiencies in our existing products as well as development work related to new opportunities in energy management and energy storage. We intend to continue to invest substantial resources in our research and development efforts because we believe they are critical to maintaining our competitive position.

Sales and marketing expense consists primarily of personnel-related expenses such as salaries, commissions, incentive and stock-based compensation, employee benefits and travel and adjustments to the fair value of the acquisition-related contingent consideration liability. It also includes trade shows, marketing, customer support and other indirect costs. We expect to continue to make the necessary investments to enable us to execute our strategy to increase our market penetration geographically and enter into new markets by expanding our customer base of distributors, large installers, OEMs and strategic partners. We sell our products in the United States, Canada, Mexico and other Latin America countries, the United Kingdom, France, the Benelux region, certain other European markets, Australia and New Zealand. We expect to continue to expand the geographic reach of our product offerings and explore new sales channels in addressable markets in the future.

General and administrative expense consists primarily of salaries, incentive and stock-based compensation and employee benefits for personnel related to our executive, finance, human resources, information technology and legal organizations. General and administrative expense also includes facilities costs and fees for professional services. Professional services consist primarily of outside legal, accounting and information technology consulting costs.

### **Other Income (Expense), Net**

Other income (expense), net includes interest expense on amounts under our outstanding term loans prior to 2015 and non-cash interest expense related to the amortization of debt discounts and deferred financing costs. Other income (expense), net also includes gains or losses upon conversion of non-U.S. dollar transactions into U.S. dollars and from foreign currency forward contracts.

### **Provision for Income Taxes**

We are subject to income taxes in the countries where we sell our products, including the United States where we sell the majority of our products. As we have expanded the sale of products to customers outside the United States, we have become subject to taxation based on the foreign statutory rates in the countries where these sales took place. As sales in foreign jurisdictions increase in the future, our effective tax rate may fluctuate accordingly. Due to the history of losses we have generated in the United States since inception, we believe it is more-likely-than-not that all of our U.S. and state deferred tax assets will not be realized as of September 30, 2015.

## **Results of Operations for the Three and Nine Months Ended September 30, 2015 and 2014**

### **Net Revenues**

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
Net revenues	\$ 102,874	\$ 99,113	\$ 3,761	4%	\$ 291,620	\$ 238,697	\$ 52,923	22%

### **Three Months Ended September 30, 2015 and 2014**

Net revenues increased by 4% for the three months ended September 30, 2015, as compared to the same period in 2014, due to higher volume of microinverter systems sold. We sold 950,000 microinverter units in the three months ended September 30, 2015, compared to 760,000 units in the same period in 2014. The growth in net revenues was not commensurate with the growth in unit shipments due to declining average selling prices. Average selling prices per watt for microinverters shipped

declined approximately 18% in the third quarter of 2015, as compared to the same period in 2014. We expect average selling prices for microinverters to continue to decline in the future which may negatively affect net revenues.

#### *Nine Months Ended September 30, 2015 and 2014*

Net revenues increased by 22% for the nine months ended September 30, 2015, compared to the same period in 2014, due to higher volume of microinverter systems sold. We sold 2,528,000 microinverter units in the nine months ended September 30, 2015, compared to 1,781,000 units in the same period in 2014. The growth in net revenues was not commensurate with the growth in unit shipments due to declining average selling prices. Average selling prices per watt for microinverters shipped declined approximately 14% in the nine months ended September 30, 2015, as compared to the same period in 2014. We expect average selling prices for microinverters to continue to decline in the future which may negatively affect net revenues.

#### **Cost of Revenues and Gross Profit**

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
Cost of revenues	\$ 71,408	\$ 66,592	\$ 4,816	7 %	\$ 199,103	\$ 160,689	\$ 38,414	24%
Gross profit	31,466	32,521	(1,055)	(3)%	92,517	78,008	14,509	19%
Gross margin	30.6%	32.8%			31.7%	32.7%		

#### *Three Months Ended September 30, 2015 and 2014*

Cost of revenues increased by 7% for the three months ended September 30, 2015, as compared to the same period in 2014, and was attributable to the greater volume of shipments of our products. Gross margin decreased by 2.2 percentage points for the three months ended September 30, 2015, as compared to the same period in 2014. The decline in average selling price outpaced the reduction in our product costs which contributed to the decline in gross margin. Gross margin for the three months ended September 30, 2015 benefited from lower warranty expense as a percentage of net revenues, which was 1.6 percent, as compared to 2.4 percent for the same period in 2014. The decrease in warranty expense as a percentage of revenues was attributable to lower incremental charges from changes in estimates during the three months ended September 30, 2015, as compared to the same period in 2014. We expect average product costs to continue to decline in the future. The timing of product cost reductions relative to the declines in average selling prices will affect gross margin.

#### *Nine Months Ended September 30, 2015 and 2014*

Cost of revenues increased by 24% for the nine months ended September 30, 2015, as compared to the same period in 2014, primarily due to the corresponding increase in net revenues. Gross margin decreased by 1.0 percentage point for the nine months ended September 30, 2015, as compared to the same period in 2014. The decline in average selling price outpaced the reduction in our product costs which contributed to the decline in gross margin. Gross margin for the nine months ended September 30, 2015 benefited from lower warranty expense as a percentage of net revenues, which was 1.6 percent, as compared to 2.4 percent for the same period in 2014. The decrease in warranty expense as a percentage of revenues was attributable to lower incremental charges from changes in estimates during the nine months ended September 30, 2015, as compared to the same period in 2014. We expect average product costs to continue to decline in the future. The timing of product cost reductions relative to the declines in average selling prices will affect gross margin.

#### **Research and Development**

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
Research and development	\$ 12,059	\$ 12,112	\$ (53)	— %	\$ 38,275	\$ 32,346	\$ 5,929	18%

#### *Three Months Ended September 30, 2015 and 2014*

Research and development expenses were flat for the three months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs decreased by \$0.5 million. The decrease was attributed to lower incentive compensation

expense of \$2.4 million for the three months ended September 30, 2015, as compared to the same period in 2014. This decrease was offset by a \$1.9 million increase in personnel-related costs due to the additions in headcount to support expanded research and development initiatives, including development of new products as well as enhancements and cost reductions to existing products. The decrease in personnel-related costs was offset by an increase in third-party development costs, research equipment depreciation and prototype material expense. The amount of research and development expenses may fluctuate from period to period due to the differing levels and stages of development activity.

#### *Nine Months Ended September 30, 2015 and 2014*

Research and development expenses increased by 18% for the nine months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs increased by \$3.8 million. The increase was attributable to a \$6.8 million increase in personnel-related costs due to additions in headcount to support expanded research and development initiatives including development of new products as well as enhancements and cost reductions to existing products. This increase was offset by lower incentive compensation expense of \$3.0 million for the nine months ended September 30, 2015, as compared to the same period in 2014. In addition, the remaining increase was primarily attributable to a \$1.5 million increase in research equipment depreciation and prototype material expense and a \$0.8 million increase in third-party development costs.

#### **Sales and Marketing**

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
Sales and marketing	\$ 10,510	\$ 9,884	\$ 626	6%	\$ 34,955	\$ 29,205	\$ 5,750	20%

#### *Three Months Ended September 30, 2015 and 2014*

Sales and marketing expenses increased by 6% for the three months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs increased by \$0.4 million. The increase was attributable to a \$1.8 million increase in personnel-related costs due to growth in headcount. This increase was offset by lower incentive compensation expense of \$1.4 million for the three months ended September 30, 2015, as compared to the same period in 2014. Other increases include a \$0.4 million increase in marketing expenses and \$0.5 million increase in bad debt expense, which includes \$0.3 million related to a bad debt recovery received in the three months ended September 30, 2014. These increases were offset by a \$0.7 million benefit related to a revaluation of acquisition-related contingent consideration liability.

#### *Nine Months Ended September 30, 2015 and 2014*

Sales and marketing expenses increased by 20% for the nine months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs increased by \$5.5 million. The increase was attributable to a \$6.8 million increase in personnel-related costs due to growth in headcount. This increase was offset by lower incentive compensation expense of \$1.3 million for the nine months ended September 30, 2015, as compared to the same period in 2014. Other increases include a \$1.6 million increase in marketing and consulting expenses and a \$0.3 million increase in amortization of intangible assets. These increases were offset by a \$1.6 million benefit related to a revaluation of acquisition-related contingent consideration liability.

#### **General and Administrative**

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
General and administrative	\$ 7,118	\$ 8,632	\$ (1,514)	(18)%	\$ 23,425	\$ 22,837	\$ 588	3%

#### *Three Months Ended September 30, 2015 and 2014*

General and administrative expenses decreased by 18% for the three months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs decreased by \$1.6 million and were primarily attributable to lower incentive compensation expense of \$1.8 million for the three months ended September 30, 2015, as compared to the same period in 2014. This decrease was offset by a \$0.2 million increase in stock-based compensation. Other increases include a \$0.5 million increase in facilities-related expenses including rent, utilities and depreciation related to corporate fixed assets offset by a \$0.4 million decrease in professional services costs and other corporate expenses.

### *Nine Months Ended September 30, 2015 and 2014*

General and administrative expenses increased by 3% for the nine months ended September 30, 2015, as compared to the same period in 2014. Personnel-related costs decreased by \$1.5 million. The decrease was attributable to lower incentive compensation expense of \$2.5 million for the nine months ended September 30, 2015, as compared to the same period in 2014. This decrease was offset by a \$0.6 million increase related to annual salary adjustments and a \$0.4 million increase in stock-based compensation. Other increases include a \$1.0 million increase in corporate-level expenses including rent, utilities and depreciation related to corporate fixed assets, a \$0.5 million increase in professional services costs and a \$0.6 million increase in recruiting costs.

### ***Other Income (Expense), Net***

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2015	2014	\$	%	2015	2014	\$	%
	(dollars in thousands)				(dollars in thousands)			
Other expense, net	\$ (844)	\$ (953)	\$ 109	(11)%	\$ (1,457)	\$ (1,723)	\$ 266	(15)%

### *Three Months Ended September 30, 2015 and 2014*

Other expense, net, for the three months ended September 30, 2015 decreased by \$0.1 million, as compared to the same period in 2014. The decrease was primarily attributable to a \$0.2 million decrease in interest expense, as our term loans were repaid in full in December 2014. This decrease was offset by a \$0.1 million increase in losses from unfavorable foreign currency exchange movements associated with transactions denominated in foreign currencies.

### *Nine Months Ended September 30, 2015 and 2014*

Other expense, net, for the nine months ended September 30, 2015 decreased by \$0.3 million, as compared to the same period in 2014. The decrease was attributable to a \$1.0 million decrease in interest expense, as our term loans were repaid in full in December 2014. This decrease was offset by a \$0.7 million increase in losses from unfavorable foreign currency exchange movements associated with transactions denominated in foreign currencies.

## **Liquidity and Capital Resources**

### ***Sources of Liquidity***

As of September 30, 2015, we had \$22.5 million in cash and cash equivalents and working capital of \$62.5 million. Cash and cash equivalents held in the United States were \$17.9 million and consisted primarily of non-interest bearing checking deposits, with the remainder held in various foreign subsidiaries. In addition, we have a \$50.0 million revolving credit facility (the "Revolver") with Wells Fargo Bank, N.A. ("Wells Fargo") that was entered into in November 2012 and subsequently amended in February 2014 to extend the maturity date to November 7, 2016. The amount of credit available under the Revolver is subject to a borrowing base calculation that limits availability to a percentage of eligible domestic accounts receivable plus a

percentage of the value of eligible domestic inventory, less certain reserves. Amounts advanced under the Revolver bear interest at an annual rate equal to, at our option, either LIBOR or a “base rate” that is comprised of, among other things, the prime rate, plus a margin that is between 1.5% and 4.25% depending on the currency borrowed and the specific term of repayment. Advances under the Revolver may be drawn, repaid and redrawn until November 7, 2016, at which time all amounts borrowed must be repaid. The Revolver contains customary affirmative and negative covenants and events of default, and requires us to maintain at least \$15.0 million of liquidity, consisting of cash, cash equivalents, and availability on the Revolver. Of this \$15.0 million liquidity requirement, at least \$5.0 million must be undrawn availability. We were in compliance with all financial covenants of the Revolver as of September 30, 2015.

As of September 30, 2015, our net availability under the Revolver, reflecting outstanding borrowings of \$17.0 million, was \$22.0 million.

We believe our current cash and cash equivalents of \$22.5 million as of September 30, 2015, together with borrowings expected to be available under our Revolver with Wells Fargo, will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and obligations and fund our operations for at least the next 12 months.

If additional sources of liquidity are needed, we may consider new debt or equity offerings, but there is no assurance that such transactions could be consummated on acceptable terms 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.

The following table summarizes our cash flows for the periods indicated:

	Nine Months Ended September 30,	
	2015	2014
	(In thousands)	
Net cash (used in) provided by operating activities	\$ (29,309)	\$ 15,342
Net cash used in investing activities	(9,682)	(9,836)
Net cash provided by financing activities	19,866	1,111

### **Operating Activities**

For the nine months ended September 30, 2015, net cash used in operating activities of \$29.3 million was primarily attributable to a net loss of \$6.3 million and net cash outflow from changes in our operating assets and liabilities of \$39.6 million, which was partially offset by non-cash charges of \$16.6 million primarily consisting of stock-based compensation and depreciation and amortization. Cash used for operating assets and liabilities included a \$30.5 million increase in accounts receivable as a result of a larger percentage of our third quarter sales occurring in the last month of the quarter, as compared to a more linear sales pattern in the fourth quarter of 2014. Cash flows from operations could be impacted by the timing and nature of pricing actions, the timing of product cost reductions, our ability to adjust operating expenses to more closely align with the growth of our business, as well as fluctuations in working capital. Other changes in operating assets and liabilities that used cash included a \$15.1 million increase in inventory, a \$5.0 million increase in other assets and a \$1.1 million decrease in warranty obligations. The increase in other assets included a \$2.5 million increase in customer financing receivables and the corresponding deferred costs. Cash provided by changes in operating assets and liabilities included a \$5.0 million increase in accounts payable, accrued and other liabilities and a \$7.2 million increase in deferred revenue. The increase in accounts payable, accrued and other liabilities was due to timing of vendor payments as well as increased inventory purchases. The increase in deferred revenue included revenue related to our Enlighten service as well as deferred product revenue corresponding with the increase in customer financing receivables.

For the nine months ended September 30, 2014, net cash provided by operating activities was \$15.3 million, primarily resulting from \$8.5 million of net loss adjusted by non-cash charges of \$14.3 million and a net cash inflow from changes in operating assets and liabilities of \$9.5 million. Non-cash charges primarily consisted of stock-based compensation of \$7.0 million, depreciation and amortization of \$6.0 million and a provision for doubtful accounts of \$0.7 million. Changes in operating assets and liabilities was positively impacted by a \$22.6 million increase in accounts payable, accrued and other liabilities, a \$3.7 million increase in deferred revenue related to sales of our Enlighten web-based monitoring service, a \$1.9 million increase in warranty obligations and a \$1.1 million decrease in inventory. Uses of cash include increases in operating assets consisting of a \$17.9 million increase in accounts receivable and a \$1.9 million increase to prepaid expenses and other assets. The increase in accounts payable was the result of higher business volume and the timing of vendor payments. The increase in accrued and other liabilities was attributable to increases in accruals for customer rebate programs as well as employee incentive compensation. The increase in accounts receivable was reflective of the overall growth in revenues. The increase in other assets includes replacement units on-hand for use in servicing our warranty obligations.

### **Investing Activities**

For the nine months ended September 30, 2015, net cash used in investing activities was \$9.7 million, primarily as a result of purchases of test and assembly equipment and internally developed software additions.

For the nine months ended September 30, 2014, net cash used in investing activities was \$9.8 million, primarily as a result of purchases of test and assembly equipment and internally developed software additions.

### **Financing Activities**

For the nine months ended September 30, 2015, net cash provided by financing activities was \$19.9 million, consisting of \$17.0 million in net borrowings under the Revolver and \$2.9 million in proceeds from the issuance of common stock under employee stock plans.

For the nine months ended September 30, 2014, net cash provided by financing activities of \$1.1 million and consisted of \$4.0 million in cash received from the exercise of stock options and the issuance of common stock under our employee stock purchase plan. These inflows of cash were offset by principal repayments of term loans of \$2.9 million.

### **Contractual Obligations**

There were no material changes during the nine months ended September 30, 2015 to our contractual commitments as presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2014 Form 10-K that were outside the ordinary course of our business.

### **Off-Balance Sheet Arrangements**

As of September 30, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

### **Critical Accounting Policies**

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., or GAAP. In connection with the preparation of our condensed consolidated financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our consolidated financial statements are presented fairly and in accordance with GAAP. However, because future events and their effects cannot be determined with certainty, actual results could differ from our assumptions and estimates. To the extent that there are material differences between these estimates and actual results, our future financial statement presentation, financial condition, results of operations and cash flows will be affected.

We consider an accounting policy to be critical if it requires an accounting estimate to be made based on assumptions about matters that are highly uncertain at the time the estimate is made, and if different estimates that reasonably could have been used, or changes in the accounting estimates that are reasonably likely to occur periodically, could materially impact the consolidated financial statements.

There have been no significant changes during the nine months ended September 30, 2015 to the items that we disclosed as our critical accounting policies and estimates in Management’s Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2014.

### **Recent Accounting Pronouncements Not Yet Effective**

In May 2014, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under US GAAP. The updated standard’s core principle is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard generally requires an entity to identify performance obligations in its contracts, estimate the amount of variable consideration to be received in the transaction price, allocate the transaction price to each separate performance obligation, and recognize revenue as obligations are satisfied. In addition, the updated standard requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. The

effective date was recently deferred for one year to the interim and annual periods beginning on or after December 15, 2017. Early adoption is permitted for interim and annual periods beginning on or after December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. We have not yet selected a transition method and are currently evaluating the effect that the updated standard will have on our consolidated financial statements and related disclosures.

**Item 3. Quantitative and Qualitative Disclosures About Market Risk**

For quantitative and qualitative disclosures about market risk, see Item 7A, “Quantitative and Qualitative Disclosures About Market Risk” of our annual report on Form 10-K for the year ended December 31, 2014. Our exposures to market risk have not changed materially since December 31, 2014.

**Item 4. Controls and Procedures**

***Evaluation of 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 as of September 30, 2015. The term “disclosure controls and procedures,” as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, includes, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company’s management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of September 30, 2015, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

Management recognizes that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving their objectives and management necessarily applies its judgment in evaluating the cost-benefit relationship of possible controls and procedures.

***Changes in Internal Control***

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report that materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.



## PART II. OTHER INFORMATION

### Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations. We are not currently involved in any material legal proceedings. We may, however, be involved in material legal proceedings in the future. Such matters are subject to uncertainty and there can be no assurance that such legal proceedings will not have a material adverse effect on our business, results of operations, financial position or cash flows.

### Item 1A. Risk Factors

*We have identified the following risks and uncertainties that may have a material adverse effect on our business, financial condition or results of operations. The risks described below are not the only ones we face. Additional risks not presently known to us or that we currently believe are not material may also significantly impair our business operations. Our business could be harmed by any of these risks. The trading price of our common stock could decline due to any of these risks, and you may lose all or part of your investment. In assessing these risks, you should also refer to the other information contained in this Quarterly Report on Form 10-Q, including our condensed consolidated financial statements and related notes.*

*We have marked with an asterisk (\*) those risks described below that reflect substantive changes from, or additions to, the risks described in our Annual Report on Form 10-K for the year ended December 31, 2014.*

***\*We have a history of losses which may continue in the future, and we cannot be certain that we will achieve or sustain profitability.***

We have incurred significant net losses since we began doing business, including a net loss of \$6.3 million during the nine months ended September 30, 2015. As of September 30, 2015, we had an accumulated deficit of \$167.3 million. We have incurred substantial operating losses since our inception, and we may continue to incur additional losses in the future. Our revenue growth may slow or revenue may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our offerings, 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 generate sufficient revenue to support our operations, we may not be able to achieve or sustain profitability.

***Our relatively short operating history in a rapidly changing industry makes it difficult to evaluate our current business and future prospects.***

While we have been in existence since 2006 and began shipping our products in commercial quantities until mid-2008, much of our growth has occurred in recent periods. Our relatively short operating history makes it difficult to evaluate our current business and future prospects. We have encountered and will continue to encounter risks and difficulties frequently experienced by growing companies in rapidly changing industries, including increased expenses as we continue to grow our business. If we do not manage these risks and overcome these difficulties successfully, our business will suffer.

Since we began commercial shipments of our products, our revenue, gross profit and results of operations have varied and are likely to continue to vary from quarter to quarter due to a number of factors, many of which are not within our control. It is difficult for us to accurately forecast our future revenue and gross profit and plan expenses accordingly and, therefore, it is difficult for us to predict our future results of operations.

***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 microinverter systems are utilized in solar photovoltaic, or PV, installations, which provide on-site distributed power generation. 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 will adopt solar PV systems as an alternative energy source at levels sufficient to continue to grow our business. Traditional electricity distribution is based on the regulated industry model whereby businesses and consumers obtain their electricity from a government regulated utility. For alternative methods of distributed power to succeed, businesses and consumers must adopt new purchasing practices. The viability and continued growth in demand for solar energy solutions, and in turn, our products, may be impacted by many factors outside of our control, including:

- market acceptance of solar PV systems based on our product platform;

- 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;
- the cost and availability of key raw materials and components used in the production of solar PV systems;
- prices of traditional utility-provided 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 demand for solar energy solutions fails to develop sufficiently, demand for our customers' products as well as demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

Short-term demand and supply imbalances, especially for solar module technology, have recently caused prices for solar technology solutions to decline rapidly. Furthermore, competition in the solar industry has increased due to the emergence of Asian manufacturers along the entire solar value chain causing further price declines, excess inventory and oversupply. These market disruptions may continue to occur and may increase pressure to reduce prices, which could adversely affect our business and financial results.

***\*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 nine months ended September 30, 2015, CED Greentech and Vivint Solar, Inc. accounted for 17% and 13% of total net revenues, respectively. In 2014, Vivint Solar, Inc. and CED Greentech accounted for 24% and 16% of total net revenues, respectively. In 2013, Vivint Solar, Inc., CED Greentech and Focused Energy, Inc. accounted for 15%, 14% and 11% of total net revenues, respectively. 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. Although we have agreements with some of our largest customers, these agreements generally do not have long-term purchase commitments and are generally terminable by either party after a relatively short notice period. In addition, these customers may decide to no longer use, or to reduce the use of, our products and services for other reasons which may be out of our control. For example, Vivint Solar, Inc. is pursuing a multi-sourcing strategy, and therefore, is not sole-sourcing our microinverters, which has resulted and may continue to result in a reduction in our revenue generated from sales to Vivint. The loss of, or events affecting, Vivint or one or more of our other large customers have had, could have and could continue to have a material adverse effect on our business, financial condition and results of operations.

***\*Our gross profit may fluctuate over time, which could impair our ability to achieve or maintain profitability.***

Our gross profit has varied in the past and is likely to continue to vary significantly from period to period. Our gross profit may be adversely affected by numerous factors, some of which are beyond our control, including:

- changes in customer, geographic or product mix;
- increased price competition, including the impact of customer and competitor discounts and rebates;
- our ability to reduce and control product costs, including our ability to make product cost reductions in a timely manner to offset declines in our product prices;
- warranty costs and reserves, including changes resulting from changes in estimates related to the long-term performance of our products, product replacement costs and warranty claim rates;
- loss of cost savings due to changes in component or raw material pricing or charges incurred due to inventory holding periods if product demand is not correctly anticipated;
- introduction of new products;
- ordering patterns from our distributors;

- price reductions on older products to sell remaining inventory;
- our ability to reduce production costs, such as through technology innovations, in order to offset price declines in our products over time;
- changes in shipment volume;
- changes in distribution channels;
- excess and obsolete inventory and inventory holding charges;
- expediting costs incurred to meet customer delivery requirements; and
- fluctuations in foreign currency exchange rates.

Fluctuations in gross profit may adversely affect our ability to manage our business or achieve or maintain profitability.

***\*The inverter industry is highly competitive and we expect to face increased competition as new and existing competitors introduce microinverter products, which could negatively impact our results of operations and market share.***

The market for solar PV solutions is highly competitive. To date, we have competed primarily against central or string inverter manufacturers. Marketing and selling our microinverter systems against traditional inverter solutions is highly competitive. Currently, competitors in the inverter market range from large companies such as SMA Solar Technology AG, Fronius International GmbH and ABB Ltd. to SolarEdge Technologies, offering DC optimized inverter systems, and other emerging companies offering alternative microinverter, DC to DC optimizer and other power electronic solutions.

Competition has intensified and we expect it to continue to intensify as new and existing competitors enter the microinverter market and additional add-on components like DC to DC optimizers that can be used with central or string inverters continue to gain more traction. SMA Solar Technology AG and ABB Ltd. market and sell microinverter products, and several new entrants to the microinverter market have recently announced plans to ship or have already shipped products. We believe that a number of companies have developed or are developing microinverters and other products that will compete directly with our microinverter systems in the module-level power electronics, or MLPE market, including low-cost Asian manufacturers. We expect competition to intensify as new and existing competitors enter the PV solutions market. In addition, central and string inverter manufacturers continue to drive down their prices putting additional pressure on us and other alternative technologies.

Several of our existing and potential competitors are significantly larger, have greater financial, marketing, distribution, customer support and other resources, are more established than we are, and have significantly better brand recognition, especially in certain markets. Some of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for these products and technologies. Further, certain competitors may be able to develop new products more quickly than we can 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 microinverter systems in order to compete effectively. Suppliers of solar products, particularly solar modules, have experienced eroding prices over the last several years and as a result many have faced margin compression and declining revenues. 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.

We also may face competition from some of our customers or potential customers who evaluate our capabilities against the merits of manufacturing products internally. For instance, SunPower Corporation recently acquired SolarBridge Technologies, Inc., a microinverter manufacturer selling in small volumes. Other solar module manufacturers could also develop or acquire competing inverter technology or attempt to develop components that directly perform DC to AC conversion in the module itself. Due to the fact that such customers may not seek to make a profit directly from the manufacture of these products, they may have the ability to manufacture competitive products at a lower cost than we would charge such customers. As a result, these customers or potential customers may purchase fewer of our microinverter systems or sell products that compete with our microinverters systems, which would negatively impact our revenue and gross profit.

***\*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 microinverter systems may not achieve broader market acceptance, which would prevent us from increasing our revenue and market share.***

If we fail to achieve broader market acceptance of our products, there would be an adverse impact on our ability to increase our revenue, gain market share and achieve and sustain profitability. Our ability to achieve broader market acceptance for our products will be impacted by a number of factors, including:

- our ability to produce microinverter systems that compete favorably against other solutions on the basis of price, quality, reliability and performance;
- our ability to timely introduce and complete new designs and timely qualify and certify our products;
- whether installers, system owners and solar financing providers will continue to adopt our microinverter systems, which is a relatively new technology with a limited history with respect to reliability and performance;
- whether installers, system owners and solar financing providers will be willing to purchase microinverter systems from us given our limited operating history;
- the ability of prospective system owners to obtain long-term financing for solar PV installations based on our product platform on acceptable terms or at all;
- our ability to develop products that comply with local standards and regulatory requirements, as well as potential in-country manufacturing requirements; and
- our ability to develop and maintain successful relationships with our customers and suppliers.

In addition, our ability to achieve increased market share will depend on our ability to increase sales to established solar installers, who have traditionally sold central or string inverters. These installers often have made substantial investments in design, installation resources and training in traditional central or string inverter systems, which may create challenges for us to achieve their adoption of our microinverter systems.

***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.***

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, 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.

In general, the cost of solar power currently exceeds retail electricity rates, and we believe this tendency will continue in the near term. As a result, national, state and local government bodies in many countries, most notably Australia, Canada, France, Belgium, Germany, Italy, Japan, the People's Republic of China, the United Kingdom, Spain and the United States, have provided incentives in the form of feed-in tariffs, or FiTs, rebates, tax credits and other incentives to system owners, distributors, system integrators and manufacturers of solar PV systems to promote the use of solar electricity in on-grid applications and to reduce dependency on other forms of energy. Many of these government incentives expire, phase out over time, terminate upon the exhaustion of the allocated funding, require renewal by the applicable authority or are being changed by governments due to changing market circumstances or changes to national, state or local energy policy.

Electric utility companies or generators of electricity from other non-solar renewable sources of electricity may successfully lobby for changes in the relevant legislation in their markets that are harmful to the solar industry. Reductions in, or eliminations or expirations of, governmental incentives in regions that we focus our sales efforts could result in decreased demand for and lower revenue from solar PV systems there, which would adversely affect sales of our products. In addition, our ability to successfully penetrate new geographic markets may depend on new countries adopting and maintaining incentives to promote solar electricity, to the extent such incentives are not currently in place. Additionally, electric utility companies may establish pricing structures or interconnection requirements that could adversely affect our sales and be harmful to the solar and distributed rooftop solar generation industry.

***\*Our focus on a limited number of specific markets increases risks associated with the elimination or expiration of governmental subsidies and economic incentives for on-grid solar electricity applications.***

To date, we have generated the majority of our revenues from North America and expect to continue to generate a substantial amount of our revenues from North America in the future. There are a number of important incentives that are expected to phase-out or terminate in the future, which could adversely affect sales of our products. A substantial majority of our revenues come from the United States, which has both federal and state incentives. For instance, the Renewable Energy and Job Creation Act of 2008 provides a 30% federal tax credit for residential and commercial solar installations, which expires on December 31, 2016.

We derive a significant portion of our revenues from California, which is the largest single solar market in the United States. In 2007, the State of California launched its 10-year, \$3 billion “Go Solar California” campaign, which encourages the installation of an aggregate of 3,000 MW of solar energy systems in homes and businesses by the end of 2016. The largest part of the campaign, the “California Solar Initiative,” provides rebates and performance-based incentives which decrease in intervals as installation thresholds are met. The “Go Solar California” program is scheduled to expire on December 31, 2016, but the pace of installations has been high and the program is likely to conclude sooner. Both Pacific Gas and Electric and San Diego Gas and Electric have surpassed all installation thresholds in the residential sector and are no longer accepting applications. Pacific Gas and Electric is placing all new applications for the commercial sector on a waiting list, and these applications may not be able to receive incentives. Programs for other utilities and market segments continue but could conclude prior to December 31, 2016 if installations continue at their current pace.

We also sell our products in Europe. A number of European countries, including Germany and Belgium and the United Kingdom, have adopted reductions to their FiTs, and the United Kingdom’s FiT program is scheduled to terminate at the end of 2015. Other countries such as Spain and Italy have also suspended or concluded their FiT programs. Certain countries, notably Greece and Spain, have proposed or enacted taxes levied on renewable energy. These and related developments have significantly impacted the solar industry in Europe and may adversely affect the future demand for the solar energy solutions in Europe.

We also sell our products in Australia. In 2012, Australia enacted a national price on carbon emissions intended to increase the cost of traditional energy sources, thereby making renewable energy sources more attractive. Beginning in 2012, several states in Australia began to gradually reduce their FiTs. In 2013, Australia elected a new national government. The new leadership pledged to revise national energy policy, including potentially reducing Australia’s renewable energy target and revising certain renewable energy financing mechanisms. In July 2014, the new leadership successfully repealed the tax on carbon emissions.

We also sell our products in Ontario, Canada. The Ontario Power Authority Green Energy and Green Economy Act of 2009 created two separate FiT programs for projects greater than 10kW and for projects less than 10kW. These FiT programs provide participants with a fixed price for electricity produced over a 20-year contract term. Both programs were temporarily suspended for further review. The program for projects less than 10kW was re-opened to new applications in July 2012 with a procurement target of 50 MW. The program for projects between 10kW and 500kW was re-opened for new applications between December 14, 2012 and January 18, 2013 with a procurement target of 200 MW. The Government of Ontario has announced plans for annual procurement targets of 50MW of projects under 10kW and 150MW of projects between 10kW and 500kW through 2017. However, all procurement occurs at the direction of the Government of Ontario, and these plans could change or market conditions could result in procurement targets not being met. Furthermore, the Government of Ontario has the authority to change the FiTs for future contracts at its discretion and has the authority to modify, suspend, or discontinue the program at any time. Suspension of the FiT program in Ontario directly impacted and could continue to impact our business. Furthermore, any future suspension or modification of the program could negatively affect our business, financial condition and results of operations.

We believe the tax credit, grant, tariff and other incentive programs have had a positive effect on our sales since inception. However, unless these programs are further extended, the phase-out of such programs could adversely affect sales of our products in the future. The reductions in incentives and uncertainty around future energy policy, including local content requirements, have negatively affected and may continue to negatively affect our business, financial condition, and results of operations as we seek to increase our business domestically and abroad. Additionally, as we further expand to other countries, changes in incentive programs or electricity policies could negatively affect returns on our investments in those countries as well as our business, financial condition, and results of operations.

***\*Changes in current laws or regulations or the imposition of new laws or regulations, or new interpretations thereof, by federal or state agencies or foreign governments could impair our ability to compete in international markets.***

Changes in current laws or regulations applicable to us or the imposition of new laws and regulations in the United States or other jurisdictions in which we do business, such as Mexico and other Latin America countries, Australia, New Zealand, Canada, France, Italy, the United Kingdom, the Benelux region and China, could materially and adversely affect our business, financial condition and results of operations. 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.

For example, the Italian energy authority (AEEG) enacted a new set of interconnection standards for solar energy installations that became effective in July 2012, which has negatively impacted our sales in Italy. We continue to explore potential solutions to meet these requirements. However, in the event that we cannot implement a solution in the near term the total market available for our microinverter products in Italy, and our business as a result, may continue to be adversely impacted.

In addition, several states or territories, including California, Hawaii and Queensland, Australia, have either implemented or are considering implementing new restrictions on incentives or rules regulating the installation of solar systems that we may not be able to currently comply with. In the event that we cannot comply with these or other new regulations or implement a solution to such noncompliance as they arise, the total market available for our microinverter products in such states, and our business as a result, may be adversely impacted.

While we are not aware of any other current or proposed export or import regulations that would materially restrict our ability to sell our products in countries where we offer our products for sale, any change in export or import regulations or related legislation, shift in approach to the enforcement or scope of existing regulations, or change in the countries, persons or technologies targeted by these regulations, could result in decreased use of our products by, or in our decreased ability to export or sell our products to, existing or potential customers with international operations. In such event, our business and results of operations could be adversely affected.

***The threat of continuing global economic, capital markets and credit disruptions, including sovereign debt issues, pose risks for our business.***

The threat of continuing global economic, capital markets and credit disruptions, including the sovereign debt issues in Europe, pose risks for our business. These risks include slower economic activity and investment in projects that make use of our products and services. These economic developments, particularly decreased credit availability, have reduced demand for solar products. The European sovereign debt crisis has caused and may continue to cause European governments to reduce, eliminate or allow to expire government subsidies and economic incentives for solar energy, which could limit our growth or cause our net sales to decline and materially and adversely affect our business, financial condition, and results of operations. These conditions, including reduced incentives, continued decreases in credit availability, as well as continued economic instability, have and may continue to adversely impact our business, financial condition and results of operations as we seek to increase our sales in Europe.

***\*A drop in the retail price of electricity derived from the utility grid or from alternative energy sources, or a change in utility pricing structures, may harm our business, financial condition and results of operations.***

We believe that a system owner's decision to purchase a solar PV system is strongly influenced by the cost of electricity generated by solar PV installations relative to the retail price of electricity from the utility grid and the cost of other renewable energy sources, including electricity from solar PV installations using central inverters. Decreases in the retail prices of electricity from the utility grid would make it more difficult for all solar PV systems to compete. In particular, growth in unconventional natural gas production and an increase in global liquefied natural gas capacity are expected to keep natural gas prices relatively low for the foreseeable future. Persistent low natural gas prices, lower prices of electricity produced from other energy sources, such as nuclear power, or improvements to the utility infrastructure could reduce the retail price of electricity from the utility grid, making the purchase of solar PV systems less economically attractive and lowering sales of our microinverter systems. In addition, energy conservation technologies and public initiatives to reduce demand for electricity also could cause a fall in the retail price of electricity from the utility grid. Moreover, technological developments by our competitors in the solar components industry, including manufacturers of central inverters and DC to DC optimizers, could allow these competitors or their partners to offer electricity at costs lower than those that can be achieved from solar PV installations based on our product platform, which could result in reduced demand for our products. Additionally, as increasing adoption of distributed generation places pressure on traditional utility business models or utility infrastructure, utilities may change their pricing structures to make installation or operation of solar distributed generation more costly. Such measures can include grid access fees, costly or lengthy interconnection studies, limitations on distributed generation penetration levels, or other measures. If the cost of electricity generated by solar PV installations incorporating our microinverter systems is high relative to the cost of electricity from other sources, our business, financial condition and results of operations may be harmed.

***Problems with product quality or product performance may cause us to continue to incur additional warranty expenses and may damage our market reputation and cause our revenue and gross profit to decline.***

We have offered 15-year limited warranties for our first and second generation microinverters and offer a limited warranty of up to 25 years on our third and fourth generation microinverters. Our limited warranties cover defects in materials and workmanship of our microinverters under normal use and service conditions for up to 25 years following installation. As a result, we bear the risk of warranty claims long after we have sold the product and recognized revenue. Our estimated costs of warranty for previously sold products may change to the extent future products are not compatible with earlier generation products under warranty.

While we offer warranties of up to 25 years, our microinverters have only been in use since mid-2008, when we first commenced commercial sales of our products. Although we conduct accelerated life cycle testing to measure performance and reliability, our microinverter systems have not been tested over the full warranty cycle and do not have a sufficient operating history to confirm how they will perform over their estimated useful life. In addition, under real-world operating conditions, which may vary by location and design, as well as insolation, soiling and weather conditions, a typical solar PV installation may perform in a different way than under standard test conditions. If our products perform below expectations or have unexpected reliability problems, we may be unable to gain or retain customers and could face substantial warranty expense.

We are required to make assumptions and apply judgments, based on our accelerated life cycle testing and the limited operating history of our products, regarding a number of factors, including the durability and reliability of our products, our anticipated rate of warranty claims and the costs of replacement of defective products. Our assumptions have proven and could in the future prove to be materially different from the actual performance of our products, which has caused and may in the future cause us to incur substantial expense to repair or replace defective products. Increases in our estimates of future warranty obligations due to actual product failure rates, field service obligations and rework costs incurred in correcting product failures have caused and could in the future cause us to materially increase the amount of warranty obligations, and have had and may have in the future a corresponding negative impact on our results of operations.

We also depend significantly on our reputation for reliability and high-quality products and services, exceptional customer service and our brand name to attract new customers and grow our business. If our products and services do not perform as anticipated or we experience unexpected reliability problems or widespread product failures, our brand and reputation could be significantly impaired and we may lose, or be unable to gain or retain, customers.



***Defects and poor performance in our products could result in loss of customers, decreased revenue and unexpected expenses, and we may face warranty, indemnity and product liability claims arising from defective products.***

Our products must meet stringent quality requirements and 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. These errors or defects may be dangerous, as defective power components may cause power overloads, potentially resulting in explosion or fire. As we develop new generations of our products and enter new markets, we face higher risk of undetected defects because our testing protocols may not be able to fully test the products under all possible operating conditions. In the past, we have experienced defects in our products due to certain errors in the manufacturing and design process. 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 in order to address or remedy any defects and increases in customer service and support costs, all of which could have a material adverse effect on our business and operations.

Furthermore, defective, inefficient or poorly performing power 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 could incur significant costs and liabilities if we are sued and if damages are awarded against us. We currently maintain a moderate level of product liability insurance, and there can be no assurance that this insurance will provide sufficient coverage in the event of a claim. Also, we cannot predict whether we will be able to maintain this coverage on acceptable terms, if at all, or that a product liability claim would not harm our business or financial condition. Costs or payments we may make in connection with warranty and product liability claims or product recalls may adversely affect our financial condition and results of operations.

Our Enlighten web-based monitoring service, which our customers use to track and monitor the performance of their solar PV systems based on our product platform, may contain undetected errors, failures, or bugs, especially when new versions or enhancements are released. We have from time to time found defects in our service and new errors in our existing service may be detected in the future. Any errors, defects, disruptions in service or other performance problems with our monitoring service could harm our reputation and may damage our customers' businesses.

***If we are unable to effectively manage our growth, our business and operating results may suffer.***

We have recently experienced, and expect to continue to experience, significant growth in our sales and operations. Our historical growth has placed, and planned future growth is expected to continue to place, significant demands on our management, as well as our financial and operational resources, to:

- manage a larger organization;
- expand third-party manufacturing, testing and distribution capacity;
- build additional custom manufacturing test equipment;
- manage an increasing number of relationships with customers, suppliers and other third parties;
- increase our sales and marketing efforts;
- train and manage a growing employee base;
- broaden our customer support capabilities;
- implement new and upgrade existing operational and financial systems; and
- enhance our financial disclosure controls and procedures.

We cannot assure you that our current and planned operations, personnel, systems, internal procedures and controls will be adequate to support our future growth. If we cannot manage our growth effectively, we may be unable to take advantage of market opportunities, execute our business strategies or respond to competitive pressures, any of which could have a material adverse effect on our financial condition, results of operation, business or prospects.

***Our recent and planned expansion into new markets could subject us to additional business, financial and competitive risks.***

We currently offer microinverter systems targeting the residential and commercial markets in the United States, Canada, Mexico and other Latin America countries, the United Kingdom, France, the Benelux region, certain other European markets, Australia and New Zealand. We also intend to expand into other international markets and to introduce new microinverter systems targeted at larger commercial and utility-scale installations. Our success in these new geographic and product markets will depend on a number of factors, such as:



- acceptance of microinverters in markets in which they have not traditionally been used;
- our ability to compete in new product markets to which we are not accustomed;
- our ability to manage an increasing manufacturing capacity and production;
- willingness of our potential customers to incur a higher upfront capital investment than may be required for competing solutions;
- our ability to develop solutions to address the requirements of the larger commercial and utility-scale markets;
- timely qualification and certification of new products for larger commercial and utility-scale installations;
- our ability to reduce production costs in order to price our products competitively over time;
- availability of government subsidies and economic incentives for solar energy solutions;
- accurate forecasting and effective management of inventory levels in line with anticipated product demand; and
- our customer service capabilities and responsiveness.

Further, new geographic markets and the larger commercial and utility-scale installation markets have different characteristics from the markets in which we currently sell products, and our success will depend on our ability to properly address these differences. These differences may include:

- differing regulatory requirements, including tax laws, trade laws, labor, safety, local content, recycling and consumer protection regulations, tariffs, export quotas, customs duties or other trade restrictions;
- limited or unfavorable intellectual property protection;
- risk of change in international political or economic conditions;
- restrictions on the repatriation of earnings;
- fluctuations in the value of foreign currencies and interest rates;
- difficulties and increased expenses in complying with a variety of U.S. and foreign laws, regulations and trade standards, including the Foreign Corrupt Practices Act;
- potentially longer sales cycles;
- higher volume requirements;
- increased customer concentrations;
- warranty expectations and product return policies; and
- cost, performance and compatibility requirements.

Failure to develop and introduce these new products successfully, to generate sufficient revenue from these products to offset associated research and development, marketing and manufacturing costs, or to otherwise effectively anticipate and 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 achieve or sustain profitability.

***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.***

We manufacture our products according to our estimates of customer demand. This process requires us to make multiple forecasts and assumptions relating to the demand of our distributors, their end customers and general market conditions. Because we sell most of our products to distributors, who in turn sell to their end customers, we have limited visibility as to end-customer demand. We depend significantly on our distributors to provide us visibility into their end-customer demand, and we use these forecasts to make our own forecasts and planning decisions. If the information from our distributors turns out to be incorrect, then our own forecasts may also be inaccurate. Furthermore, we do not have long-term purchase commitments from our distributors or end customers, and our sales are generally made by purchase orders that may be canceled, changed or deferred without notice to us or penalty. As a result, it is difficult to forecast future customer demand to plan our operations.

If we overestimate demand for our products, or if purchase orders are canceled or shipments are delayed, we may have excess inventory that we cannot sell. We may have to make significant provisions for inventory write-downs based on events that are currently not known, and such provisions or any adjustments to such provisions could be material. Conversely, if we

underestimate demand, we may not have sufficient inventory to meet end-customer demand, and we may lose market share, damage relationships with our distributors and end customers and forgo potential revenue opportunities. Obtaining additional supply in the face of product shortages may be costly or impossible, particularly in the short term and in light of our outsourced manufacturing processes, which could prevent us from fulfilling orders in a timely and cost efficient manner or at all. In addition, if we overestimate our production requirements, our contract manufacturers may purchase excess components and build excess inventory. If our contract manufacturers, at our request, purchase excess components that are unique to our products and are unable to recoup the costs of such excess through resale or return or build excess products, we could be required to pay for these excess parts or products and recognize related inventory write-downs.

In addition, we plan our operating expenses, including research and development expenses, hiring needs and inventory investments, in part on our estimates of customer demand and future revenue. If customer demand or revenue for a particular period is lower than we expect, we may not be able to proportionately reduce our fixed operating expenses for that period, which would harm our operating results for that period.

***Ordering patterns from our distributors may cause our revenue to fluctuate significantly from period to period.***

Our distributors place purchase orders with us based on their assessment of end-customer demand and their forecasts. Because these forecasts may not be accurate, channel inventory held at our distributors may fluctuate significantly due to the difference between their forecasts and actual demand. As a result, distributors adjust their purchase orders placed with us in response to changing channel inventory levels, as well as their assessment of the latest market demand trends. We have limited visibility into future end customer demand. A significant decrease in our distributors' channel inventory in one period may lead to a significant rebuilding of channel inventory in subsequent periods, or vice versa, which may cause our quarterly revenue and operating results to fluctuate significantly. This fluctuation may cause our results to fall short of analyst or investor expectations in a certain period, which may cause our stock price to decline.

***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 rely upon a small number of contract manufacturers to build our products. In particular, we rely on contract manufacturers for the manufacture of microinverter products, cabling and our communications gateway related to our microinverter systems. 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. We do not have long-term supply contracts with our other manufacturing partners. Consequently, these manufacturers are not obligated to supply products to us for any period, in any specified quantity or at any certain price.

The revenues that our contract manufacturers generate from our orders may 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 the vast majority of our microinverters, related cabling and communications gateway products are manufactured are located outside of the United States. We believe that the location of these facilities outside of the United States increases supply risk, including the risk of supply interruptions or reductions in manufacturing quality or controls.

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, which in turn would reduce our revenues, harm our relationships with our customers and damage our relationships with our distributors and end customers and cause us to forgo potential revenue opportunities.

***Manufacturing problems could result in delays in product shipments to customers and could adversely affect our revenue, competitive position and reputation.***

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 expand our capacity. In addition, our failure to maintain appropriate quality

assurance processes could result in increased product failures, loss of customers, increased production costs and delays. Any of these developments could have a material adverse effect on our business, financial condition, and results of operations.

A disruption could also occur in our manufacturing partner's fabrication facility due to any number of reasons, such as equipment failure, contaminated materials or process deviations, which could adversely impact manufacturing yields or delay product shipments. As a result, we could incur additional costs that would adversely affect our gross profit, and product shipments to our customers could be delayed beyond the shipment schedules requested by our customers, which would negatively affect our revenue, competitive position and reputation.

Additionally, manufacturing yields depend on a number of factors, including the stability and manufacturability of the product design, manufacturing improvements gained over cumulative production volumes and the quality and consistency of component parts. Capacity constraints, raw materials shortages, logistics issues, labor shortages, changes in customer requirements, manufacturing facilities or processes, or those of some third-party contract manufacturers and suppliers of raw materials and components have historically caused, and may in the future cause, reduced manufacturing yields, negatively impacting the gross profit on, and our production capacity for, those products. Moreover, an increase in the rejection and rework rate of products during the quality control process before, during or after manufacture would result in our experiencing lower yields, gross profit and production capacity.

The risks of these types of manufacturing problems are further increased during the introduction of new product lines, which has from time to time caused, and may in the future cause, temporary suspension of production lines while problems are addressed or corrected. Since our business is substantially dependent on a limited number of product lines, any prolonged or substantial suspension of manufacturing production lines could result in a material adverse effect on our revenue, gross profit, competitive position, and distributor and customer relationships.

***If we depend on sole source and limited source suppliers for key components and products. If we are unable to source these components on a timely basis, we will not be able to deliver our products to our customers.***

We depend on sole source and limited source suppliers for key components of our products. For example, our ASICs are purchased from a sole source supplier or developed for us by sole source suppliers. Similarly, the battery cells for our AC Battery product will also initially be sole sourced. Any of the sole source and limited source suppliers upon whom we rely could experience quality and reliability issues, could stop producing our components, cease operations or be acquired by, or enter into exclusive arrangements with, our competitors. We generally do not have long-term supply agreements with our suppliers, and our purchase volumes may currently be too low for us to be considered a priority customer by most of our suppliers. As a result, most of these suppliers could stop selling to us at commercially reasonable prices, or at all. Any such quality or reliability issue, or interruption or delay may force us to seek similar components or products from alternative sources, which may not be available on commercially reasonable terms, including price, or at all. Switching suppliers may require that we redesign our products to accommodate new components, and may potentially require us to re-qualify our products, which would be costly and time-consuming. Any interruption in the quality or supply of sole source or limited source components for our products would adversely affect our ability to meet scheduled product deliveries to our customers and could result in lost revenue or higher expenses and would harm our business.

***If we or our contract manufacturers are unable to obtain raw materials in a timely manner or if the price of raw materials increases significantly, production time and product costs could increase, which may adversely affect our business.***

The manufacturing and packaging processes used by our contract manufacturers depend on raw materials such as copper, aluminum, silicon and petroleum-based products. From time to time, suppliers may extend lead times, limit supplies or increase prices due to capacity constraints or other factors. Certain of our suppliers have the ability to pass along to us directly or through our contract manufacturers any increases in the price of raw materials. If the prices of these raw materials rise significantly, we may be unable to pass on the increased cost to our customers. While we may from time to time enter into hedging transactions to reduce our exposure to wide fluctuations in the cost of raw materials, the availability and effectiveness of these hedging transactions may be limited. Due to all these factors, our results of operations could be adversely affected if we or our contract manufacturers are unable to obtain adequate supplies of raw materials in a timely manner or at reasonable cost. In addition, from time to time, we or our contract manufacturers may need to reject raw materials that do not meet our specifications, resulting in potential delays or declines in output. Furthermore, problems with our raw materials may give rise to compatibility or performance issues in our products, which could lead to an increase in customer returns or product warranty claims. Errors or defects may arise from raw materials supplied by third parties that are beyond our detection or control, which could lead to additional customer returns or product warranty claims that may adversely affect our business and results of operations.

***If potential owners of solar PV systems based on our product platform are unable to secure financing on acceptable terms, we could experience a reduction in the demand for our solar PV systems.***

Many owners of solar PV systems depend on financing to purchase their systems. The limited use of microinverters to date, coupled with our limited operating history, could result in lenders refusing to provide the financing necessary to purchase solar PV systems based on our product platform on favorable terms, or at all. Moreover, in the case of debt financed projects, even if lenders are willing to finance the purchase of these systems, an increase in interest rates or a change in tax incentives could make it difficult for owners to secure the financing necessary to purchase a solar PV system on favorable terms, or at all. In addition, we believe that a significant percentage of owners purchase solar PV systems as an investment, funding the initial capital expenditure through a combination of upfront cash and financing. Difficulties in obtaining financing for solar PV systems on favorable terms, or increases in interest rates or changes in tax incentives, could lower an investor's return on investment in a solar PV system, or make alternative solar PV systems or other investments more attractive relative to solar PV systems based on our product platform. Any of these events could result in reduced demand for our products, which could have a material adverse effect on our financial condition and results of operations. In addition, an increasing share of residential solar installations has been provided through third party financing structures, such as power purchase or lease agreements. Our sales growth therefore increasingly depends on sales to developers of third party solar finance offerings who provide solar as a service via power purchase agreements or leasing structures. The third party finance market for residential solar in the United States and elsewhere is or may become highly concentrated, with a few significant finance companies and several smaller entrants. If we are unable develop relationships and gain a significant share of inverter sales to the major finance companies or new entrants, our overall sales growth will be constrained.

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

We sell our microinverter systems primarily through distributors, as well as through direct sales to solar equipment installers and sales to developers of third party solar finance offerings. We do not have exclusive arrangements with these third parties and, as a result, many of our customers also use or market and sell products from our competitors, which may reduce our sales. Our customers may generally terminate their relationships with us at any time, or with short notice. Our customers 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. In addition, participants in the solar industry are becoming increasingly focused on vertical integration of the solar financing and installation process, which may lead to an overall reduction in the number of potential parties who may purchase and install our products. For example, SunEdison, one of our customers, has announced an agreement to acquire Vivint Solar, Inc., historically our largest customer.

Our future performance depends on our ability to effectively manage our relationships with our existing customers, as well as to attract additional customers that will be able to market and support our products effectively, especially in markets in which we have not previously distributed our products. Termination of agreements with current customers, failure by these customers to perform as expected, or failure by us to cultivate new customer relationships, could hinder our ability to expand our operations and harm our revenue and operating results.

***\*We may fail to capture customers in the new product and geographic markets that we are pursuing.***

We are pursuing opportunities in energy management and energy storage which are highly competitive markets. We have made investments in our infrastructure, increased our operating costs and forgone other business opportunities in order to seek opportunities in these areas and will continue to do so. Any new product is subject to certain risks, including component sourcing, strategic partner selection and execution, customer acceptance, competition, product differentiation, market timing, challenges relating to economies of scale in component sourcing and the ability to attract and retain qualified personnel. There can be no assurance that we will be able to develop and grow these or any other new concepts to a point where they will become profitable, or generate positive cash flow. If we fail to execute on our plan with respect to new product introductions, these new potential business segments fail to translate into revenue in the quantities or timeline projected, thus, having a materially adverse impact on our revenue, operating results and financial stability. In addition, we are pursuing new geographic markets. The inability to capture new customers in the high-growth geographic markets could have a material adverse effect on our business, financial condition or results of operations.

***Our success in an "AC module" version of our microinverter system may depend in part upon our ability to continue to work closely with leading solar module manufacturers.***

We are currently working on variants of our microinverter system that will enable an "AC module" for direct attachment of the microinverter to the solar modules. The market success of such solutions will depend in part on our ability to continue to work closely with solar module manufacturers to design solar modules that are compatible with such direct attachment of our microinverter. We may not be able to encourage solar module manufacturers to work with us on the development of such compatible solutions combining our microinverter system and solar modules for a variety of reasons, including differences in marketing or selling strategy, competitive considerations, lack of competitive pricing, and technological compatibility. In

addition, our ability to form effective partnerships with solar module manufacturers may be adversely affected by the substantial changes faced by many of these manufacturers due to declining prices and revenues from sales of solar modules.

***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 technical people is extremely intense, and we face challenges identifying, hiring and retaining qualified personnel in many areas of our business. If we fail to retain our senior management and other key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our strategic objectives and our business could suffer.

***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 patent and trademark registrations in the United States and in certain other countries, 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 United States, we may be at greater risk that our proprietary rights will be misappropriated, infringed or otherwise violated.

To protect our unregistered intellectual property, including our trade secrets and know-how, we rely in part on trade secret laws and confidentiality and invention assignment agreements with our employees and independent consultants. We also require other third parties who may have access to our proprietary technologies and information to enter into non-disclosure agreements. Such measures, however, provide only limited protection, and we cannot assure that our confidentiality and non-disclosure agreements will prevent unauthorized disclosure or use of our confidential information, especially after our employees or third parties end their employment or engagement with us, or provide us with an adequate remedy in the event of such disclosure. Furthermore, competitors or other third parties may independently discover our trade secrets, in which case we would not be able to assert trade secret rights, copy or reverse engineer our products or portions thereof or develop similar technology. If we fail to protect our intellectual property and other proprietary rights, or if such intellectual property and proprietary rights are infringed, misappropriated or otherwise violated, our business, results of operations or financial condition could be materially harmed.

In the future, we may need to take legal action to prevent third parties from infringing upon or misappropriating our intellectual property or from otherwise gaining access to our technology. Protecting and enforcing our intellectual property rights and determining their validity and scope could result in significant litigation costs and require significant time and attention from our technical and management personnel, which could significantly harm our business. In addition, we may not prevail in such proceedings. An adverse outcome of any such proceeding may reduce our competitive advantage or otherwise harm our financial condition and our business.

***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, and claims of patent or other intellectual property right infringement or violation have been litigated against certain of our competitors. From time to time we may also be subject to such claims and litigation. Regardless of their merit, responding to such claims can be time consuming, divert management's attention and resources and may cause us to incur significant expenses. 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. Furthermore, patent applications in the United States and most other countries are confidential for a period of time before being published, so we cannot be certain that we are not infringing third parties' patent rights or that we were the first to conceive or protect inventions covered by our patents or patent applications. As we become more visible as a publicly traded company, the possibility that

third parties may make claims of intellectual property infringement or other violations against us may grow. An adverse outcome with respect to any such claim could invalidate our proprietary rights and force us to do one or more of the following:

- obtain from a third party claiming infringement a license to sell or use the relevant technology, which may not be available on reasonable terms, or at all;
- stop manufacturing, selling, incorporating or using our products that embody the asserted intellectual property;
- pay substantial monetary damages;
- indemnify our customers pursuant to indemnification obligations under some of our customer contracts; or
- expend significant resources to redesign the products that use the infringing technology and to develop or acquire non-infringing technology.

Any of these actions could result in a substantial reduction in our revenue and could result in losses over an extended period of time.

***Our failure to obtain the right to use necessary third-party intellectual property rights on reasonable terms, or our failure to maintain, and comply with the terms and conditions applicable to these rights, could harm our business and prospects.***

From time to time we have licensed, and in the future we may choose to or be required to license, technology or intellectual property from third parties in connection with the development of our products. We cannot assure that such licenses will be available to us on commercially reasonable terms, or at all, and our inability to obtain such licenses could require us to substitute technology of lower quality or of greater cost. In addition, we incorporate open source software code in our proprietary software. Use of open source software can lead to greater risks than use of third-party commercial software since open source licensors generally do not provide warranties or controls with respect to origin, functionality or other features of the software. Some open source software licenses require users who distribute open source software as part of their products to publicly disclose all or part of the source code in their software and make any derivative works of the open source code available for limited fees or at no cost. Although we monitor our use of open source software, open source license terms may be ambiguous, and many of the risks associated with the use of open source software cannot be eliminated. If we were found to have inappropriately used open source software, we may be required to release our proprietary source code, re-engineer our software, discontinue the sale of certain products in the event re-engineering cannot be accomplished on a timely basis or take other remedial action. Furthermore, if we are unable to obtain or maintain licenses from third parties or fail to comply with applicable open source licenses, we may be subject to costly third party claims of intellectual property infringement or ownership of our proprietary source code. Any of the foregoing could harm our business and put us at a competitive disadvantage.

***Our business has been and could continue to be affected by seasonal trends and construction cycles.***

We have been and could continue to be subject to industry-specific seasonal fluctuations, particularly in climates that experience colder weather during the winter months, such as northern Europe, Canada, and the United States. In general, we expect our products in the second, third and fourth quarters will be positively affected by seasonal customer demand trends, including solar economic incentives, weather patterns and construction cycles, preceded by a seasonally softer first quarter. In the United States, customers will sometimes make purchasing decisions towards the end of the year in order to take advantage of tax credits or for budgetary reasons. In addition, construction levels are typically slower in colder months. In European countries with FiTs, the construction of solar PV systems may be concentrated during the second half of the calendar year, largely due to the annual reduction of the applicable minimum FiT and the fact that the coldest winter months are January through March. Accordingly, our business and quarterly results of operations could be affected by seasonal fluctuations in the future.

***Covenants in our credit facility may limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic or industry conditions.***

We are a party to a loan and security agreements with Wells Fargo Bank, National Association (“Wells Fargo”). The loan and security agreement with Wells Fargo restricts our ability to take certain actions such as incurring additional debt, encumbering our tangible or intangible property, paying dividends, or engaging in certain transactions, such as mergers and acquisitions, investments and asset sales. Our loan and security agreement with Wells Fargo also requires us to maintain certain financial covenants, including liquidity ratios. These restrictions may limit our flexibility in responding to business opportunities, competitive developments and adverse economic or industry conditions. In addition, our obligations under our loan and security agreement with Wells Fargo is secured by substantially all of our assets (excluding intellectual property), which limits our ability to provide collateral for additional financing. A breach of any of these covenants, or a failure to pay



interest or indebtedness when due under any of our credit facilities, could result in a variety of adverse consequences, including the acceleration of our indebtedness and the forfeiture of our assets subject to security interests in favor of the lenders.

***We are an “emerging growth company,” and may elect to comply with reduced public company reporting requirements applicable to emerging growth companies, which could make our common stock less attractive to investors.***

We are an “emerging growth company,” as defined in the Jumpstart Our Business Startups Act enacted in April 2012, or the JOBS Act, and, for as long as we continue to be an “emerging growth company,” we may choose to take advantage of exemptions from various reporting requirements applicable to other public companies but not to “emerging growth companies,” including, but not limited to, not being required to comply with the auditor attestation requirements of Section 404 of the Sarbanes-Oxley Act of 2002, or Sarbanes-Oxley Act, reduced disclosure obligations regarding executive compensation in our periodic reports and proxy statements, and exemptions from the requirements of holding a nonbinding advisory vote on executive compensation and stockholder approval of any golden parachute payments not previously approved. We could be an “emerging growth company” until December 31, 2017 (the last day of the fiscal year following the fifth anniversary of our initial public offering), although we could cease to be an “emerging growth company” earlier if certain events occur as specified in the JOBS Act, such as our achieving annual revenue of at least \$1 billion or our becoming a “large accelerated filer” as defined in Rule 12b-2 of the Exchange Act. We cannot predict if investors will find our common stock less attractive if we choose to rely on these exemptions. If some investors find our common stock less attractive as a result of any choices to reduce future disclosure, there may be a less active trading market for our common stock and our stock price may be more volatile.

***If we fail to maintain an effective system of internal controls or are unable to remediate any deficiencies in our internal controls, we might not be able to report our financial results accurately or prevent fraud; in that case, our stockholders could lose confidence in our financial reporting, which would harm our business and could negatively impact the price of our stock.***

Effective internal controls are necessary for us to provide reliable financial reports and prevent fraud. In addition, Section 404 of the Sarbanes-Oxley Act requires us to establish and maintain internal control over financial reporting and disclosure controls procedures. The process of implementing our internal controls and complying with Section 404 of the Sarbanes-Oxley Act has required, and will continue to require, significant attention of management. Although we are currently not required to provide an auditor’s attestation report on management’s assessment of the effectiveness of our internal control over financial reporting, otherwise required by Section 404(b) of the Sarbanes-Oxley Act, this exemption will no longer be available to us beginning with our first Annual Report on 10-K for the year in which we cease to be an “emerging growth company,” as defined in the JOBS Act. If we or our independent registered public accounting firm discover a material weakness in the future, the disclosure of that fact, even if quickly remedied, could reduce the market’s confidence in our financial statements and harm our stock price. In addition, a delay in compliance with Section 404 of the Sarbanes-Oxley Act could subject us to a variety of administrative sanctions, including SEC action, ineligibility for short form resale registration, the suspension or delisting of our common stock from the stock exchange on which it is listed and the inability of registered broker-dealers to make a market in our common stock, which would further reduce our stock price and could harm our business. To the extent any material weaknesses in our internal control over financial reporting are identified in the future, we could be required to expend significant management time and financial resources to correct such material weaknesses or to respond to any resulting regulatory investigations or proceedings.

***Our ability to use net operating losses to reduce future tax payments may be limited by provisions of the Internal Revenue Code, and may be subject to further limitation as a result of future transactions.***

Sections 382 and 383 of the Internal Revenue Code of 1986, as amended (the “Code”), contain rules that limit the ability of a company that undergoes an “ownership change,” generally defined as a more than 50 percentage point increase in the percentage of its stock owned by certain stockholders over a three-year period, to utilize its net operating loss and tax credit carryforwards and certain built-in losses recognized in the years after the ownership change. These rules generally operate by focusing on ownership changes involving stockholders who directly or indirectly own 5% or more of the stock of a company and any change in ownership arising from a new issuance of stock by the company. Generally, if an ownership change occurs, the yearly taxable income limitation on the use of net operating loss and tax credit carryforwards is equal to the product of the applicable long-term tax exempt rate and the value of the company’s stock immediately before the ownership change. If these limitations apply, we may be unable to offset our taxable income with net operating losses, or our tax liability with credits, before these losses and credits expire. We recently completed a study to assess whether an ownership change has occurred or whether there have been multiple ownership changes since we became a loss corporation under the Code. However, we do not anticipate these limitations will significantly impact our ability to utilize the net operating losses and tax credit carryforwards.

In addition, it is possible that future transactions (including issuances of new shares of our common stock and sales of shares of our common stock) will cause us to undergo one or more additional ownership changes. In that event, we generally would not be able to use our net operating losses from periods prior to this ownership change to offset future taxable income in excess of the annual limitations imposed by Sections 382 and 383 and those attributes that are already subject to limitations (as a result of our prior ownership changes) may be subject to more stringent limitations.

***We may not be able to raise additional capital to execute on our current or future business opportunities on favorable terms, if at all, or without dilution to our stockholders.***

We believe that our existing cash and cash equivalents, available credit facilities and cash flows from our operating activities, will be sufficient to meet our anticipated cash needs for at least the next 12 months. However, we may need to raise additional capital to execute on our current or future business strategies, including to:

- invest in our research and development efforts by hiring additional technical and other personnel;
- expand our operations into new product markets and new geographies;
- acquire complementary businesses, products, services or technologies; or
- otherwise pursue our strategic plans and respond to competitive pressures.

We do not know what forms of financing, if any, will be available to us. If financing is not available on acceptable terms, if and when needed, our ability to fund our operations, expand our research and development, sales and marketing functions, develop and enhance our products, respond to unanticipated events, including unanticipated opportunities, or otherwise respond to competitive pressures would be significantly limited. In any such event, our business, financial condition and results of operations could be materially harmed, and we may be unable to continue our operations. Moreover, if we raise additional funds through the issuance of equity or convertible debt securities, the percentage ownership of our stockholders could be significantly diluted, and these newly issued securities may have rights, preferences or privileges senior to those of existing stockholders.

***Natural disasters, terrorist or cyber attacks, or other catastrophic events could harm our operations.***

Our worldwide operations could be subject to natural disasters and other business disruptions, which could harm our future revenue and financial condition and increase our costs and expenses. For example, our corporate headquarters in Petaluma, California is located near major earthquake fault lines. Further, a terrorist attack, including one aimed at energy or communications infrastructure suppliers or our web-based monitoring service, could hinder or delay the development and sale or performance of our products. In the event that an earthquake, tsunami, typhoon, terrorist or cyber attack, or other natural, manmade or technical catastrophe were to destroy any part of our facilities or those of our contract manufacturer, destroy or disrupt vital infrastructure systems or interrupt our operations or services for any extended period of time, our business, financial condition and results of operations would be materially and adversely affected.

***\* 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 may be subject to disruptions or failures in information technology systems and network infrastructures that could have a material adverse effect on our business and financial condition.***

We rely on the efficient and uninterrupted operation of complex information technology systems and network infrastructures to operate our business. A disruption, infiltration or failure of our information technology systems as a result of software or hardware malfunctions, system implementations or upgrades, computer viruses, cyber attacks, third-party security breaches, employee error, theft or misuse, malfeasance, power disruptions, natural disasters or accidents could cause breaches of data security, loss of intellectual property and critical data and the release and misappropriation of sensitive competitive information and partner, customer and employee personal data. We may also be subject to fraud attempts from outside parties through our electronic systems (such as “phishing” e-mail communications to our finance, technical or other personnel), which could put us at risk for harm from fraud, theft or other loss if our internal controls do not operate as intended. Any of these events could harm our competitive position, result in a loss of customer confidence, cause us to incur significant costs to remedy any damages and ultimately materially adversely affect our business and financial condition.

***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. Recently, contentious negotiations between the Pacific Maritime Association and the International Longshore & Warehouse Union have resulted in port slowdowns which have caused port congestion and major delays in the transfer of cargo in the United States West Coast. Accordingly, we have had to ship 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.

***The market price of our common stock may be volatile or may decline regardless of our operating performance.***

The market price of our common stock has been and could be subject to wide fluctuations in response to, among other things, the risk factors described in “Part II. Item 1A. Risk Factors” of this Quarterly Report on Form 10-Q, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us. Furthermore, the stock markets have experienced 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. 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 negatively affect the market price of our common stock. 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 become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management’s attention from other business concerns, which could seriously harm our business.

***Our financial results may vary significantly from quarter to quarter due to a number of factors, which may lead to volatility in our stock price.***

Our quarterly revenue and results of operations have varied in the past and may continue to vary significantly from quarter to quarter. This variability may lead to volatility in our stock price as research analysts and investors respond to these quarterly fluctuations. These fluctuations are due to numerous factors, including:

- fluctuations in demand for our products;
- the timing, volume and product mix of sales of our products, which may have different average selling prices or profit margins;
- changes in our pricing and sales policies or the pricing and sales policies of our competitors;
- our ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- our ability to manage our relationships with our contract manufacturers, customers and suppliers;

- quality control or yield problems in our manufacturing operations;
- the anticipation, announcement or introductions of new or enhanced products by our competitors and ourselves;
- reductions in the retail price of electricity;
- changes in laws, regulations and policies applicable to our business and products, particularly those relating to government incentives for solar energy applications;
- unanticipated increases in costs or expenses;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business operations;
- the impact of government-sponsored programs on our customers;
- our exposure to the credit risks of our customers, particularly in light of the fact that some of our customers are relatively new entrants to the solar market without long operating or credit histories;
- our ability to estimate future warranty obligations due to product failure rates, claim rates or replacement costs;
- our ability to forecast our customer demand and manufacturing requirements, and manage our inventory;
- fluctuations in our gross profit;
- our ability to predict our revenue and plan our expenses appropriately; and
- fluctuations in foreign currency exchange rates.

The foregoing factors are difficult to forecast, and these, as well as other factors, could materially and adversely affect our quarterly and annual results of operations. Any failure to adjust spending quickly enough to compensate for a revenue shortfall could magnify the adverse impact of this revenue shortfall on our results of operations. Moreover, our results of operations may not meet our announced guidance or the expectations of research analysts or investors, in which case the price of our common stock could decrease significantly. There can be no assurance that we will be able to successfully address these risks.

***If research analysts do not publish research about our business or if they issue unfavorable commentary or downgrade our common stock, our stock price and trading volume could decline.***

The trading market for our common stock depends in part on the research and reports that research analysts publish about us and our business. The price of our common stock could decline if one or more research analysts downgrade our stock or if those analysts issue other unfavorable commentary or cease publishing reports about us or our business. If one or more of the research analysts ceases coverage of our company or fails to publish reports on us regularly, demand for our common stock could decrease, which could cause our stock price or trading volume to decline.

***Our affiliated stockholders, executive officers and directors own a significant percentage of our stock, and they may take actions that our stockholders may not view as beneficial.***

Our affiliated stockholders, executive officers and directors collectively own a significant percentage of our common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, as a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if this change in control would benefit our other stockholders.

***Sales of a substantial number of shares of our common stock in the public market by our existing stockholders could cause our stock price to fall.***

Sales of a substantial number of shares of our common stock in the public market or the perception that these sales might occur, could depress the market price of our common stock and could impair our ability to raise capital through the sale of additional equity securities. We are unable to predict the effect that sales may have on the prevailing market price of our common stock. All outstanding shares of our common stock are eligible for sale in the public market, subject in some cases to the volume limitations and manner of sale requirements of Rule 144 under the Securities Act. Sales of stock by our stockholders could have a material adverse effect on the trading price of our common stock.

Certain holders of our securities are entitled to rights with respect to the registration of their shares under the Securities Act. Registration of these shares under the Securities Act would result in the shares becoming freely tradable without restriction under the Securities Act. Any sales of securities by these stockholders could have a material adverse effect on the trading price of our common stock.

***We currently do not intend to pay dividends on our common stock and, consequently, your only opportunity to achieve a return on your investment is if the price of our common stock appreciates.***

We currently do not plan to declare dividends on shares of our common stock in the foreseeable future. In addition, the terms of our bank loan agreement restrict our ability to pay dividends. Consequently, an investor's only opportunity to achieve a return on its investment in our company will be if the market price of our common stock appreciates and the investor sells its shares at a profit.

***Our charter documents and Delaware law could prevent a takeover that stockholders consider favorable and could also reduce the market price of our stock.***

Our certificate of incorporation and our bylaws contain provisions that could delay or prevent a change in control of our company. These provisions could also make it more difficult for stockholders to elect directors and take other corporate actions, including effecting changes in our management. These provisions include:

- 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;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquiror;
- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- requiring the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of voting 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, forum selection and the liability of our directors, or to amend our bylaws, which may inhibit the ability of stockholders or an acquiror to effect such amendments to facilitate changes in management or an unsolicited takeover attempt;
- requiring special meetings of stockholders may only be called by our chairman of the board, if any, our chief executive officer, our president or a majority of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror's own slate of directors or otherwise attempting to obtain control of us.

In addition, the provisions of Section 203 of the Delaware General Corporate Law may prohibit large stockholders, in particular those owning 15% or more of our outstanding common stock, from engaging in certain business combinations, without approval of substantially all of our stockholders, for a certain period of time.

These provisions in our certificate of incorporation, our bylaws and under Delaware law could discourage potential takeover attempts, reduce the price that investors might be willing to pay for shares of our common stock in the future and result in the market price being lower than it would be without these provisions.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

None.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

See the Exhibit Index which follows the signature page of this Quarterly Report on Form 10-Q, which is incorporated herein by reference.



**EXHIBIT INDEX**

<b><u>Exhibit Number</u></b>	<b><u>Description</u></b>
3.1	Amended and Restated Certificate of Incorporation of Enphase Energy, Inc. <sup>(1)</sup>
3.2	Amended and Restated Bylaws of Enphase Energy, Inc. <sup>(2)</sup>
4.1	Specimen Common Stock Certificate of Enphase Energy, Inc. <sup>(3)</sup>
4.2	2010 Amended and Restated Investors' Rights Agreement by and between Enphase Energy, Inc. and the investors listed on Exhibit A thereto, dated March 15, 2010, as amended. <sup>(3)</sup>
4.3	Form of June 2011 Warrant to Purchase Common Stock of Enphase Energy, Inc., pursuant to that certain Amended and Restated Subordinated Convertible Loan Facility and Security Agreement. <sup>(3)</sup>
4.4	Form of November 2011 Warrant to Purchase Common Stock of Enphase Energy, Inc., pursuant to that certain Amended and Restated Subordinated Convertible Loan Facility and Security Agreement. <sup>(3)</sup>
10.1***	Development and Supply Agreement by and between the Company and Eliiy Power Co., Ltd. dated September 29, 2015.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Document.

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(1) Previously filed as Exhibit 3.1 to the Current Report on Form 8-K (File No. 001-35480), filed with the Securities and Exchange Commission on April 6, 2012, and incorporated by reference herein.

(2) Previously filed as Exhibit 3.5 to Amendment No. 7 to the Registration Statement on Form S-1/A (File No. 333-174925), filed with the Securities and Exchange Commission on March 12, 2012, and incorporated by reference herein.

(3) Previously filed as the like-numbered exhibit to the Registration Statement on Form S-1/A (File No. 333-174925), and incorporated herein by reference.

\* The certifications attached as Exhibit 32.1 accompany this quarterly report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, and shall not be deemed "filed" by Enphase Energy, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended.

\*\*\* Material in the exhibit marked with three asterisks [\*\*\*] has been omitted pursuant to a request for confidential treatment filed with the Securities and Exchange Commission. Omitted portions have been filed separately with the Securities and Exchange Commission.

[\*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

### Development and Supply Agreement

This Development and Supply Agreement (this “**Agreement**”) is entered into as of September 29, 2015 (the “**Effective Date**”) by and between Eliiy Power Co., Ltd., a Japanese corporation (“**Eliiy**”), and Enphase Energy, Inc., a Delaware corporation (“**Enphase**”).

**WHEREAS**, Enphase has been and is engaged in the business of manufacturing, supplying and selling solar microinverters and other components for solar energy systems;

**WHEREAS**, Eliiy has been and is engaged in the business of developing, manufacturing and supplying battery modules;

**WHEREAS**, Enphase is developing an “**AC Battery**” for residential and commercial use that will allow an end user of solar energy systems to store energy generated by the solar energy system; and

**WHEREAS**, Eliiy has agreed to develop, manufacture and supply to Enphase a battery module component for the AC Battery.

**NOW, THEREFORE**, in consideration of the mutual promises and undertakings set forth herein, the parties agree as follows:

#### 1. Definitions:

- a. “**Confidential Information**” shall mean non-public information that is proprietary or confidential to the party disclosing such information, including without limitation, information, materials, designs, products, reports, or samples relating to the disclosing party’s employees, contractors, trade secrets, technology, techniques, customers, vendors, finances, products, or applications. Confidential Information does not include information to the extent it: (i) is or becomes publicly available without any action or failure to act by either party in breach of this Agreement, (ii) is or was received lawfully by the party receiving the information without an obligation of confidentiality; (iii) is or was independently developed by the receiving party without reference to the Confidential Information; or (iv) is subject to disclosure as required by a court or governmental agency, provided that reasonable notice has been provided to the disclosing party so as to allow the disclosing party an opportunity to determine whether disclosure is appropriate, seek a protective order, or pursue other appropriate process to curtail disclosure.
- b. “**Dangerous Goods**” shall mean solids, liquids or gases that can harm people, or other living organisms, property or the environment and that are the subject of regulations in the respective jurisdictions as to the handling, packaging, storage, shipping and usage.
- c. “**Delivery Date**” shall mean the date when Product is delivered to Enphase at Eliiy factory location as described in Section 3.g. (i).

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- d. “**Eliiy IP**” shall mean Intellectual Property Right which is: (i) owned by Eliiy; (ii) developed by Eliiy for purposes of fulfilling its obligations under this Agreement; or (iii) provided by Eliiy through license from other licensor(s) as applicable.
- e. “**Enphase IP**” shall mean Intellectual Property Right which is: (i) owned by Enphase; (ii) developed by Enphase for purposes of fulfilling its obligations under this Agreement; or (iii) provided by Enphase through license from other licensor(s) as applicable.
- f. “**Governmental Authority**” shall mean any national, autonomic, regional, province, town, city, tribal, or municipal government, whether domestic or foreign, or other administrative, regulatory or judicial body of any of the foregoing.
- g. “**Hazardous Material**” shall mean hazardous or toxic substance, waste or material, or any other substance, pollutant or condition that is commonly understood to pose a severe risk to human health or the environment.
- h. “**Intellectual Property Right**” or “**IP Right**” shall mean all intangible legal rights, titles and interests evidenced by or embodied in or connected or related to all inventions and all improvements thereto, and all patents, and patent applications trademarks, service marks, trade names, copyrights, rights in trade secrets, design rights, layout rights, mask work rights in mask works, designs and layouts, and all applications, registrations, and renewals in connection therewith and any other intellectual property rights, industrial rights and any other similar rights, existing now or in the future anywhere in the world, whether registered or unregistered and all copies and tangible embodiments thereof in whatever form or medium.
- i. “**Laws**” shall mean all laws, statutes, treaties, ordinances, codes, judgments, decrees, directives, guidelines, policies, injunctions, writs, orders, rules, regulations, including all applicable environmental regulations, interpretations, licenses, permits and other approvals with, from or of any governmental authority having jurisdiction in the Target Markets; provided, however, that laws of the other markets that are entered into by Enphase during the Term but after the Exclusivity Period and any country where the AC Battery will be manufactured or assembled by Enphase may be included in the scope of this definition by the consent of Eliiy upon examination of the laws within such jurisdiction, which such consent shall not be unreasonably withheld; provided however, that if Eliiy does not agree to enter a certain jurisdiction, then the parties shall negotiate in good faith a change to the volume requirements set forth in Section 3.e.
- j. “**Product**” shall mean the final, fully assembled and line-tested components (LIB, BMU and cables) produced by Eliiy pursuant to the Specifications.
- k. “**Specifications**” shall mean the specifications as agreed by Enphase and Eliiy in writing and made a part of this Agreement as Exhibit A, or any such new specifications mutually agreed to by the parties and incorporated into this Agreement by the amendment of Exhibit A.

## 2. Development of the Product.

- a. Eliiy’s Obligations. Provided that Enphase provides all the necessary material, information and input as required, Eliiy agrees to undertake and complete development of the Product

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in accordance with the Specifications, milestones (each, a “**Milestone**”) and time frames set forth on the “**Milestone Schedule**” set forth in Exhibit B. Eliiy shall give Enphase at least [\*] written notice if it is going to be unable to meet a deliverable date in the Milestone Schedule. Eliiy acknowledges that time is of the essence in the completion of its obligations hereunder.

- b. Project Coordinator. Each party shall designate one (1) initial “**Project Coordinator**” under this Agreement who is listed on Exhibit C to this Agreement. The Project Coordinators will be responsible for day-to-day communications between the parties regarding the subject matter of this Agreement. Parties may designate alternate Project Coordinators upon written notice. Neither party’s Project Coordinator is authorized to amend, alter, waive or extend this Agreement or any obligations of the parties in any manner.
- c. Licenses. Enphase hereby grants Eliiy a non-exclusive license during the Term of this Agreement to use Enphase IP Rights as necessary to perform Eliiy’s obligations under this Agreement. Except as otherwise specifically provided in this Agreement, each party acknowledges and agrees that no licenses or rights under any of the Intellectual Property Rights of the other party are given or intended to be given to such other party.
- d. Unrelated Technology. In the event that, during the course of the development work of the Product, the parties discover or jointly develop Intellectual Property that is neither Eliiy IP nor Enphase IP, then the parties agree to negotiate in good faith, taking into consideration which party did most of the work and research, as to the ownership of such Intellectual Property.

### 3. **Supply and Purchase.**

- a. Scope. Provided that Eliiy timely completes the development of the Product pursuant to the terms of the Milestone Schedule and the Specifications then, during the Term:
  - (i) Eliiy shall: (A) deliver all of the Product specified in a Purchase Order in accordance with the provisions of this Agreement and such Purchase Order; (B) provide the Warranties with respect to the Product delivered hereunder; (C) perform its other obligations set forth in this Agreement and such Purchase Order; and (D) comply with Enphase’s Advanced Product Quality Planning document, version 1.3 (“**APQP**”). To the extent [\*] because [\*], it will promptly notify Enphase in writing and the parties agree to [\*]; provided however, the parties agree that [\*] as of the Effective Date.
  - (ii) Enphase shall purchase battery module products exclusively from Eliiy until the later of: (A) two (2) years from the date that the first commercial Product is sold to Enphase; (B) or March 31, 2018 (the “**Exclusivity Period**”); provided however, that Eliiy is willing and able to produce the Product in the volumes and at the agreed upon prices described in Section 3.e and 3.f below, and in accordance with the Specifications, the quantities and Delivery Dates on accepted Purchase Orders, that are reasonably required by Enphase during such Exclusivity Period (the “**Performance Requirements**”). Notwithstanding any other remedy in law or equity, in the event that Eliiy is unable to meet the Performance Requirements, the

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parties shall negotiate in good faith the reduction of the Annual Volume amounts set forth in Section 3.e and/or other reasonable measures.

- (iii) Eliiy shall use best efforts to insure that the Product is completed, certified and suitable for commercial production pursuant to the terms of the Milestone Schedule (the “**Target Date**”). If Eliiy cannot meet the Target Date, then the parties shall negotiate in good faith the modification of Enphase’s obligations (including the Annual Volume amounts set forth in Section 3.e. and the Unit Price set forth in Section 3.f) under this Agreement. If there is a material design or Milestone change, then the parties shall mutually agree to a reasonable extension of the Target Date.

*b.* Purchase Orders.

- (i) Purchase Orders. Enphase shall order the Product by issuing a written “**Purchase Order**” that sets forth at least the: (A) quantity of Product; (B) Unit Price (as described in 3.f.(i) below); and (C) Delivery Date, which shall be reasonably in-line with the Rolling Forecast. Enphase shall not send Purchase Orders more than one (1) time during each [\*] period; provided however, that Eliiy may agree to accept additional Purchase Orders if reasonably requested by Enphase.
- (ii) Lead Time. Orders for the Product require a lead time of [\*] prior to the Delivery Date of the Product.
- (iii) Acceptance of Purchase Order. Eliiy shall use best efforts to accept and acknowledge the Purchase Order within [\*] (meaning a day when: (i) deposit-taking banks are open in Tokyo for the business of over-the-counter deposit-taking; or (ii) Eliiy’s manufacturing plant is open for business (which shall be communicated to Enphase by the start of Eliiy’s each fiscal year)) of receipt of the Purchase Order, but in no event more than [\*] from such receipt. Upon acceptance of a Purchase Order submitted by Enphase, Enphase agrees to purchase such Product from Eliiy, and Eliiy agrees to sell and deliver to Enphase such Product.
- (iv) Cancellation of a Purchase Order. Enphase may cancel a Purchase Order prior to the receipt of Eliiy’s acceptance.

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- c. **Business Plan.** During the Term of this Agreement, each party shall deliver to the other Party, by the end of October each year, their respective business plans regarding the AC Battery and the Product for the following year, and consult with each other in determining its business plan for the following year. Enphase shall use commercially reasonable efforts to sell the AC Battery in Australia, United States, Canada, and the European Union as the initial target markets (collectively, the “**Target Markets**”) during the Exclusivity Period.
- d. **Rolling Forecast.** Enphase shall deliver to Eliiy a rolling forecast on a monthly basis which sets out the order forecast for the following [\*] (the “**Rolling Forecast**”). The Rolling Forecasts shall be non-binding and are intended by the parties solely to assist them in coordinating the manufacture and supply of the Product under this Agreement and Purchase Orders.
- e. **Annual Volumes.** Enphase shall use commercially reasonable efforts to submit Purchase Orders which, in the aggregate, binds Enphase to purchase of a volume of Product in the ranges set forth below; provided however, that to the extent that the parties have agreed to pricing (as of the Effective Date and in the future), then Enphase shall be obliged to purchase the Product volume for the time period that the pricing has been agreed to:

Year	Number of Products
2015	[*]
2016	[*]
2017	[*]
2018	[*]
2019	[*]
2020	[*]

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f. Pricing and Payment.

(i) Unit Price. The unit price for the Product shall be:

2015: USD [\*]

USD [\*]

USD [\*]

Q1 – 2016: USD [\*]

Q2 – 2016: USD [\*]

Q3 – 2016: USD [\*]

Q4 – 2016 through 2017: [\*]

All Unit Prices are FCA Eliiy factory location, Japan (Incoterms 2010). Unit Price is determined based on the Delivery Date. The parties shall mutually agree to all future pricing during the Term no later than [\*] before the pricing goes into effect.

- (A) Currency. Unless otherwise agreed in writing, the Unit Prices are in US dollars and are exclusive of all taxes, duties, tariffs, and assessments, and Enphase will pay all taxes, duties and assessments including but not limited to sales, use, VAT, withholding tax and other taxes, if any, arising on or measured by amounts payable to Eliiy under this Agreement. To the extent that the Exchange Rate on the last day of any quarter has changed more than [\*] from the Effective Exchange Rate, the Unit Prices for purchases beginning the first day of the following quarter shall be adjusted based on changes in the Exchange Rate as reported on the last business day of the prior calendar quarter. “Exchange Rate” is defined as the closing currency exchange rate of the United States Dollar to the Japanese Yen as quoted on the Wall Street Journal. “Effective Exchange Rate” shall mean [\*], or to the extent Unit Prices have previously been adjusted pursuant to this Section 3(f)(i)(A), the Exchange Rate on last day of any quarter proceeding such adjustment .
- (B) Terms. Enphase shall pay Eliiy the amount specified in a Purchase Order accepted by Eliiy net [\*] from Enphase’s receipt of an undisputed invoice.
- (C) Late Payment. Any undisputed amount not paid by Enphase to Eliiy when due shall accrue interest at the rate of [\*] beginning on the date that is [\*] after Enphase has received Eliiy’s written notice that such undisputed amount has not been paid. Eliiy may suspend the deliveries of accepted Purchase Orders if: (a) Eliiy has provided notice that Enphase has not paid a undisputed invoice; and (b) Enphase has not paid the undisputed invoice after a cure period of [\*].

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(D) Payments Not Acceptance of Product. No payment made hereunder shall be considered or deemed to represent that Enphase has inspected the Product or checked the quality or quantity thereof and shall not be deemed or construed as approval or acceptance of any Product, or as a waiver of any claim or right that Enphase may then or thereafter have, including any rejection or warranty right.

g. Packaging and Delivery.

- (i) All Product purchased by Enphase and sold by Eliiy under Purchase Orders entered pursuant to this Agreement shall be packaged in accordance with applicable Laws and delivered by Eliiy to Enphase according to FCA Eliiy factory location, Japan (Incoterms 2010) (the “**Delivery Point**”).
- (ii) If, after proper due diligence by both parties, the parties determine in good faith that [\*], then the Product may be [\*]. Eliiy shall [\*] if [\*].
- (iii) Eliiy shall cause the carrier to inspect the packaging of the Product prior to its loading of the Product, and the carrier shall have the authority to reject Product on behalf of Enphase if the packaging is damaged. Eliiy shall, in advance of Delivery Date provide to Enphase’s freight forwarder all documentation required for the ocean carrier to issue bill of lading. To the extent not included in the foregoing, Eliiy shall provide an itemized list of all Product delivered to a carrier for each shipment in order to validate the quantity and type of Product delivered.
- (iv) From the Effective Date until [\*], Enphase shall reimburse Eliiy for the reasonable costs and expenses related to the incremental costs for complying with clearing the Product for international shipment pursuant to the requirements of FCA Eliiy factory location, Japan (Incoterms 2010) (excluding packaging requirements).

h. Acceptance and Rejection. Enphase shall use commercially reasonable efforts to inspect the Product within a reasonable period of time following arrival of the Product at the Delivery Point. Enphase or its representatives may reject any non-conforming Product or shipments of Product [\*]: (a) [\*] following the discovery of any Product that does not conform with the applicable Specification, the applicable Purchase Order, or any other requirement set forth in this Agreement; or (b) [\*] following the date of delivery at the Delivery Point. Title to the Product shall pass from Eliiy to Enphase at the Delivery Point when such Product have been loaded on the carrier’s means of transport.

i. Product Warranty and RMA Procedure. Eliiy shall offer an [\*] Warranty for the Product as set forth in Exhibit D. The Warranty Period begins on the Delivery Date of the Product provided that the RMA Procedure and warranty precautions and exclusions shall be agreed upon by both parties prior to the Delivery Date. The parties shall work in good faith to: (i) complete the RMA Procedure on or before [\*]; and (ii) agree to reasonable warranty precautions and exclusions on or before [\*] from the Effective Date.

j. Epidemic Failure. The rights and obligations set forth in this section will apply if at any time during the Term: (a) Eliiy receives valid Warranty claims from Enphase resulting in an annualized failure rate in any rolling [\*] period of: (i) [\*] relating to the same failure

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mode, (ii) or [\*] for all cumulative failure modes; or (b) Eliiy recalls any Product. If after a valid and proper RMA Procedure, Enphase notifies Eliiy that the Epidemic Failure threshold has been met or Eliiy notifies Enphase of a recall for any Product, Eliiy shall: (a) contain the problem within [\*]; (b) perform a root cause analysis within [\*]; and (c) provide Enphase with a written report explaining the likely causes of the serial defect and how Eliiy intends to address the matter. Eliiy shall promptly, at its sole cost and expense and without the need for Enphase to make a further claim under the Warranty, address the serial defect in each Product sold to Enphase under this Agreement. Eliiy shall address the serial defect through replacement, refund or another remedy that Enphase reasonably deems appropriate and technically feasible under its Warranty, provided that such solution addresses the defect. Eliiy's associated costs of replacement for the Product may include, but are not limited to: freight, storage, failure analyzing, labor, truck roll, installation and disposal. Enphase may, upon written notice and without being in breach or default of its obligations under this Agreement or any Purchase Order: (i) suspend issuances of Purchase Orders for such Product; (ii) direct Eliiy to suspend deliveries of such Product to the Delivery Point; or (iii) reject any such Product then in storage at Enphase's facility, or any contracted storage facility, and Eliiy shall arrange for the proper disposal of such rejected Product and bear all expenses related to such disposal. The foregoing remedies are not exclusive, and Enphase may elect to apply one remedy with respect to certain Product and a different remedy with respect to other Product; provided however, that the parties agree that the Annual Volume requirements set forth in Section 3.e shall be renegotiated in good faith within no more than [\*] of a written notice from Enphase. Enphase shall not be obligated to resume performance under this Agreement until Eliiy has supplied evidence reasonably satisfactory to Enphase to demonstrate the defect has been addressed with respect to manufacturing additional Product. The foregoing obligations are separate from the obligations of either party which the parties shall undertake in the course of the RMA process.

k. Representations and Warranties.

(i) Representations and Warranties of Eliiy. Eliiy represents and warrants that:

- (A) it has full authority to execute this Agreement;
- (B) it is in good standing in all jurisdictions where it currently operates and that the operation of its business is conducted pursuant to all applicable Laws in all jurisdictions where it currently operates;
- (C) it will not be in breach of any other contract or agreement by entering into and performing under this Agreement;
- (D) it will use reasonable efforts to assist Enphase to determine all applicable Laws respect to the manufacturing, packaging, and shipment of the Product;
- (E) all Product shall be manufactured, packaged and prepared for shipment in accordance with the Specifications, all applicable Laws and this Agreement; including, but not limited to, complying with all laws related to the handling of Dangerous Goods.

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- (F) Eliiy shall maintain in effect insurance in accordance with the provisions of Exhibit F throughout the Term. Eliiy shall use best efforts to increase the insurance coverage in amounts Enphase reasonably requests as the volumes of Product sold increases. Eliiy shall comply with the terms of any policy required to be maintained by Eliiy in connection with this Agreement. Eliiy shall use its best efforts to provide to Enphase an insurance certificate meeting the requirements of Exhibit F by [\*].
- (G) the manufacture and operation of the Product does not and shall not infringe on any intellectual property rights of third parties;
- (H) it has no known claims made against it, realized or pending; and
- (I) no governmental approval is required on the part of Eliiy in connection with the execution, delivery and performance of this Agreement, except all governmental approvals which have been or will be timely obtained in the ordinary course of performance of this Agreement and before being required by applicable Laws.

EXCEPT AS SET FORTH IN THIS AGREEMENT, ELIYY MAKES NO REPRESENTATIONS AND NO OTHER WARRANTIES OR CONDITIONS ON THE PERFORMANCE OF THE PRODUCT, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH ENPHASE, AND ELIYY SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

(ii) Representations and Warranties of Enphase. Enphase represents and warrants that:

- (A) it has full authority to execute this Agreement;
- (B) it is in good standing in all jurisdictions where it currently operates and that the operation of its business is conducted pursuant to all applicable Laws;
- (C) it will not be in breach of any other contract or agreement by entering into this Agreement;
- (D) the Specification complies with all applicable laws with respect to the shipment of the Product, including, but not limited to, complying with all laws related to the handling of Dangerous Goods;
- (E) it will use reasonable efforts to assist Eliiy to determine all applicable Laws respect to the manufacturing, packaging, and shipment of the Product;
- (F) Enphase shall maintain in effect insurance in accordance with the provisions of Exhibit G throughout the Term. Enphase shall use best efforts to increase the insurance coverage in amounts Enphase reasonably determines as the volumes of Product sold to Enphase increases. Enphase shall comply with the terms of any policy required to be maintained by Enphase in connection

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with this Agreement. Enphase shall use its best efforts to provide to Eliiy an insurance certificate meeting the requirements of Exhibit G by [\*].

- (G) it does not infringe on any intellectual property rights of third parties;
- (H) Enphase will [\*] for the AC Battery [\*]. Enphase will not [\*] or [\*]. Enphase will not [\*] or [\*], and Enphase will expressly indicate that [\*] in connection with [\*] or [\*] concerning the AC Battery;
- (I) it has no known claims made against it, realized or pending; and
- (J) no governmental approval is required on the part of Enphase in connection with the execution, delivery and performance of this Agreement, except all governmental approvals which have been or will be timely obtained in the ordinary course of performance of this Agreement and before being required by applicable Laws.

EXCEPT AS SET FORTH IN THIS AGREEMENT, ENPHASE MAKES NO REPRESENTATIONS AND NO OTHER WARRANTIES OR CONDITIONS ON THE PERFORMANCE OF THE PRODUCT, EXPRESS, IMPLIED, STATUTORY, OR IN ANY OTHER PROVISION OF THIS AGREEMENT OR COMMUNICATION WITH ENPHASE, AND ENPHASE SPECIFICALLY DISCLAIMS ANY IMPLIED WARRANTY OR CONDITION OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE.

- (iii) Notice. Each party will give prompt notice to the other party if any Representations and Warranties have been breached by either party.

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l. Changes to Specifications, Technical Support and Engineering Changes.

- (i) Changes to Specifications. Eliiy shall use commercially reasonable efforts during the Term to maintain the ability to manufacture Product meeting the Specifications set forth in Exhibit A. During the Term, Eliiy shall not, without Enphase's prior written consent, substitute different Product for the Product ordered by Enphase under any accepted Purchase Order. Eliiy shall not make any modifications to the Specifications that change the form, fit or function of the Product. Enphase shall have the right to reject any Product that fail to conform to the Specifications or other requirements of this Agreement.
- (ii) Technical Support. Eliiy shall provide the technical services to be set forth in Exhibit E during the Warranty Period free of charge. The parties shall work in good faith to complete the contents of the technical service on or before [\*] in conjunction with the completion of the RMA Procedure as described in Section 3.i. For a minimum of [\*] after the end of the Warranty Period for a Product, Eliiy agrees to provide after-warranty engineering services that Eliiy has, at the time, available to offer to Enphase, at a reasonable cost no greater than Eliiy's then-current most-favorable rates offered or provided to any non-affiliated third-party that is purchasing a battery module that is similar to the Product, and purchasing similar volumes as Enphase.
- (iii) PCN Process. Eliiy shall comply with Enphase's Product Change Notice ("PCN") Process, a copy of which has been provided to Eliiy.
- (iv) Quality Control. Eliiy shall and shall cause any supplier of parts or chemicals incorporated into the Product to adhere to the APQP and the Enphase Quality Assurance Manual (SQA-00001 Supplier Quality Assurance Manual v1.1), including the Supplier Code of Conduct, which Enphase has provided to Eliiy. Eliiy shall neither ship nor bill Enphase for any Product that fail to meet the applicable requirements in such manual. Eliiy shall promptly notify Enphase in writing in the event that it becomes aware that any of its suppliers fail to comply with the requirements of such manual.
- (v) Engineering Changes. Enphase may request that Eliiy incorporate engineering changes into the Product by providing Eliiy with a description of the proposed engineering change sufficient to permit Eliiy to evaluate its feasibility and cost. Eliiy will, in good faith, proceed with engineering changes when the parties have agreed upon the changes to the Specifications, delivery schedule and product pricing and Enphase has issued a Purchase Order for the agreed upon and reasonable implementation costs.

- m. Conflict Minerals. Enphase shall comply, and Eliiy shall assist Enphase in a commercially reasonable manner, with any reporting requirement due to the use of Conflict Minerals, as such term is defined by the Securities and Exchange Commission's final rules mandated by the Dodd-Frank Wall Street Reform and Consumer Protection Act: (Tantalum (Ta), Tungsten (W), Tin (Sn), and Gold (Au)) originating from the Democratic Republic of the Congo (DRC) or adjoining countries.

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- n. Battery Recycling. Eliiy shall assist Enphase in the compliance with any Laws regarding the disposal of battery materials and other “eWaste,” as set forth in the RMA process. Enphase shall be solely responsible for the disposal and costs of disposal of battery materials and other “eWaste” components; provided however, that if there is a defect in the Product, then Eliiy shall be solely responsible for the disposal and costs of disposal of the Product under Warranty claim or Epidemic Failure.
- o. End of Life of Product. In case Eliiy plans to discontinue the manufacturing of the Product or any components of the Product which is not backwards compatible with the Product, Eliiy shall provide a notice which sets out the date in which Eliiy will stop delivery of the Product (“**EOL Date**”). The EOL Date shall be at least [\*] after the date of such notice. If Eliiy issues such notice, the parties shall negotiate in good faith the modification of Enphase’s obligations to purchase the Annual Volumes, as set forth in Section 3.e. Enphase shall submit the final Purchase Orders for the number of Product that Enphase shall require [\*] prior to the EOL Date, and the parties shall work in good faith to resolve any issues that Eliiy may have with accepting such Purchase Orders. If Eliiy has a LIB, BMU or cable, that are “backward compatible” (in form, fit and function) to the AC Battery, then Eliiy shall comply with the PCN process.
- p. Indemnification.
- (i) Eliiy - General. Eliiy shall defend, indemnify and hold harmless Enphase and its Affiliates, along with each of their respective officers, directors, partners, members, shareholders, agents, employees, successors, and assigns (collectively, the “**Enphase Indemnitees**”), from any breach of any representation or warranty guaranteed to Enphase under this Agreement, from and against all third-party claims (including, without limitation, product liability claims), losses, damages, expenses and liability (including court costs and reasonable attorneys’ fees) (collectively, the “**Losses**”) brought against or incurred by any Enphase Indemnitee arising out of or relating to this Agreement or any Purchase Order to the extent such Losses are caused by or are the result of: (a) any breach of this Agreement by Eliiy or its successors and assigns (collectively, the “**Eliiy-Related Persons**”); (b) breach of the Warranties, including manufacturing defects and design defects; (c) the negligence or willful misconduct of the Eliiy-Related Persons; and (d) except as set forth in Section 3.p. (iv), any product liability claims or other claims relating to the Product, including, without limitation, Eliiy’s labeling on the Product or Eliiy’s failure to withdraw or recall Product in a timely fashion.
- (ii) Eliiy - Intellectual Property. Eliiy shall defend, indemnify and hold harmless the Enphase Indemnitees from any claim of any third party that any Product as furnished by Eliiy to Enphase under this Agreement infringes any Intellectual Property Rights of such third party; provided however, that this indemnity shall not apply in case the infringement of Intellectual Property Rights is attributable to Enphase IP. Without limiting the generality of the foregoing, Eliiy shall, at Eliiy’s option and Eliiy’s sole cost and expense, either (A) procure for Enphase the right to continue using the infringing Product or (B) modify or replace the infringing Product so that it becomes non-infringing, in either case in a manner and time period that does not unreasonably interfere with Enphase’s activities or operations. If in connection with any such claim the continued use of any Product is forbidden by

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any court of competent jurisdiction, and neither of the foregoing remedies under clauses (A) or (B) are available, and provided that in no event may Eliiy take any action which adversely affects Enphase's continued use and enjoyment of the Product without the prior written consent of Enphase, Eliiy shall refund to Enphase the amounts paid by Enphase to Eliiy for the infringing Product, without reduction or offset, and shall provide any commercially reasonable assistance requested by Enphase in procuring a suitable replacement for the infringing Product.

- (iii) Eliiy - Hazardous Material. Eliiy shall defend, indemnify and hold harmless each Enphase Indemnitees from and against all claims, losses, fines, costs, penalties or expenses imposed upon any of them (including court costs and reasonable attorneys' fees), regardless of whether or not such claims, losses, fines, costs, penalties or expenses arise from or are incurred by third parties, that they may incur or suffer by reason of: (a) the existence in or any release from a Product of any Hazardous Material; (b) any enforcement or compliance proceeding commenced by or in the name of any Governmental Authority arising from or related to the existence in or any release from a Product of any Hazardous Material; and (c) any action reasonably necessary to abate, remediate or prevent a violation or threatened violation of any Law by any Enphase Indemnity with respect to the existence in or any release from a Product of any Hazardous Material.
- (iv) Enphase - General. Enphase shall defend, indemnify and hold harmless Eliiy and its Affiliates, along with each of their respective officers, directors, partners, members, shareholders, agents, employees, successors, and assigns (collectively, the "**Eliiy Indemnitees**"), from any breach of any representation or warranty guaranteed to Eliiy under this Agreement, from and against all third-party Losses brought against or incurred by any Eliiy Indemnitee arising out of or relating to this Agreement or any Purchase Order to the extent such Losses are caused by: (a) any breach of this Agreement by Enphase or its successors and assigns (collectively, the "**Enphase-Related Persons**"); (b) the negligence or willful misconduct of the Enphase-Related Persons; and (c) any product liability claims or other claims relating to the AC Battery that were not the result of a deficiency of or primarily related to the issues with the Product.
- (v) Notice of Claim. An Enphase Indemnitee or Eliiy Indemnitee (each, an "**Indemnified Party**") shall, promptly after the receipt of notice of the commencement of any legal action or of any claims against such Indemnified Party in respect of which indemnification may be sought pursuant to the provisions of this Section 1, notify Eliiy or Enphase, as the case may be (each, an "**Indemnifying Party**") in writing thereof, provided that the failure of an Indemnified Party promptly to provide any such notice shall only reduce the liability of the Indemnifying Party by the amount of any damages attributable to the failure of the Indemnified Party to give such notice in such manner. In case any such claim or legal action shall be made or brought against an Indemnified Party and such Indemnified Party shall notify the Indemnifying Party thereof, the Indemnifying Party may, or if so requested by the Indemnified Party shall, assume the defense thereof and after notice from the Indemnifying Party to the Indemnified Party of its election to assume the defense thereof with legal counsel reasonably satisfactory to the Indemnified Party, the Indemnifying Party will not be liable to the Indemnified

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Party under this Section for any legal fees and expenses subsequently incurred by such Indemnified Party in connection with the defense thereof. If the Indemnifying Party does not assume the defense of any such claim or legal action, then the Indemnifying Party shall remain liable to such Indemnified Party for any legal fees and expenses incurred by such Indemnified Party in connection with the defense thereof. No Indemnified Party shall settle any indemnified claim over which the Indemnifying Party has not been afforded the opportunity to assume the defense. The Indemnifying Party shall control the settlement of all claims over which it has assumed the defense; provided, that the Indemnifying Party shall not conclude any settlement which requires any action or forbearance from action by an Indemnified Party, or any payment by an Indemnified Party, without the prior approval of the Indemnified Party. The Indemnified Party shall provide reasonable assistance to the Indemnifying Party as reasonably requested by the Indemnifying Party, at the Indemnifying Party's sole cost and expense, in connection with such legal action or claim. For claims over which the Indemnifying Party has assumed the defense, the Indemnified Party shall have the right to participate in and be represented by counsel of its own choice and at its own expense.

q. Limitation of Liability and Disclaimer.

- (i) IN NO EVENT SHALL EITHER PARTY BE RESPONSIBLE UNDER ANY PROVISION OF THIS AGREEMENT OR OTHERWISE WITH RESPECT TO THE PRODUCT, FOR ANY CONSEQUENTIAL, INCIDENTAL, INDIRECT, SPECIAL OR PUNITIVE DAMAGES, ANTICIPATED OR LOST PROFITS, LOSS OF TIME, OR OTHER SIMILAR LOSSES OF ANY KIND INCURRED BY THE OTHER PARTY IN CONNECTION WITH SUCH PARTY'S PERFORMANCE OR NON-PERFORMANCE UNDER THIS AGREEMENT.
- (ii) EACH PARTY'S ENTIRE AND AGGREGATE LIABILITY FOR ALL CLAIMS MADE BY ONE PARTY AGAINST THE OTHER PARTY ARISING FROM THIS AGREEMENT SHALL NOT EXCEED THE GREATER OF [\*] OR [\*] OF THE TOTAL AMOUNT OF SALES OF THE PRODUCT DURING THE EXCLUSIVITY PERIOD, AND THEN [\*] FROM THE END OF THE EXCLUSIVITY PERIOD TO THE POINT THE INDEMNIFIED PARTY HAS NOTIFIED THE INDEMNIFYING PARTY FOR INDEMNIFICATION PURSUANT TO SECTION 3.P.(IV) ABOVE. NOTHING IN THIS SECTION 3.Q SHALL BE DEEMED OR CONSTRUED TO LIMIT (A) RECOVERY OF AMOUNTS OWED TO A THIRD PARTY THAT MAY BE RECOVERABLE FROM THE OTHER PARTY PURSUANT TO ANY INDEMNITY UNDER SECTION K, (B) LIABILITY ARISING FROM A PARTY'S GROSS NEGLIGENCE, WILLFUL MISCONDUCT, INTENTIONAL BREACH, FRAUD, OR ILLEGAL OR UNLAWFUL ACTS, (C) AMOUNTS DUE TO ELIYY FOR UNPAID INVOICES, OR (D) ELIYY'S WARRANTY OBLIGATIONS. THE LIMITS OF LIABILITY SET FORTH IN THIS AGREEMENT SHALL NOT BE REDUCED BY THE AMOUNT OF INSURANCE PROCEEDS AVAILABLE TO THE INDEMNIFIED PARTY.

r. No Limitation on Remedies. Except where this Agreement states that the applicable remedy set forth herein is the sole or exclusive remedy (or words of similar import) for such event,

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the rights and remedies of the Parties with respect to this Agreement in relation to such event are in addition to, and shall not be read or deemed a limitation on, those rights and remedies that may be available to a Party at law or in equity.

s. Term.

- (i) Term. The “**Term**” of this Agreement shall be for a period of six (6) years from the Effective Date hereof or earlier, as provided elsewhere in this Agreement.
- (ii) Survival. Expiration or termination of this Agreement for any reason shall not affect: (A) the obligations accrued and the rights secured prior to the effective date of expiration or termination; and (B) any obligations under Sections 3.f.(B-D), 3.i., 3.j., 3.n. (if there is a defect in the Product), 3.p., 3.q., 3.r., 3.s(ii-iii), 3.u (ii-xii) hereof, all of which shall survive termination or expiration of this Agreement.
- (iii) Rights to Intellectual Property. In the event of Eliiy’s termination of this Agreement for any reason other than a default by Enphase, or Eliiy’s inability, unwillingness or failure to fulfill its obligations under this Agreement and provided that Enphase fulfills all of its obligations under this Agreement, then Enphase shall have the rights, without the requirement of any additional payments to Eliiy or any successor in interest, to develop a similar battery cell storage system with a third party(ies), and further, Eliiy agrees that it shall not prosecute any claims, of any kind, against Enphase or the third party(ies) for any use of the BMU protocol, firmware and circuit modifications developed by both parties during the Term. This Section s.(iii) does not grant Enphase any rights to the Eliiy source code for the BMU.

t. Default and Termination.

- (i) Default by Enphase. This Agreement may be terminated by Eliiy prior to the end of the Term by written notice to Enphase, if Enphase, on at least [\*] occasions in any [\*] period, does not meet its undisputed payment obligations and does not cure or remedy such default in payment within [\*] after receipt of the notice.
- (ii) Default by Eliiy. This Agreement may be terminated by Enphase prior to the end of the Term by written notice to Eliiy, if Eliiy, on at least [\*] period, fails to deliver the quantities or Delivery Date set forth in an accepted Purchase Order, and does not cure or remedy such default within [\*] after receipt of the notice. The Milestone Schedule shall set forth the cure dates and remedy for any failure to meet a Milestone.
- (iii) Default by Either Party. Except as set forth in Section t.(i) or t.(ii), this Agreement may be terminated earlier by either party by a written notice to the other party if the other party: (i) breaches any material provision of this Agreement and does not cure or remedy such breach within [\*] after receipt of the notice of breach from the other party; or (ii) permanently ceases doing business, becomes the subject of a voluntary or involuntary petition in bankruptcy or any proceeding relating to insolvency, receivership, liquidation, reorganization, corporate rehabilitation, composition for the benefit of creditors, if such petition or proceeding is not dismissed with prejudice within [\*] after filing.

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- (iv) Failure to Agree to Terms for Section 3.i.(ii). Either Party may terminate this Agreement without any penalty or liability if the Parties are unable agree to the reasonable warranty precautions and exclusions terms as provided for in Section 3.i.(ii) within in the [\*] day time period referenced in the section.

u. General.

- (i) Reports. Starting with the [\*] after Enphase has sold AC Batteries, Enphase shall deliver to Eliiy, on a [\*] basis, a report that indicates how many AC Batteries have been delivered into “**Condition 1**” and “**Condition 2**” geographies.
- (ii) Confidential Information. Each party acknowledges that it or its personnel may be exposed to or otherwise acquire Confidential Information of the other party. Each party agrees to hold the Confidential Information of the other party in strict confidence and to not disclose such Confidential Information or use such Confidential Information in any way other than as may be: (i) required by this Agreement, and then only to those employees with a need to know in furtherance of the transactions contemplated by this Agreement; or (ii) consented to in writing by the disclosing party. Within thirty (30) days of the written request of the disclosing party, the receiving party shall return all of the disclosing party’s Confidential Information, except that the receiving party may retain one copy of the Confidential Information to be held by its legal counsel. The receiving party shall promptly notify the disclosing party if the receiving party learns of any unauthorized use or disclosure of the disclosing party’s Confidential Information. Each party agrees that breach of this Section (Confidential Information) will result in irreparable injury to the disclosing party and that the disclosing party is entitled to injunctive relief, in addition to any other remedies that may be available at law or in equity. The receiving party will not use the disclosing party’s Confidential Information to the detriment of the disclosing party.
- (iii) No Authority. Neither party is authorized to act for or on the behalf of the other party under this Agreement. Without limiting the generality of the foregoing, each party is an independent contractor, and no principal/agent or partnership relationship is created between them by this Agreement.
- (iv) Waiver. No failure or delay by either party to enforce or take advantage of any provision or right under this Agreement shall constitute a subsequent wavier of that provision or right, nor shall it be deemed to be a waiver of any other terms and conditions of this Agreement.
- (v) Notice. Any notice, request, demand, instruction or other document (collectively, “Notice”) to be given hereunder to either party shall be addressed as follows:

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If to Eliiy:	Eliiy Power Co., Ltd. Attention: Kyoichi Yamamoto  1 Chome-6-4 Osaki, Shinagawa, Tokyo 141-0032, Japan
With a copy (which shall not constitute notice) to:	Hitoshi Ishihara & Takashi Akahane Anderson Mori & Tomotsune  Akasaka K-Tower, 2-7 Motoakasaka 1-chome Minato-ku, Tokyo 107-0051
If to Enphase:	Darien Spencer Enphase Energy, Inc. 1420 N. McDowell Blvd Petaluma, CA 94954
With a copy to:	Enphase Energy Legal Enphase Energy, Inc. 1420 N. McDowell Blvd Petaluma, CA 94954

- (vi) Force Majeure. Except for Enphase's payment obligation, neither party to this Agreement shall be liable for its failure or delay to perform any of its obligations hereunder during any period in which such performance is prevented by the act of nature, acts of civil or military authority, fires, epidemics, floods, earthquakes, riots, war sabotage, power shortage or failure, line surges, labor shortages or disputes, and governmental control. In the event of any such delay the date of delivery or performance hereunder shall be extended by a period equal to the time lost by reason of such delay. In the event of such failure or delay, the party so affected shall immediately provide notice to the other party of such date the nature of such act of nature and the anticipated period of time during which such act of nature conditions are expected to persist.
- (vii) Severability. In the event that any provision of this Agreement is prohibited by any law governing its construction, performance or enforcement, such provision shall be ineffective to the extent of such prohibition without invalidating thereby any of the remaining provisions of the Agreement. The captions of the sections in this Agreement are intended for convenience only, and shall not be interpretive of the content of an accompanying section.
- (viii) Amendment. The terms and conditions of this Agreement may not be superseded, modified, or amended, except in a writing which both parties indicate a modification thereof, and is signed by authorized representatives of both parties.
- (ix) Choice of Language. The Parties hereby acknowledge and agree that they have mutually required that this Agreement and all documentation, notices, judicial

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proceedings, and dispute resolution and arbitration entered into, given, instituted pursuant to, or relating to, this Agreement be drawn up in the English language. Any translations of this Agreement or its attachments that are provided are done solely for the convenience of Seller and, in all cases, the English language version of such documents shall govern.

- (x) Construction. The Parties acknowledge and agree that this Agreement is the product of arms-length negotiations between Buyer and Seller, both of whom are sophisticated commercial Parties of equal bargaining power, and that neither Party has in any manner relied on the other Party's expertise and/or superior knowledge, if any, in entering into this Agreement. Both Parties acknowledge and agree that this Agreement shall be construed as if jointly prepared and drafted by both Parties and that under no circumstances will any provision hereof be construed for or against either Party due to that Party's actual role in the preparation or drafting of this Agreement. Headings and subheadings used in this Agreement are for reference purposes only and shall not constitute any part of this Agreement.
- (xi) Complete Agreement. Unless otherwise provided herein, all Exhibits signed by duly authorized representatives of Enphase and accepted by Eliiy shall be deemed merged into and become a part of this Agreement. This Agreement supersedes and replaces all prior or contemporaneous agreements, written or oral regarding the same subject matter.
- (xii) Governing Law and Venue. Except as set forth below, the validity, performance and construction of this Agreement shall be governed by the laws of the State of California, U.S.A. and the parties irrevocably submit to arbitration in Singapore pursuant to the Arbitration Rules of the Singapore International Arbitration Centre. If, for any reason, the parties cannot arbitrate in Singapore, and the party seeking arbitration is Enphase, then the parties irrevocably submit to arbitration in Japan, pursuant to the rules of the Japan Commercial Arbitration Association. On the other hand, if, for any reason, the parties cannot arbitrate in Singapore, and the party seeking arbitration is Eliiy, then the parties irrevocably submit to arbitration in Los Angeles, California, pursuant to the rules of JAMS. The language of the arbitration shall be English. Notwithstanding the foregoing, either party may use criminal, civil and administrative courts and laws in any jurisdiction worldwide necessary to protect its intellectual property and confidential information including any licenses set forth herein.
- (xiii) FCPA. With respect to the matters covered by this Agreement, Eliiy represents, warrants, and covenants to Enphase, that neither Eliiy nor any owners, directors, officers, employees, agents, affiliates or other contractors and subcontractors (collectively, "**Relevant Persons**") of Eliiy has or will: (i) violate or cause Enphase or its Relevant Persons to be in violation of the U.S. Foreign Corrupt Practices Act of 1977 as amended (15 U.S.C. §§78dd-1, et seq.) (the "**FCPA**"), the U.S. Travel Act, or any other applicable anti-corruption law or regulation (collectively "Anti-Corruption Laws"); (ii) with a corrupt, improper, or illegal intent directly or indirectly (through third parties) pay, provide, promise, offer, or authorize the payment or provision of any money or thing of value to (a) an official, employee, or agent of any government, military, political party, public international

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organization, state-owned or affiliated entity, or instrumentality thereof (collectively “**Government Officials**”), (b) a political party or candidate for public office, (c) any person while “knowing” (as that term is interpreted by the U.S. government in relation to the FCPA) that all or a portion of that money or thing of value will be offered, promised, paid, or provided to the foregoing persons, or (d) any other individual, entity, or organization, in order to obtain, retain, or direct approvals, licenses, permits, business, sales, tax or duty assessments, import or export clearances, or other advantages; (iii) offer, promise, authorize, provide, or incur any bribe, kickback, or other corrupt or unlawful payment, expense, contribution, gift, entertainment, travel or other benefit, or advantage (collectively, “**Restricted Benefits**”) to or for the benefit of any Government Official, political party or candidate, or any other individual, entity, or organization; (iv) solicit, accept, or receive any Restricted Benefits; or (v) establish or maintain any unlawful or unrecorded funds (such as slush funds). Eliiy further represents, warrants, and covenants to Enphase that (i) Eliiy shall cause its Relevant Persons involved with performing obligations under this Agreement to comply with the representations, warranties, and covenants contained in this Section; (ii) to its knowledge, no Relevant Person of Eliiy or an immediate relative thereof (*i.e.*, parent, child, sibling, spouse, or domestic partner) is a Government Official or a candidate for public office who is or may become responsible for regulating or otherwise overseeing activities contemplated by this Agreement; (iii) there have been no accusations, claims, investigations, informal inquiries, indictments, prosecutions, or other enforcement actions, judgments, or proclamations against Eliiy or, to its knowledge, its Relevant Persons relating to bribery, corruption, money laundering, fraud, obstruction of justice, racketeering or other illegal or unethical activities; (iv) Eliiy has in good faith provided to Enphase accurate and complete due diligence information and materials regarding itself and its Relevant Persons in response to requests by Enphase; (v) Eliiy shall not retain any subcontractor or subvendor to assist with any regulatory or other government interactions in the performance of this Agreement, unless such subcontractor or subvendor has satisfied Enphase’s due diligence standards, in the Enphase’s reasonable opinion, and has provided written assurances of its compliance with the foregoing representations, warranties, and covenants; and (vi) Eliiy shall notify Enphase if it learns that Eliiy or a Relevant Person of Eliiy has violated or will violate any of the representations, warranties, or covenants contained in this Section. Eliiy agrees that it will annually certify to Enphase that they are in compliance with Enphase’s FCPA Policy, a copy of which has been delivered to Eliiy.

- (xiv) Prevailing Party. The prevailing party in any legal action arising out of, or related to this Agreement shall be entitled, in addition to any other rights and remedies it may have, to reimbursement for its expenses incurred in such action, including but not limited to, court costs and reasonable attorney’s fees.

**Executed in Petaluma, California, USA/Tokyo, Japan.**

**Enphase Energy, Inc.    Eliiy Power Co., Ltd**

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By: /s/ Paul B. Nahi                      By: /s/ Hiroichi Yoshida  
Paul Nahi, President and Chief Executive Officer      Hiroichi Yoshida, President

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**Exhibit A**  
**Specifications**

[\*]

[\*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

Exhibit B

Milestone Schedule

Delivery Date	Item	Quantity	Purpose	Functionality; Hardware; Deliverables	Enphase Acceptance
[*]	[*]	[*]	[*]	[*]	[*]

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**Exhibit C**

**Project Coordinators**

Enphase:

[\*]

Eliiy:

[\*]

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## Exhibit D

### Warranty

The Product shall maintain the ability to store and discharge energy [\*] at the minimum percentages set forth below, depending on the Average Annual Ambient temperatures in the location in which the AC Battery is located. The Parties agree that **Average Annual Ambient Temperature** shall be determined by a mutually agreed upon respective national weather service servicing the respective geographical location where the AC Battery has been installed.

**Condition 1: Average Annual Ambient temperature does not exceed [\*] degrees Celsius:**

Year 1            [\*] of rated capacity  
Years 2 – 5        [\*] of rated capacity  
Years 6 – 10       [\*] of rated capacity  
Year 11            [\*] of rated capacity

**Condition 2: Average Annual Ambient temperature does not exceed [\*] degrees Celsius:**

Year 1            [\*] of rated capacity  
Years 2 – 5        [\*] of rated capacity  
Years 6 – 10       [\*] of rated capacity  
Year 11            [\*] of rated capacity

For purposes of determining a “**Year,**” the Year begins on the Delivery date of the Product.

The rated capacity of the Product will be based on a [\*] charge capacity.

During the Warranty Period, the round trip energy efficiency of the Product (including power loss in the BMU) shall be as set forth in Exhibit A. Round trip efficiency is measured at a charge / discharge current of [\*] at an ambient temperature of [\*] degrees Celsius.

This Warranty shall not cover Product that have:

- (a) experienced conditions exceeding the Specifications after leaving Eliiy’s factory (Eliiy needs to put Shock and Vibration Specification in Exhibit A);
- (b) visible signs of water damage or has experienced an electrical short due to improper handling after leaving Eliiy’s factory; and
- (c) experienced temperatures over [\*] for a continuous period exceeding [\*] as measured at the thermistor at or closest to any battery cell.

Enphase agrees to retain the data necessary to support Warranty claims, such as [\*]. [\*] shall be retained for a period not exceeding [\*].

[\*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

**Exhibit E**

**Technical Support**

**To be agreed separately**

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## **Exhibit F**

### **Eliiy Insurance Requirements**

1. (US) \$[\*] limit of liability.
2. Coverage for Bodily Injury or Property damage caused by Eliiy's product.
3. The coverage territory of Eliiy's insurance will respond to lawsuits that occur in the country/state where the person is injured or where the property is damaged as well as to actions and disputes contested in Singapore, the venue for disputes between the parties.
4. Additional Insured to include Enphase, and, to the extent reasonably available in the Japanese market, its officers, directors, agents (excluding agents who are design professionals), and employees.
5. A Waiver of Subrogation in favor of Enphase will be provided by Eliiy's insurance policy.

[\*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.



## Exhibit G

### Enphase Insurance Requirements

1. (US) \$[\*] limit of liability.
2. Coverage for Bodily Injury or Property damage caused by Enphase's product.
3. The coverage territory of Enphase's insurance will respond to lawsuits that occur in the country/state where the person is injured or where the property is damaged as well as to actions and disputes contested in Singapore, the venue for disputes between the parties .
4. Additional Insured to include Eliiy, its officers, directors, agents (excluding agents who are design professionals), and employees; provided however, that if Eliiy's insurance does not include Enphase's officers, directors, agents (excluding agents who are design professionals), and employees, then Enphase shall not provide such coverage for Eliiy's officers, directors, agents (excluding agents who are design professionals), and employees.
5. A Waiver of Subrogation in favor of Eliiy will be provided by Enphase's insurance policy.

[\*] = Certain confidential information contained in this document, marked by brackets, has been omitted and filed separately with the Securities and Exchange Commission pursuant to Rule 24b-2 of the Securities Exchange Act of 1934, as amended.

CERTIFICATION

I, Paul B. Nahi, certify that:

1. I have reviewed this Form 10-Q of Enphase Energy, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Paul B. Nahi

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Paul B. Nahi

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Kris Sennesael, certify that:

1. I have reviewed this Form 10-Q of Enphase Energy, 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 most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 4, 2015

/s/ Kris Sennesael

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Kris Sennesael

Vice President and Chief Financial Officer  
(Principal Financial Officer)

## CERTIFICATION

Pursuant to the requirement set forth in Rule 13a-14(b) of the Securities Exchange Act of 1934, as amended, (the "Exchange Act") and Section 1350 of Chapter 63 of Title 18 of the United States Code (18 U.S.C. §1350), Paul B. Nahi, President and Chief Executive Officer of Enphase Energy, Inc. (the "Company"), and Kris Sennesael, Vice President and Chief Financial Officer of the Company, each hereby certifies that, to the best of his or her knowledge:

1. The Company's Quarterly Report on Form 10-Q for the period ended September 30, 2015, to which this Certification is attached as Exhibit 32.1 (the "Periodic Report"), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and
2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

**In Witness Whereof**, the undersigned have set their hands hereto as of the 4th day of November, 2015.

/s/ Paul B. Nahi

Paul B. Nahi

President and Chief Executive Officer

/s/ Kris Sennesael

Kris Sennesael

Vice President and Chief Financial Officer

This certification accompanies the Form 10-Q to which it relates, is not deemed filed with the Securities and Exchange Commission and is not to be incorporated by reference into any filing of Enphase Energy, Inc. under the Securities Act of 1933, as amended, or the Securities Exchange Act of 1934, as amended (whether made before or after the date of the Form 10-Q), irrespective of any general incorporation language contained in such filing.