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

Form 10-Q

(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, 2016

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

Enphase Energy, Inc.

(Exact name of registrant as specified in its charter)

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)

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 October 31, 2016, there were 61,909,348 shares of the registrant's common stock outstanding, \$0.00001 par value per share.

ENPHASE ENERGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED SEPTEMBER 30, 2016

TABLE OF CONTENTS

	<u>Page</u>
<u>PART I. FINANCIAL INFORMATION</u>	
Item 1.	Financial Statements (Unaudited)
	Condensed Consolidated Balance Sheets
	Condensed Consolidated Statements of Operations
	Condensed Consolidated Statements of Comprehensive Income (Loss)
	Condensed Consolidated Statements of Cash Flows
	Notes to Condensed Consolidated Financial Statements
Item 2.	Management's Discussion and Analysis of Financial Condition and Results of Operations
Item 3.	Quantitative and Qualitative Disclosures About Market Risk
Item 4.	Controls and Procedures
<u>PART II. OTHER INFORMATION</u>	
Item 1.	Legal Proceedings
Item 1A.	Risk Factors
Item 2.	Unregistered Sales of Equity Securities and Use of Proceeds
Item 3.	Defaults Upon Senior Securities
Item 4.	Mine Safety Disclosures
Item 5.	Other Information
Item 6.	Exhibits
	Signature

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

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

	September 30, 2016	December 31, 2015
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 24,112	\$ 28,452
Accounts receivable, net of allowances of \$5,002 and \$1,808 at September 30, 2016 and December 31, 2015, respectively	59,482	46,099
Inventory	39,101	40,800
Prepaid expenses and other assets	7,187	6,417
Total current assets	129,882	121,768
Property and equipment, net	32,453	32,118
Goodwill	3,745	3,745
Intangibles, net	1,669	2,220
Other assets	8,679	5,677
Total assets	\$ 176,428	\$ 165,528
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	\$ 32,551	\$ 25,569
Accrued liabilities	26,667	19,292
Deferred revenues, current	5,942	3,915
Warranty obligations, current (includes \$3,500 and \$2,601 measured at fair value at September 30, 2016 and December 31, 2015, respectively)	6,761	7,072
Revolving credit facility	12,450	17,000
Current portion of term loan	1,197	—
Total current liabilities	85,568	72,848
Long-term liabilities:		
Deferred revenues, noncurrent	31,827	25,115
Warranty obligations, noncurrent (includes \$6,015 and \$3,581 measured at fair value at September 30, 2016 and December 31, 2015, respectively)	23,588	23,475
Other liabilities	2,408	2,641
Term loan, less current portion	22,808	—
Total liabilities	166,199	124,079
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; 59,958 and 45,821 shares issued and outstanding at September 30, 2016 and December 31, 2015, respectively	1	—
Additional paid-in capital	247,829	224,732
Accumulated deficit	(237,347)	(183,073)
Accumulated other comprehensive loss	(254)	(210)
Total stockholders' equity	10,229	41,449
Total liabilities and stockholders' equity	\$ 176,428	\$ 165,528

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,	
	2016	2015	2016	2015
Net revenues	\$ 88,684	\$ 102,874	\$ 231,990	\$ 291,620
Cost of revenues	72,805	71,408	190,215	199,103
Gross profit	15,879	31,466	41,775	92,517
Operating expenses:				
Research and development	13,169	12,059	39,326	38,275
Sales and marketing	11,016	10,510	31,218	34,955
General and administrative	6,708	7,118	21,121	23,425
Restructuring charges	2,717	—	2,717	—
Total operating expenses	33,610	29,687	94,382	96,655
Income (loss) from operations	(17,731)	1,779	(52,607)	(4,138)
Other income (expense), net:				
Interest expense	(1,234)	(140)	(1,598)	(305)
Other income (expense)	353	(704)	655	(1,152)
Total other expense, net	(881)	(844)	(943)	(1,457)
Income (loss) before income taxes	(18,612)	935	(53,550)	(5,595)
Provision for income taxes	(144)	(311)	(724)	(704)
Net income (loss)	\$ (18,756)	\$ 624	\$ (54,274)	\$ (6,299)
Net income (loss) per share:				
Basic and diluted	\$ (0.40)	\$ 0.01	\$ (1.16)	\$ (0.14)
Shares used in per share calculation:				
Basic	47,278	44,734	46,704	44,339
Diluted	47,278	47,996	46,704	44,339

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,	
	2016	2015	2016	2015
Net income (loss)	\$ (18,756)	\$ 624	\$ (54,274)	\$ (6,299)
Other comprehensive income (loss):				
Foreign currency translation adjustments	54	187	(44)	(132)
Comprehensive income (loss)	<u>\$ (18,702)</u>	<u>\$ 811</u>	<u>\$ (54,318)</u>	<u>\$ (6,431)</u>

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Nine Months Ended September 30,	
	2016	2015
Cash flows from operating activities:		
Net loss	\$ (54,274)	\$ (6,299)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	8,039	7,704
Provision for doubtful accounts	3,194	344
Asset impairment charges	1,440	479
Amortization of debt issuance costs	101	120
Stock-based compensation	8,239	9,579
Revaluation of contingent consideration liability	—	(1,600)
Changes in operating assets and liabilities:		
Accounts receivable	(16,577)	(30,547)
Inventory	1,699	(15,127)
Prepaid expenses and other assets	(3,857)	(5,008)
Accounts payable, accrued and other liabilities	14,867	5,004
Warranty obligations	(198)	(1,134)
Deferred revenues	8,739	7,176
Net cash used in operating activities	<u>(28,588)</u>	<u>(29,309)</u>
Cash flows from investing activities:		
Purchases of property and equipment	(9,607)	(9,682)
Purchases of intangible assets	(678)	—
Net cash used in investing activities	<u>(10,285)</u>	<u>(9,682)</u>
Cash flows from financing activities:		
Proceeds from public offering of common stock, net of underwriting fees	14,593	—
Proceeds from term loan	24,175	—
Proceeds from borrowings under revolving credit facility	10,000	34,000
Payments under revolving credit facility	(14,550)	(17,000)
Payments for debt issuance costs and offering costs	(401)	—
Contingent consideration payment related to prior acquisition	(29)	—
Proceeds from issuance of common stock under employee stock plans	852	2,866
Net cash provided by financing activities	<u>34,640</u>	<u>19,866</u>
Effect of exchange rate changes on cash	<u>(107)</u>	<u>(416)</u>
Net decrease in cash and cash equivalents	(4,340)	(19,541)
Cash and cash equivalents—Beginning of period	28,452	42,032
Cash and cash equivalents—End of period	<u>\$ 24,112</u>	<u>\$ 22,491</u>
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of fixed and intangible assets included in accounts payable	\$ 517	\$ 584
Deferred public offering costs included in accounts payable	<u>\$ 446</u>	<u>\$ —</u>

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION*****Description of Business***

Enphase Energy, Inc. and subsidiaries (the "Company") delivers simple, innovative and reliable energy management solutions that advance the worldwide potential of renewable energy. Our semiconductor-based microinverter system converts direct current (DC) electricity to alternating current (AC) electricity at the individual solar module level and brings a system-based, high technology approach to solar energy generation leveraging our design expertise across power electronics, semiconductors, networking, and cloud-based software technologies. Since inception, the Company has shipped over 12.6 million microinverters representing over 3 gigawatts of solar PV generating capacity, and more than 540,000 Enphase residential and commercial systems have been deployed in over 100 countries.

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 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, 2016 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, 2015.

There have been no material changes in the Company's significant accounting policies during the nine months ended September 30, 2016, as compared to the significant accounting policies described in the Company's Annual Report on Form 10-K for the year ended December 31, 2015. 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.

Recently Issued Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") 2014-09, "Revenue from Contracts with Customers," which will replace most existing revenue recognition guidance under U.S. 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. In 2015, the FASB issued guidance to defer the effective date to fiscal years beginning after December 15, 2017 with early adoption for fiscal years beginning December 15, 2016. The guidance permits the use of either a retrospective or cumulative effect transition method. In March 2016, the FASB issued ASU 2016-08, "Revenue from Contracts with Customers: Principal versus Agent Considerations (Reporting Revenue Gross versus Net)," which clarifies the guidance in ASU 2014-09 and has the same effective date as the original standard. During the three months ended June 30, 2016, the FASB issued ASU 2016-10, "Revenue from Contracts with Customers: Identifying Performance Obligations and Licensing"; ASU 2016-11, "Rescission of SEC Guidance Because of Accounting Standards Updates 2014-09 and 2014-16 Pursuant to Staff Announcements at the March 3, 2016 EITF Meeting"; and ASU 2016-12, "Revenue from Contracts with Customers: Narrow-Scope Improvements and Practical Expedients." These amendments are intended to improve and clarify the implementation guidance of ASU 2014-09 and have the same effective date as the original standard. The Company has not yet selected a transition method and is currently evaluating the impact of adoption on the consolidated financial statements.

In August 2014, the FASB issued ASU 2014-15, "Presentation of Financial Statements—Going Concern." The update provides U.S. GAAP guidance on management's responsibility in evaluating whether there is substantial doubt about a company's ability to continue as a going concern and about related footnote disclosures. For each reporting period, management will be required to evaluate whether there are conditions or events that raise substantial doubt about a company's ability to continue as a going concern within one year from the date the financial statements are issued. The amendments in this update are effective for the annual period ending after December 15, 2016 and for annual and interim periods thereafter. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In July 2015, the FASB issued ASU 2015-11, "Simplifying the Measurement of Inventory," which requires most entities to measure most inventories at the lower of cost or net realizable value ("NRV"). This simplifies the evaluation from the current method of lower of cost or market, where market is based on one of three measures (i.e. replacement cost, net realizable value, or net realizable value less a normal profit margin). ASU 2015-11 does not apply to inventories measured under the last-in, first-out method or the retail inventory method, and defines NRV as the "estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal, and transportation." ASU 2015-11 is effective for fiscal years beginning after December 15, 2016, including interim periods within those fiscal years. Early adoption is permitted for any interim and annual financial statements that have not yet been issued. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In January 2016, the FASB issued ASU 2016-01, "Recognition and Measurement of Financial Assets and Financial Liabilities," which amends certain aspects of recognition, measurement, presentation, and disclosure of financial instruments. Changes to the current guidance include the accounting for equity investments, the presentation and disclosure requirements for financial instruments, and the assessment of valuation allowance on deferred tax assets related to available-for-sale securities. In addition, ASU 2016-01 establishes an incremental recognition and disclosure requirement related to the presentation of fair value changes of financial liabilities for which the fair value option has been elected. Under this guidance, an entity would be required to separately present in other comprehensive income the portion of the total fair value change attributable to instrument-specific credit risk as opposed to reflecting the entire amount in earnings. ASU 2016-01 is effective for fiscal years and interim periods beginning after December 15, 2017, and upon adoption, an entity should apply the amendments by means of a cumulative-effect adjustment to the balance sheet at the beginning of the first reporting period in which the guidance is effective. Early adoption is not permitted except for the provision to record fair value changes for financial liabilities under the fair value option resulting from instrument-specific credit risk in other comprehensive income. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

In March 2016, the FASB issued ASU 2016-09, "Improvements to Employee Share-Based Payment Accounting," which will simplify the income tax consequences, accounting for forfeitures and classification on the Statements of Consolidated Cash Flows. ASU 2016-09 is effective for fiscal years and interim periods beginning after December 15, 2016, with early adoption permitted. The Company is currently evaluating the impact of adoption on the consolidated financial statements.

2. INVENTORY

Inventory as of September 30, 2016 and December 31, 2015 consists of the following (in thousands):

	September 30, 2016	December 31, 2015
Raw materials	\$ 4,677	\$ 2,202
Finished goods	34,424	38,598
Total inventory	<u>\$ 39,101</u>	<u>\$ 40,800</u>

3. WARRANTY OBLIGATIONS

The Company's warranty activities during the three and nine months ended September 30, 2016 and 2015 were as follows (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Warranty obligations, beginning of period	\$ 30,066	\$ 33,763	\$ 30,547	\$ 33,940
Accruals for warranties issued during period	1,194	1,400	2,931	3,707
Changes in estimates	783	498	1,548	736
Settlements	(2,561)	(2,615)	(6,517)	(5,480)
Increase due to accretion expense	461	272	1,279	643
Other	406	(512)	561	(740)
Warranty obligations, end of period	<u>\$ 30,349</u>	<u>\$ 32,806</u>	<u>\$ 30,349</u>	<u>\$ 32,806</u>
Less current portion			\$ (6,761)	\$ (6,612)
Noncurrent			<u>\$ 23,588</u>	<u>\$ 26,194</u>

As of September 30, 2016, the \$30.3 million of warranty obligations included \$9.5 million measured at fair value. As of December 31, 2015, the \$30.5 million of warranty obligations included \$6.2 million measured at fair value. See Note 4, "Fair Value Measurements" for additional information.

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, 2016 and December 31, 2015 (in thousands):

	Fair Value Hierarchy	September 30, 2016	December 31, 2015
Assets:			
Foreign currency forward contracts	Level 2	\$ —	\$ 86
Liabilities:			
Foreign currency forward contracts	Level 2	\$ —	\$ 9
Warranty obligations	Level 3	9,515	6,182
Contingent consideration	Level 3	444	473

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, 2016, the Company did not have any outstanding foreign currency forward contracts. At December 31, 2015, the notional amount of the Company's foreign currency forward contracts outstanding was \$2.4 million. For the three and nine months ended September 30, 2016 and 2015, gains and losses from foreign currency forward contracts recorded in other income (expense), net were insignificant.

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):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$ 8,053	\$ 5,803	\$ 6,182	\$ 3,562
Accruals for warranties issued during period	1,185	1,327	2,898	3,510
Changes in estimates	(200)	—	(678)	—
Settlements	(390)	(74)	(726)	(159)
Increase due to accretion expense	461	272	1,279	643
Other	406	(512)	560	(740)
Balance at end of period	<u>\$ 9,515</u>	<u>\$ 6,816</u>	<u>\$ 9,515</u>	<u>\$ 6,816</u>

Contingent Consideration Liability

The following table provides information regarding changes in financial liabilities related to the contingent consideration liability arising from a previous acquisition measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Balance at beginning of period	\$ 444	\$ 1,400	\$ 473	\$ 2,300
Revaluations	—	(700)	—	(1,600)
Contingent consideration payment	—	—	(29)	—
Balance at end of period	<u>\$ 444</u>	<u>\$ 700</u>	<u>\$ 444</u>	<u>\$ 700</u>

Quantitative and Qualitative Information about Level 3 Fair Value Measurements

As of September 30, 2016, 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%

As of December 31, 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	25%
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 credit-adjusted risk free rate ("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 discount rate by 100 basis points would result in a \$0.3 million reduction of the liability. Decreasing the discount rate by 100 basis points would result in a \$0.3 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 remaining earnout period, 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

The following table presents the details of the Company's goodwill and purchased intangible assets as of September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016			December 31, 2015		
	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
Intangible assets with finite lives:						
Customer relationships	\$ 900	\$ (315)	\$ 585	\$ 900	\$ (180)	\$ 720
Patents and licensed technology	1,665	(867)	798	1,665	(451)	1,214
Total	\$ 2,565	\$ (1,182)	\$ 1,383	\$ 2,565	\$ (631)	\$ 1,934

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 customer relationship intangible asset associated with a prior acquisition is being amortized on a straight-line basis over its estimated useful life of 5 years. In October 2015, the Company licensed certain technology related to ASIC development for a 3 year term, which is also its estimated useful life.

For the nine months ended September 30, 2016, amortization expense related to intangible assets was \$0.6 million. As of September 30, 2016, estimated future amortization expense related to finite-lived intangible assets was as follows:

Year	(In thousands)	
2016	\$	184
2017		610
2018		409
2019		180
Total	\$	1,383

6. RESTRUCTURING

In the third quarter of 2016, the Company implemented a restructuring plan to lower its operating expenses. The restructuring plan led to a reduction of its workforce globally by approximately 11% of total headcount throughout all areas of the organization and an elimination of certain non-core projects. The restructuring actions are expected to be completed by the end of the fourth quarter of 2016.

The following table presents the details of the Company's restructuring charges for the periods indicated (in thousands):

	Three Months Ended September 30,	
	2016	2015
Employee severance and benefit arrangements	\$ 1,308	\$ —
Asset impairments	1,409	—
Total restructuring and asset impairment charges	\$ 2,717	\$ —

The following table provides information regarding changes in the Company's accrued restructuring balance for the periods indicated (in thousands):

	Employee Severance and Benefits	Asset Impairments	Total
Balance at beginning of period as of December 31, 2015	\$ —	\$ —	\$ —
Charges	1,308	1,409	2,717
Cash payments	(85)	—	(85)
Non-cash settlement	—	(1,409)	(1,409)
Balance at end of period as of September 30, 2016	\$ 1,223	\$ —	\$ 1,223

7. DEBT

Revolving Credit Facility

The Company maintains a \$50.0 million revolving credit facility with Wells Fargo Bank, N.A. ("Wells Fargo") that was entered into in November 2012, as first amended on February 14, 2014. On December 18, 2015, the Company entered into an amended and restated revolving credit agreement with Wells Fargo (the "Revolver") which extended the maturity date to November 7, 2019 and added an uncommitted accordion feature that could increase the size of the facility by \$25.0 million, subject to the satisfaction of certain conditions.

Availability 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. Borrowings under the Revolver bear interest in cash 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 1.0% and 3.75% depending on the currency borrowed and the specific term of repayment. The Revolver

requires the Company to pay an unused line fee between 0.25% and 0.375% based on the average daily unused portion of the revolving credit commitment.

The Revolver is secured by a first-priority security interest on substantially all assets of the Company other than intellectual property and contains customary affirmative and negative covenants (including restrictions on the Company's ability to make dividend payments) and events of default. In addition, the Revolver requires the Company to maintain at least \$15.0 million of liquidity at all times, consisting of cash on hand and undrawn availability under the Revolver (defined as borrowing base less outstanding borrowings under the Revolver) of at least \$5.0 million. In July 2016, the Company entered into an amendment to the Revolver with Wells Fargo. The amendment, among other things, allowed the Company to incur indebtedness related to a term loan (described below) and increased the amount of undrawn availability that must be maintained as part of the Revolver's \$15.0 million minimum liquidity covenant from \$5.0 million to \$12.5 million. The Company was in compliance with such covenants as of September 30, 2016.

As of September 30, 2016, outstanding borrowings under the Revolver were \$12.5 million. Based upon its eligible borrowing base, net of the restrictions concerning minimum liquidity requirement, the Company could have borrowed an additional \$8.8 million. The weighted-average interest rate related to the outstanding balance was 5.0%.

Term Loan

In July 2016, the Company entered into a Term Loan Agreement with lenders that are affiliates of Tennenbaum Capital Partners, LLC. Under the agreement, the lenders committed to advance a term loan in an aggregate principal amount of up to \$25.0 million with a maturity date of July 1, 2020. The Company borrowed the entire \$25.0 million of term loan commitments on the loan closing date.

Monthly payments due through June 30, 2017 are interest only, followed by consecutive equal monthly payments of principal plus accrued interest beginning on July 1, 2017 and continuing through the maturity date. The term loan provides for an interest rate per annum equal to the higher of (i) 10.25% or (ii) LIBOR plus 9.5625%, subject to a 1.0% reduction if we achieve minimum levels of Revenue and EBITDA (each as defined in the Term Loan Agreement) for the twelve consecutive month period ending June 30, 2017 as set forth in the Term Loan Agreement. In addition, the Company paid a commitment fee of 3.3% of the loan amount upon closing and a closing fee of 10.0% of the loan amount is payable in four equal installments at each anniversary of the closing date. We may elect to prepay the loan by incurring a prepayment fee between 1% and 3% of the principal amount of the term loan depending on the timing and circumstances of prepayment.

The term loan is secured by a second-priority security interest on substantially all our assets except intellectual property. The Term Loan Agreement does not contain any financial covenants, but is subject to customary affirmative and negative covenants including restrictions on creation of liens, dispositions of assets, dividends, mergers, or changing the nature of the Company's business; in each case, subject to certain customary exceptions. In addition, the Term Loan Agreement contains certain customary events of default including, but not limited to, failure to pay interest, principal and fees or other amounts when due, material breach of any representation or warranty, covenant defaults, cross defaults to other material indebtedness, events of bankruptcy and the occurrence of a material adverse change (as defined in the agreement) to the Company's business.

Long-term debt was comprised of the following at September 30, 2016 and December 31, 2015 (in thousands):

	September 30, 2016	December 31, 2015
Term loan	\$ 25,000	\$ —
Less unamortized discount and issuance costs	(995)	—
Carrying amount of debt	24,005	—
Less current portion	(1,197)	—
Long-term debt	<u>\$ 22,808</u>	<u>\$ —</u>

As of September 30, 2016, the amount of scheduled principal payments due on the term loan is as follows (in thousands):

Year	Amounts
2016	\$ —
2017	3,032
2018	7,824
2019	8,665
2020	5,479
Total	<u>\$ 25,000</u>

8. COMMITMENTS AND 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.

The Company believes its cash on hand of \$24.1 million as of September 30, 2016, its reduced cost structure as a result of its restructuring initiatives implemented in the third quarter of 2016, together with borrowings expected to be available under the Revolver, will be sufficient to fund its operations and satisfy its working capital needs, capital asset purchases, indebtedness payments and outstanding commitments for at least the next 12 months. If the Company is unable to meet its projected performance targets or manage its inventory levels to align with anticipated demand, its liquidity could be adversely impacted and it may need to seek additional sources of liquidity. If additional sources of liquidity are needed, the Company 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 its business, results of operations and financial position.

9. SALE OF COMMON STOCK

On September 28, 2016, the Company completed a public offering of 13,000,000 shares of its common stock at a price to the public of \$1.20 per share. Net proceeds realized were approximately \$14.0 million after deducting underwriting fees and estimated offering costs. The Company intends to use the net proceeds for working capital and general corporate purposes.

On October 11, 2016, the underwriter for the offering exercised in full an over-allotment option to purchase an additional 1,950,000 shares of the Company's common stock, which generated additional net proceeds of approximately \$2.2 million. The sale of the additional shares occurred subsequent to the quarter ended September 30, 2016, and the effect of the sale is not reflected in these condensed consolidated financial statements.

10. 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, 2015.

Equity Awards Activity*Stock Options*

The following is a summary of stock option activity for the nine months ended September 30, 2016 (in thousands, except per share data):

	Number of Shares Outstanding	Weighted- Average Exercise Price per Share
Outstanding at December 31, 2015	8,173	\$ 5.36
Granted	2,367	2.15
Exercised	(374)	0.39
Canceled	(831)	7.01
Outstanding at September 30, 2016	<u>9,335</u>	<u>4.60</u>

The intrinsic value of options exercised in the nine months ended September 30, 2016 was \$0.7 million. As of September 30, 2016, the intrinsic value of options outstanding was \$1.1 million based on the closing price of the Company's stock as of September 30, 2016.

Restricted Stock Units

The following is a summary of restricted stock unit activity for the nine months ended September 30, 2016 (in thousands, except per share data):

	RSUs	Weighted Average Fair Value per Share at Grant Date
Outstanding at December 31, 2015	1,313	\$ 9.31
Granted	54	1.99
Vested	(432)	9.13
Canceled	(206)	7.41
Outstanding at September 30, 2016	<u>729</u>	<u>9.41</u>

The total intrinsic value of restricted stock units that were vested in the nine months ended September 30, 2016 was \$0.8 million. As of September 30, 2016, the intrinsic value of restricted stock units outstanding was \$0.9 million based on the closing price of the Company's stock as of September 30, 2016.

Stock-Based Compensation Expense

Compensation expense 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,	
	2016	2015	2016	2015
Cost of revenues	\$ 295	\$ 331	\$ 907	\$ 913
Research and development	941	1,141	3,047	3,379
Sales and marketing	560	803	1,760	2,510
General and administrative	736	1,008	2,525	2,777
Total	\$ 2,532	\$ 3,283	\$ 8,239	\$ 9,579

The following table summarizes the various types of stock-based compensation expense for the periods presented (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Stock options and restricted stock units	\$ 1,983	\$ 2,753	\$ 6,703	\$ 8,153
Employee stock purchase plan	549	530	1,536	1,426
Total	\$ 2,532	\$ 3,283	\$ 8,239	\$ 9,579

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,	
	2016	2015	2016	2015
Weighted average grant date fair value	\$ 1.25	\$ 3.01	\$ 1.31	\$ 5.40
Expected term (in years)	4.5	4.6	4.5	4.5
Expected volatility	84.7%	72.2%	79.8%	72.1%
Annual risk-free rate of return	1.1%	1.5%	1.1%	1.4%
Dividend yield	0.0%	0.0%	0.0%	0.0%

As of September 30, 2016, there was approximately \$12.5 million of total unrecognized compensation expense related to unvested equity awards expected to be recognized over a weighted-average period of 2.3 years.

11. INCOME TAXES

The Company used the discrete tax approach in calculating the tax expense for the three and nine months ended September 30, 2016 and 2015 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 provision recorded was primarily related to income taxes attributable to its foreign operations.

Under Accounting Standards Codification 740, "Income Taxes," a provision for income taxes must be provided on the undistributed earnings of foreign subsidiaries unless such earnings are deemed to be permanently reinvested outside the United States. Prior to 2016, the Company did not provide for U.S. tax on foreign unremitted earnings because the Company considered such earnings to be permanently reinvested outside the U.S. During the nine months ended September 30, 2016, due to recent developments in its business, the Company determined that subsidiaries with cumulative earnings were not deemed to be permanently invested. Accordingly, the Company recorded income tax expense of \$0.1 million on cumulative foreign earnings of approximately \$4.5 million that the Company determined no longer met the criteria to be considered permanently invested.

12. 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,	
	2016	2015	2016	2015
Numerator:				
Net income (loss)	\$ (18,756)	\$ 624	\$ (54,274)	\$ (6,299)
Denominator:				
Weighted average common shares outstanding	47,278	44,734	46,704	44,339
Effect of dilutive securities				
Employee stock-based awards	—	3,261	—	—
Warrants	—	1	—	—
Weighted average common shares outstanding for diluted calculation	47,278	47,996	46,704	44,339
Net income (loss) per share, basic	\$ (0.40)	\$ 0.01	\$ (1.16)	\$ (0.14)
Net income (loss) per share, diluted	\$ (0.40)	\$ 0.01	\$ (1.16)	\$ (0.14)

For the three months ended September 30, 2015, the Company excluded 6.3 million 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 for the periods indicated (in thousands):

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
Employee stock options	9,383	4,817	8,944	8,718
Restricted stock units	840	1,523	994	1,551
Warrants to purchase common stock	45	—	85	111
Total	10,268	6,340	10,023	10,380

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 related notes 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, 2015.

Overview

We deliver simple, innovative and reliable energy management solutions that advance the worldwide potential of renewable energy. We were founded in March 2006 and have grown rapidly to become the market leader in the microinverter category. Our technology was designed to increase energy production, simplify design and installation, improve system uptime and reliability, reduce fire safety risk, and provide a platform for intelligent energy management. Since inception, we have shipped over 12.6 million microinverters representing over 3 gigawatts of solar PV generating capacity, and more than 540,000 Enphase residential and commercial systems have been deployed in over 100 countries.

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. Historically, revenue generated from the U.S. market has represented more than 80% of our total revenue.

New Products

Enphase AC Battery™

In the third quarter of 2016, we began shipments of our Enphase AC Battery™ to distributors in Australia and New Zealand. The Enphase AC Battery is a scalable, modular energy storage system with a 1.2kWh energy capacity. We expect to begin shipments to customers in the United States, France, the United Kingdom and the Netherlands in the fourth quarter of 2016.

The Enphase AC Battery is suitable for any home regardless of the brand of inverters or solar panels used. A costly upgrade of the existing solar system's inverter is not required. We believe this makes the Enphase AC Battery a competitive solution for homeowners looking to add energy storage to their existing solar PV system.

The modular size of each Enphase AC Battery enables installers to customize each installation to match a homeowner's unique energy needs, and gives homeowners the flexibility to add more Enphase AC Batteries in the future as energy usage changes over time. Using the Enphase AC Battery, we believe homeowners can achieve sustainable self-consumption or store solar energy generated for use at times when grid-supplied energy rates are at their peak.

The Enphase AC Battery is a key component of the Enphase Home Energy Solution, which consists of our microinverter, Envoy™ Communications Gateway and Enphase Enlighten™, a cloud-based energy management platform. System owners can use Enphase Enlighten to monitor their home's solar generation, energy storage and consumption from any web-enabled device.

Enphase IQ Microinverter System

In September 2016, we announced our Enphase Home Energy Solution with IQ™, our next-generation integrated solar, storage and energy management system. The solution features our sixth-generation microinverter system, which supports high-powered 60 and 72-cell solar modules, integrates with upcoming AC modules from LG, SolarWorld and Jinko Solar, and we believe offers installers faster and simpler installations, saving on soft costs. We expect the Enphase IQ 6 Microinverter System to be available in North America in the first quarter of 2017.

Enphase Energized AC Modules

We have also recently announced Enphase Energized AC Modules with IQ, which utilize our sixth generation microinverters and will be produced through our AC module partnerships with LG, SolarWorld and Jinko Solar, among others. We expect Enphase Energized AC Modules to be available in the U.S. and Canada in the second quarter of 2017.

Operating Expense Reduction Initiatives

In September 2016, we implemented a restructuring plan to lower operating expenses. This plan led to a reduction of our workforce globally by approximately 11% of total headcount throughout all areas of the organization and an elimination of certain non-core projects. Under the plan, we incurred aggregate restructuring charges of approximately \$2.7 million in the third quarter of 2016, which is comprised of approximately \$1.3 million in cash-based severance and related benefits and \$1.4 million in non-cash charges for asset impairments and write-offs related to property and equipment. We expect the restructuring actions to be completed by the end of the fourth quarter of 2016.

Components of Condensed Consolidated Statements of Operations

Net Revenues

We generate net revenues from sales of our microinverter systems, which include microinverter units, an Envoy communications gateway and other accessories, and our Enlighten cloud-based monitoring service. 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 compete effectively in the marketplace by developing and introducing 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 and logistics costs, freight costs, depreciation and amortization of test equipment and hosting service 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 growing demand for our products for the foreseeable future. However, shortages in the supply of certain key raw materials could adversely affect our ability to meet customer demand for our products.

In addition, third parties, including one of our contract manufacturers, serve as our logistics providers by warehousing and delivering our products in the United States, Europe and Asia.

Gross profit may vary from quarter to quarter and is primarily affected by our average selling prices, product cost, product mix, warranty costs and sales volume fluctuations resulting from seasonality.

Operating Expenses

Operating expenses consist of research and development, sales and marketing, general and administrative and restructuring expenses. Personnel-related costs are the most significant component of each of these expense categories and include salaries, benefits, payroll taxes, sales commissions, incentive compensation and stock-based compensation.

Research and development expense includes personnel-related expenses such as salaries, incentive compensation, stock-based compensation and employee benefits. Research and development employees are engaged in the design and development of power electronics, semiconductors, powerline communications, networking and software functionality, and storage. 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 to research and development programs that focus on enhancements to, and cost efficiencies in, our existing products and timely development of new products that utilize technological innovation to

drive down product costs, improve functionality, and enhance reliability. We intend to continue to invest 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 compensation, stock-based compensation, employee benefits and travel. It also includes trade shows, marketing, customer support and other indirect costs. We currently offer microinverter systems targeting the residential and commercial markets in the United States, Canada, Mexico and certain Central American markets, the United Kingdom, France, the Benelux region, certain other European markets, Australia, New Zealand and certain other Asian markets. 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 compensation, 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.

Restructuring charges relate to restructuring initiatives implemented in the third quarter of 2016 to improve operational performance and reduce overall operating expense. Costs included in restructuring primarily consist of severance for workforce reduction actions and non-cash charges related to the impairment of certain property and equipment as a result of the actions taken. See Note 6, "Restructuring" for additional information.

Other Income (Expense), Net

Other expense, net includes interest expense and fees under our revolving credit facility and term loan including amortization of debt discount and issuance costs. Other 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. Historically, we have primarily been subject to taxation in the United States because we have sold the vast majority of our products to customers in the United States. 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 that 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, 2016.

Results of Operations for the Three and Nine Months Ended September 30, 2016 and 2015

Net Revenues

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Net revenues	\$ 88,684	\$ 102,874	\$ (14,190)	(14)%	\$ 231,990	\$ 291,620	\$ (59,630)	(20)%

Three Months Ended September 30, 2016 and 2015

Net revenues decreased by 14% for the three months ended September 30, 2016 compared to the same period in 2015 due to a decrease in microinverter systems sold and lower average selling prices. We sold 869,000 microinverter units in the three months ended September 30, 2016 versus 950,000 units in the same period in 2015. The average revenue per watt of microinverter systems sold declined by approximately 7% for the three months ended September 30, 2016, as compared to the same period in 2015. We expect average selling prices for microinverter systems to continue to decline in the future, which may negatively affect net revenues.

Nine Months Ended September 30, 2016 and 2015

Net revenues decreased by 20% for the nine months ended September 30, 2016 versus the same period in 2015 due to a decrease in microinverter systems sold and lower average selling prices. We sold 2,276,000 microinverter units in the nine months ended September 30, 2016 versus 2,528,000 units in the same period in

2015. The average revenue per watt of microinverter systems sold declined approximately 14% for the nine months ended September 30, 2016 versus the same period in 2015.

Cost of Revenues and Gross Profit

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Cost of revenues	\$ 72,805	\$ 71,408	\$ 1,397	2%	\$ 190,215	\$ 199,103	\$ (8,888)	(4)%
Gross profit	15,879	31,466	(15,587)	(50)%	41,775	92,517	(50,742)	(55)%
Gross margin	17.9%	30.6%	(12.7)		18.0%	31.7%	(13.7)	

Three Months Ended September 30, 2016 and 2015

Cost of revenues increased by 2% for the three months ended September 30, 2016 compared to the same period in 2015. The slight increase in cost of revenues was primarily attributable an increase in warranty expense as a result of fluctuations in the discount factor used in our mark-to-market method of accounting for eligible warranties and incremental expedited delivery costs associated with the launch of our AC battery product, partially offset by lower volume of shipments of our products. Gross margin decreased by 13 percentage points for the three months ended September 30, 2016 compared to the same period in 2015. The primary driver of the decrease in gross margin was the shift towards a more competitive pricing strategy that we implemented in late 2015. Our ability to reduce product costs and the timing of product cost reductions relative to declines in average selling prices can have a significant impact on our gross margin.

Nine Months Ended September 30, 2016 and 2015

Cost of revenues decreased by 4% for the nine months ended September 30, 2016 compared to the same period in 2015, which reflects the lower volume of shipments of our products. Gross margin decreased by 14 percentage points for the nine months ended September 30, 2016 compared to the same period in 2015. The primary driver of the decrease in gross margin was the shift towards a more competitive pricing strategy that we implemented in late 2015.

Research and Development

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Research and development	\$ 13,169	\$ 12,059	\$ 1,110	9%	\$ 39,326	\$ 38,275	\$ 1,051	3%

Three Months Ended September 30, 2016 and 2015

Research and development expense increased by 9% for the three months ended September 30, 2016 compared to the same period in 2015. Personnel-related costs increased by \$0.8 million as the prior year third quarter included a \$1.0 million reversal of accrued incentive compensation. The remaining increase was primarily attributable to an increase in costs related to outside services. The amount of research and development expense may fluctuate from period to period due to the differing levels and stages of research and development activity.

Nine Months Ended September 30, 2016 and 2015

Research and development expense increased by 3% for the nine months ended September 30, 2016 versus the same period in 2015. Costs incurred for outside services increased by \$1.6 million, which was offset by a \$0.5 million decrease in depreciation expense related to research and development equipment.

Sales and Marketing

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Sales and marketing	\$ 11,016	\$ 10,510	\$ 506	5%	\$ 31,218	\$ 34,955	\$ (3,737)	(11)%

Three Months Ended September 30, 2016 and 2015

Sales and marketing expense increased by 5% for the three months ended September 30, 2016 compared to the same period in 2015. The increase was primarily attributable to \$1.6 million increase in bad debt expense as a result of certain customers experiencing financial difficulties. In addition, the three months ended September 30, 2015 included a \$0.7 million gain from revaluation of contingent consideration. This increase was offset by a \$1.7 million decrease in personnel-related costs from lower sales and marketing headcount as part of our cost reduction initiatives. In addition, promotional and marketing related activities decreased by \$0.1 million versus the same period in 2015.

Nine Months Ended September 30, 2016 and 2015

Sales and marketing expense decreased by 11% for the nine months ended September 30, 2016 compared to the same period in 2015. The decrease was primarily driven by decreased personnel-related costs of \$7.0 million resulting from reduced sales and marketing headcount as part of our cost reduction initiatives. In addition, costs related to promotional and marketing related activities and use of outside services decreased by \$1.2 million. These decreases were partially offset by a \$2.9 million increase in bad debt expense as a result of certain customers experiencing financial difficulties, including bankruptcy. In addition, the nine months ended September 30, 2015 included a \$1.6 million gain from revaluation of contingent consideration.

General and Administrative

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
General and administrative	\$ 6,708	\$ 7,118	\$ (410)	(6)%	\$ 21,121	\$ 23,425	\$ (2,304)	(10)%

Three Months Ended September 30, 2016 and 2015

General and administrative expense decreased by 6% for the three months ended September 30, 2016 compared to the same period in 2015. Personnel-related costs decreased by \$0.8 million, which was entirely offset by the reversal of accrued incentive compensation recorded in the third quarter of 2015. The \$0.4 million decrease in general and administrative expenses was primarily attributable to a decrease in our usage of professional services.

Nine Months Ended September 30, 2016 and 2015

General and administrative expense decreased by 10% for the nine months ended September 30, 2016 compared to the same period in 2015. The decrease was primarily attributable to a \$1.4 million decrease in our usage of professional services combined with a \$1.3 million decrease in personnel-related costs. These decreases were partially offset by a \$0.4 million increase in facilities-related expenses including rent, utilities and depreciation of corporate fixed assets.

Restructuring Charges

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Restructuring charges	\$ 2,717	\$ —	\$ 2,717	N/A	\$ 2,717	\$ —	\$ 2,717	N/A

Three and Nine Months Ended September 30, 2016 and 2015

In the third quarter of 2016, we implemented a restructuring plan to lower operating expenses. The restructuring plan led to a reduction of our workforce globally by approximately 11% of total headcount throughout all areas of the organization and an elimination of certain non-core projects. Restructuring charges consisted of \$1.3 million in cash-based severance and related benefits and \$1.4 million in non-cash charges for asset impairments and write-offs related to property and equipment. The restructuring actions are expected to be completed by the fourth quarter of 2016.

Other Income (Expense), Net

	Three Months Ended September 30,		Change in		Nine Months Ended September 30,		Change in	
	2016	2015	\$	%	2016	2015	\$	%
	(dollars in thousands)				(dollars in thousands)			
Other expense, net	\$ (881)	\$ (844)	\$ (37)	4%	\$ (943)	\$ (1,457)	\$ 514	(35)%

Three Months Ended September 30, 2016 and 2015

Other expense, net remained flat for three months ended September 30, 2016 versus the same period in 2015. Interest expense increased by \$1.1 million due to increased borrowings, which was entirely offset by net gains associated with transactions denominated in Euros and the Australian Dollar.

Nine Months Ended September 30, 2016 and 2015

Other expense, net decreased by \$0.5 million for the nine months ended September 30, 2016 compared to the same period in 2015. The decrease was primarily attributable to a \$1.8 million increase in net gains associated with transactions denominated in Euros and the Australian Dollar. This decrease was offset by a \$1.3 million increase in interest expense resulting from increased borrowings.

Liquidity and Capital Resources

As of September 30, 2016, we had \$24.1 million in cash and cash equivalents and working capital of \$44.3 million. Cash and cash equivalents held in the United States were \$19.5 million and consisted primarily of non-interest bearing checking deposits, with the remainder held in various foreign subsidiaries. We consider amounts held outside the U.S. to be accessible and have provided for the estimated U.S. income tax liability associated with our foreign earnings.

During the quarter ended September 30, 2016, we took a number of actions to improve our liquidity. In July 2016, we entered into a \$25.0 million term loan (described below) that provides for interest-only payments for the first twelve months. In addition, we implemented a restructuring initiative that included an 11% reduction in workforce and eliminated certain projects that did not have a near-term return on investment. In September 2016, we completed a public offering of 13,000,000 shares of our common stock at a price to public of \$1.20 per share. Net proceeds realized were approximately \$14.0 million after deducting underwriting fees and estimated offering costs. Additionally, in October 2016, the underwriter for the offering exercised in full the over-allotment option to purchase an additional 1,950,000 shares of our common stock, which generated additional net proceeds of approximately \$2.2 million.

Based on our current financial plan, we believe our cash on hand of \$24.1 million as of September 30, 2016, our reduced cost structure as a result of our restructuring initiatives initiated in the third quarter of 2016 and borrowings expected to be available under our Revolver will enable us to fund our operations and satisfy our working capital needs, capital asset purchases, indebtedness payments and outstanding commitments for at least the next 12 months. If we are unable to meet our projected performance targets or manage our inventory levels to

align with anticipated demand, our liquidity could be adversely impacted and we may need to seek additional sources of liquidity. 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.

Revolving Credit Facility

We maintain a \$50.0 million revolving credit facility with Wells Fargo Bank, N.A. ("Wells Fargo") that was entered into in November 2012, as first amended on February 14, 2014. On December 18, 2015, we entered into an amended and restated revolving credit agreement with Wells Fargo (the "Revolver") which extended the maturity date to November 7, 2019 and added an uncommitted accordion feature that could increase the size of the facility by \$25.0 million, subject to the satisfaction of certain conditions.

Availability 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. Borrowings under the Revolver bear interest in cash 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 1.0% and 3.75% depending on the currency borrowed and the specific term of repayment. The Revolver requires us to pay a commitment fee between 0.25% and 0.375% based on the average daily unused portion of the revolving credit commitment.

The Revolver is secured by a first-priority security interest on substantially all our assets other than intellectual property and contains customary affirmative and negative covenants (including restrictions on our ability to make dividend payments) and events of default. In addition, the Revolver requires us to maintain at least \$15.0 million of liquidity at all times, consisting of cash on hand and undrawn availability under the Revolver (defined as borrowing base less outstanding borrowings under the Revolver) of at least \$5.0 million. In July 2016, we entered into an amendment to the Revolver with Wells Fargo. The amendment, among other things, allowed us to incur indebtedness related to the term loan described below and increased the amount of undrawn availability that must be maintained as part of the Revolver's \$15.0 million minimum liquidity covenant from \$5.0 million to \$12.5 million. We were in compliance with such covenants as of September 30, 2016.

As of September 30, 2016, outstanding borrowings under the Revolver were \$12.5 million. Based upon our eligible borrowing base, net of the restrictions concerning minimum liquidity requirement, we could have borrowed an additional \$8.8 million. The weighted-average interest rate related to the outstanding balance was 5.0%.

Term Loan

In July 2016, we entered into a loan and security agreement (the "Term Loan Agreement") with lenders that are affiliates of Tennenbaum Capital Partners, LLC. Under the agreement, the lenders committed to advance a term loan in an aggregate principal amount of up to \$25.0 million with a maturity date of July 1, 2020. We borrowed the entire \$25.0 million of term loan commitments on the loan closing date. We expect to use the proceeds for general corporate purposes.

Monthly payments due through June 30, 2017 are interest only, followed by consecutive equal monthly payments of principal plus accrued interest beginning on July 1, 2017 and continuing through the maturity date. The term loan provides for an interest rate per annum equal to the higher of (i) 10.25% or (ii) LIBOR plus 9.5625%, subject to a 1.0% reduction if we achieve minimum levels of Revenue and EBITDA (each as defined in the Term Loan Agreement) for the twelve consecutive month period ending June 30, 2017 as set forth in the Term Loan Agreement. In addition, we paid a commitment fee of 3.3% of the loan amount upon closing and a closing fee of 10.0% of the loan amount is payable in four equal installments at each anniversary of the closing date. We may elect to prepay the loan by incurring a prepayment fee between 1% and 3% of the principal amount of the term loan depending on the timing and circumstances of prepayment.

The term loan is secured by a second-priority security interest on substantially all our assets except intellectual property. The Term Loan Agreement does not contain any financial covenants, but is subject to customary affirmative and negative covenants including restrictions on creation of liens, dispositions of assets, dividends, mergers, or changing the nature of its business, in each case, subject to certain customary exceptions. In addition, the Term Loan Agreement contains certain customary events of default including, but not limited to, failure to pay interest, principal and fees or other amounts when due, material breach of any representation or warranty, covenant defaults, cross defaults to other material indebtedness, events of bankruptcy and the occurrence of a material adverse change (as defined in the agreement) to our business.

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

	Nine Months Ended September 30,	
	2016	2015
	(In thousands)	
Net cash used in operating activities	\$ (28,588)	\$ (29,309)
Net cash used in investing activities	(10,285)	(9,682)
Net cash provided by financing activities	34,640	19,866
Effect of exchange rate changes on cash	(107)	(416)
Net decrease in cash and cash equivalents	(4,340)	(19,541)

Operating Activities

For the nine months ended September 30, 2016, net cash used in operating activities of \$28.6 million was primarily attributable to a net loss of \$54.3 million offset by non-cash charges of \$21.0 million and net cash inflows from changes in operating assets and liabilities of \$4.7 million. Non-cash charges included \$8.2 million of stock-based compensation, \$8.0 million of depreciation and amortization, \$3.2 million provision for doubtful accounts and \$1.4 million in asset impairment charges.

The primary driver of cash inflows from changes in operating assets and liabilities was a \$14.9 million increase in accounts payable, accrued and other liabilities resulting from timing of vendor payments. Also contributing to cash inflows was an increase in deferred revenue related to our cloud-based monitoring service of \$8.7 million and a decrease in inventory of \$1.7 million, which was attributable to improved working capital management. Cash outflows from changes in operating assets and liabilities included a \$16.6 million increase in accounts receivable as a result of higher sales in the third quarter of 2016 compared to the fourth quarter of 2015, a \$3.9 million increase in prepaid expenses and other assets attributable to deferral of costs for certain sales arrangements with extended payment terms and a \$0.2 million decrease to warranty obligations.

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, net changes in our operating assets and liabilities of \$39.6 million, 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. 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. 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.

Investing Activities

For the nine months ended September 30, 2016, net cash used in investing activities of \$10.3 million primarily resulted from purchases of test and assembly equipment, capitalized costs related to internal-use software and license fees for certain technology related to ASIC development.

For the nine months ended September 30, 2015, net cash used in investing activities of \$9.7 million primarily resulted from purchases of test and assembly equipment and capitalized costs related to internal-use software.

Financing Activities

For the nine months ended September 30, 2016, net cash provided by financing activities of \$34.6 million consisted of net proceeds from our term loan of \$23.9 million, net public equity offering proceeds of \$14.4 million and proceeds received from the issuance of common stock under employee stock plans of \$0.9 million, offset by the net repayment of our revolving credit facility of \$4.6 million.

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 our Revolver and \$2.9 million in proceeds received from the issuance of common stock under employee stock plans.

Contractual Obligations

The following table summarizes our outstanding contractual obligations as of September 30, 2016:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
	(in thousands)				
Operating leases	\$ 16,267	\$ 2,619	\$ 5,464	\$ 5,231	\$ 2,953
Revolving credit facility (1)	12,450	12,450	—	—	—
Term loan	25,000	1,197	16,075	7,728	—
Interest and fees related to term loan	8,933	3,182	4,607	1,144	—
Purchase obligations (2)	39,612	37,525	2,087	—	—
Total	<u>\$ 102,262</u>	<u>\$ 56,973</u>	<u>\$ 28,233</u>	<u>\$ 14,103</u>	<u>\$ 2,953</u>

- (1) Because borrowings outstanding under our revolving credit facility can fluctuate, interest payments have been excluded from this table.
- (2) Purchase obligations include amounts related to component inventory that our primary contract manufacturer procures on our behalf in accordance with our production forecast and a take-or-pay supply agreement for the purchase of silicone encapsulates that expires on December 31, 2018. The timing of purchases in future periods could differ materially from estimates presented above due to fluctuations in demand requirements related to varying sales levels as well as changes in economic conditions.

Off-Balance Sheet Arrangements

As of September 30, 2016, 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, 2016 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, 2015.

Recently Issued Accounting Pronouncements Not Yet Effective

See Note 1, *Description of Business and Basis of Presentation*, of the Notes to Condensed Consolidated Financial Statements under Item 1 for recently issued accounting pronouncements not yet effective.

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, 2015. Our exposures to market risk have not changed materially since December 31, 2015.

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, 2016. 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, 2016, 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, 2015.*

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 \$54.3 million during the nine months ended September 30, 2016. As of September 30, 2016, we had an accumulated deficit of \$237.3 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.

The rapidly changing solar industry makes it difficult to evaluate our current business and future prospects.

The rapidly changing solar industry 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.

In 2015, CED Greentech and Vivint Solar, Inc. accounted for 17% and 12% of total net revenues, respectively. In 2014, Vivint Solar, Inc. and CED Greentech accounted for 24% and 16% 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 that may be out of our control. For example, beginning in 2015, Vivint Solar, Inc. implemented a multi-sourcing strategy, and therefore, is not sole-sourcing our microinverters, which has resulted in 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.

We are under continuous pressure to reduce the prices of our products, which has adversely affected, and may continue to adversely affect, our gross margins.

The solar power industry has been characterized by declining product prices over time. We have reduced the prices of our products in the past, and we expect to continue to experience pricing pressure for our products in the future, including from our major customers. In addition, we are reducing our prices ahead of planned cost reductions of our products, which has adversely affected our gross margins. When seeking to maintain or increase their market share, our competitors may also reduce the prices of their products. In addition, our customers may have the ability or seek to internally develop and manufacture competing products at a lower cost than we would otherwise charge, which would add additional pressure on us to lower our selling prices. 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 gross margins would continue to be adversely affected.

Given the general downward pressure on prices for our products driven by competitive pressure and technological change, a principal component of our business strategy is reducing the costs to manufacture our products to remain competitive. If our competitors are able to drive down their manufacturing costs faster than we can or increase the efficiency of their products, our products may become less competitive even when adjusted for efficiency. Further, if raw materials costs and other third-party component costs were to increase, we may not meet our cost reduction targets. If we cannot effectively execute our cost reduction roadmap, we may not be able to remain price competitive, which would result in lost market share and lower gross margins.

****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 on hand, together with borrowings expected to be available under our Revolver 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:

- fund our operations;
- 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 and 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.

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

The market for PV inverter solutions is highly competitive. To date, we have competed primarily against central and string inverter manufacturers, but as the solar industry rapidly grows, new solutions and technologies

are emerging that will directly compete with our business. Competitors in the inverter market include, amongst others, SMA Solar Technology AG, Fronius International GmbH, ABB Ltd. and SolarEdge Technologies, Inc., and other emerging companies offering alternative microinverter, DC to DC optimizer and other power electronic solutions.

Competition has intensified, and we expect the trend to continue as new and existing competitors enter the microinverter market, or market and sell related products, such as DC to DC optimizers that can be used in conjunction with central or string inverters. 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. In addition, central and string inverter manufacturers continue to reduce their prices, putting additional pressure on us and other alternative technologies.

Several of our existing and potential competitors are significantly larger than we are and may have greater financial, marketing, distribution, and customer support resources, and may have significantly broader brand recognition, especially in certain markets. In addition, some of our competitors have more resources and experience in developing or acquiring new products and technologies and creating market awareness for these offerings. 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 anticipate, 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 acquired a microinverter company SolarBridge Technologies, Inc. in November of 2014. 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;

- 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, 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.

****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, any of 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.

Our focus on a limited number of specific markets increases risks associated with the modification, 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 was recently extended as part of an Omnibus Appropriations Bill and provides a 30% federal tax credit for residential and commercial solar installations through December 31, 2019 and reduced tax credits of 26% and 22% through December 31, 2020 and 2021 respectively, before being reduced to 10% for commercial installations and 0% for residential installations beginning in 2022.

In addition, net energy metering tariffs are being evaluated and in some instances modified which may have a negative impact on future inverter sales. We derive a significant portion of our revenues from California's residential solar market and the existing California net energy metering tariff has been very successful in incentivizing the installation of residential solar systems. California, however, is re-evaluating existing incentives, tariffs and rates for residential systems in order to accommodate a sustainable growth trajectory for residential solar and to also encourage the adoption of other distributed energy resources, such as energy storage, that provide additional benefits to the consumer and the electricity grid. There is a risk that future regulatory changes do not adequately stimulate future growth in the residential solar market. We also sell our products in Europe. A number of European countries, including Germany, Belgium, Spain, Italy and the United Kingdom have adopted reductions 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 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 Federal and State tax credits, applicable federal and state grants, applicable tariffs and other incentive programs have had a positive effect on our sales since inception. However, unless these programs are further extended or modified to allow for continued growth in the residential solar market, 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, Canada, Mexico and certain Central American markets, France, the Benelux region, certain other European markets, Australia, New Zealand and certain other Asian markets, 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 each subsequent 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 workforce, our business and operating results may suffer.

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

- manage a dynamic 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 dynamic 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 operations. If we cannot manage our sales and operations 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 certain Central American markets, the United Kingdom, France, the Benelux region, certain other European markets, Australia, New Zealand and certain other Asian markets. 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.

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.

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.

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 and term loan 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 agreement with Wells Fargo Bank, National Association ("Wells Fargo") and a term loan agreement with affiliates of Tennenbaum Capital Partners, LLC ("TCP"). These agreements restrict 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 these agreements are 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.

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 cloud-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 have been and may in the future 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. Material interruptions in service or stoppages in transportation, 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 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 other 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 revolving credit facility 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

<u>Exhibit Number</u>	<u>Description</u>
3.1	Amended and Restated Certificate of Incorporation of Enphase Energy, Inc. ⁽¹⁾
3.2	Amended and Restated Bylaws of Enphase Energy, Inc. ⁽²⁾
4.1	Specimen Common Stock Certificate of Enphase Energy, Inc. ⁽³⁾
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. ⁽³⁾
4.3	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. ⁽³⁾
10.1	Amendment No. 1 to Amended and Restated Credit Agreement and Amended and Restated Guaranty and Security Agreement by and among Enphase Energy, Inc., the lenders identified on the signature pages thereto and Wells Fargo Bank, National Association, as agent, dated July 8, 2016.
10.2	Loan and Security Agreement by and among Enphase Energy, Inc., Tennenbaum Special Situations Fund IX and the lenders identified on the signature pages thereto and Obsidian Agency Services, Inc.. as administrative agent and collateral agent for the lenders, dated July 8, 2016.
10.3	Amendment No. 2 to the Cooperation Agreement and Amendment No. 1 by and among Enphase Energy, Inc., Phoenix Contact GmbH & Co. KG and Phoenix Contact USA, Inc., dated September 1, 2016.
10.4	Amendment No. 1 to Flextronics Logistics Services Agreement by and between Enphase Energy, Inc. and Flextronics America LLC, dated July 28, 2016.
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.

(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.

AMENDMENT NO. 1 TO AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDED AND RESTATED GUARANTY AND SECURITY AGREEMENT

AMENDMENT NO. 1 TO AMENDED AND RESTATED CREDIT AGREEMENT AND AMENDED AND RESTATED GUARANTY AND SECURITY AGREEMENT (this "Amendment"), dated as of July 8, 2016, among **ENPHASE ENERGY, INC.**, a Delaware corporation ("Borrower"), the lenders identified on the signature pages hereto (together with their respective successors and assigns, each individually a "Lender" and collectively, the "Lenders") and **WELLS FARGO BANK, NATIONAL ASSOCIATION**, a national banking association, as administrative agent for each member of the Lender Group and the Bank Product Providers (in such capacity, together with its successors and assigns in such capacity, "Agent"), and is made with reference to that certain Amended and Restated Credit Agreement, dated as of December 18, 2015 (as amended, restated, supplemented or otherwise modified from time to time prior to the date hereof, the "Credit Agreement"), by and among Borrower, the Lenders and Agent. Capitalized terms used herein without definition shall have the same meanings herein as set forth in the Credit Agreement.

RECITALS

WHEREAS, Agent, the Lenders and Borrower have entered into financing arrangements pursuant to which Lenders (or Agent on behalf of Lenders) have made and provided and may hereafter make and provide loans, advances and other financial accommodations to Borrower as set forth in the Credit Agreement and the other agreements, documents and instruments referred to therein or any time executed and/or delivered in connection therewith or related thereto;

WHEREAS, Tennenbaum Special Situations Fund IX, LLC, a Delaware limited liability company, Tennenbaum Special Situations IX-A, LLC., a Delaware limited liability company, Tennenbaum Special Situations IX-O, L.P., a Cayman Islands limited partnership, and Tennenbaum Special Situations IX-C, L.P., a Cayman Islands limited partnership (collectively, the "Term Lenders"), Obsidian Agency Services, Inc., a California corporation as agent for the Term Lenders (in such capacity, together with its successors and assigns in such capacity, "Term Loan Agent"), and Borrower are concurrently herewith entering into a Loan and Security Agreement, dated as of July 8, 2016 (the "Term Loan Agreement"), and certain related agreements, documents and instruments (collectively with the Term Loan Agreement, the "Term Loan Documents"), pursuant to which Term Lenders will make term loans to Borrower in an aggregate original principal amount of up to \$25,000,000, secured by liens on substantially all of the assets of Borrower;

WHEREAS, Term Loan Agent and Agent are concurrently herewith entering into an Intercreditor Agreement, dated as of July 8, 2016 (the "Intercreditor Agreement"), as acknowledged and agreed upon by Borrower, to establish their relative payment, lien and enforcement rights and priorities with respect to Borrower and the assets of Borrower;

WHEREAS, Borrower has requested that Agent and the Lenders make certain amendments to the Credit Agreement and the Guaranty and Security Agreement, and Agent and the Lenders are willing to make such amendments, subject to the terms and conditions set forth herein; and

WHEREAS, by this Amendment, Borrower, Agent and the Lenders desire and intend to evidence such amendments.

NOW, THEREFORE, in consideration of the foregoing, and the respective agreements and covenants contained herein, the parties hereto agree as follows:

Section 1. AMENDMENTS TO THE CREDIT AGREEMENT AND THE GUARANTY AND SECURITY AGREEMENT

A. Section 4.14 of the Credit Agreement is hereby amended to read as follows:

4.14 **Indebtedness.** Set forth on Schedule 4.14 of the Disclosure Letter is a true and complete list of all Indebtedness of each Loan Party and each of its Subsidiaries outstanding immediately prior to the Amendment No. 1 Effective Date that is to remain outstanding immediately after giving effect to the closing hereunder on the Amendment No. 1 Effective Date and such Schedule accurately sets forth the aggregate principal amount of such Indebtedness as of the Amendment No. 1 Effective Date.

B. Section 5.15 of the Credit Agreement is hereby amended to read as follows:

5.15 **Location of Inventory.** Borrower will, and will cause each of the other Loan Parties to keep (i) its and their Inventory, to the extent located within the United States, only at the Flextronics Facility and the locations identified on Schedule 4.24 of the Disclosure Letter, in each case subject to a bailee agreement in form and substance satisfactory to Agent; provided that Borrower and the other Loan Parties may keep up to \$50,000 of Inventory in the aggregate at any time at other locations located within the United States; provided further that up to \$3,000,000 of Inventory may be transferred by Borrower to an international Flextronics location or to an Expeditors International Pty Ltd. location for the sale of such Inventory by a Subsidiary of Borrower organized outside of the United States in the ordinary course of business and (ii) its and their chief executive offices only at the locations identified on Schedule 7 of the Guaranty and Security Agreement; provided, that Borrower may amend Schedule 4.24 of the Disclosure Letter or Schedule 7 of the Guaranty and Security Agreement so long as such amendment occurs by written notice to Agent not less than 15 days prior to the date on which such Inventory is moved to such new location or such chief executive office is relocated and so long as such new location is within the continental

United States and such chief executive office is relocated within the continental United States; provided further that Borrower may maintain (A) (i) test equipment, (ii) up to \$3,000,000 at any one time of raw materials and (iii) other Equipment, in each case in transit from Borrower's suppliers to the Flextronics Facility and (B) test equipment and other Equipment disposed of in accordance with clause (p) of the definition of Permitted Dispositions and re-acquired in accordance with clause (s) of the definition of "Permitted Investments", at any Flextronics facility in Mexico or the People's Republic of China.

C. Section 6.7 of the Credit Agreement is hereby amended by deleting the "and" at the end of clause (f), deleting the "." at the end of clause (g) and replacing it with ", and", and adding new clause (h) immediately following clause (g), to read as follows:

(h) Borrower and its Subsidiaries may make scheduled payments of interest, fees, and principal with respect to Indebtedness under the Term Loan Facility to the extent permitted by the Intercreditor Agreement.

D. The first sentence of Section 7 of the Credit Agreement is hereby amended by replacing "10% of the Maximum Revolver Amount" with "25% of the Maximum Revolver Amount".

E. Clause (a) of Section 8.6 of the Credit Agreement is hereby amended to read as follows:

(a) (i) the occurrence of an "Event of Default" as that term is defined under the Term Loan Facility, and any breach or default thereunder, whether or not declared (but after taking into account any applicable cure period provided in such agreement) or (ii) a default occurs in one or more agreements to which a Loan Party or any of its Subsidiaries is a party with one or more third Persons relative to a Loan Party's or any of its Subsidiaries' Indebtedness involving an aggregate amount of \$750,000 or more, and such default results in a right by such third Person, irrespective of whether exercised, to accelerate the maturity of such Loan Party's or its Subsidiary's obligations thereunder, or

F. The definition of "Change in Control" set forth in Schedule 1.1 of the Credit Agreement is hereby amended to read as follows:

"Change of Control" means that:

(a) any Person or two or more Persons acting in concert, shall have acquired beneficial ownership, directly or indirectly, of Equity

Interests of Borrower (or other securities convertible into such Equity Interests) representing 40% or more of the combined voting power of all Equity Interests of Borrower entitled (without regard to the occurrence of any contingency) to vote for the election of members of the Board of Directors of Borrower;

(b) Borrower fails to own and control, directly or indirectly, 100% of the Equity Interests of each other Loan Party, other than as a result of (i) a Permitted Disposition or (ii) Permitted Acquisitions or Permitted Investments resulting in Borrower owning more than 50% of the Equity Interests of an entity, but less than 100% of the Equity Interests of such entity; or

(c) the occurrence of any "Change of Control" or similar term as defined in the Term Loan Facility, or any successor facilities thereto.

G. Clause (b) of the definition of "Permitted Indebtedness" set forth in Schedule 1.1 of the Credit Agreement is hereby amended to read as follows:

(b) (i) Indebtedness set forth on Schedule 4.14 of the Disclosure Letter and any Refinancing Indebtedness in respect of such Indebtedness, and (ii) Indebtedness under the Term Loan Facility, as in effect on the Amendment No. 1 Effective Date, and subject to the Intercreditor Agreement at all times,

H. Clause (d) of the definition of "Permitted Liens" set forth in Schedule 1.1 of the Credit Agreement is hereby amended to read as follows:

(d) (i) Liens set forth on Schedule P-2 of the Disclosure Letter; provided, that to qualify as a Permitted Lien, any such Lien described on Schedule P-2 of the Disclosure Letter shall only secure the Indebtedness that it secures on the Amendment No. 1 Effective Date and any Refinancing Indebtedness in respect thereof, and (ii) Liens in favor of Obsidian, to secure the Indebtedness under the Term Loan Facility, subject to the Intercreditor Agreement at all times,

I. The definition of "Refinancing Indebtedness" set forth in Schedule 1.1 of the Credit Agreement is hereby amended by deleting the "and" at the end of clause (d), deleting the "." at the end of clause (e) and replacing it with ", and", and adding new clause (f) immediately following clause (e), to read as follows:

(f) in the case of the Term Loan Facility, such refinancing, restructuring, renewal or extension shall be subject to the Borrower entering into a new facility and documentation on terms acceptable to Agent, including, without limitation, the maturity date of any new

facility being at least 6 months after the Maturity Date and subject to an intercreditor agreement acceptable to Agent.

J. Schedule 1.1 (Definitions) to the Credit Agreement is hereby amended by inserting the following defined terms in alphabetical order:

“Amendment No. 1” means that certain Amendment No. 1 to Amended and Restated Credit Agreement, dated as of July 8, 2016, by and among Borrower, the Lenders party thereto and Agent.

“Amendment No. 1 Effective Date” has the meaning specified therefor in Amendment No. 1.

“Intercreditor Agreement” means that certain Intercreditor Agreement, dated as of July 8, 2016, between Agent and Obsidian, as acknowledged and agreed to by Borrower, as such agreement may be amended, supplemented, or otherwise modified from time to time.

“Obsidian” means Obsidian Agency Services, Inc., a California corporation.

“Term Loan Facility” means that certain Loan and Security Agreement, dated as of July 8, 2016, between Borrower, on the one hand, and Tennenbaum Special Situations Fund IX, LLC, a Delaware limited liability company, Tennenbaum Special Situations IX-A, LLC., a Delaware limited liability company, Tennenbaum Special Situations IX-O, L.P., a Cayman Islands limited partnership, and Tennenbaum Special Situations IX-C, L.P., a Cayman Islands limited partnership, collectively as the term lenders, and Obsidian, as agent for the term lenders, on the other hand, as such agreement may be amended, supplemented, or otherwise modified from time to time.

K. Schedule 5.1 (Financial Statements, Reports, Certificates) to the Credit Agreement is hereby amended by amending the row containing item (i) to read as follows:

promptly, but in any event within 5 days after Borrower has knowledge of any event or condition that constitutes a Default or an Event of Default, including any default under the Term Loan Facility,	(i) Notice of such event or condition (together, in the case of a Default or Event of Default arising out of a default under the Term Loan Facility, with a copy of any notices of such default received by Borrower) and a statement of the curative action that Borrower proposes to take with respect thereto.
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L. The last paragraph of Section 3 of the Guaranty and Security Agreement, containing the exclusions from the definition of “Collateral”, is hereby amended by deleting clause (i) therefrom and replacing it with the following:

(i) Grantor’s Intellectual Property and Intellectual Property Licenses; provided, however, that (x) the Collateral shall include all Accounts and General Intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the Intellectual Property or Intellectual Property Licenses (the “Rights to Payment”); and (y) if a judicial authority (including a court in an Insolvency Proceeding) holds that a security interest in Grantor’s Intellectual Property or Intellectual Property Licenses is necessary to have a security interest in the Rights to Payment, then the Collateral shall automatically, and effective as of the date of this Agreement, include the Intellectual Property to the extent necessary to permit perfection of Agent’s Liens in the Rights of Payment;

Section 2. CONDITIONS PRECEDENT

This Amendment shall become effective on the first date upon which each of the following conditions precedent has been waived or satisfied in a manner satisfactory to Agent (such date being the “Amendment No. 1 Effective Date”):

(i) Agent shall have received this Amendment, duly authorized, executed and delivered by Borrower, Agent and the Lenders (the Credit Agreement, Exhibits and Schedules thereto as so amended by this Amendment being referred to herein as the “Amended Credit Agreement”, the Guaranty and Security Agreement, Exhibits and Schedules thereto as so amended by this Amendment being referred to herein as the “Amended Guaranty and Security Agreement”, and the Amended Credit Agreement and the Amended Guaranty and Security Agreement being referred to herein, collectively, as the “Amended Loan Documents”);

(ii) Agent shall have received a duly executed copy of the Intercreditor Agreement;

(iii) Agent shall have received duly executed copies of the Term Loan Documents;

(iv) on the date of this Amendment and after giving effect thereto, no Default or Event of Default shall have occurred and be continuing, nor shall either result from the entry into this Amendment;

(v) the representations and warranties contained in Section 3 of this Amendment shall be true and correct in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the date of this Amendment and on the Amendment No. 1 Effective Date (except, in each case, to the extent that such representations and warranties relate solely to an earlier date, in which case such representations and warranties shall be true and correct in all material

respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of such earlier date);

(vi) Agent shall have received an amendment fee of \$50,000, which fee shall be for the ratable benefit of the Lenders and shall be fully earned and non-refundable when paid; and

(vii) Borrower shall have paid all Lender Group Expenses incurred in connection with the transactions evidenced by this Amendment (to the extent incurred on or prior to the Amendment No. 1 Effective Date).

Section 3. BORROWER'S REPRESENTATIONS AND WARRANTIES

Borrower hereby represents and warrants to the Lender Group the following (which shall survive execution and delivery of this Amendment), the truth and accuracy of which representations and warranties are a continuing condition of the making of Revolving Loans and providing Letters of Credit to Borrower:

A. Due Organization. Borrower (i) is duly organized and existing and in good standing under the laws of the jurisdiction of its organization (ii) is qualified to do business in any state where the failure to be so qualified could reasonably be expected to result in a Material Adverse Effect, and (iii) has all requisite power and authority to own and operate its properties, to carry on its business as now conducted and as proposed to be conducted, and, with respect to the Borrower, to enter into this Amendment and to carry out the transactions contemplated by the Amended Loan Documents.

B. Binding Obligations. This Amendment, when duly executed and delivered by Borrower, will be the legally valid and binding obligation of Borrower, enforceable against Borrower in accordance with its respective terms, except as enforcement may be limited by equitable principles or by bankruptcy, insolvency, reorganization, moratorium, or similar laws relating to or limiting creditors' rights generally.

C. Due Authorization; No Conflict.

(i) The execution and delivery by Borrower of this Amendment and the performance by Borrower of the Amended Loan Documents have been duly authorized by all necessary action on the part of Borrower.

(ii) The execution and delivery by Borrower of this Amendment, and the performance by Borrower of the Amended Loan Documents do not and will not (a) violate any material provision of federal, state, or local law or regulation applicable to Borrower or its Subsidiaries, the Governing Documents of Borrower or its Subsidiaries, or any order, judgment, or decree of any court or other Governmental Authority binding on Borrower or its Subsidiaries, (b) conflict with, result in a breach of, or constitute (with due notice or lapse of time or both) a default under any material agreement of Borrower or its Subsidiaries where any such conflict, breach or default could individually or in the aggregate reasonably be expected to have a Material Adverse

Effect, (c) result in or require the creation or imposition of any Lien of any nature whatsoever upon any assets of Borrower or its Subsidiaries, other than Permitted Liens, or (d) require any approval of any holder of Equity Interests of Borrower or any approval or consent of any Person under any material agreement of Borrower, other than consents or approvals that have been obtained and that are still in force and effect and except, in the case of material agreements, for consents or approvals, the failure to obtain could not individually or in the aggregate reasonably be expected to cause a Material Adverse Effect.

D. Governmental Consents. The execution and delivery by Borrower of this Amendment, and the performance by Borrower of the Amended Loan Documents and the consummation of the transactions contemplated hereby do not and will not require any registration with, consent, or approval of, or notice to, or other action with or by, any Governmental Authority, other than registrations, consents, approvals, notices, or other actions that (i) have been obtained and that are still in force and effect or (ii) the failure of which to obtain or perform could not reasonably be expected to result in a Material Adverse Effect.

E. Incorporation of Representations and Warranties. The representations and warranties of the Loan Parties contained in the Amended Credit Agreement, The Amended Guaranty and Security Agreement, and the other Loan Documents are true, correct and complete in all material respects (except that such materiality qualifier shall not be applicable to any representations and warranties that already are qualified or modified by materiality in the text thereof) on and as of the Amendment No. 1 Effective Date as though made on and as the date hereof (except to the extent such representations and warranties specifically relate to an earlier date).

F. No Default. No event has occurred and is continuing or will result from the consummation of the transactions contemplated by this Amendment that would constitute a Default or an Event of Default.

Section 4. MISCELLANEOUS

A. Effect of this Amendment.

(i) On and after the Amendment No. 1 Effective Date, each reference in the Credit Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Credit Agreement, and each reference in the other Loan Documents to the “Credit Agreement”, “thereunder”, “thereof” or words of like import referring to the Credit Agreement shall mean and be a reference to the Amended Credit Agreement, and each reference in the Guaranty and Security Agreement to “this Agreement”, “hereunder”, “hereof”, “herein” or words of like import referring to the Guaranty and Security Agreement, and each reference in the other Loan Documents to the “Guaranty and Security Agreement”, “thereunder”, “thereof” or words of like import referring to the Guaranty and Security Agreement shall mean and be a reference to the Amended Guaranty and Security Agreement,

(ii) Except as expressly amended pursuant hereto, no other changes, waiver or modifications to the Loan Documents are intended or implied, and in all other respects the Loan Documents are hereby specifically ratified and confirmed by all parties hereto as of the date hereof.

To the extent that any provision of the Credit Agreement, the Guaranty and Security Agreement, or any of the other Loan Documents are inconsistent with the provisions of this Amendment, the provisions of this Amendment shall control.

B. Further Assurances. The Loan Parties shall execute and deliver such additional documents and take such additional action as may be reasonably requested by Agent to effectuate the provisions and purposes hereof.

C. Governing Law. The validity of this Amendment, the construction, interpretation and enforcement hereof, and the rights of the parties hereto with respect to all matters arising hereunder or related thereto shall be determined under, governed by, and construed in accordance with the laws of the State of California.

D. Binding Effect. This Amendment shall bind and inure to the benefit of the respective successors and assigns of each of the parties hereto.

E. Counterparts; Electronic Execution. This Amendment may be executed in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, shall be deemed to be an original, and all of which, when taken together, shall constitute but one and the same agreement. Delivery of an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission (including .pdf format) shall be equally as effective as delivery of an original executed counterpart of this Amendment. Any party delivering an executed counterpart of this Amendment by telefacsimile or other electronic method of transmission (including .pdf format) also shall deliver an original executed counterpart of this Amendment but the failure to deliver an original executed counterpart shall not affect the validity, enforceability, and binding effect of this Amendment.

IN WITNESS WHEREOF, the parties hereto have caused this Amendment to be duly executed and delivered by their respective officers thereunto duly authorized as of the date first written above.

BORROWER:

ENPHASE ENERGY, INC.
a Delaware corporation

By: /s/ Paul Nahi
Name: Paul Nahi
Title: President and CEO

[Signatures continued on next page.]

Amendment No. 1 to Amended and Restated Credit Agreement
and Amended and Restated Guaranty and Security Agreement

WELLS FARGO BANK, NATIONAL ASSOCIATION, a national
banking association, as Agent and sole Lender

By: /s/ Sylvia S. Tran

Name: Sylvia S. Tran

Title: Vice President

Amendment No. 1 to Amended and Restated Credit Agreement
and Amended and Restated Guaranty and Security Agreement

LOAN AND SECURITY AGREEMENT

THIS LOAN AND SECURITY AGREEMENT (this "*Agreement*") dated as of July 8, 2016, (the "*Effective Date*") is entered into between Enphase Energy, Inc., a Delaware corporation ("*Borrower*"), each Lender (as defined in Section 14) and Obsidian Agency Services, Inc., a California corporation, in its capacity as administrative and collateral agent (the "*Agent*") for Lenders, and provides the terms on which Lenders shall lend to Borrower and Borrower shall repay Lenders. For good and valuable consideration, the receipt and sufficiency of which is hereby acknowledged, the parties agree as follows:

SECTION 1. LOAN AND TERMS OF PAYMENT

1.1. Promise to Pay. Borrower hereby unconditionally promises to pay Lenders the outstanding principal amount of all Credit Extensions, all accrued and unpaid interest thereon and all other Obligations as and when due in accordance with this Agreement.

1.2. Term Loan.

(a) Availability. Subject to the terms and conditions of this Agreement, Lenders, severally and not jointly, agree to make in accordance with Schedule 1.2, and Borrower agrees to draw, a Credit Extension under the Term Loan in an aggregate amount of Twenty Five Million Dollars (\$25,000,000) on the Effective Date. After repayment, Credit Extensions made under the Term Loan may not be reborrowed. Under no circumstances shall a Lender be required to make Credit Extensions in excess of the commitment amount listed next to such Lender's name on Schedule 1.2.

(b) Repayment. The Term Loan shall be "interest-only" during the Interest Only Period, with interest payable on the outstanding amount of Credit Extensions made under the Term Loan on the Interest Payment Date. Upon termination of the Interest Only Period, the outstanding Credit Extensions under the Term Loan shall be repaid in equal monthly installments (subject to the next sentence) so that all Credit Extensions under the Term Loan and interest accrued thereon shall be repaid on the Term Loan Maturity Date, which payments shall be due on the first Business Day of each month. If the Term Loan Interest Rate changes, the amount of the amortized payments will be recalculated so that remaining periodic payments under the Term Loan (including interest) shall be repaid in equal monthly installments from the date of such change until the Term Loan Maturity Date. Any remaining outstanding principal amount of the Credit Extensions and any accrued and unpaid interest thereon and all other outstanding Obligations are due and payable in full on the Term Loan Maturity Date.

(c) Prepayment.

(i) Mandatory Prepayment Upon Acceleration. If repayment of the Term Loan is accelerated, Borrower shall immediately pay to Lenders an amount equal to the sum of (a) all outstanding principal with respect to the Term Loan, plus accrued and unpaid interest thereon, (b) the Prepayment Fee, (c) the Closing Fee (less any portion of such Closing Fee already paid), and (d) all other sums, including Lender Expenses, if any, that shall have become due and payable hereunder in connection with the Term Loan, including interest at the Default Rate with respect to any past due amounts.

(ii) Voluntary Prepayment. Borrower shall have the option to prepay all, or any part, of the Term Loan, provided Borrower (i) delivers written notice to Agent of its election to prepay the Term Loan at least five (5) days prior to such prepayment, and (ii) pays, on the date of such prepayment (a) all or such part of the outstanding principal with respect to the Term Loan set forth in its notice, plus accrued and unpaid interest thereon, (b) the Prepayment Fee, (c) the Closing Fee (or pro rata portion if less than the full amount of the outstanding Term Loan is repaid), and (d) all other sums, including Lender Expenses, if any, that shall have become due and payable hereunder in connection with the Term Loan, including interest at the Default Rate with respect to any past due amounts; provided, that any such notice delivered in connection with any prepayment with the proceeds of any incurrence of Indebtedness or the occurrence of some other identifiable

event or condition, may be, if expressly so stated to be, contingent upon the consummation of such incurrence or occurrence of such other identifiable event or condition and may be revoked by the Borrower in the event such contingency is not met.

1.3. Payment of Interest on the Credit Extensions

(a) Computation of Interest. Interest on the Credit Extensions and all fees payable hereunder shall be computed on the basis of a 360-day year and the actual number of days elapsed in the period during which such interest accrues. In computing interest on any Credit Extension, the date of the making of such Credit Extension shall be included and the date of payment shall be excluded; provided, however, that if any Credit Extension is repaid on the same day on which it is made, such day shall be included in computing interest on such Credit Extension.

(b) Credit Extensions. Each Credit Extension shall bear interest on the outstanding principal amount thereof from the date when made, continued or converted until paid in full at the Term Loan Interest Rate. Pursuant to the terms hereof, interest on each Credit Extension shall be paid in arrears on each Interest Payment Date.

(c) Default Interest. At Agent's election, upon the occurrence and during the continuation of an Event of Default, which election can be retroactive to the date of the Event of Default, and subject to the limitation in Section 13.3 herein, Obligations shall bear interest at five percent (5.00%) above the rate effective immediately before the Event of Default (the "**Default Rate**"). Without limiting the generality of the foregoing, upon the curing or waiver of any Event of Default, the interest applicable to the Obligations shall revert to the interest applicable immediately prior to the occurrence of such Event of Default. Fees and expenses which are required to be paid by Borrower pursuant to the Loan Documents (including, without limitation, Lender Expenses) but are not paid when due shall bear interest until paid at the Default Rate. Payment or acceptance of the increased interest provided in this Section 1.3(c) is not a permitted alternative to timely payment and shall not constitute a waiver of any Event of Default or otherwise prejudice or limit any rights or remedies of Agent or Lender.

(d) Interest Rate Changes. Each change in the Term Loan Interest Rate shall be effective on the effective date of the change in the LIBOR Rate. Agent shall use its best efforts to give Borrower prompt notice of any such change; provided, however, that any failure by Agent to provide Borrower with notice hereunder shall not affect Agent's right to make changes in the applicable interest rate.

(e) LIBOR Adjustment. Notwithstanding anything herein to the contrary, in the event Agent shall have determined that Dollar deposits in the principal amounts of the Term Loan are not generally available in the London interbank market, or that the rates at which such dollar deposits are being offered will not adequately and fairly reflect the cost to Lender of making or maintaining loans at the LIBOR Rate, or that reasonable means do not exist for ascertaining the LIBOR Rate, Agent will, as soon as practicable thereafter, provide notice of such determination to Borrower (a "**LIBOR Unavailability Notice**"). In the event of any such determination, until Agent shall have advised Borrower that the circumstances giving rise to such notice no longer exist, interest on the Term Loan shall accrue by reference to the Term Loan Alternate Base Rate. Each determination by Agent under this Section 1.3(e) shall be conclusive absent manifest error.

1.4. Method of Payment. Unless otherwise approved by Agent, all payments to be made by Borrower under any of the Loan Documents shall be made by same day wire transfer to Agent for the benefit of Lenders in accordance with the wire transfer instructions set forth on Schedule 1.4, as may be updated in writing from time to time by Agent.

1.5. Fees.

(a) Commitment Fee. Borrower shall pay the Commitment Fee on the Effective Date, which fee shall be non-refundable and deemed fully earned on the Effective Date. Lenders may deduct the Commitment Fee from the initial Credit Extension.

(b) Prepayment Fee. Borrower shall pay the Prepayment Fee, if and when due hereunder.

(c) **Lender Expenses.** Borrower shall pay all Lender Expenses (including reasonable attorneys' fees and expenses for documentation and negotiation of the Loan Documents) incurred through and after the Effective Date, on demand. Lender may deduct the Lender Expenses from any Credit Extension.

(d) **Origination Fee.** Borrower has paid the Origination Fee, which fee is deemed fully earned, and which fee shall be used to offset Lender Expenses relating to diligence and other expenses (including attorneys' fees and expenses) incurred prior to the Effective Date.

(e) **Closing Fee.** Borrower shall pay 25% of the Closing Fee on each anniversary of the Effective Date, provided however, that if the entire Term Loan is prepaid or if it becomes due and payable prior to the Term Loan Maturity Date, the entire Closing Fee (less any portion of the Closing Fee previously paid) shall be due and payable, and provided further, that if less than the entire Term Loan is prepaid, an amount of the Closing Fee (less any portion of the Closing Fee previously paid) equal to the percentage of the Term Loan being prepaid shall be due and payable. Notwithstanding the foregoing, in no event shall Borrower be required to pay in excess of \$2,500,000 under this Section 1.5(e). The Closing Fee shall be deemed fully earned on the Effective Date notwithstanding its receipt at a different time.

1.6. Payments; Application of Payments. All payments (including prepayments) to be made by Borrower under any Loan Document shall be made in immediately available funds in U.S. Dollars, without setoff or counterclaim, before 12:00 p.m. California time on the date when due. Payments of principal and/or interest received after 12:00 p.m. California time are considered received at the opening of business on the next Business Day. When a payment is due on a day that is not a Business Day, the payment shall be due the next Business Day, and additional fees or interest, as applicable, shall continue to accrue until paid. The order and method of application of funds with respect to principal, interest and fees owed shall be made in the sole discretion of Agent.

1.7. Promissory Notes. Notwithstanding anything to the contrary contained in this Agreement, Notes shall only be delivered to Agent on request. No failure of Agent or any Lender to request or obtain a Note evidencing the Credit Extensions to Borrower shall affect or in any manner impair the obligations of Borrower to pay the Credit Extensions (and all related Obligations) incurred by Borrower that would otherwise be evidenced thereby in accordance with the requirements of this Agreement, and shall not in any way affect the security or guaranties therefor provided pursuant to the Loan Documents. At any time when Agent requests the delivery of a Note to evidence any of the Credit Extensions, Borrower shall promptly execute and deliver to Agent the requested Note in the appropriate amount or amounts to evidence such Credit Extensions.

1.8. Reserved.

1.9. Pro Rata Treatment. Except as otherwise provided in this Agreement, Agent agrees that promptly after its receipt of each payment from or on behalf of Borrower in respect of any Obligations hereunder, Agent shall distribute such payment to Lenders entitled thereto (other than any Lender that has consented in writing to waive its pro rata share of any such payment) on a pro rata basis among the Lenders in accordance with their respective Pro Rata Percentage.

1.10. Ratable Sharing. Each Lender agrees that if it shall, through the exercise of a right of banker's lien, setoff or counterclaim against Borrower or any other Loan Party, or pursuant to a secured claim under Section 506 of the Bankruptcy Code or other security or interest arising from, or in lieu of, such secured claim, received by such Lender under any applicable Bankruptcy Law, or by any other means (but excluding any sale or participation of its Loan to a Person other than Borrower or an Affiliate thereof, which shall be included), obtain payment (voluntary or involuntary) in respect of any principal of or interest on any Credit Extension as a result of which the unpaid principal portion of its Credit Extensions shall be proportionately less than the unpaid principal portion of the Credit Extensions of any other Lender, it shall (a) notify Agent of such fact and (b) be deemed simultaneously to have purchased from such other Lender at face value, and shall promptly pay to such other Lender the purchase price for, a participation in the Credit Extensions of such other Lender, so that the aggregate unpaid principal amount of the Credit Extensions and participations held by each Lender shall be in the same proportion to the aggregate unpaid principal amount of all Credit Extensions then outstanding as the principal amount of its Credit Extensions prior to such exercise of banker's lien, setoff or counterclaim or other event was to the principal amount of all Credit Extensions outstanding prior to such

exercise of banker's lien, setoff or counterclaim or other event; provided, however, that if any such purchase or purchases or adjustments shall be made pursuant to this Section 1.10 and the payment giving rise thereto shall thereafter be recovered, such purchase or purchases or adjustments shall be rescinded to the extent of such recovery and the purchase price or prices or adjustment restored without interest. The Loan Parties expressly consent to the foregoing arrangements and agree that any Lender holding a participation in the Term Loan deemed to have been so purchased may exercise any and all rights of banker's lien, setoff or counterclaim or other event with respect to any and all moneys owing by the Loan Parties to such Lender by reason thereof as fully as if such Lender had made a Term Loan directly to Borrower in the amount of such participation.

1.11. Taxes.

(a) Any and all payments by or on account of any obligation of any Loan Party under any Loan Document shall be made without deduction or withholding for any Taxes, except as required by applicable law. If any applicable law (as determined in the good faith discretion of Agent) requires the deduction or withholding of any Tax from any such payment by a Loan Party or Agent, then the applicable withholding agent shall be entitled to make such deduction or withholding and shall timely pay the full amount deducted or withheld to the relevant Governmental Authority in accordance with applicable law and, if such Tax is an Indemnified Tax, then the sum payable by the applicable Loan Party shall be increased as necessary so that after such deduction or withholding has been made (including such deductions and withholdings applicable to additional sums payable under this Section) the applicable Recipient receives an amount equal to the sum it would have received had no such deduction or withholding been made.

(b) Borrower shall, or shall cause each of the Loan Parties to, timely pay to the relevant Governmental Authority in accordance with applicable law, or at the option of Agent timely reimburse it for the payment of, any Other Taxes.

(c) The Loan Parties shall jointly and severally indemnify each Recipient, within 10 days after demand therefor, for the full amount of any Indemnified Taxes (including Indemnified Taxes imposed or asserted on or attributable to amounts payable under this Section) payable or paid by such Recipient or required to be withheld or deducted from a payment to such Recipient and any reasonable expenses arising therefrom or with respect thereto, whether or not such Indemnified Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to Borrower by Agent or a Lender shall be conclusive absent manifest error.

(d) Each Lender shall severally indemnify Agent, within 10 days after demand therefor, for (i) any Indemnified Taxes attributable to such Lender (but only to the extent that Agent has not already been indemnified by any of the Loan Parties for such Indemnified Taxes and without limiting the obligation of the Loan Parties to do so), (ii) any Taxes attributable to such Lender's failure to comply with the provisions of Section 1.3.1(f) relating to the maintenance of a Participant Register, and (iii) any Excluded Taxes attributable to such Lender, in each case, that are payable or paid by Agent in connection with any Loan Document, and any reasonable expenses arising therefrom or with respect thereto, whether or not such Taxes were correctly or legally imposed or asserted by the relevant Governmental Authority. A certificate as to the amount of such payment or liability delivered to any Lender by Agent shall be conclusive absent manifest error. Each Lender hereby authorizes Agent to set off and apply any and all amounts at any time owing to such Lender under any Loan Document or otherwise payable by Agent to Lender from any other source against any amount due to Agent under this paragraph (d).

(e) As soon as practicable after any payment of Taxes by any Loan Party to a Governmental Authority pursuant to this Section 1.11, Borrower shall, or shall cause the Loan Party to, deliver to Agent the original or a certified copy of a receipt issued by such Governmental Authority evidencing such payment, a copy of the return reporting such payment or other evidence of such payment reasonably satisfactory to Agent.

(f)(i) Any Lender that is entitled to an exemption from or reduction of withholding Tax with respect to payments under any Loan Document shall deliver to Borrower and Agent, at the time or times prescribed by applicable law, or as reasonably requested by Borrower or Agent such properly completed and executed documentation prescribed by applicable law or as reasonably requested by Borrower or Agent as will permit such payments to be made without withholding or at a reduced rate of withholding. In addition, any

Lender, if reasonably requested by Borrower or Agent, shall deliver such other documentation prescribed by applicable law or reasonably requested by Borrower or Agent as will enable Borrower or Agent to determine whether or not such Lender is subject to backup withholding or information reporting requirements.

(ii) Without limiting the generality of the foregoing, any Lender shall, to the extent it is legally entitled to do so, deliver to Borrower and Agent (in such number of copies as shall be requested by the recipient) on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the request of Borrower or Agent), whichever of the following is applicable:

(A) any Lender that is a U.S. Person shall deliver to Borrower and Agent on or prior to the date on which such Lender becomes a Lender under this Agreement (and from time to time thereafter upon the reasonable request of Borrower or Agent), executed originals of IRS Form W-9 certifying that such Lender is exempt from U.S. federal backup withholding tax;

(B) any Foreign Lender shall deliver to Borrower and Agent on or prior to the date on which such Foreign Lender becomes a Lender under this Agreement whichever of the following is applicable:

i. in the case of a Foreign Lender claiming the benefits of an income Tax treaty to which the United States is a party (x) with respect to payments of interest under any Loan Document, executed originals of IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "interest" article of such Tax treaty and (y) with respect to any other applicable payments under any Loan Document, IRS Form W-8BEN or W-8BEN-E establishing an exemption from, or reduction of, U.S. federal withholding Tax pursuant to the "business profits" or "other income" article of such Tax treaty;

ii. executed originals of IRS Form W-8ECI;

iii. in the case of a Foreign Lender claiming the benefits of the exemption for portfolio interest under Section 881(c) of the IRC, (x) a certificate substantially in the form of Exhibit H-1 to the effect that (A) such Foreign Lender is not a "bank" within the meaning of Section 881(c)(3)(A) of the IRC, a "10 percent shareholder" of Borrower within the meaning of Section 881(c)(3)(B) of the IRC, or a "controlled foreign corporation" described in Section 881(c)(3)(C) of the IRC and (B) the interest payments in question are not effectively connected with a U.S. trade or business conducted by such Foreign Lender (a "**U.S. Tax Compliance Certificate**") and (y) executed originals of IRS Form W-8BEN or W-8BEN-E;

iv. to the extent a Foreign Lender is not the beneficial owner (for example, where the Foreign Lender is a partnership or participating Lender granting a typical participation), executed originals of IRS Form W-8IMY, accompanied by an IRS Form W-8ECI, IRS Form W-8BEN or W-8BEN-E, a U.S. Tax Compliance Certificate substantially in the form of Exhibit H-2 or Exhibit H-3, IRS Form W-9, and/or other certification documents from each beneficial owner, as applicable; *provided* that if the Foreign Lender is a partnership (and not a participating Lender) and one or more direct or indirect partners of such Foreign Lender are claiming the portfolio interest exemption, such Foreign Lender may provide a U.S. Tax Compliance Certificate substantially in the form of Exhibit H-4 on behalf of each such direct and indirect partner; or

v. executed originals of any other form prescribed by applicable law as a basis for claiming exemption from or a reduction in U.S. federal withholding

Tax, duly completed, together with such supplementary documentation as may be prescribed by applicable law to permit Borrower or Agent to determine the withholding or deduction required to be made.

- iii. If a payment made to a Lender under any Loan Document would be subject to U.S. federal withholding Tax imposed by FATCA if such Lender were to fail to comply with the applicable reporting requirements of FATCA (including those contained in Section 1471(b) or 1472(b) of the IRC, as applicable), such Lender shall deliver to Borrower and Agent at the time or times prescribed by law and at such time or times reasonably requested by Borrower or Agent such documentation prescribed by applicable law (including as prescribed by Section 1471(b)(3)(C)(i) of the IRC) and such additional documentation reasonably requested by Borrower or Agent as may be necessary for Borrower and Agent to comply with their obligations under FATCA and to determine that such Lender has complied with such Lender's obligations under FATCA or to determine the amount to deduct and withhold from such payment. Solely for purposes of this clause (iii), "FATCA" shall include any amendments made to FATCA after the date of this Agreement.

Each Lender agrees that if any form or certification it previously delivered expires or becomes obsolete or inaccurate in any respect, it shall promptly update such form or certification or promptly notify Borrower and Agent in writing of its legal inability to do so.

(g) If Agent or any Lender determines, in its sole discretion exercised in good faith, that it has received a refund of any Taxes as to which it has been indemnified pursuant to this Section 1.11 (including by the payment of additional amounts pursuant to this Section 1.11), it shall pay to the indemnifying party an amount equal to such refund (but only to the extent of indemnity payments made under this Section with respect to the Taxes giving rise to such refund), net of all out-of-pocket expenses (including Taxes) of such indemnified party and without interest (other than any interest paid by the relevant Governmental Authority with respect to such refund). Such indemnifying party, upon the request of such indemnified party, shall repay to such indemnified party the amount paid over pursuant to this paragraph g (plus any penalties, interest or other charges imposed by the relevant Governmental Authority) in the event that such indemnified party is required to repay such refund to such Governmental Authority. Notwithstanding anything to the contrary in this paragraph g, in no event will the indemnified party be required to pay any amount to an indemnifying party pursuant to this paragraph g the payment of which would place the indemnified party in a less favorable net after-Tax position than the indemnified party would have been in if Tax subject to indemnification and giving rise to such refund had not been deducted, withheld or otherwise imposed and the indemnification payments or additional amounts giving rise to such refund had never been paid.

(h) Nothing contained in this Section 1.11 shall require any Lender (or any transferee or assignee) or Agent to make available any of its Tax Returns or any other information that it reasonably deems to be confidential or proprietary.

SECTION 2. CONDITIONS OF CREDIT EXTENSIONS

2.1. Conditions Precedent to Initial Credit Extension. Each Lender's obligation to make the initial Credit Extension is subject to the condition precedent that Agent shall have received, in form and substance satisfactory to Agent, such documents, and evidence of completion of such other matters, as Agent may reasonably deem necessary or appropriate, including, without limitation:

(a) duly executed signatures to the Loan Documents;

(b) duly executed certificate from Borrower and any Joining Party's secretary containing approved Borrowing Resolutions, current Certificate of Incorporation (or equivalent document), Bylaws and a good standing certificate from the jurisdiction of Borrower's and any Joining Party's formation as well as any state where they maintain a business presence;

(c) duly executed signatures to the Intercreditor Agreement;

- (d) any other documentation Agent reasonably requests; and
- (e) payment of the Origination Fee (which has been paid), Commitment Fee and Lender Expenses.

2.2. Conditions Precedent to all Credit Extensions. Each Lender's obligations to make each Credit Extension, including the initial Credit Extension, is subject to the following conditions precedent:

(a) timely receipt of a completed Notice of Borrowing; and

(b) the representations and warranties in this Agreement shall be true, accurate, and complete in all material respects on the date of the Notice of Borrowing and on the Funding Date of each Credit Extension, provided, however, that those representations and warranties expressly referring to a specific date shall be true, accurate and complete as of such date, and no Event of Default shall have occurred and be continuing or result from the Credit Extension. Each Credit Extension is Borrower's representation and warranty on that date that the representations and warranties in this Agreement remain true, accurate, and complete, provided, however, that those representations and warranties expressly referring to a specific date shall be true, accurate and complete as of such date; and

(c) in Agent's reasonable discretion, there has not been any material impairment in the Collateral, general affairs, management, results of operation, financial condition or the prospect of repayment of the Obligations.

2.3. Covenant to Deliver. Borrower agrees to deliver to Lenders and Agent each item required to be delivered to Lender or Agent under this Agreement as a condition precedent to any Credit Extension. Borrower expressly agrees that a Credit Extension made prior to the receipt by Lender or Agent of any such item shall not constitute a waiver by Lender or Agent of Borrower's obligation to deliver such item, and the making of any Credit Extension in the absence of a required item shall be in Lender's and Agent's sole discretion.

2.4. Procedure for the Borrowing of Credit Extensions.

(a) Subject to the prior satisfaction of all other applicable conditions to the making of a Credit Extension set forth in this Agreement, each Credit Extension shall be made upon Borrower's irrevocable written notice delivered to Agent in the form of a completed Notice of Borrowing executed by a Responsible Officer of Borrower or without instructions if the Credit Extensions are necessary to meet Obligations which have become due. Such Notice of Borrowing must be received by Agent prior to 12:00 p.m. California time at least three (3) Business Days prior to the requested Funding Date, provided that the Notice of Borrowing for the initial Credit Extension may be provided on the Effective Date.

(b) Subject to the terms of this Agreement the proceeds of all such Credit Extensions will then be made available to Borrower on the Funding Date by Lender by transfer to the account specified in the Notice of Borrowing. No Credit Extensions shall be deemed made to Borrower, and no interest shall accrue on any such Credit Extension, until the related funds have been deposited in the account specified in the applicable Notice of Borrowing.

SECTION 3. CREATION OF SECURITY INTEREST

3.1. Grant of Security Interest. Borrower hereby grants Agent, for the benefit of Agent and Lenders, to secure the payment and performance in full of all of the Obligations, a continuing security interest in, and pledges to Agent, for the benefit of Agent and Lenders, the Collateral, wherever located, whether now owned or hereafter acquired or arising, and all proceeds and products thereof. If Agent determines that the perfection of its security interest in any Collateral requires the recordation or filing of documentation other than a Financing Statement, Borrower shall promptly execute such additional documentation upon presentation. If Agent determines that the perfection of its security interest in any Collateral requires the possession or control of such Collateral, Borrower shall, subject to the Intercreditor Agreement and Section 3.3, promptly deliver such Collateral to Agent or enter into a control agreement satisfactory to the Agent to establish such control. Notwithstanding anything to the contrary in this agreement, (a) so long as the Wells Fargo Indebtedness remains outstanding and Wells Fargo has not taken any actions to create or perfect its

security interest outside of the United States, then except for Pledged Account, no such actions shall be required or taken by Agent or the Lenders in order to create or perfect any security interests in assets of Borrower and its Subsidiaries located or titled outside of the United States; and (b) so long as the Wells Fargo Indebtedness remains outstanding and Wells Fargo has not taken any actions to create or perfect its security interest in any real estate of Borrower and its Subsidiaries, then no such actions shall be required or taken by Agent or the Lenders in order to create or perfect any security interest in any real estate.

3.2. Priority of Security Interest. Borrower represents, warrants, and covenants that the security interest granted herein is and shall at all times continue to be a first priority perfected security interest in the Collateral (subject only to Permitted Liens described in Subsections (a) through (m) of the definition of Permitted Liens that may have superior priority to Agent's Lien under this Agreement). If Borrower shall acquire a Commercial Tort Claim in an amount greater than Two Hundred Fifty Thousand Dollars (\$250,000), Borrower shall promptly notify Agent in a writing signed by Borrower of the general details thereof and upon request grant to Agent in such writing a security interest therein and in the proceeds thereof, all upon the terms of this Agreement, with such writing to be in form and substance reasonably satisfactory to Agent.

3.3. Termination. If the Obligations (other than inchoate indemnity obligations) are satisfied in full and this Agreement is terminated, Agent's Lien on the Collateral shall automatically terminate and all rights therein shall revert to each Loan Party and Agent shall, at such Loan Party's sole cost and expense, execute such documentation and take such further action as may be reasonably necessary to evidence the termination contemplated by this Section 3.3. If at any time after such termination or Agent's release of its security interest granted herein any Collateral or other property Lender receives in satisfaction of the Obligations is recovered, disgorged, set aside or otherwise avoided, or is subject to recovery, disgorgement, being set aside or avoided (whether through a formal court proceeding or otherwise) by or to Borrower, a bankruptcy trustee, a receiver or similar representative, then this Agreement and any other Loan Documents as Agent may elect shall be deemed revived, reinstated and in full force and effect as if the original termination did not occur, and Agent's security interest and all other rights in the Collateral shall be deemed in full force and effect until the full and final repayment of all Obligations (other than inchoate indemnity obligations).

Notwithstanding anything herein to the contrary, upon the consummation of any sale or other disposition by any Loan Party of any Collateral to a third party that is not a Loan Party in a transaction permitted under this Agreement or any other Loan Document, or upon the effectiveness in accordance with this Agreement of any written consent to the release of the security interest in any Collateral, the security interests in such Collateral shall be automatically released (but shall attach to the proceeds or products thereof) without further action by any party. In connection with any such release, the Agent shall execute and deliver to any Loan Party, at such Loan Party's expense and without recourse to or warranty by the Agent, all documents that such Loan Party shall reasonably request to evidence such release, including a UCC-3 to reflect such release.

3.4. Authorization to File Financing Statements. Borrower hereby authorizes Agent to file financing statements, without notice to Borrower, with all appropriate jurisdictions to perfect or protect Agent and Lenders' interest or rights hereunder, including a notice that any disposition of the Collateral, by either Borrower or any other Person, shall be deemed to violate Agent's and Lenders' rights under the Code.

SECTION 4. REPRESENTATIONS AND WARRANTIES

Borrower represents and warrants as follows:

4.1. Due Organization, Authorization; Power and Authority; Enforceability.

(a) Borrower is and each of its Subsidiaries are duly existing and in good standing as a Registered Organization in their jurisdiction of formation and are qualified and licensed to do business and are in good standing in any jurisdiction in which the conduct of its business or its ownership of property requires that it be qualified. In connection with this Agreement, Borrower and each of its Subsidiaries has delivered to Agent a completed and signed certificate entitled "*Perfection Certificate*" and collectively, the "*Perfection Certificates*." Borrower represents and warrants to Lenders and Agent, as of the Effective Date, as of the date that each Compliance Certificate is to be delivered and as of the date each Compliance Certificate is delivered, that (i) Borrower and each Subsidiary's exact legal name and address is as indicated in Section 4.1(a) of the Perfection Certificates; (ii) Borrower and each Subsidiary is an organization of the type and is organized in the

jurisdiction set forth in Section 4.1(a) of the Perfection Certificates; (iii) Section 4.1(a) of Perfection Certificates accurately sets forth Borrower and each Subsidiary's organizational identification number or accurately states that there is none; (iv) Section 4.1(a) of the Perfection Certificates accurately sets forth the names (formal and informal), jurisdiction of formation, organizational structure or type, and organizational number assigned by its jurisdiction that Borrower and each Subsidiary used for the past five (5) years; and (v) all other information set forth on the Perfection Certificates is accurate and complete (it being understood that (A) if any information contained in the Perfection Certificates changes after the Effective Date and if that information relates to a Subsection of this Section 4 which specifically allows for information in the Perfection Certificates to be updated after the Effective Date, Borrower shall, or Borrower shall cause its applicable Subsidiary to, update such information in Borrower's next timely delivered Compliance Certificate, and (B) that any such update shall be effective only to update changes and not to correct errors). After the Effective Date, Borrower and its Subsidiaries may update any information under Section 4.1(a) of the Perfection Certificates by delivery of a written notice to Agent.

(b) The execution, delivery and performance by Borrower and each other Loan Party of the Loan Documents to which they are a party have been duly authorized, and do not (i) conflict with Borrower's or any Loan Party's organizational documents, (ii) contravene, conflict with, constitute a default under or violate any material Requirement of Law, (iii) contravene, conflict or violate any applicable order, writ, judgment, injunction, decree, determination or award of any Governmental Authority by which Borrower or any of its Subsidiaries or any of their property or assets may be bound or affected, (iv) require any action by, filing, registration, or qualification with, or Governmental Approval from, any Governmental Authority (except such Governmental Approvals which have already been obtained and are in full force and effect) or (v) constitute an event of default under any material agreement by which Borrower or any Subsidiary is bound.

(c) This Agreement has been duly executed and delivered by Borrower and constitutes, and each other Loan Document when executed and delivered by each Loan Party party thereto will constitute, a legal, valid and binding obligation of such Loan Party enforceable against such Loan Party in accordance with its terms, subject to applicable bankruptcy, insolvency, reorganization, moratorium or other laws affecting creditors' rights generally and subject to general principles of equity, regardless of whether considered in a proceeding in equity or at law.

4.2. Collateral.

(c) Except as disclosed in the Perfection Certificate, Borrower has good title to, has rights in, and the power to Dispose of each item of the Collateral upon which it purports to grant a Lien hereunder, free and clear of any and all Liens except Permitted Liens. Borrower has no Pledged Accounts other than the Pledged Accounts (i) described in Section 4.2(a) of the Perfection Certificates (which may be amended to add or remove Pledged Accounts as provided by Section 4.1(a)(v)) delivered to Lenders and Agent in connection herewith, or (ii) of which Borrower has given Lenders and Agent notice and taken such actions as are necessary to give Agent a perfected security interest therein (other than with respect to Excluded Accounts). Borrower's Accounts and those of its Subsidiaries are *bona fide*, existing obligations of the Account Debtors.

(d) The Collateral is not in the possession of any third party bailee (such as a warehouse) except as otherwise provided in Section 4.2(b) of the Perfection Certificates, which may be amended to add or remove bailees as provided by Section 4.1(a)(v), above or as permitted pursuant to Section 6.3. None of the components of the Collateral shall be maintained at locations other than as provided in Section 4.2(b) and Schedule H of the Perfection Certificates, which may be amended to add or remove bailees and real property locations as provided by Section 4.1(a)(v), above or as permitted pursuant to Section 6.3.

(e) To the extent that Inventory exists, all Borrower's and its Subsidiaries' Inventory is in all material respects of good and marketable quality, free from defect (other than defects that do not prevent satisfaction of the standard requirements for delivery and acceptance of such Inventory and except for obsolete, damaged, defective or slow-moving items that have been written off or written down to fair market value or for which adequate reserves have been established).

(f) Section 4.2(d) of the Perfection Certificates lists all Intellectual Property of Borrower and its Subsidiaries (other than over-the-counter software and other non-customized mass market licenses that are

commercially available to the public), and may be updated to add or remove Intellectual Property as provided by Section 4.1(a)(v), above. Borrower is the sole owner of the Intellectual Property which it owns or purports to own except for (i) non-exclusive licenses granted to its customers in the ordinary course of business, (ii) over-the-counter software and other non-customized mass market licenses that are commercially available to the public, and (iii) material Intellectual Property licensed to Borrower or its Subsidiaries and noted on the Perfection Certificates. Except as specifically noted in Section 4.2(d) of the Perfection Certificates, each Loan Party has the full right and authority to Dispose of its Intellectual Property, and each of its Subsidiaries has the full right and authority to Dispose of its Intellectual Property. Except as specifically noted in Section 4.2(d) of the Perfection Certificates, each Patent and Trademark which Borrower or any of its Subsidiaries own or purport to own is valid and enforceable, and no part of such Intellectual Property has been judged invalid or unenforceable, in whole or in part. Neither Borrower nor any of its Subsidiaries is in breach of any agreement related to their Intellectual Property, and no claim has been made in writing that any part of such Intellectual Property violates the rights of any third party.

(g) Except as noted in Section 4.2(e) of the Perfection Certificates, neither Borrower nor any of its Subsidiaries are a party to, or bound by, any Restricted License. Section 4.2(e) of the Perfection Certificates may be updated as provided by Section 4.1(a)(v), above.

(h) Except as noted in Section 4.2(f) of the Perfection Certificates, Borrower's ownership interests in the entities listed in Section 4.2(f) of the Perfection Certificates are uncertificated, and shall not be certificated unless Borrower and each of the entities listed in Section 4.2(f) of the Perfection Certificates comply with Section 6.11, below. Section 4.2(f) of the Perfection Certificates may be updated as provided by Section 4.1(a)(v), above.

4.3. Accounts. Upon the occurrence of an Event of Default that is continuing, Agent may notify any Account Debtor owing Borrower money of Agent's security interest in such funds and verify the amount of such Account. Borrower has no knowledge of any actual or imminent Insolvency Proceeding of any Account Debtor.

4.4. Litigation; Governmental Action. Except as set forth in Section 4.4 of the Perfection Certificates (which may be updated as provided by Section 4.1(a)(v), above, to include claims asserted by Borrower), there are no actions or proceedings pending or, to the knowledge of the Responsible Officers, threatened in writing by or against Borrower or any of its Subsidiaries involving (i) more than, individually or in the aggregate, Five Hundred Thousand Dollars (\$500,000), or (ii) fines, penalties or other sanctions by any Governmental Authority. Except as set forth in Section 4.4 of the Perfection Certificates (which may be updated as provided by Section 4.1(a)(v), above), there are no actions or proceedings pending by Borrower or any of its Subsidiaries involving more than, individually or in the aggregate, Five Hundred Thousand Dollars (\$500,000). Except as set forth in Section 4.4 of the Perfection Certificates, there is no action or proceeding pending by or against Borrower or any of its Subsidiaries where Borrower or any Subsidiary has incurred in excess of Five Hundred Thousand Dollars (\$500,000) in legal expenses, including without limitation, attorneys' fees, for which Borrower has not been reimbursed by third party insurance (i.e., not self-insurance) within 60 days of Borrower's written request for reimbursement.

4.5. Financial Statements; Financial Condition. All consolidated financial statements for Borrower and any of its Subsidiaries delivered to Lenders and Agent fairly present in all material respects Borrower's consolidated financial condition and Borrower's consolidated results of operations (other than, in the case of unaudited financial statements, the absence of footnotes and normal year-end adjustments) for the periods presented. There has not been any material deterioration in Borrower's consolidated financial condition since the date of the most recent financial statements submitted to Lenders and Agent. Except as set forth in Section 4.12 of the Perfection Certificates (as may be updated as provided by Section 4.1(a)(v), above), there are no loans to Borrower's or any of its Subsidiaries' employees or directors, and there are no loans from such employees and directors to Borrower or any of its Subsidiaries other than unreimbursed expenses occurring in the ordinary course of business.

4.6. Material Adverse Change; Solvency. No Material Adverse Change has occurred since the date of the most recent financial statements submitted to Lenders and/or Agent (whether as required by this

Agreement or otherwise provided). Borrower is, and Borrower and its Subsidiaries, on a consolidated basis, are, Solvent.

4.7. Regulatory Compliance. Borrower is not an “investment company” or a company “controlled” by an “investment company” under the Investment Company Act of 1940, as amended. Borrower is not engaged as one of its important activities in extending credit for margin stock (under Regulations X, T and U of the Federal Reserve Board of Governors). Borrower has complied in all material respects with the Federal Fair Labor Standards Act. Neither Borrower nor any of its Subsidiaries is a “holding company” or an “affiliate” of a “holding company” or a “subsidiary company” of a “holding company” as each term is defined and used in the Public Utility Holding Company Act of 2005. Borrower has not violated any laws, ordinances or rules, the violation of which could reasonably be expected to result in liability in excess of Five Hundred Thousand Dollars (\$500,000). None of Borrower’s or any of its Subsidiaries’ properties or assets has been used by Borrower or any Subsidiary or, to the best of Borrower’s knowledge, by previous Persons, in disposing, producing, storing, treating, or transporting any hazardous substance other than in material compliance with applicable laws. Borrower and each of its Subsidiaries have obtained all consents, approvals and authorizations of, made all declarations or filings with, and given all notices to, all Government Authorities that are necessary to continue their respective businesses as currently conducted.

4.8. Investments. Borrower and its Subsidiaries do not own any Equity Interests except for Permitted Investments.

4.9. Tax Returns and Payments; Pension Contributions.

(a) Borrower and its Subsidiaries have timely filed all required Tax Returns and reports, and have timely paid (after giving effect to any duly filed extension) all foreign, federal, state and local Taxes due and payable and all assessments, deposits and contributions owed, in each case where such liability is in excess of \$25,000. Borrower may, and may allow its Subsidiaries to, defer payment of any contested Taxes, provided that Borrower or its Subsidiaries, as applicable, (a) in good faith contests its obligation to pay the Taxes by appropriate proceedings promptly and diligently instituted and conducted, (b) notifies Agent in writing of the commencement of, and any material development in, the proceedings, (c) posts bonds or takes any other steps required to prevent the governmental authority levying such contested Taxes from obtaining a Lien upon any of the Collateral that is other than a “Permitted Lien”. Borrower is unaware of any claims or adjustments proposed for any of Borrower’s or its Subsidiaries’ prior tax years which could result in additional Taxes in excess of \$25,000 becoming due and payable. Borrower and its Subsidiaries have paid all amounts necessary, if any, to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms, and neither Borrower nor any of its Subsidiaries have not withdrawn from participation in, and have not permitted partial or complete termination of, or permitted the occurrence of any other event with respect to, any such plan which could reasonably be expected to result in any liability of Borrower or any of its Subsidiaries, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

(b) Neither Borrower nor any of its Subsidiaries ever has been, is, or, upon the consummation of the transactions contemplated hereby, by any other Loan Document or any related agreements, will be (i) a “passive foreign investment company” within the meaning of Section 1297 of the IRC or (ii) a “controlled foreign corporation” within the meaning of Section 957(a) of the IRC.

4.10. Use of Proceeds. Borrower shall use the proceeds of the Credit Extensions (i) to refinance existing Indebtedness, (ii) as working capital and other corporate uses, and (iii) to fund its general business requirements and not for personal, family, household or agricultural purposes.

4.11. Full Disclosure. No written representation, warranty or other statement of Borrower or any of its Subsidiaries in any certificate or written statement given to Lenders or Agent, when taken as a whole, as of the date such representation, warranty, or other statement was made, taken together with all such written certificates and written statements given to Lenders or Agent, contains any untrue statement of a material fact or omits to state a material fact necessary to make the statements contained in the certificates or statements not misleading (it being recognized by Lenders and Agent that projections and forecasts provided by Borrower or its Subsidiaries in good faith and based upon reasonable assumptions are not viewed as facts and that actual

results during the period or periods covered by such projections and forecasts may differ from the projected or forecasted results). All projections and forecasts Borrower or any Subsidiary provides to Lenders or Agent shall be provided in good faith and based on the most current information available to Borrower or such Subsidiary at the time of the delivery thereof to Agent.

4.12. Capitalization and Organization. As of the Effective Date, the capitalization of Borrower's Subsidiaries is as set forth in Section 4.12(a) of the Perfection Certificate. Borrower's organization structure is as set forth in Section 4.12(b) of the Perfection Certificate, which may be amended as provided by Section 4.1(a)(v).

4.13. Sanctioned Persons. None of Borrower or any of its Subsidiaries, and to Borrower's knowledge, any of their directors, officers, agents, employees or Affiliate is currently subject to any U.S. sanctions administered by the Office of Foreign Assets Control of the U.S. Treasury Department ("**OFAC**"). Borrower will not directly or indirectly use the proceeds of any Credit Extension or otherwise make available such proceeds to any Person, for the purpose of financing the activities of any Person currently subject to any U.S. sanctions administered by OFAC.

4.14. Foreign Assets Control Regulations, Etc.

(a) Neither the borrowing of any Credit Extension by Borrower hereunder nor its use thereof will violate (i) the United States Trading with the Enemy Act, as amended, (ii) any of the foreign assets control regulations of the United States Treasury Department (31 CFR, Subtitle B, Chapter V, as amended) or any enabling legislation or executive order relating thereto, (iii) Executive Order No. 13,224, 66 Fed Reg 49,079 (2001), issued by the President of the United States (Executive Order Blocking Property and Prohibiting Transactions with Persons Who Commit, Threaten to Commit or Support Terrorism) (the "**Terrorism Order**"), (iv) USA PATRIOT ACT, or (v) USA FREEDOM ACT. No part of the Credit Extensions will be used, directly or indirectly, for any payments to any governmental official or employee, political party, official of a political party, candidate for political office, or anyone else acting in an official capacity, in order to obtain, retain or direct business or obtain any improper advantage, in violation of the United States Foreign Corrupt Practices Act of 1977, as amended.

(b) No Loan Party (i) is or will become a "blocked person" as described in Section 1.01 of the Terrorism Order or (ii) engages or will engage in any dealings or transactions, or is otherwise associated, with any such blocked person.

(c) Each of the Loan Parties and its Affiliates are in compliance, in all material respects, with the USA PATRIOT ACT and the USA FREEDOM ACT.

4.15. Definition of "knowledge." For purposes of the Loan Documents, whenever a representation or warranty is made to Borrower's knowledge or awareness, to the "best of" Borrower's knowledge, or with a similar qualification, knowledge or awareness means the actual knowledge, after reasonable investigation, of the Responsible Officers.

SECTION 5. AFFIRMATIVE COVENANTS

Until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Lenders are under no further obligation to make Credit Extensions hereunder, Borrower shall comply with each of the covenants in this Section 5:

5.1. Government Compliance. Borrower shall maintain its and all its Subsidiaries' legal existence and good standing in their respective jurisdictions of formation and maintain qualification in each jurisdiction which requires such qualification to be maintained, except that Borrower's Subsidiaries may be dissolved, liquidated or merged with another Person to the extent permitted by Section 6.4. Borrower shall comply, and have each Subsidiary comply, with all laws, ordinances and regulations to which it is subject.

5.2. Financial Statements, Reports, Certificates. Borrower shall deliver the following items to Agent:

(a) Monthly Financial Statements. As soon as available, but no later than thirty (30) days after the last day of each month (other than (x) in the case of a month that is the end of one of Borrower's fiscal

quarters, which shall be no later than forty-five (45) days after the last day of such month, and (y) in the case of a month that is the end of one of Borrower's fiscal years, which shall be no later than sixty (60) days after the last day of such month), a company prepared consolidated balance sheet and income statement covering Borrower's consolidated operations for such month setting forth in each case in comparative form to the figures for the previous fiscal year, certified by a Responsible Officer and in a form acceptable to Agent (the "**Monthly Financial Statements**");

(b) **Quarterly Financial Statements.** As soon as available, but no later than forty-five (45) days after the last day of each quarter, a company prepared consolidated balance sheet, income statement and related statements of operations, stockholders' equity and cash flows covering Borrower's consolidated operations for such quarter setting forth in each case in comparative form the figures for the previous fiscal year, certified by a Responsible Officer and in a form reasonably acceptable to Agent (it being understood that financial statements satisfying the requirements of Form 10-Q are acceptable to Agent), with a statement of reconciliation to GAAP (the "**Quarterly Financial Statements**");

(c) **Annual Audited Financial Statements.** As soon as available, but no later than ninety (90) days after the last day of Borrower's fiscal year, audited consolidated balance sheet, income statement and related statements of operations, stockholders' equity and cash flows as of the end of and for such year, setting forth in each case in comparative form the figures for the previous fiscal year, together with an unqualified opinion on the financial statements from an independent certified public accounting firm reasonably acceptable to Agent (it being agreed that Deloitte & Touche LLP and any other public accounting firm of national standing is acceptable to Agent) to the effect that such consolidated financial statements present fairly in all material respects the financial condition and results of operations of Borrower and its consolidated Subsidiaries on a consolidated basis in accordance with GAAP consistently applied, together with a customary "management discussion and analysis" section ("**Annual Audited Financial Statements**");

(d) **Compliance Certificate.** Concurrently with the delivery of the financial statements required under Section 5.2(a), a duly completed Compliance Certificate signed by a Responsible Officer, certifying that as of the end of such month, Borrower was in full compliance with all of the terms and conditions of this Agreement, and setting forth such other information as Agent shall reasonably request;

(e) **Operating Budget.** As soon as available, but no later than sixty (60) days after the last day of Borrower's fiscal year, a Board-approved operating budget for Borrower and its Subsidiaries (which shall include projected Revenue and net cash flows) prepared and adopted in good faith as to the then current calendar year (the "**Budget**").

(f) **Legal Action Notice.** A prompt report (but in any event within five (5) Business Days after the service of process with respect thereto on Borrower or any of its Subsidiaries) of any legal actions pending or threatened in writing against Borrower or any of its Subsidiaries that could reasonably be expected to result in (i) damages or costs to Borrower or any of its Subsidiaries of, individually or in the aggregate, Five Hundred Thousand Dollars (\$500,000) or more, (ii) fines, penalties or other sanctions by any Governmental Authority, or (iii) claims for injunctive or equitable relief;

(g) **Intellectual Property Notice.** On each Compliance Certificate required to be delivered under Section 5.2(d) concurrently with the financial statements required to be delivered under Section 5.1(a) for the months of March, June, September and December, written notice of (i) any material change in the composition of Borrower's or any of its Subsidiaries' Intellectual Property, (ii) the registration of any copyright or trademark, or the filing of any patent, including any subsequent ownership right of Borrower or any of its Subsidiaries' in or to any registered copyright, patent or trademark not shown in the Perfection Certificates, and (iii) Borrower's knowledge of an event that could reasonably be expected to materially and adversely affect the value of its or any of its Subsidiaries' Intellectual Property; and

(h) **Other Information.** Borrower's budgets, sales projections, operating plan and other information within thirty (30) days following Agent's written reasonable request therefor.

Notwithstanding the foregoing, documents required to be delivered pursuant to clauses (b) or (c) of this Section 5.2 shall be deemed to have been furnished to Agent on the date on which the Borrower files such documents with the SEC and such documents are publicly available on the SEC's EDGAR filing system or any

successor thereto provided that Borrower emails Agent notice of the filing which notice contains a link to the applicable document(s).

5.3. Notification of Noncompliance.

(a) Borrower shall notify Agent within five (5) Business Days of having knowledge (i) that it is not in compliance with any of its obligations under any of the Loan Documents, or (ii) of the occurrence of any Event of Default.

(b) If any information contained in the Perfection Certificates changes after the Effective Date and if that information relates to a subsection of Section 4 which specifically allows for information in the Perfection Certificates to be updated after the Effective Date, Borrower shall update such information in Borrower's next due Compliance Certificate, provided however, that updates related to Section 4.2(d) shall only be required to be delivered concurrently with the financial statements required to be delivered under Section 5.1(a) for the months of March, June, September and December.

(c) If any subsection of Section 4 is no longer true, accurate and complete and such subsection does not specifically authorize Borrower to update such subsection, Borrower shall indicate how such subsection is no longer true, accurate and complete in Borrower's next due Compliance Certificate, provided however, that updates related to Section 4.2(d) shall only be required to be delivered concurrently with the financial statements required to be delivered under Section 5.1(a) for the months of March, June, September and December.

5.4. Taxes; Pensions. Timely file, and cause each of its Subsidiaries to timely file, all required Tax Returns and reports and timely pay, and cause each of its Subsidiaries to timely pay, all foreign, federal, state and all other Taxes, assessments, deposits and contributions owed by Borrower and each of its Subsidiaries, in each case where such liability is in excess of \$25,000, except for deferred payment of any Taxes contested pursuant to the terms of Section 4.9 hereof, and shall deliver to Agent, on demand, appropriate certificates attesting to such payments, and pay all amounts necessary to fund all present pension, profit sharing and deferred compensation plans in accordance with their terms.

5.5. Management Rights; Access to Collateral; Books and Records. Borrower's officers, and key employees shall meet with Lenders or Agent and their representatives from time to time and upon reasonable notice and during normal business hours for the purpose of consulting with, rendering recommendations to the management of Borrower and its Subsidiaries or obtaining information regarding their operations, activities and prospects and expressing its views thereon. Borrower shall consider in good faith the recommendations of Lender and Agent in connection with the matters on which it is consulted as described above, recognizing that the ultimate discretion with respect to all such matters shall be retained by Borrower, Subsidiary and their management. At reasonable times, on seven (7) Business Days' notice (provided no notice is required if an Event of Default has occurred and is continuing), Agent or its agents, shall have the right to inspect the Collateral, to audit and copy Borrower's Books, and to conduct field audits of Borrower and any Subsidiary. Such inspections and audits shall be conducted no more often than twice every twelve (12) months unless an Event of Default has occurred and is continuing, provided that an initial field audit may be conducted within the first forty-five (45) days following the Effective date without constituting one of the two annual audits. The foregoing inspections and audits shall be at Borrower's expense.

5.6. Insurance. Borrower shall keep its business and the Collateral insured for risks and in amounts standard for companies in Borrower's industry and location and as Agent may reasonably request. Insurance policies shall be in a form, with companies, and in amounts that are reasonably satisfactory to Agent. All property policies shall have a lender's loss payable endorsement showing Agent as lender loss payee and waive subrogation against Agent and shall provide that the insurer must give Agent at least thirty (30) days' notice before canceling, amending, or declining to renew its policy. All liability policies shall show, or have endorsements showing, Agent as an additional insured with a waiver of subrogation rights, and all such policies (or the loss payable and additional insured endorsements) shall provide that the insurer shall give Agent at least thirty (30) days' notice before canceling, amending, or declining to renew its policy. At Agent's request, Borrower shall deliver certified copies of policies and evidence of all premium payments. Proceeds payable under any policy shall, at Agent's option, be payable to Agent on account of the Obligations. If

Borrower fails to obtain insurance as required under this [Section 5.6](#) or to pay any amount or furnish any required proof of payment to third persons and Agent, Agent may make all or part of such payment or obtain such insurance policies required in this [Section 5.6](#), and take any action under the policies Agent deems prudent. Borrower shall have until ten (10) Business Days after the Effective Date to provide the endorsements required in this [Section 5.6](#). Notwithstanding anything to the contrary in this paragraph, so long as the Wells Fargo Indebtedness remains outstanding, in no event shall Agent or the Lenders require any modification of the insurance for Borrower and/or its Subsidiaries or accept any proceeds payable under any policy.

5.7. Pledged Accounts. Borrower's and each Subsidiary's Pledged Accounts (other than Excluded Accounts) shall at all times be subject to a Control Agreement in form and substance acceptable to Agent, provided however, that Borrower's Pledged Account maintained at Bridge Bank, National Association shall not be required to be subject to a Control Agreement until five (5) Business Days after the Effective Date.

5.8. Protection and Registration of Intellectual Property Rights.

(c) Borrower shall: (i) as determined in Borrower's reasonable business judgment to be necessary in the operation of its business, protect, defend and maintain the validity and enforceability of Borrower's Intellectual Property that is material to its business or the business of any of its Subsidiaries; (ii) promptly advise Agent in writing of infringements of Borrower's Intellectual Property of which Borrower has knowledge; and (iii) not allow any Intellectual Property material to Borrower's business, in Borrower's reasonable business judgment, to be abandoned, forfeited or dedicated to the public, except as permitted by this Agreement.

(d) Borrower shall cause each of its Subsidiaries to: (i) as determined in such Subsidiary's reasonable business judgment to be necessary in the operation of its business, protect, defend and maintain the validity and enforceability of such Subsidiary's Intellectual Property that is necessary in or material to its business or the business of Borrower; (ii) promptly advise Agent in writing of infringements of such Subsidiary's Intellectual Property of which Borrower and such Subsidiary have knowledge; and (iii) not allow any Intellectual Property material to such Subsidiary's business, in such Subsidiary's reasonable business judgment, to be abandoned, forfeited or dedicated to the public, except as permitted by this Agreement.

(e) If Borrower or any of its Subsidiaries (i) obtain any Patent, registered Trademark, registered Copyright, registered mask work, or any pending application for any of the foregoing, whether as owner, licensee or otherwise, or (ii) apply for any Patent or the registration of any Trademark, then Borrower shall provide written notice thereof to Agent in accordance with [Section 5.2\(g\)](#).

(f) Borrower shall provide written notice to Agent on the Compliance Certificate next delivered after entering or becoming bound by any Restricted License (other than over-the-counter software and other non-customized mass market licenses that are commercially available to the public). Borrower shall take such steps as Agent reasonably requests to obtain the consent of, or waiver by, any person whose consent or waiver is necessary for (i) any Restricted License (other than any Restricted License which is an Intellectual Property License) to be deemed "Collateral" and for Agent to have a security interest in it that might otherwise be restricted or prohibited by law or by the terms of any such Restricted License, whether now existing or entered into in the future, and (ii) Agent to have the ability in the event of a liquidation of any Collateral to dispose of such Collateral in accordance with Lenders' and Agent's rights and remedies under this Agreement and the other Loan Documents.

5.9. Further Assurances. Borrower shall execute any further instruments and take further action as Agent reasonably requests to perfect or continue Agent's Lien in the Collateral or to effect the purposes of this Agreement.

5.10. Creation/Acquisition of Subsidiaries. Borrower shall, at the time that any Loan Party forms any direct or indirect Subsidiary or acquires any direct or indirect Subsidiary after the Effective Date, within fifteen (15) days of such formation or acquisition (a) cause such new Subsidiary (except for any Foreign Subsidiary or Excluded Domestic Subsidiary (or any of their respective Subsidiaries)) to become a Joining Party under the Loan Documents and grant a continuing pledge and security interest in and to all the assets of such Subsidiary, as well as provide the appropriate financing statements, all in form and substance reasonably satisfactory to Agent (including being sufficient to grant Agent a first priority Lien (subject to Permitted Liens)

in and to the assets of such newly formed or acquired Subsidiary), and (b) provide appropriate certificates and powers or financing statements, pledging all of the direct or beneficial ownership interest in such new Subsidiary in form and substance reasonably satisfactory to Agent, provided that only 65% of the total outstanding voting Equity Interests of any first tier Foreign Subsidiary or Excluded Domestic Subsidiary (and none of the Equity Interests of any Subsidiary of such Foreign Subsidiary or Excluded Domestic Subsidiary) shall be required to be pledged. Borrower shall also procure the issuer's agreement to follow Agent's instructions regarding any Disposition of such securities, such agreement to be in form and substance satisfactory to Agent.

SECTION 6. NEGATIVE COVENANTS

Until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Lenders are under no further obligation to make Credit Extensions hereunder, Borrower shall comply with each of the covenants in this Section 6:

6.1. Dispositions; Negative Pledge. Borrower shall not Dispose, or permit any of its Subsidiaries to Dispose, of all or any part of its business or property, except for Dispositions (a) of Inventory in the ordinary course of business; (b) of worn-out, damaged or obsolete Equipment in the ordinary course of business for fair market value and leases or subleases of real property not useful in the conduct of the business of Borrower and its Subsidiaries; (c) in connection with Permitted Liens and Permitted Investments; (d) of non-exclusive licenses for the use of the property (including Intellectual Property) of Borrower or its Subsidiaries in the ordinary course of business; (e) the use or transfer of money or Cash Equivalents in a manner that is not prohibited by the terms of the Agreement or the other Loan Documents; (f) without recourse of accounts receivable arising in the ordinary course of business, but only in connection with the compromise or collection thereof; (g) resulting in (i) the lapse of registered Patents, Trademarks and Copyrights property of Borrower and its Subsidiaries to the extent not economically desirable in the conduct of their business or (ii) the abandonment of Patents, Trademarks, Copyrights, or other Intellectual Property rights in the ordinary course of business so long as (in each case under clauses (i) and (ii)), (A) with respect to Copyrights, such Copyrights are not material revenue generating Copyrights, and (B) such lapse is not materially adverse to the interests of the Lenders; (h) the making of Restricted Payments that are expressly permitted to be made pursuant to the Agreement; (i) of assets (i) from Borrower or any of its Subsidiaries to a Loan Party, and (ii) from any Subsidiary of Borrower that is not a Loan Party to any other Subsidiary of Borrower; (j) dispositions of assets constituting Equipment sold to Flextronics so long as: (i) it is maintained at one of Flextronics' facilities located in Mexico or the People's Republic of China, (ii) such Equipment is re-acquired by Borrower within 30 days after its arrival at the relevant facility, (iii) at the time of any such disposition of such Equipment and immediately after giving effect to the same, Liquidity is equal to or greater than \$25,000,000 and Availability is equal to or greater than \$12,500,000; and (k) of property (other than Accounts, Inventory, Equity Interests of Subsidiaries of Borrower) not otherwise permitted in clauses (a) through (i) so long as made at fair market value and the aggregate fair market value of all assets disposed of in a fiscal year (including the proposed disposition) would not exceed Five Hundred Thousand Dollars (\$500,000) in the aggregate. Other than Permitted Liens, Borrower shall not, nor shall Borrower permit any Subsidiary to, grant a security interest in, otherwise pledge or allow any Lien on any assets other than in favor of Agent. Notwithstanding the foregoing, without Agent's prior written consent, Borrower shall not pledge or allow any Liens on its Intellectual Property or the Intellectual Property of any Subsidiary other than Permitted Liens.

6.2. Changes in Business and Ownership. Borrower shall not (a) engage in or permit any of its Subsidiaries to engage in any business other than the businesses currently engaged in by Borrower and such Subsidiary, as applicable, or reasonably related thereto; provided, that the foregoing shall not prevent Borrower and its Subsidiaries from discontinuing any line of business if in the reasonable business and commercial judgment of the officers of Borrower, it is no longer desirable to be engaged in such business, and if such discontinuation does not adversely affect the Lenders in any material respect; (b) liquidate or dissolve (other than the liquidation or dissolution of Subsidiaries that (x) are not Loan Parties or (y) whose assets are transferred to Borrower or another Loan Party at the time of such liquidation or dissolution); or (c) enter into any transaction or series of related transactions in which the stockholders of Borrower who were not stockholders immediately prior to the first such transaction own more than fifty percent (50%) of the voting

Equity Interests of Borrower immediately after giving effect to such transaction or related series of such transactions.

6.3. Business and Collateral Locations. Borrower shall not, or permit any Subsidiary to, without at least ten (10) days prior written notice to Agent: (a) change its jurisdiction of organization, (b) change its organizational structure or type, (c) change its legal name, or (d) change any organizational number (if any) assigned by its jurisdiction of organization. Borrower shall not, or permit any Loan Party to keep its and their Inventory, to the extent located within the United States, at any location other than the Flextronics Facility and the locations identified in the Perfection Certificates, in each case subject to a bailee agreement in form and substance satisfactory to Agent; provided, that (A) Borrower and the other Loan Parties may keep up to \$5,000,000 of Inventory in the aggregate at any time at other locations located within the United States; provided that no more than \$50,000 of such Inventory in the aggregate may be kept at any individual location; (B) up to \$3,000,000 of Inventory may be transferred by Borrower to an international Flextronics location or to an Expeditors International Pty Ltd. location for the sale of such Inventory by a Subsidiary of Borrower organized outside of the United States in the ordinary course of business; and (C) Borrower may maintain (1) (x) test equipment, (y) up to \$3,000,000 at any one time of raw materials and (z) other Equipment, in each case in transit from Borrower's suppliers to the Flextronics Facility and (2) test equipment and other Equipment disposed of in accordance with Section 6.1(j) at any Flextronics facility in Mexico or the People's Republic of China.

6.4. Mergers or Acquisitions. Without the prior written consent of Agent, Borrower shall not merge or consolidate, or permit any of its Subsidiaries to merge or consolidate, with any other Person, or acquire, or permit any of its Subsidiaries to acquire, all or substantially all of the Equity Interests or property of another Person. Notwithstanding the foregoing, a Subsidiary may merge or consolidate into Borrower or another Subsidiary, provided that in the case of a merger or consolidation involving a Loan Party, the surviving Person shall be a Loan Party.

6.5. Indebtedness. Borrower shall not create, incur, assume, or be liable for any Indebtedness, or permit any Subsidiary to do so, other than Permitted Indebtedness.

6.6. Encumbrance. Except for Permitted Liens, Borrower shall not create, incur, allow, or suffer any Lien on any of its property, or assign or convey any right to receive income, including the sale of any Accounts, or permit any of its Subsidiaries to do so. Except for Permitted Liens, Borrower shall not permit any Collateral not to be subject to the first priority security interest granted herein.

6.7. Distributions; Investments. Borrower shall not, nor shall it permit any Subsidiary to (a) directly or indirectly make any Investment other than Permitted Investments; or (b) pay any dividends or make any distribution or payment on or in respect of its Equity Interests, or redeem, retire or repurchase any Equity Interests (or any securities or instruments convertible into or exercisable for, or other rights to acquire, directly or indirectly, Equity Interests) (each a "**Restricted Payment**") from the holders thereof, provided however, that (i) Borrower may convert any of its convertible securities into other securities pursuant to the terms of such convertible securities or otherwise in exchange thereof, (ii) Borrower and any of its Subsidiaries may make payment of cash not to exceed an aggregate of Fifty Thousand Dollars (\$50,000) in lieu of the issuance of fractional shares upon (x) exercise of options or warrants, or (y) the conversion or exchange of such Person's Equity Interests; (iii) each Loan Party may pay dividends solely in Equity Interests of such Loan Party; (iv) Borrower may repurchase the Equity Interests of Borrower of employees, former employees, officers, former officers, directors, former directors, or consultants of Borrower or any Subsidiary (or any spouses, ex-spouses, or estates of any of the foregoing) at the original sales price pursuant to Board-approved repurchase agreements, in an aggregate amount for all such repurchases, plus the amount of Indebtedness outstanding under clause (o) of the definition of Permitted Indebtedness, not to exceed Two Hundred Fifty Thousand Dollars (\$250,000), so long as no Default or Event of Default has occurred and is continuing at the time of any such repurchase and would not exist immediately after giving effect to any such repurchase; (v) Borrower may make distributions to former employees, officers, or directors of Borrower (or any spouses, ex-spouses, or estates of any of the foregoing), solely in the form of forgiveness of Indebtedness of such Persons owing to Borrower on account of repurchases of the Equity Interests of Borrower held by such Persons; provided, that such Indebtedness was incurred by such Persons solely to acquire Equity Interests of Borrower; (vi) (A) each

Subsidiary may make Restricted Payments to any Loan Party; and (B) any non-wholly owned Subsidiary may make a Restricted Payment ratably to all Persons that own an Equity Interest in such non-wholly owned Subsidiary; and (vii) so long as it constitutes a non-cash transaction, Borrower may make repurchases of Equity Interests deemed to occur (i) upon the exercise of stock options to the extent such Equity Interests represent a portion of the exercise price of those stock options, and (ii) upon the withholding of a portion of the Equity Interests granted or awarded to an employees, former employees, officers, former officers, directors, former directors, or consultants of Borrower (or any spouse, ex-spouse, or estate of any of the foregoing) payable by such Person upon such grant or award (or vesting thereof).

6.8. Transactions with Affiliates. Borrower shall not, nor shall it permit any Subsidiary to directly or indirectly enter into or permit to exist any material transaction with any Affiliate of Borrower, except for (a) transactions that are in the ordinary course of Borrower's business, upon fair and reasonable terms that are no less favorable to Borrower than would be obtained in an arm's length transaction with a non-affiliated Person, (b) transactions permitted pursuant to the terms of Section 6.4 hereof, (c) transactions permitted by Section 6.7(a), Section 6.9 and Permitted Intercompany Advances; (d) equity financings permitted pursuant to the terms of Section 6.2 hereof; (e) unsecured debt financings from Borrower's investors so long as all such Indebtedness is Subordinated Debt; (f) so long as it has been approved by Borrower's or its applicable Subsidiary's board of directors (or comparable governing body) in accordance with applicable law and in the ordinary course of business, any indemnity provided for the benefit of directors (or comparable managers) of Borrower or its applicable Subsidiary; (g) employment agreements, employee benefit plans, officer or director indemnification agreements or any similar arrangements entered into by any Loan Party or any of its Subsidiaries in the ordinary course of business; and (h) the payment for Goods by Borrower to any Subsidiary (direct or indirect) in the ordinary course of business.

6.9. Subordinated Debt. Borrower shall not, nor shall it permit any Subsidiary to (a) make or permit any payment on any Subordinated Debt, except under the terms of the subordination, intercreditor, or other similar agreement to which such Subordinated Debt is subject, or (b) amend any provision in any document relating to the Subordinated Debt which would increase the amount thereof or adversely affect the subordination thereof to Obligations owed to Lenders without Agent's prior written consent.

6.10. Compliance. Borrower shall not, nor shall it permit any Subsidiary to become an "investment company" or a company controlled by an "investment company", under the Investment Company Act of 1940, as amended, or undertake as one of its important activities extending credit to purchase or carry "margin stock" (as defined in Regulation U of the Board of Governors of the Federal Reserve System), or use the proceeds of any Credit Extension for that purpose; fail to meet the minimum funding requirements of ERISA, permit a "Reportable Event" or "Prohibited Transaction," as defined in ERISA, to occur; fail to comply with the Federal Fair Labor Standards Act or violate any other law or regulation, if the violation could reasonably be expected to have a Material Adverse Effect, or permit any of its Subsidiaries to do so; withdraw or permit any Subsidiary to withdraw from participation in, permit partial or complete termination of, or permit the occurrence of any other event with respect to, any present pension, profit sharing and deferred compensation plan which could reasonably be expected to result in any liability of Borrower, including any liability to the Pension Benefit Guaranty Corporation or its successors or any other governmental agency.

6.11. Publicity. Borrower shall not, nor shall it permit any Subsidiary to, directly or indirectly publish, disclose or otherwise use in any public disclosure, advertising material, promotional material, press release or interview, any reference to the name, logo or any trademark of Agent or any Lender or any of their Affiliates or any reference to this Agreement or the financing evidenced hereby, in any case except as required by applicable law, subpoena or judicial or similar order, in which case Borrower shall endeavor to give Agent prior written notice of such publication or other disclosure. Each Lender and Borrower hereby authorizes each Lender to publish the name of such Lender and Borrower, the existence of the financing arrangements referenced under this Agreement, the primary purpose and/or structure of those arrangements, the amount of credit extended under each facility, the title and role of each party to this Agreement, and the total amount of the financing evidenced hereby in any "tombstone", comparable advertisement or press release which such Lender elects to submit for publication. In addition, each Lender and Borrower agrees that each Lender may

provide lending industry trade organizations with information necessary and customary for inclusion in league table measurements after the Effective Date.

6.12. Uncertificated Securities. Borrower shall not allow any Collateral consisting of uncertificated securities to be certificated without the prompt execution of a Pledge Agreement satisfactory to Agent which is signed by Borrower and the issuer of the securities.

6.13. First Lien Loan Restrictions. Without Agent's prior written consent, the agreements underlying or related to the Wells Fargo Indebtedness may not be amended or otherwise modified to (a) increase the principal amount of the Wells Fargo Indebtedness or the rate of interest applicable to the Wells Fargo Indebtedness, (b) increase the amount of or accelerate the time for payment of principal, interest or other amounts due under the First Lien Loan Documents, (c) change or add any event of default or covenant to the First Lien Loan Documents (except to match changes to equivalent covenants in the Loan Documents with "cushions" commensurate to the cushions on other covenants in the First Lien Loan Documents), (d) change any redemption or prepayment provisions of the First Lien Loan Documents, (e) provide for additional security for the Wells Fargo Indebtedness unless Agent also obtains a Lien in such additional security, (f) increase fees with respect to the Wells Fargo Indebtedness, provided that First Lien Agent may assess reasonable, non-recurring fees for amendments, consents, forbearances, waivers or other modifications relating to the First Lien Loan Documents, (g) extend the final maturity date of the Wells Fargo Indebtedness, (h) shorten the amortization of any portion of the Wells Fargo Indebtedness, (i) amend any defined term in any of the First Lien Loan Documents where such term is used in this Agreement, or (j) impose any additional restrictions on the payment of the Obligations or amendment of the Loan Documents other than restrictions contained in the Intercreditor Agreement; provided, for the avoidance of doubt, that nothing in this Section 6.13 shall require the prior written consent of Agent or any Lender to the assessment by First Lien Creditors of default interest as a consequence of the occurrence of any "Event of Default" under (and as defined in) the Wells Fargo Credit Agreement.

SECTION 7. EVENTS OF DEFAULT

Any one of the following shall constitute an event of default (an "*Event of Default*") under this Agreement:

7.1. Payment Default. Borrower fails to make any payment as required under the Agreement or any of the other Loan Documents;

7.2. Covenant Default.

(a) Borrower fails or neglects to perform any obligation in Sections 5.2(d), 5.3, 5.4, 5.7 or 5.11 or violates any covenant in Section 6; or

(b) Borrower fails or neglects to perform, keep, or observe any other term, provision, condition, covenant or agreement contained in this Agreement or any Loan Documents, and as to any default (other than those specified in this Section 7) under such other term, provision, condition, covenant or agreement that can be cured, has failed to cure the default within ten (10) days after the occurrence thereof (but no Credit Extensions shall be made during such cure period). Cure periods provided under this section shall not apply to covenants set forth in clause (a) above, Section 7.1, Section 7.3 or Section 7.6.

7.3. Material Adverse Change. A Material Adverse Change has occurred;

7.4. Attachment; Levy; Restraint on Business.

(a) The service of process seeking to attach, by trustee or similar process, funds of Borrower or of any entity under the control of Borrower (including a Subsidiary), or a notice of lien or levy is filed against Borrower's (or a Subsidiary's) assets by any government agency, in each case in excess of Two Hundred Fifty Thousand Dollars (\$250,000), and are not within ten (10) days after the occurrence thereof, removed or rescinded; or

(b) Borrower's (or a Subsidiary's) assets with a value in excess of Two Hundred Fifty Thousand Dollars (\$250,000) are attached, seized, levied on, or comes into possession of a trustee or receiver, or any court order enjoins, restrains, or prevents Borrower from conducting any part of its business;

7.5. Insolvency. (a) Borrower is unable to pay its debts (including trade debts) as they become due or otherwise becomes insolvent; (b) Borrower begins an Insolvency Proceeding; or (c) an Insolvency Proceeding is begun against Borrower and not dismissed or stayed within sixty (60) days (but no Credit Extensions shall be made while any of the conditions described in clause (a) exist and/or until any Insolvency Proceeding is dismissed);

7.6. Other Agreements. There is, under any agreement to which Borrower is a party with a third party or parties (including the "Loan Documents" as defined in the Wells Fargo Credit Agreement), any breach or default, whether or not declared but after taking into account any applicable cure period provided in such agreement, involving Indebtedness in an amount individually or in the aggregate in excess of Seven Hundred Fifty Thousand Dollars (\$750,000);

7.7. Judgments. One or more final judgments, orders, or decrees for the payment of money in an amount, individually or in the aggregate, of at least Two Hundred Fifty Thousand Dollars (\$250,000) (not covered by independent third-party insurance as to which liability has been accepted by such insurance carrier) shall be rendered against Borrower and the same are not, within thirty (30) days after the entry thereof, discharged or execution thereof stayed or bonded pending appeal, or such judgments are not discharged prior to the expiration of any such stay (provided that no Credit Extensions shall be made prior to the discharge, stay, or bonding of such judgment, order, or decree);

7.8. Misrepresentations. Borrower or any Person acting for Borrower makes any representation, warranty, or other statement now or later in this Agreement, any Loan Document or in any writing delivered to Lenders or Agent, or to induce Lenders or Agent to enter this Agreement or any Loan Document, and such representation, warranty, or other statement is incorrect in any material respect when made or deemed made; or

7.9. Subordinated Debt. Any document, instrument, or agreement evidencing any Subordinated Debt shall for any reason be revoked or invalidated or otherwise cease to be in full force and effect (other than pursuant to its terms), any Person shall be in breach thereof or contest in any manner the validity or enforceability thereof or deny that it has any further liability or obligation thereunder, or, except as otherwise provided herein, the Obligations shall for any reason be subordinated or shall not have the priority contemplated by this Agreement.

SECTION 8. AGENT'S RIGHTS AND REMEDIES

8.1. Rights and Remedies. While an Event of Default occurs and continues Agent may, without notice or demand, do any or all of the following:

(a) declare all Obligations immediately due and payable (but if an Event of Default described in Section 7.5 occurs, all Obligations are immediately due and payable without any action by Agent);

(b) stop processing any advances of money or extending credit for Borrower's benefit under this Agreement or under any other agreement between Borrower and any Lender without creating any liability on behalf of Agent or any Lender;

(c) settle or adjust disputes and claims directly with Account Debtors for amounts on terms and in any order that Agent considers advisable, notify any Person owing Borrower money of Agent's security interest in such funds, and verify the amount of such account;

(d) make any payments and do any acts it considers necessary or reasonable to protect the Collateral and/or its security interest in the Collateral. Borrower shall assemble the Collateral if Agent requests and make it available as Agent designates. Agent or its designees may enter premises where the Collateral is located, take and maintain possession of any part of the Collateral, and pay, purchase, contest, or compromise

any Lien which appears to be prior or superior to its security interest and pay all expenses incurred. Borrower grants Agent and its designees a license to enter and occupy any of its premises, without charge, to exercise any of Agent's rights or remedies;

(e) apply to the Obligations any amount held by Lenders or Agent owing to or for the credit of Borrower;

(f) ship, reclaim, recover, store, finish, maintain, repair, prepare for sale, advertise for sale, and sell the Collateral. Agent is hereby granted a non-exclusive, sub-licensable, royalty-free license or other right to use, without charge, Borrower's labels, Patents, Copyrights, mask works, rights of use of any name, trade secrets, trade names, Trademarks, and advertising matter, or any similar property as it pertains to the Collateral, in completing production of, advertising for sale, and selling any Collateral and, in connection with Agent's exercise of its rights under this Section 8.1, Borrower's rights under all licenses and all franchise agreements inure to Agent's benefit;

(g) deliver a notice of exclusive control, any entitlement order, or other directions or instructions pursuant to any Control Agreement or similar agreements providing control of any Collateral;

(h) demand and receive possession of Borrower's Books; and

(i) exercise all rights and remedies available to Lenders or Agent under the Loan Documents or at law or equity, including all remedies provided under the Code (including disposal of the Collateral pursuant to the terms thereof).

8.2. Power of Attorney. Borrower hereby irrevocably appoints Agent as its lawful attorney-in-fact, exercisable upon the occurrence and during the continuance of an Event of Default, to: (a) endorse Borrower's name on any checks or other forms of payment or security; (b) sign Borrower's name on any invoice or bill of lading for any Account or drafts against Account Debtors; (c) settle and adjust disputes and claims about the Accounts directly with Account Debtors, for amounts and on terms Agent determines reasonable; (d) make, settle, and adjust all claims under Borrower's insurance policies; (e) pay, contest or settle any Lien, charge, encumbrance, security interest, and adverse claim in or to the Collateral, or any judgment based thereon, or otherwise take any action to terminate or discharge the same; and (f) make any Disposition of the Collateral into the name of Agent or a third party as the Code permits. Borrower hereby appoints Agent as its lawful attorney-in-fact to sign Borrower's name on any documents necessary to perfect or continue the perfection of Agent's security interest in the Collateral regardless of whether an Event of Default has occurred until all Obligations (other than inchoate indemnity obligations) have been satisfied in full and Lenders are under no further obligation to make Credit Extensions hereunder. Agent's foregoing appointment as Borrower's attorney in fact, and all of Lender's and Agent's rights and powers, coupled with an interest, are irrevocable until all Obligations (other than inchoate indemnity obligations) have been fully repaid and performed and Lenders' obligation to provide Credit Extensions terminates.

8.3. Protective Payments. If Borrower fails to obtain the insurance called for by Section 5.6 or fails to pay any premium thereon or fails to pay any other amount which Borrower is obligated to pay under this Agreement or any other Loan Document, Agent may obtain such insurance or make such payment, and all amounts so paid by Lenders or Agent are Lender Expenses and immediately due and payable, bearing interest at the Default Rate if not paid when due, and secured by the Collateral. No payments by Agent or Lenders are deemed an agreement to make similar payments in the future or Agent's or Lender's waiver of any Event of Default.

8.4. Application of Payments and Proceeds Upon Default. If an Event of Default has occurred and is continuing, Agent may apply any funds in its or any Lender's possession, whether from payments, proceeds realized as the result of any collection of Accounts or other disposition of the Collateral, or otherwise, to the Obligations in such order as Agent shall determine in its sole discretion. Any surplus shall be paid to Borrower or other Persons legally entitled thereto. Borrower shall remain liable to Lenders for any deficiency. If Agent, in its good faith business judgment, directly or indirectly enters into a deferred payment or other credit transaction with any purchaser at any sale of Collateral, Agent shall have the option, exercisable

at any time, of either reducing the Obligations by the principal amount of the purchase price or deferring the reduction of the Obligations until the actual receipt by Agent of cash therefor.

8.5. Liability for Collateral. So long as Agent complies with reasonable lending practices regarding the safekeeping of the Collateral in Agent's or Lender's possession or under their control, neither Agent nor Lender shall be liable or responsible for: (a) the safekeeping of the Collateral; (b) any loss or damage to the Collateral; (c) any diminution in the value of the Collateral; or (d) any act or default of any carrier, warehouseman, bailee, or other Person. Borrower bears all risk of loss, damage or destruction of the Collateral.

8.6. No Waiver; Remedies Cumulative. Agent's or any Lender's failure, at any time or times, to require strict performance by Borrower of any provision of this Agreement or any other Loan Document shall not waive, affect, or diminish any right of Agent or Lender thereafter to demand strict performance and compliance herewith or therewith. No waiver hereunder shall be effective unless signed by the party granting the waiver and then is only effective for the specific instance and purpose for which it is given. Agent's and Lenders' rights and remedies under this Agreement and the other Loan Documents are cumulative. Agent and Lenders have all rights and remedies provided under the Code, by law, or in equity. Agent's or Lenders' exercise of one right or remedy is not an election and shall not preclude either from exercising any other remedy under this Agreement or other remedy available at law or in equity, and Agent's or Lenders' waiver of any Event of Default is not a continuing waiver. Agent's or Lenders' delay in exercising any remedy is not a waiver, election, or acquiescence.

8.7. Demand Waiver. Borrower waives demand, notice of default or dishonor, notice of payment and nonpayment, notice of any default, nonpayment at maturity, release, compromise, settlement, extension, or renewal of accounts, documents, instruments, chattel paper, and guarantees held by Agent or any Lender on which Borrower is liable, except when any such notice, demand or any other of the foregoing actions are specifically provided for in this Agreement.

8.8. No Marshaling or Related Rights. Borrower waives (a) any suretyship defenses available to it under the Code or any other applicable law, and (b) any right to require Agent or Lenders to: (i) proceed against any other person; (ii) proceed against or exhaust any security; or (iii) pursue any other remedy. Agent may exercise or not exercise any right or remedy it has against any Borrower or any security it holds (including the right to foreclose by judicial or non-judicial sale) without affecting any Borrower's liability. Notwithstanding any other provision of this Agreement or other related document, Borrower irrevocably waives all rights that it may have at law or in equity (including, without limitation, any law subrogating Borrower to the rights of Agent or Lenders under this Agreement) to benefit from, or to participate in, any security for the Obligations as a result of any payment made with respect to the Obligations in connection with this Agreement or otherwise. If any payment is made to Borrower in contravention of this Section 8.8, Borrower shall hold such payment in trust for Agent and such payment shall be promptly delivered to Agent for application to the Obligations, whether matured or unmatured.

SECTION 9. RESERVED

SECTION 10. NOTICES

Notices and other communications provided for herein or any of the other Loan Documents shall be in writing and shall be delivered by hand or overnight courier service, mailed by certified or registered mail, sent by fax or email, as follows:

(i) if to Borrower, to it at 1420 N. McDowell Blvd., Petaluma, California 94954, Attention: Chief Financial Officer, Director of Legal Affairs (Fax No. 707-795-5835), (email: ksennesael@enphaseenergy.com and legal@enphaseenergy.com);

(ii) if to Agent, to it at 2951 28th Street, Suite 1000, Santa Monica, CA 90405, Attention: Todd Jaquez-Fissori (email: todd.fissori@tennenbaumcapital.com), with a copy to asher.finci@tennenbaumcapital.com);

(iii) if to any Lender, the address listed on its signature page to this Agreement, or such other address provided in writing to Borrower and Agent from time to time after the Effective Date.

All notices and other communications given to any party hereto in accordance with the provisions of this Agreement shall be deemed to have been given on the date of receipt if delivered by hand or overnight courier service or sent by fax or email or on the date five (5) Business Days after dispatch by certified or registered mail if mailed, in each case delivered, sent or mailed (properly addressed) to such party as provided in this Section 10 or in accordance with the latest unrevoked direction from such party given in accordance with this Section 10. All reports and other information required under Section 5.2 shall be delivered by Borrower by email, but if email is unavailable, then by fax.

SECTION 11. CHOICE OF LAW, VENUE, JURY TRIAL WAIVER

11.1 Governing Law. California law governs the Loan Documents without regard to principles of conflicts of law. Borrowers and Lender each submit to the exclusive jurisdiction of the State and Federal courts in Los Angeles County, California; provided, however, that nothing in this Agreement shall be deemed to operate to preclude Lender from bringing suit or taking other legal action in any other jurisdiction to realize on the Collateral or any other security for the Obligations, or to enforce a judgment or other court order in favor of Lender. Borrower expressly submits and consents in advance to such jurisdiction in any action or suit commenced in any such court, and Borrower hereby waives any objection that it may have based upon lack of personal jurisdiction, improper venue, or *forum non conveniens* and hereby consents to the granting of such legal or equitable relief as is deemed appropriate by such court. Borrower hereby waives personal service of the summons, complaints, and other process issued in such action or suit and agrees that service of such summons, complaints, and other process may be made by registered or certified mail addressed to Borrower at the address set forth in, or subsequently provided by Borrowers in accordance with, Section 10 of this Agreement and that service so made shall be deemed completed upon the earlier to occur of Borrowers' actual receipt thereof or three (3) days after deposit in the U.S. mails, proper postage prepaid.

11.2 Waiver of Jury Trial. TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, BORROWER, AGENT AND EACH LENDER WAIVE THEIR RIGHT TO A JURY TRIAL OF ANY CLAIM OR CAUSE OF ACTION ARISING OUT OF OR BASED UPON THE LOAN DOCUMENTS OR ANY CONTEMPLATED TRANSACTION, INCLUDING CONTRACT, TORT, BREACH OF DUTY AND ALL OTHER CLAIMS. THIS WAIVER IS A MATERIAL INDUCEMENT FOR BOTH PARTIES TO ENTER INTO THIS AGREEMENT. EACH PARTY HAS REVIEWED THIS WAIVER WITH ITS COUNSEL.

11.3 Judicial Reference. WITHOUT INTENDING IN ANY WAY TO LIMIT THE PARTIES' AGREEMENT TO WAIVE THEIR RESPECTIVE RIGHT TO A TRIAL BY JURY, if the above waiver of the right to a trial by jury is not enforceable, the parties hereto agree that any and all disputes or controversies of any nature between them arising at any time shall be decided by a reference to a private judge, mutually selected by the parties (or, if they cannot agree, by the Presiding Judge of Los Angeles County, California Superior Court) appointed in accordance with California Code of Civil Procedure Section 638 (or pursuant to comparable provisions of federal law if the dispute falls within the exclusive jurisdiction of the federal courts), sitting without a jury, in Los Angeles County, California; and the parties hereby submit to the jurisdiction of such court. The reference proceedings shall be conducted pursuant to and in accordance with the provisions of California Code of Civil Procedure §§ 638 through 645.1, inclusive. The private judge shall have the power, among others, to grant provisional relief, including without limitation, entering temporary restraining orders, issuing preliminary and permanent injunctions and appointing receivers. All such proceedings shall be closed to the public and confidential and all records relating thereto shall be permanently sealed. If during the course of any dispute, a party desires to seek provisional relief, but a judge has not been appointed at that point pursuant to the judicial reference procedures, then such party may apply to the Los Angeles County, California Superior Court for such relief. The proceeding before the private judge shall be conducted in the same manner as it would be before a court under the rules of evidence applicable to judicial proceedings. The parties shall be entitled to discovery which shall be conducted in the same manner as it would be before a court under the rules

of discovery applicable to judicial proceedings. The private judge shall oversee discovery and may enforce all discovery rules and orders applicable to judicial proceedings in the same manner as a trial court judge.

11.4 Scope of Authority. The parties agree that the selected or appointed private judge shall have the power to decide all issues in the action or proceeding, whether of fact or of law, and shall report a statement of decision thereon pursuant to California Code of Civil Procedure § 644(a). Nothing in this paragraph shall limit the right of any party at any time to exercise self-help remedies, foreclose against Collateral, or obtain provisional remedies. The private judge shall also determine all issues relating to the applicability, interpretation, and enforceability of this paragraph.

SECTION 12. AGENT PROVISIONS

12.1 Appointment. Each Lender hereby irrevocably appoints Agent its agent and authorizes Agent to take such actions on its behalf and to exercise such powers as are delegated to such Agent by the terms of the Loan Documents, together with such actions and powers as are reasonably incidental thereto. Without limiting the generality of the foregoing, Agent is hereby expressly authorized to execute any and all documents (including releases) with respect to the Collateral and the rights of Lenders with respect thereto, as contemplated by and in accordance with the provisions of this Agreement and the Security Documents.

12.2 Dual Capacities. The Person serving as Agent hereunder shall have the same rights and powers in its capacity as a Lender as any other Lender and may exercise the same as though it were not an Agent, and such Person and its Affiliates may provide debt financing, equity capital or other services (including financial advisory services) to any of the Loan Parties (or any Person engaged in similar business as that engaged in by any of the Loan Parties) as if such Person was not performing the duties specified herein, and may accept fees and other consideration from any of the Loan Parties for services in connection with this Agreement and otherwise without having to account for the same to Lenders.

12.3 Limitation of Liability.

(a) Agent shall have no duties or obligations except those expressly set forth in the Loan Documents. Without limiting the generality of the foregoing, (i) Agent shall not be subject to any fiduciary or other implied duties, regardless of whether an Event of Default has occurred and is continuing, (ii) Agent shall have no duty to take any discretionary action or exercise any discretionary powers, except discretionary rights and powers expressly contemplated hereby that such Agent is instructed in writing to exercise by the Required Lenders (or such other number or percentage of Lenders as shall be necessary under the circumstances as provided in Section 13.7), and (iii) except as expressly set forth in the Loan Documents, Agent shall not have any duty to disclose, nor shall it be liable for the failure to disclose, any information relating to Borrower or any of the Subsidiaries that is communicated to or obtained by the Person serving as Agent and/or Agent or any of its Affiliates in any capacity. Agent shall not be liable for any action taken or not taken by it with the consent or at the request of the Required Lenders (or such other number or percentage of Lenders as shall be necessary under the circumstances as provided in Section 13.7) or in the absence of its own gross negligence or willful misconduct as finally judicially determined by a court of competent jurisdiction. Neither Agent nor any Lender shall be deemed to have knowledge of any Event of Default unless and until written notice thereof is given to such Agent or such Lender by Borrower, a Joining Party or a Lender, and neither Agent nor any Lender shall be responsible for or have any duty to ascertain or inquire into (i) any statement, warranty or representation made in or in connection with any Loan Document, (ii) the contents of any certificate, report or other document delivered thereunder or in connection therewith, (iii) the performance or observance of any of the covenants, agreements or other terms or conditions set forth in any Loan Document, (iv) the validity, enforceability, effectiveness or genuineness of any Loan Document or any other agreement, instrument or document, or (v) the satisfaction of any condition set forth in any Loan Document, other than to confirm receipt of items expressly required to be delivered to such Agent or such Lender.

(b) Agent shall be entitled to rely upon, and shall not incur any liability for relying upon, any notice, request, certificate, consent, statement, instrument, document or other writing believed by it to be genuine and to have been signed or sent by the proper Person. Agent may also rely upon any statement made

to it orally or by telephone and believed by it to have been made by the proper Person, and shall not incur any liability for relying thereon. Agent may consult with legal counsel (who may be counsel for Borrower), independent accountants and other experts selected by it, and shall not be liable for any action taken or not taken by it in accordance with the advice of any such counsel, accountants or experts.

(c) Agent may perform any and all its duties and exercise its rights and powers by or through any one or more sub-agents appointed by it. Agent and any such sub-agent may perform any and all its duties and exercise its rights and powers by or through their respective Affiliates. The exculpatory provisions of the preceding paragraphs shall apply to any such sub-agent and to their Affiliates and any such sub-agent, and shall apply to their respective activities in connection with the syndication of the Term Loan as well as activities as Agent.

12.4 Assignment. Subject to the appointment and acceptance of a successor Agent as provided below, Agent may resign at any time by notifying Lenders and Borrower. Upon any such resignation, the Required Lenders shall have the right to appoint a successor. If no successor shall have been so appointed by the Required Lenders and shall have accepted such appointment within 30 days after the retiring Agent gives notice of its resignation, then the retiring Agent may, on behalf of Lenders, appoint a successor Agent which shall be a bank with an office in California or New York, or an Affiliate of any such bank. Upon the acceptance of its appointment as Agent hereunder by a successor, such successor shall succeed to and become vested with all the rights, powers, privileges and duties of the retiring Agent, and the retiring Agent shall be discharged from its duties and obligations hereunder. Borrower shall pay the reasonable fees of a successor Agent. After Agent's resignation hereunder, the provisions of this Section 12 and Section 13.2 shall continue in effect for the benefit of such retiring Agent, its sub-agents and their respective Related Parties in respect of any actions taken or omitted to be taken by any of them while acting as Agent.

12.5 Exculpation. Each Lender acknowledges that it has, independently and without reliance upon Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Agreement. Each Lender also acknowledges that it will, independently and without reliance upon Agent or any other Lender and based on such documents and information as it shall from time to time deem appropriate, continue to make its own decisions in taking or not taking action under or based upon this Agreement or any other Loan Document, any related agreement or any document furnished hereunder or thereunder.

12.6 Authorization. Each Lender hereby further authorizes Agent, on behalf of and for the benefit of Lenders, to enter into any of the Security Documents or other Loan Document as secured party and to be Agent for and representative of Lenders thereunder, and each Lender agrees to be bound by the terms of each such document; provided that Agent shall not (i) enter into or consent to any material amendment, modification, termination or waiver of any provision contained in any such document or (ii) release any Collateral (except as otherwise expressly permitted or required pursuant to the terms of this Agreement or the applicable Security Document or Loan Document), in the case of each of clauses (i) and (ii) without the prior consent of Required Lenders (or, if required pursuant to Section 13.7, all Lenders); provided further, however, that, without further written consent or authorization from Lenders, Agent may execute any documents or instruments necessary to (a) release any Lien encumbering any item of Collateral that is the subject of a sale or other Disposition of assets permitted by this Agreement or to which Required Lenders have otherwise consented, (b) release any Joining Party from the Joinder if all of the Equity Interests of such Joining Party are sold or otherwise Disposed of to any Person (other than an Affiliate of a Loan Party) pursuant to a sale or other Disposition permitted hereunder or to which Required Lenders have otherwise consented, or (c) subordinate the Liens of Agent, on behalf of Lenders, to any Permitted Liens or (d) release all Liens in accordance with Section 3.3. Anything contained in any of the Loan Documents to the contrary notwithstanding, Borrower, Agent and each Lender hereby agree that (1) no Lender shall have any right individually to realize upon any of the Collateral under or otherwise enforce any Security Document, it being understood and agreed that all powers, rights and remedies under the Security Documents may be exercised solely by Agent for the benefit of Lenders in accordance with the terms thereof, and (2) in the event of a foreclosure by either on any of the Collateral pursuant to a public or private sale, either Agent or any Lender may be the purchaser of any or all of such Collateral at any such sale and Agent, as agent for and representative of Lenders (but not any Lender or

Lenders in its or their respective individual capacities unless Required Lenders shall otherwise agree in writing) shall be entitled, for the purpose of bidding and making settlement or payment of the purchase price for all or any portion of the Collateral sold at any such public sale, to use and apply any of the Obligations as a credit on account of the purchase price for any Collateral payable by Agent at such sale. Notwithstanding anything to the contrary herein, Agent shall be permitted to take any action it is authorized to take under any Loan Document.

12.7 Bankruptcy. In case of the pendency of any case or proceeding under any applicable Bankruptcy Law or any other judicial proceeding relative to any Loan Party, Agent (irrespective of whether the principal of any Loan shall then be due and payable as herein expressed or by declaration or otherwise and irrespective of whether Agent shall have made any demand on Borrower) shall be entitled and empowered (but not obligated) by intervention in such proceeding or otherwise:

(a) to file and prove a claim for the whole amount of the principal and interest owing and unpaid in respect of the Term Loan and all other Obligations that are owing or unpaid and to file such other documents as may be necessary or advisable in order to have the claims of Lenders and Agent (including any claim for the reasonable compensation, expenses, disbursements and advances of Lenders and Agent and their respective agents and counsel and all other amounts due Lenders and Agent under [Section 1.5](#), [Section 5.3](#) and [Section 13.2](#)) allowed in such judicial proceeding; and to collect and receive any monies or other property payable or deliverable on any such claims and to distribute the same; and any custodian, receiver, assignee, trustee, liquidator, sequestrator or other similar official in any such judicial proceeding is hereby authorized by each Lender to make such payments to Agent and, in the event that Agent shall consent to the making of such payments directly to Lenders, to pay to Agent any amount due for the reasonable compensation, expenses, disbursements and advances of Agent and its agents and counsel, and any other amounts due Agent;

(b) to consent to, accept or adopt on behalf of any Lender any plan of reorganization, adjustment or composition affecting the Obligations or the rights of any Lender; and

(c) to vote in respect of the claim of any Lender in any Insolvency Proceeding.

SECTION 13. GENERAL PROVISIONS

13.1 Successors and Assigns.

(a) Whenever in this Agreement any of the parties hereto is referred to, such reference shall be deemed to include the permitted successors and assigns of such party; and all covenants, promises and agreements by or on behalf of the Loan Parties, Agent or Lenders that are contained in this Agreement shall bind and inure to the benefit of their respective permitted successors and assigns.

(b) No Lender shall make any Disposition of any or all of its interests, rights or obligations under this Agreement (including all or a portion of its Term Loan Commitment and the Loan at the time owing to it) without the prior written consent of Agent, which consent may be provided or withheld in Agent's sole discretion. Any approved assignment shall be in an integral multiple of, and not less than, \$1,000,000 (or, if less, the entire remaining amount of such Lender's Commitment or Loan), the parties to such assignment shall execute and deliver to Agent an Assignment and Acceptance, together with a processing and recordation fee of \$3,500 (provided that only one such fee shall be payable in the case of concurrent assignments to Persons that, after giving effect to such assignments, will be Related Funds), and the assignee, if it shall not be a Lender, shall deliver to Agent an Administrative Questionnaire and all applicable tax forms. Upon acceptance and recording pursuant to paragraph (d) of this Section 13.1, from and after the effective date specified in each Assignment and Acceptance, (A) the assignee thereunder shall be a party hereto and, to the extent of the interest assigned by such Assignment and Acceptance, have the rights and obligations of a Lender under this Agreement and (B) the assigning Lender thereunder shall, to the extent of the interest assigned by such Assignment and Acceptance, be released from its obligations under this Agreement (and, in the case of an Assignment and Acceptance covering all or the remaining portion of an assigning Lender's rights and

obligations under this Agreement, such Lender shall cease to be a party hereto but shall continue to be entitled to the benefits of Section 1.8, Section 1.11 and Section 13.2).

(c) By executing and delivering an Assignment and Acceptance, the assigning Lender thereunder and the assignee thereunder shall be deemed to confirm to and agree with each other and the other parties hereto as follows: (i) such assigning Lender warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Term Loan Commitment, and the outstanding balance of its Loan, without giving effect to assignments thereof which have not become effective, are as set forth in such Assignment and Acceptance; (ii) except as set forth in (i) above, such assigning Lender makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with this Agreement or any other Loan Document, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto, or the financial condition of Borrower or any Subsidiary or the performance or observance by Borrower or any Subsidiary of any of its obligations under this Agreement, any other Loan Document or any other instrument or document furnished pursuant hereto; (iii) such assignee represents and warrants that it is legally authorized to enter into such Assignment and Acceptance; (iv) such assignee confirms that it has received a copy of this Agreement, together with copies of the most recent financial statements referred to in Section 5.2 and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into such Assignment and Acceptance; (v) such assignee will independently and without reliance upon Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (vi) such assignee appoints and authorizes Agent to take such action as Agent on its behalf and to exercise such powers under this Agreement as are delegated to Agent by the terms hereof, together with such powers as are reasonably incidental thereto; and (vii) such assignee agrees that it will perform in accordance with their terms all the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

(d) Agent shall maintain at its principal executive offices a copy of each Assignment and Acceptance delivered to it and a register for the recordation of the names and addresses of Lenders, and the Term Loan Commitment of, and principal amount (and stated interest) of the Loan owing to, each Lender pursuant to the terms hereof from time to time (the "Register"). Absent manifest error, Borrower, Agent and Lenders shall treat each Person whose name is recorded in the Register pursuant to the terms hereof as a Lender hereunder for all purposes of this Agreement, notwithstanding notice to the contrary. The Register shall be available for inspection by Agent, Borrower and any Lender, at any reasonable time and from time to time upon reasonable prior notice.

(e) Upon its receipt of, and consent to, a duly completed Assignment and Acceptance executed by an assigning Lender and an assignee, an Administrative Questionnaire completed in respect of the assignee (unless the assignee shall already be a Lender hereunder), the processing and recordation fee referred to in paragraph (b) above, if applicable, and the written consent of Agent to such assignment and any applicable tax forms, Agent shall accept such Assignment and Acceptance.

(f) If a Lender is allowed to and proceeds with selling a participation of all or part of its rights and obligations under this Agreement, such Lender shall, acting solely for this purpose as an agent of Borrower and Agent, maintain a register on which it enters the name and address of each participant and the principal amounts (and stated interest) of each participant's interest in the Loan or other obligations under the Loan Documents (the "Participant Register"). The entries in the Participant Register shall be conclusive absent manifest error, and such Lender shall treat each Person whose name is recorded in the Participant Register as the owner of such participation for all purposes of this Agreement notwithstanding any notice to the contrary. For the avoidance of doubt, Agent (in its capacity as Agent) shall have no responsibility for maintaining a Participant Register.

(g) Any Lender or participant may, in connection with any permitted assignment or participation or proposed assignment or participation pursuant to this Section 13.1, disclose to the assignee or participant or proposed assignee or participant any information relating to Borrower furnished to such Lender

by or on behalf of Borrower; provided that, prior to any such disclosure of information designated by Borrower as confidential, each such assignee or participant or proposed assignee or participant shall execute an agreement whereby such assignee or participant shall agree (subject to customary exceptions) to preserve the confidentiality of such confidential information on terms no less restrictive than those applicable to Lenders pursuant to Section 13.1.

(h) No Loan Party shall assign or delegate any of its rights or duties hereunder without the prior written consent of Agent, and any attempted assignment without such consent shall be null and void.

13.2 Indemnity.

(a) Each Loan Party agrees, jointly and severally, to indemnify Agent, each Lender and each Related Party of any of the foregoing Persons (each such Person being called an “*Indemnitee*”) against, and to hold each Indemnitee harmless from, any and all losses, claims, damages, liabilities, obligations, penalties, actions, judgments, suits, costs, charges, expenses or disbursements (including Lender’s Expenses and reasonable attorney’s fees and the allocated cost of in-house counsel) of any kind or nature whatsoever incurred by or asserted against any Indemnitee arising out of, in any way connected with, or as a result of (i) the execution, delivery, enforcement or administration of this Agreement or any other Loan Document or any agreement or instrument contemplated thereby, the performance by the parties thereto of their respective obligations thereunder or the consummation of the transactions contemplated thereby (including any syndication of the Loan), (ii) the use of the proceeds of the Loan, (iii) any claim, litigation, investigation or proceeding relating to any of the foregoing (including any case, action or proceeding before any court or other Governmental Authority relating to bankruptcy, reorganization, insolvency, liquidation, dissolution or relief of debtors or any appellate proceeding), whether or not any Indemnitee is a party thereto or the plaintiff or defendant thereunder (and regardless of whether such matter is initiated by a third party, a Lender, Borrower, any other Loan Party or any of their respective Affiliates), or (iv) any actual or alleged Environmental Liability related in any way to any Loan Party, provided that such indemnity shall not, as to any Indemnitee, be available to the extent that such losses, claims, damages, liabilities or related expenses are determined by a court of competent jurisdiction by final and nonappealable judgment to have resulted primarily from the gross negligence or willful misconduct of such Indemnitee. The obligations in this Section 13.2 shall survive payment of all other Obligations. At the election of any Indemnitee, Borrower shall defend such Indemnitee using legal counsel satisfactory to such Indemnitee in such Person’s sole discretion, at the sole cost and expense of Borrower. All amounts owing under this Section 13.2 shall be paid within thirty (30) days after written demand.

(b) To the extent that Borrower or any Joining Party fails to pay any amount required to be paid by them to Agent under Section 13.2(a), each Lender severally agrees to pay to Agent, as the case may be, such Lender’s Pro Rata Percentage (determined as of the time that the applicable unreimbursed expense or indemnity payment is sought) of such unpaid amount; provided that the unreimbursed expense or indemnified loss, claim, damage, liability or related expense, as the case may be, was incurred by or asserted against Agent in its capacity as such.

(c) To the extent permitted by applicable law, neither Borrower nor any Joining Party shall assert, and each hereby waives, any claim against any Indemnitee, on any theory of liability, for special, indirect, consequential or punitive damages (as opposed to direct or actual damages) arising out of, in connection with, or as a result of, this Agreement, any other Loan Document or any agreement or instrument contemplated hereby, any Loan or the use of the proceeds thereof.

(d) The provisions of this Section 13.2 shall remain operative and in full force and effect regardless of the expiration of the term of this Agreement, the consummation of the transactions contemplated hereby, the repayment of any of the Loan, the expiration of the Term Loan Commitment, the invalidity or unenforceability of any term or provision of this Agreement or any other Loan Document, or any investigation made by or on behalf of Agent or any Lender. All amounts due under this Section 13.2 shall be payable on written demand therefor.

13.3 Maximum Rate. Notwithstanding anything herein to the contrary, if at any time the interest rate applicable to the Term Loan, together with all fees, charges and other amounts that are treated as interest on

such loans under applicable law (collectively the “*Charges*”), shall exceed the maximum lawful rate (the “*Maximum Rate*”) that may be contracted for, charged, taken, received or reserved by Lender holding such loans in accordance with applicable law, the rate of interest payable in respect of such loans hereunder, together with all Charges payable in respect thereof, shall be limited to the Maximum Rate and, to the extent lawful, the interest and Charges that would have been payable in respect of such loans but were not payable as a result of the operation of this Section 13.3 shall be cumulated and the interest and Charges payable to such Lender in respect of other periods shall be adjusted (but not above the Maximum Rate therefor) until such cumulated amount, together with interest thereon at the Maximum Rate to the date of repayment, shall have been received by such Lender.

13.4 Time of Essence. Time is of the essence for the performance of all Obligations in this Agreement.

13.5 Severability of Provisions. Each provision of this Agreement is severable from every other provision in determining the enforceability of any provision.

13.6 Correction of Loan Documents. Agent may correct patent errors and fill in any blanks in the Loan Documents consistent with the agreement of the parties so long as Agent provides Borrower with written notice of such correction and allows Borrower at least ten (10) days to object to such correction. In the event of such objection, such correction shall not be made except by an amendment signed by Agent, Lenders and Borrower.

13.7 Waivers and Amendments.

(a) No failure or delay of Agent or any Lender in exercising any power or right hereunder or under any other Loan Document shall operate as a waiver thereof, nor shall any single or partial exercise of any such right or power, or any abandonment or discontinuance of steps to enforce such a right or power, preclude any other or further exercise thereof or the exercise of any other right or power. The rights and remedies of Agent, Agent and Lenders hereunder and under the other Loan Documents are cumulative and are not exclusive of any rights or remedies that they would otherwise have. No waiver of any provision of this Agreement or any other Loan Document or consent to any departure by Borrower or any other Loan Party therefrom shall in any event be effective unless the same shall be permitted by paragraph (b) below, and then such waiver or consent shall be effective only in the specific instance and for the purpose for which given. No notice or demand on Borrower in any case shall entitle Borrower to any other or further notice or demand in similar or other circumstances.

(b) Neither this Agreement nor any provision hereof may be waived, amended or modified except pursuant to an agreement or agreements in writing entered into by Borrower, Agent and the Required Lenders; provided, however, that no such agreement shall (i) decrease the principal amount of, or extend the maturity of or any scheduled principal payment date or date for the payment of any interest on any Loan, or waive or excuse any such payment or any part thereof, or decrease the rate of interest on any Loan, without the prior written consent of each Lender directly adversely affected thereby (other than any waiver of any increase in the interest rate applicable to the Loan as a result of the occurrence of an Event of Default), (ii) increase or extend the Term Loan Commitment or decrease or extend the date for payment of any fees of any Lender under Section 1.5 without the prior written consent of such Lender, (iii) amend or modify the provisions of this Section 13.7 or release any Joining Party (other than in connection with the sale or other disposition of such Joining Party in a transaction expressly permitted hereunder or all or substantially all of the Collateral), without the prior written consent of each Lender, or (iv) reduce the percentage contained in the definition of the term “Required Lenders” without the prior written consent of each Lender (it being understood that with the consent of the Required Lenders, additional extensions of credit pursuant to this Agreement may be included in the determination of the Required Lenders on substantially the same basis as the Term Loan Commitments on the date hereof); provided further that no such agreement shall amend, modify or otherwise affect the rights or duties of Agent hereunder or under any other Loan Document without the prior written consent of Agent.

13.8 Integration. The Loan Documents represent the entire agreement about this subject matter and supersede prior negotiations or agreements, including any and all Lender's summary of terms presented to Borrower.

13.9 Counterparts. This Agreement may be executed by facsimile or PDF, and in in any number of counterparts and by different parties on separate counterparts, each of which, when executed and delivered, is an original, and all taken together, constitute one Agreement.

13.10 Survival. All covenants, representations and warranties made in this Agreement continue in full force until this Agreement has terminated pursuant to its terms and all Obligations (other than inchoate indemnity obligations and any other obligations which, by their terms, are to survive the termination of this Agreement) have been paid in full and satisfied. The obligation of Borrower in [Section 1.8](#) to indemnify Agent and Lenders shall survive until the statute of limitations with respect to such claim or cause of action shall have run. Upon such payment as described in the immediately preceding sentence, this Agreement and the other Loan Documents shall terminate and shall be of no further force and effect, provided however, that [Section 1.5\(c\)](#), [Section 3.3](#), [Section 9](#), [Section 11](#), and [Section 13](#) of this Agreement, and all indemnities in favor of Lenders or Agent contained in any of the Loan Documents shall survive such termination subject to the applicable statutes of limitations.

13.11 Confidentiality. In handling any Confidential Information of Borrower, Agent and Lenders shall exercise the same degree of care that it exercises for its own proprietary information, but disclosure of information may be made: (a) to Agent or a Lender's Subsidiaries or Affiliates; (b) to prospective transferees or purchasers of any interest in the Credit Extensions (provided, however, that any prospective transferee or purchaser shall have entered into an agreement containing provisions substantially the same as those in this [Section 13.11](#)); (c) as required by law, regulation, subpoena, or other order; (d) to Agent's or a Lender's regulators or as otherwise required in connection with Agent's or a Lender's examination or audit; (e) as Agent or a Lender considers appropriate in exercising remedies under the Loan Documents; and (f) to third-party service providers of Agent or a Lender so long as such service providers have executed a confidentiality agreement with terms no less restrictive than those contained herein. Confidential Information does not include information that is: (i) in the public domain or in Agent's or a Lender's possession when disclosed to Agent or a Lender, or becomes part of the public domain after disclosure to Agent or a Lender (in each case, through no fault of Agent or a Lender); (ii) disclosed to Agent or a Lender by a third party if Agent or a Lender does not know that the third party is prohibited from disclosing the information; or (iii) that Agent or a Lender develops independently.

13.12 Right of Set Off. Borrower hereby grants to Lender, a lien, security interest and right of set off as security for all Obligations to Lender, whether now existing or hereafter arising upon and against all deposits, credits, collateral and property, now or hereafter in the possession, custody, safekeeping or control of Lender or any entity under the control of Lender (including a Lender subsidiary) or in transit to any of them. At any time after the occurrence and during the continuance of an Event of Default, without demand or notice, Lender may set off the same or any part thereof and apply the same to any liability or obligation of Borrower even though unmatured and regardless of the adequacy of any other collateral securing the Obligations. ANY AND ALL RIGHTS TO REQUIRE LENDER TO EXERCISE ITS RIGHTS OR REMEDIES WITH RESPECT TO ANY OTHER COLLATERAL WHICH SECURES THE OBLIGATIONS, PRIOR TO EXERCISING ITS RIGHT OF SETOFF WITH RESPECT TO SUCH DEPOSITS, CREDITS OR OTHER PROPERTY OF BORROWER ARE HEREBY KNOWINGLY, VOLUNTARILY AND IRREVOCABLY WAIVED.

13.13 Electronic Execution of Documents. The words "execution," "signed," "signature" and words of like import in any Loan Document shall be deemed to include electronic signatures or the keeping of records in electronic form, each of which shall be of the same legal effect, validity and enforceability as a manually executed signature or the use of a paper-based recordkeeping systems, as the case may be, to the extent and as provided for in any applicable law, including, without limitation, any state law based on the Uniform Electronic Transactions Act.

13.14 Captions. The headings used in this Agreement are for convenience only and shall not affect the interpretation of this Agreement.

13.15 Construction of Agreement. The parties mutually acknowledge that they and their attorneys have participated in the preparation and negotiation of this Agreement. In cases of uncertainty this Agreement shall be construed without regard to which of the parties caused the uncertainty to exist.

13.16 Relationship. The relationship of the parties to this Agreement is determined solely by the provisions of this Agreement. The parties do not intend to create any agency, partnership, joint venture, trust, fiduciary or other relationship with duties or incidents different from those of parties to an arm's-length contract.

13.17 Third Parties. Nothing in this Agreement, whether express or implied, is intended to: (a) confer any benefits, rights or remedies under or by reason of this Agreement on any persons other than the express parties to it and their respective permitted successors and assigns; (b) relieve or discharge the obligation or liability of any person not an express party to this Agreement; or (c) give any person not an express party to this Agreement any right of subrogation or action against any party to this Agreement.

13.18 Patriot Act/Freedom Act. Lender hereby notifies Borrower and its Subsidiaries that pursuant to the requirements of the USA PATRIOT Act and USA FREEDOM Act, it is required to obtain, verify and record information that identifies Borrower and its Subsidiaries, which information includes the name and address of Borrower and its Subsidiaries and other information that will allow Lender to identify Borrower and its Subsidiaries in accordance with the USA PATRIOT Act and the USA FREEDOM Act.

SECTION 14. DEFINITIONS

14.1 Definitions. Accounting terms not defined in this Agreement shall be construed following GAAP. Calculations and determinations must be made following GAAP. Capitalized terms not otherwise defined in this Agreement shall have the meanings set forth in this Section 14. All other terms contained in this Agreement, unless otherwise indicated, shall have the meaning provided by the Code to the extent such terms are defined therein. As used in the Loan Documents, the word "shall" is mandatory, the word "may" is permissive, the word "or" is not exclusive, the words "includes" and "including" are not limiting, the singular includes the plural, and numbers denoting amounts that are set off in brackets are negative. As used in this Agreement, the following capitalized terms have the following meanings:

"Account" means any "account" as defined in the Code with such additions to such term as may hereafter be made, and includes, without limitation, all accounts receivable and other sums owing to Borrower.

"Account Debtor" means any "account debtor" as defined in the Code with such additions to such term as may hereafter be made.

"Administrative Questionnaire" means an Administrative Questionnaire in the form of Exhibit G, or such other form as may be supplied from time to time by Agent.

"Affiliate" means, with respect to any Person, each other Person that owns 10% or more of or controls directly or indirectly the Person, any Person that controls or is controlled by or is under common control with the Person, and each of that Person's senior executive officers, directors, partners and, for any Person that is a limited liability company, that Person's managers and members.

"Agent" is defined in the preamble.

"Agreement" is defined in the preamble.

"Annual Audited Financial Statements" is defined in Section 5.2(c).

“**Assignment and Acceptance**” means an assignment and acceptance entered into by a Lender and a permitted assignee, in the form of Exhibit F or such other form as shall be approved by Agent.

“**Bankruptcy Code**” means Title 11 of the United States Code, as amended, or any similar federal or state law for the relief of debtors.

“**Bankruptcy Law**” means the Bankruptcy Code or any other foreign, federal or state bankruptcy, insolvency, receivership, creditors’ rights or similar law.

“**Board**” means Borrower’s board of directors.

“**Borrower**” is defined in the preamble.

“**Borrower’s Books**” mean all Borrower and each of its Subsidiary’s books and records including ledgers, federal and state Tax Returns, records regarding their assets or liabilities, the Collateral, business operations or financial condition, and all computer programs or storage or any equipment containing such information.

“**Borrowing Resolutions**” mean, with respect to any Person, those resolutions adopted by such Person’s board of directors and delivered by such Person to Agent approving the Loan Documents to which such Person is a party and the transactions contemplated thereby, together with a certificate executed by its Secretary or other authorized officer on behalf of such Person certifying that (a) such Person has the authority to execute, deliver, and perform its obligations under each of the Loan Documents to which it is a party, (b) that attached as an exhibit to such certificate is a true, correct, and complete copy of the resolutions then in full force and effect authorizing and ratifying the execution, delivery, and performance by such Person of the Loan Documents to which it is a party, (c) the name(s) of the Person(s) authorized to execute the Loan Documents on behalf of such Person, together with a sample of the true signature(s) of such Person(s), and (d) that Agent and Lenders may conclusively rely on such certificate unless and until such Person shall have delivered to them a further certificate canceling or amending such prior certificate.

“**Budget**” is defined in Section 5.2(e).

“**Business Day**” means any day other than a Saturday, Sunday or other day on which banking institutions in the State of California are authorized or required by law or other governmental action to close.

“**Cash**” or “**Cash Equivalents**” means (a) cash, (b) marketable direct obligations issued or unconditionally guaranteed by the United States or any agency or any State thereof having maturities of not more than one (1) year from the date of acquisition, and (c) commercial paper maturing no more than one (1) year after its creation and having the highest rating from either Standard & Poor’s Ratings Group or Moody’s Investors Service, Inc.

“**Closing Fee**” means Two Million Five Hundred Thousand Dollars (\$2,500,000).

“**Code**” means the Uniform Commercial Code, as the same may, from time to time, be enacted and in effect in the State of California; provided, that, to the extent that the Code is used to define any term herein or in any Loan Document and such term is defined differently in different Articles or Divisions of the Code, the definition of such term contained in Article or Division 9 shall govern; provided further, that in the event that, by reason of mandatory provisions of law, any or all of the attachment, perfection, or priority of, or remedies with respect to, Agent’s Lien on any Collateral is governed by the Uniform Commercial Code in effect in a jurisdiction other than the State of California, the term “**Code**” shall mean the Uniform Commercial Code as enacted and in effect in such other jurisdiction solely for purposes of the provisions thereof relating to such attachment, perfection, priority, or remedies and for purposes of definitions relating to such provisions.

“**Collateral**” means any and all properties, rights and assets of Borrower described on Exhibit A.

“**Comerica Account**” means that certain deposit account maintained by Borrower with Comerica Bank, account number 1894409612 as long as such account shall at no time contain more than US \$60,000.

“**Commitment Fee**” means Eight Hundred Twenty-Five Thousand Dollars (\$825,000).

“**Commodity Account**” means any “commodity account” as defined in the Code with such additions to such term as may hereafter be made.

“**Compliance Certificate**” means that certain certificate in the form attached hereto as Exhibit B.

“**Confidential Information**” means, subject to the exclusions provided in Section 13.11, information that is generally not available to the public and either (i) is marked as confidential at the time disclosed, or (ii) should under the circumstances be reasonably expected to be confidential.

“**Contingent Obligation**” means, for any Person, any direct or indirect liability, contingent or not, of that Person for (a) any indebtedness, lease, dividend, letter of credit or other obligation of another such as an obligation, in each case, directly or indirectly guaranteed, endorsed, co-made, discounted or sold with recourse by that Person, or for which that Person is directly or indirectly liable; (b) any obligations for undrawn letters of credit for the account of that Person; and (c) all obligations from any interest rate, currency or commodity swap agreement, interest rate cap or collar agreement, or other agreement or arrangement designated to protect a Person against fluctuation in interest rates, currency exchange rates or commodity prices; but “Contingent Obligation” does not include endorsements in the ordinary course of business. The amount of a Contingent Obligation is the stated or determined amount of the primary obligation for which the Contingent Obligation is made or, if not determinable, the maximum reasonably anticipated liability for it determined by the Person in good faith; but the amount may not exceed the maximum of the obligations under any guarantee or other support arrangement.

“**Control Agreement**” means any control agreement in form and substance satisfactory to Agent which is entered into among Borrower, Agent and the depository institution or intermediary at which Borrower maintains a Pledged Account, pursuant to which Agent obtains control (within the meaning of the Code) over such Pledged Account. For the purposes of any Pledged Account maintained outside of the United States, a debenture, in form and substance satisfactory to Agent shall be used to in place of and shall constitute a “Control Agreement.” If an agreement of a different character than a Control Agreement or debenture is needed to perfect or charge a Pledged Account located outside of the United States, such agreement shall constitute a “Control Agreement.”

“**Copyrights**” mean any and all copyright rights, copyright applications, copyright registrations and like protections in each work or authorship and derivative work thereof, whether published or unpublished and whether or not the same also constitutes a trade secret.

“**Credit Extension**” means any advance of funds under the Term Loan, or any other extension of credit by a Lender for Borrower’s benefit.

“**Default Rate**” is defined in Section 1.3(c).

“**Deposit Account**” means any “deposit account” as defined in the Code with such additions to such term as may hereafter be made.

“**Disposition**” means with respect to any property, any sale, lease, sublease, sale and leaseback, assignment, participation, pledge, grant of security interest, conveyance, transfer, license or other disposition thereof. The terms “Dispose” and “Disposed of” shall have correlative meanings.

“**Dollars**,” “**dollars**” or use of the sign “\$” means only lawful money of the United States and not any other currency, regardless of whether that currency uses the “\$” sign to denote its currency or may be readily converted into lawful money of the United States.

“**Domestic Subsidiary**” means any Subsidiary of Borrower that was formed under the laws of the United States or any state of the United States or the District of Columbia.

“**EBITDA**” means, on a consolidated basis for Borrower and its Subsidiaries, Net Income (even if negative) plus income taxes, depreciation, amortization, stock compensation expense, interest expense and such other adjustments as are consistently applied from time to time and consistent with the financial forecast delivered to Lenders on May 2, 2016, at all times calculated using the same methodology as calculated on the Effective Date in accordance with such financial forecast.

“**Effective Date**” is defined in the preamble.

“**Equipment**” means all “equipment” as defined in the Code with such additions to such term as may hereafter be made, and includes without limitation all machinery, fixtures, goods, vehicles (including motor vehicles and trailers), and any interest in any of the foregoing.

“**Equity Interests**” mean shares of capital stock, partnership interests, membership interests in a limited liability company, beneficial interests in a trust or other equity interests in any Person, and any option, warrant, convertible debt or other right entitling the holder thereof to purchase or otherwise acquire any such equity interest, provided that in the case of any convertible debt, such convertible debt shall be required to be Subordinated Debt.

“**ERISA**” means the Employee Retirement Income Security Act of 1974, and its regulations.

“**Event of Default**” is defined in [Section 7](#).

“**Exchange Act**” means the Securities Exchange Act of 1934, as amended.

“**Excluded Accounts**” means (a) any Deposit Accounts exclusively established to cash collateralize letters of credit permitted by the Agreement, (b) the HSBC Australia Account, (c) the HSBC US Account, (d) the Comerica Account, and (e) a single Payroll Account but only to the extent that no more than one month’s payroll may be on deposit at any given time.

“**Excluded Domestic Subsidiary**” means any Domestic Subsidiary of Borrower that is treated as a disregarded entity for United States purposes and substantially all of the assets of which consist of equity and/or debt of one or more Foreign Subsidiaries.

“**Excluded Taxes**” means any of the following Taxes imposed on or with respect to a Recipient or required to be withheld or deducted from a payment to a Recipient, (a) income or franchise Taxes imposed on (or measured by) its net income by the United States of America, or by the jurisdiction under the laws of which such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, (b) any branch profits Taxes imposed by the United States of America, or by the jurisdiction under the laws of which such Recipient is organized or in which its principal office is located or, in the case of any Lender, in which its applicable lending office is located, and (c) in the case of a Foreign Lender, U.S. federal withholding Taxes imposed on amounts payable to such Foreign Lender at the time such Foreign Lender becomes a party to this Agreement (or designates a new lending office) or is attributable to such Foreign Lender’s failure to comply with [Section 1.11\(f\)](#), except in each case to the extent that such Foreign Lender (or its assignor, if any) was entitled, at the time of designation of a new lending office (or assignment), to receive additional amounts from Borrower with respect to such withholding Tax pursuant to [Section 1.11](#) and (d) U.S. federal withholding Taxes imposed under FATCA.

“**FATCA**” shall mean Sections 1471 through 1474 of the IRC, as of the date of this Agreement (or any amended or successor version that is substantively comparable and not materially more onerous to comply with), any current or future regulations or official interpretations thereof and any agreements entered into pursuant to Section 1471(b)(1) of the IRC, and any intergovernmental agreement entered into in connection with the implementation of such Sections of the IRC and any fiscal or regulatory legislation, rules or practices adopted pursuant to such intergovernmental agreement.

“**First Lien Agent**” has the meaning set forth in the Intercreditor Agreement.

“**First Lien Creditors**” has the meaning set forth in the Intercreditor Agreement.

“**First Lien Loan Documents**” has the meaning set forth in the Intercreditor Agreement.

“**Flextronics**” means Flextronics International Ltd., an entity incorporated in the Republic of Singapore.

“**Flextronics Facility**” means that certain facility owned and operated by Flextronics America LLC, located at 847 Gibraltar Drive, Milpitas, California 95035.

“**Foreign Lender**” means a Lender that is not a U.S. Person.

“**Foreign Subsidiary**” means any Subsidiary of Borrower that is not a Domestic Subsidiary.

“**Funding Date**” means any date on which a Credit Extension is made to or for the account of Borrower which shall be a Business Day.

“**GAAP**” means generally accepted accounting principles for the United States set forth in the opinions and pronouncements of the Accounting Principles Board of the American Institute of Certified Public Accountants and statements and pronouncements of the Financial Accounting Standards Board or in such other statements by such other Person as may be approved by a significant segment of the accounting profession, which are applicable to the circumstances as of the date of determination. Notwithstanding the foregoing, operating and capital leases will be treated in a manner consistent with their treatment under GAAP as in effect on the Effective Date, notwithstanding any modifications or interpretive changes thereto that may occur thereafter.

“**General Intangibles**” means all “general intangibles” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation, all Intellectual Property, claims, income and other tax refunds, security and other deposits, payment intangibles, contract rights, options to purchase or sell real or personal property, rights in all litigation presently or hereafter pending (whether in contract, tort or otherwise), insurance policies (including without limitation key man, property damage, and business interruption insurance), payments of insurance and rights to payment of any kind.

“**Governmental Approval**” means any consent, authorization, approval, order, license, franchise, permit, certificate, accreditation, registration, filing or notice, of, issued by, from or to, or other act by or in respect of, any Governmental Authority.

“**Governmental Authority**” means any nation or government, any state or other political subdivision thereof, any agency, authority, instrumentality, regulatory body, court, central bank or other entity exercising executive, legislative, judicial, taxing, regulatory or administrative functions of or pertaining to government, any securities exchange and any self-regulatory organization.

“**HSBC Australia Account**” means that certain deposit account maintained by Borrower with HSBC Australia, account number 011-510559-001 as long as such account shall at no time contain more than US \$1,000,000 for a period of ten (10) consecutive Business Days.

“**HSBC US Account**” means that certain deposit account maintained by Borrower with HSBC in the United States, account number 267098600 as long as such account shall at no time contain more than US \$35,000.

“**Hedging Agreement**” means any interest rate protection agreement, foreign currency exchange agreement, commodity price protection agreement or other interest or currency exchange rate or commodity price hedging arrangement.

“**Indebtedness**” means indebtedness of any nature.

“**Indemnitee**” is defined in [Section 13.2\(a\)](#).

“**Indemnified Taxes**” means (a) Taxes, other than Excluded Taxes, imposed on or with respect to any payment made by or on account of any obligation of any Loan Party under any Loan Document and (b) to the extent not otherwise described in (a), Other Taxes.

“**Insolvency Proceeding**” means any proceeding by or against any Person under the United States Bankruptcy Code, or any other bankruptcy or insolvency law, including assignments for the benefit of creditors, compositions, extensions generally with its creditors, or proceedings seeking reorganization, arrangement, or other relief.

“**Intellectual Property**” means, with regard to any Person, all of such Person’s right, title, and interest in and to the following:

- (a) its Copyrights, Trademarks and Patents;
- (b) any and all trade secrets and trade secret rights, including, without limitation, any rights to unpatented inventions, know-how, operating manuals;
- (c) any and all source code;
- (d) any and all design rights which may be available to it;
- (e) any and all claims for damages by way of past, present and future infringement of any of the foregoing, with the right, but not the obligation, to sue for and collect such damages for said use or infringement of the Intellectual Property rights identified above; and
- (f) all amendments, renewals and extensions of any of the Copyrights, Trademarks or Patents.

“**Intellectual Property Licenses**” means any licenses or other similar rights in or with respect to Intellectual Property.

“**Intercreditor Agreement**” means that certain intercreditor agreement, dated as of July 8, 2016, between Agent, Wells Fargo Bank and Borrower, relating to the Wells Fargo Indebtedness, as such agreement may be amended, restated, supplemented, amended and restated or otherwise modified from time to time;

“**Intercompany Subordination Agreement**” means an intercompany subordination agreement, dated as of even date with the Agreement, executed and delivered by Borrower, each of its Subsidiaries, and Agent, the form and substance of which is reasonably satisfactory to Agent

“**Interest Only Period**” means the period of time beginning on the Effective Date and continuing through and including June 30, 2017.

“Interest Payment Date” means the first Business Day of each month after the Effective Date.

“Interest Rate Reduction Trigger” means the occurrence to Agent’s satisfaction of the following: (a) no Event of Default has occurred or is continuing, and (b) Borrower’s Revenue and EBITDA are not less than the amounts set forth on Exhibit I hereto, and evidence reasonably satisfactory thereof has been provided to Agent.

“Inventory” means all “inventory” as defined in the Code in effect on the date hereof with such additions to such term as may hereafter be made, and includes without limitation all merchandise, raw materials, parts, supplies, packing and shipping materials, work in process and finished products, including without limitation such inventory as is temporarily out of Borrower’s custody or possession or in transit and including any returned goods and any documents of title representing any of the above.

“Investment” means (i) any direct or indirect purchase or other acquisition by Borrower or any of its Subsidiaries of, or of a beneficial interest in, any stocks, bonds, notes, debentures or other obligations or securities of any other Person; (ii) any direct or indirect redemption, retirement, purchase or other acquisition for value, by Borrower or any Subsidiary of Borrower from any Person, of any Equity Interests of such Person; (iii) any direct or indirect loan, advance (other than advances to employees for moving, entertainment and travel expenses, drawing accounts and similar expenditures in the ordinary course of business) or capital contributions by Borrower or any of its Subsidiaries to any other Person, including all indebtedness and accounts receivable from that other Person that are not current assets or did not arise from sales to that other Person in the ordinary course of business and (iv) all investments consisting of any exchange traded or over the counter derivative transaction, including any Hedging Agreement, whether entered into for hedging or speculative purposes or otherwise. The amount of any Investment of the type described in clauses (i), (ii) and (iii) shall be the original cost of such Investment plus the cost of all additions thereto, without any adjustments for increases or decreases in value, or write ups, write downs or write offs with respect to such Investment and after giving effect to any return of capital, repayment or dividends or distributions in respect thereof received in cash with respect to such Investment.

“IRC” means the Internal Revenue Code of 1986, as amended from time to time.

“Joinder” means that certain Joinder in substantially the form attached as Exhibit D, hereto.

“Joining Party” means any Person signing a Joinder as a “Co-Borrower” (as defined in the Joinder) whereby such Person becomes bound to observe the requirements of this Agreement as provided in the Joinder.

“Lender(s)” mean (a) the Persons listed on Schedule 1.2 (other than any such Person that has ceased to be a party hereto) and (b) any Person that has become a party hereto as a Lender.

“Lender Expenses” are all reasonable audit fees and expenses, costs, and expenses (including reasonable attorneys’ fees and expenses) and reasonable fees and expenses of accountants, advisors and consultants incurred by a Lender or Agent for preparing, amending, negotiating, administering, defending and enforcing the Loan Documents (including, without limitation, those incurred in connection with appeals or Insolvency Proceedings) or otherwise incurred with respect to Borrower.

“LIBOR Rate” means, for any date of determination, the three-month London Interbank Offered Rate (rounded upward to the nearest 1/16 of one percent) that appears on Bloomberg at 11:00 am (California time) on such date of determination; *provided*, that if such index ceases to exist or is no longer published or announced, then the term “LIBOR Rate” shall mean the three-month London Interbank Offered Rate (rounded upward to the nearest 1/16 of one percent) as published in The Wall Street Journal on such date of determination, and if this latter index ceases to exist or is no longer published or announced, then the term “LIBOR Rate” shall mean the Prime Rate (rounded upward to the nearest 1/16 of one percent) as published in

The Wall Street Journal on such date of determination. The LIBOR Rate shall be determined on any date of determination by Agent, such determination being conclusive absent manifest error.

“**LIBOR Unavailability Notice**” shall have the meaning assigned to such term in [Section 1.3\(e\)](#).

“**Lien**” means a claim, mortgage, deed of trust, levy, charge, pledge, security interest or other encumbrance of any kind, whether voluntarily incurred or arising by operation of law or otherwise against any property.

“**Loan**” means the Term Loan.

“**Loan Documents**” are, collectively, this Agreement, the Perfection Certificates, the Pledge Agreements, each Control Agreement, each Subordination Agreement, each Joinder, each Note and any other present or future agreement between Borrower and/or any Joining Party and/or for the benefit of Lenders and/or Agent, as all such may be amended, restated, supplemented, amended and restated or otherwise modified from time to time.

“**Loan Parties**” mean Borrower, any Joining Party and any guarantor of such entities’ obligations under the Loan Documents. For the avoidance of doubt, no Foreign Subsidiary or Excluded Subsidiary (nor any of their Subsidiaries) shall become a Loan Party under the Loan Documents.

“**Loan Party**” means any of the Loan Parties.

“**Material Adverse Change**” means any circumstance, occurrence, fact, condition (financial or otherwise) or change (including a change in Applicable Law, event, development or effect) that, individually or in the aggregate, has, or is reasonably likely to have, in the opinion of Agent or the Required Lenders, acting reasonably, in a Material Adverse Effect.

“**Material Adverse Effect**” means (i) a material adverse effect (or a series of adverse effects, none of which is material in and of itself but which, cumulatively, result in a material adverse effect) on the business, operations, affairs, performance, properties, revenues, assets, liabilities (including contingent liabilities), obligations, capitalization, results of operations (financial or otherwise), cash flows or condition (financial or otherwise) of the Borrower and its Subsidiaries taken as a whole, (ii) any material impairment of any Loan Party’s ability to exercise its rights or perform any of its obligations under this Agreement or any of the Security Documents or (iii) any prejudice to, restriction on or rendering unenforceable or ineffective, any obligation under this Agreement or any of the Security Documents or any Lien over all or any material portion of the Collateral or any right intended or purported to be granted under or pursuant to any of the Loan Documents to or for the benefit of Agent or Lenders. The final determination as to whether a Material Adverse Effect has occurred will be made by either Agent or the Required Lenders acting reasonably.

“**Monthly Financial Statements**” is defined in [Section 5.2\(a\)](#).

“**Note**” means for a Term Loan, the Note attached in substantially the form attached hereto as [Exhibit E](#).

“**Notice of Borrowing**” means a notice given by Borrower to Agent in accordance with [Section 2.2\(a\)](#), substantially in the form of [Exhibit C](#), with appropriate insertions.

“**Obligations**” are each Loan Party’s obligations to pay when due any debts, principal, interest, Origination Fee, Commitment Fee, Lender Expenses, Prepayment Fee, Closing Fee and other amounts such Person owes Lender now or later, whether under this Agreement, the Loan Documents or otherwise, and including interest accruing after Insolvency Proceedings begin, and debts, liabilities, or obligations of such Person assigned to Lender, and to perform each Loan Party’s duties under the Loan Documents.

“OFAC” is defined in Section 4.13.

“Other Taxes” means all present or future stamp, court or documentary, intangible, recording, filing or similar Taxes that arise from any payment made under, from the execution, delivery, performance, enforcement or registration of, from the receipt or perfection of a security interest under, or otherwise with respect to, any Loan Document.

“Origination Fee” means a payment in the amount of \$75,000 due from Borrower to Lenders to initiate Lenders’ due diligence process.

“Participant Register” is defined in Section 13.1(f).

“Patents” means all patents, patent applications and like protections including without limitation improvements, divisions, continuations, renewals, reissues, extensions and continuations-in-part of the same.

“Payroll Account” means a zero balance account maintained by Borrower used exclusively to process payroll and related taxes.

“Perfection Certificate” is defined in Section 4.1(a).

“Permitted Indebtedness” means:

- (a) Indebtedness to Lenders under this Agreement and the other Loan Documents;
- (b) Indebtedness existing on the Effective Date and shown on the Perfection Certificates;
- (c) Subordinated Debt;
- (d) Indebtedness consisting of (i) unsecured guarantees arising with respect to customary indemnification obligations to purchasers in connection with Dispositions permitted under Section 6.1; and (iii) unsecured guarantees with respect to Indebtedness of Borrower or one of its Subsidiaries, to the extent that the Person that is obligated under such guaranty could have incurred such underlying Indebtedness under this Agreement;
- (e) intracompany Indebtedness among any Loan Parties;
- (f) Indebtedness incurred as a result of endorsing negotiable instruments or other payment items for deposit, in all cases received in the ordinary course of business;
- (g) Indebtedness secured by Liens permitted under clauses (a) and (c) of the definition of “Permitted Liens” hereunder;
- (h) the Wells Fargo Indebtedness;
- (i) Indebtedness incurred in the ordinary course of business in respect of credit cards, credit card processing services, debit cards, stored value cards, commercial cards (including so-called “purchase cards”, “procurement cards” or “p-cards”), or cash management services;
- (j) Indebtedness owed to any Person providing property, casualty, liability, or other insurance to Borrower or any of its Subsidiaries, so long as the amount of such Indebtedness is not in excess of the amount of the unpaid cost of, and shall be incurred only to defer the cost of, such insurance for the year in which such Indebtedness is incurred and such Indebtedness is outstanding only during such year;
- (k) the incurrence by Borrower or its Subsidiaries of Indebtedness under Hedging Agreements that are incurred for the bona fide purpose of hedging the interest rate, commodity, or foreign currency risks associated with Borrower’s and its Subsidiaries’ operations and not for speculative purposes;
- (l) unsecured Indebtedness of Borrower owing to employees, former employees, officers, former officers, directors, former directors, or consultants (or any spouses, ex-spouses, or estates of any of

the foregoing) incurred in connection with the redemption or repurchase by Borrower of the Equity Interests of Borrower that has been issued to such Persons, so long as (i) no Default or Event of Default has occurred and is continuing or would result from the incurrence of such Indebtedness, (ii) the aggregate amount of all such Indebtedness does not exceed Two Hundred Fifty Thousand Dollars (\$250,000), and (iii) such Indebtedness is subordinated to the Obligations on terms and conditions reasonably acceptable to Agent;

(m) Indebtedness composing Permitted Investments;

(n) unsecured Indebtedness incurred in respect of netting services, overdraft protection, and other like services, in each case, incurred in the ordinary course of business;

(o) Indebtedness in an aggregate outstanding principal amount not to exceed Five Million Dollars (\$5,000,000) at any time outstanding for all Foreign Subsidiaries; provided, that such Indebtedness is not directly or indirectly recourse to any of the Loan Parties or of their respective assets;

(p) accrual of interest, accretion or amortization of original issue discount, or the payment of interest in kind, in each case, on Indebtedness that otherwise constitutes Permitted Indebtedness;

(q) other unsecured Indebtedness in an aggregate outstanding principal amount not to exceed Five Hundred Thousand Dollars (\$500,000) at any time outstanding; and

(r) extensions, refinancings, modifications, amendments and restatements of any items of Permitted Indebtedness (a) through (q) above, provided that the principal amount thereof is not increased or the terms thereof are not modified to impose more burdensome terms upon Borrower or its Subsidiary, as the case may be.

Permitted Intercompany Advances means loans made by (a) a Loan Party to another Loan Party, (b) a Subsidiary of Borrower that is not a Loan Party to another Subsidiary of Borrower that is not a Loan Party, and (c) a Subsidiary of Borrower that is not a Loan Party to a Loan Party, so long as the parties thereto are party to the Intercompany Subordination Agreement.

“Permitted Investments” mean:

(a) Investments (including, without limitation, in Subsidiaries) existing on the Effective Date and shown on the Perfection Certificates;

(b) Investments after the Effective Date among any Loan Parties;

(c) Investments consisting of Cash or Cash Equivalents;

(d) Investments in negotiable instruments deposited or to be deposited for collection in the ordinary course of business;

(e) advances made in connection with purchases of goods or services in the ordinary course of business;

(f) Investments received in settlement of amounts due to any Loan Party or any of its Subsidiaries effected in the ordinary course of business or owing to any Loan Party or any of its Subsidiaries as a result of Insolvency Proceedings involving an account debtor or upon the foreclosure or enforcement of any Lien in favor of a Loan Party or its Subsidiaries;

(g) guarantees permitted under the definition of Permitted Indebtedness;

(h) Permitted Intercompany Advances;

(i) Equity Interests or other securities acquired in connection with the satisfaction or enforcement of Indebtedness or claims due or owing to a Loan Party or its Subsidiaries (in bankruptcy of customers or suppliers) or as security for any such Indebtedness or claims;

(j) Reserved;

- (k) (i) non-Cash loans and advances to employees, officers, and directors of Borrower or any of its Subsidiaries for the purpose of purchasing Equity Interests in Borrower so long as the proceeds of such loans are used in their entirety to purchase such Equity Interests in Borrower, and (ii) loans and advances to employees and officers of Borrower or any of its Subsidiaries in the ordinary course of business for any other business purpose and in an aggregate amount not to exceed Two Hundred Fifty Thousand Dollars (\$250,000) in any fiscal year;
- (l) Investments resulting from entering into agreements relative to Indebtedness that is permitted under clauses (i) or (k) of the definition of Permitted Indebtedness; and
- (m) joint ventures or strategic alliances in the ordinary course of Borrower's business consisting of the nonexclusive licensing of technology, the development of technology or the providing of technical support and strategic alliances with particular customers in which such customers will share in the research and development expense of Borrower associated with the incorporation by such customers of microconverters purchased from Borrower into solar panels produced by such customers, provided in all cases that any cash investments by Borrower do not exceed Five Hundred Thousand Dollars (\$500,000) in the aggregate in any fiscal year.

"Permitted Liens" mean:

- (a) Liens existing on the Effective Date and shown on the Perfection Certificates or arising under this Agreement and the other Loan Documents;
- (b) Liens for unpaid Taxes, fees, assessments or other government charges or levies, either (i) not past due or (ii) do not have priority over Agent's Liens and are being contested in good faith and for which Borrower maintains adequate reserves on Borrower's Books, provided that no notice of any such Lien has been filed or recorded under the IRC and the Treasury Regulations adopted thereunder;
- (c) purchase money Liens or capital leases (i) on Equipment and related software acquired or held by Borrower after the Effective Date which is incurred for financing the acquisition of the Equipment and related software securing no more than \$2,000,000 in the aggregate which remains outstanding, or (ii) existing on Equipment and related software when acquired prior to the Effective Date, if the Lien is confined to the property and improvements and the proceeds of the Equipment and related software;
- (d) Liens incurred in the extension, renewal or refinancing of the indebtedness secured by Liens described in (a) through (c), but any extension, renewal or replacement Lien must be limited to the property encumbered by the existing Lien and the principal amount of the indebtedness may not increase;
- (e) licenses of Intellectual Property permitted under Section 6.1; and
- (f) Liens granted to First Lien Agent under the Wells Fargo Guaranty and Security Agreement or other First Lien Loan Documents, to secure the "Secured Obligations" (as defined in the Wells Fargo Guaranty and Security Agreement);
- (g) Liens arising by operation of law in favor of warehousemen, landlords, carriers, mechanics, materialmen, laborers, or suppliers, incurred in the ordinary course of business and not in connection with the borrowing of money, and which Liens are for sums not yet delinquent;
- (h) Liens on amounts deposited to secure Borrower's and its Subsidiaries obligations in connection with worker's compensation or other unemployment insurance;
- (i) with respect to any real property, easements, rights of way, and zoning restrictions that do not materially interfere with or impair the use or operation thereof;

- (j) Liens that are replacements of Permitted Liens to the extent that the original Indebtedness is the subject of a permitted refinancing thereof and so long as the replacement Liens only encumber those assets that secured the original Indebtedness;
- (k) rights of setoff or bankers' liens upon deposits of funds in favor of banks or other depository institutions, solely to the extent incurred in connection with the maintenance of Deposit Accounts in the ordinary course of business;
- (l) Liens granted in the ordinary course of business on the unearned portion of insurance premiums securing the financing of insurance premiums to the extent the financing is permitted under the definition of Permitted Indebtedness;
- (m) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods provided that the amount owed for such customs duties is not yet due;
- (n) Liens consisting of cash collateral securing (i) obligations of the Foreign Subsidiaries under foreign credit cards, credit card processing services, debit cards, stored value cards, commercial cards (including so-called "purchase cards", "procurement cards" or "p-cards") or other cash management services permitted by clause (i) of the definition of Permitted Indebtedness, but in each such case only to the extent that such cash collateral is owned by one or more of the Foreign Subsidiaries; (ii) any Hedging Agreement; and
- (o) other Liens securing obligations not in excess of One Hundred Thousand Dollars (\$100,000).

Person means any individual, sole proprietorship, partnership, limited liability company, joint venture, company, trust, unincorporated organization, association, corporation, institution, public benefit corporation, firm, joint stock company, estate, entity or government agency.

"Pledge Agreements" mean, collectively, any local law pledge agreement relating to the Equity Interests or evidence of Indebtedness of any Subsidiary owned directly or indirectly by a Loan Party to the extent necessary or useful to perfect Agent's security interest therein under applicable laws.

"Pledged Account" means any Deposit Account, Securities Account, Commodity Account or other similar account (other than an Excluded Account) even though it may not precisely fit the definition of a Deposit Account, Securities Account or a Commodity Account.

"Prepayment Fee" means a payment equal to the amount of the Term Loan being prepaid multiplied by the Prepayment Percentage.

"Prepayment Percentage" means (i) three percent (3.00%) of the Term Loan amount prepaid on or prior to the first anniversary of the Effective Date, and (ii) two percent (2.00%) of the Term Loan amount prepaid after the first anniversary of the Effective Date of such Term Loan but on or prior to the second anniversary of the Effective Date, and (iii) one percent (1.00%) of the Term Loan amount prepaid after the second anniversary of the Effective Date but prior to the Term Loan Maturity Date.

"Prime Rate" means, for any day, the rate of interest in effect for such day that is identified and normally published by The Wall Street Journal as the "Prime Rate" (or, if more than one rate is published as the Prime Rate, then the highest of such rates), with any change in Prime Rate to become effective as of the date the rate of interest which is so identified as the "Prime Rate" is different from that published on the preceding Business Day. If The Wall Street Journal no longer reports the Prime Rate, or if the Prime Rate no longer exists, or Agent determines in good faith that the rate so reported no longer accurately reflects an accurate determination of the prevailing Prime Rate, then Agent may select a reasonably comparable index or source to use as the basis for the Prime Rate.

“**Pro Rata Percentage**” means, with respect to any Lender, a percentage equal to a fraction, the numerator of which is such Lender’s Term Loan Commitment and the denominator of which is the aggregate of the Term Loan Commitments of all Lenders.

“**Quarterly Financial Statements**” is defined in Section 5.2(b).

“**Recipient**” means (a) Agent and (b) any Lender, as applicable.

“**Register**” is defined in Section 13.1(d).

“**Registered Organization**” means any “registered organization” as defined in the Code with such additions to such term as may hereafter be made.

“**Related Fund**” means, with respect to any Lender that is a fund or commingled investment vehicle that invests in bank loans, any other fund that invests in bank loans and is managed or advised by the same investment advisor as such Lender or by an Affiliate of such investment advisor.

“**Related Parties**” means, with respect to any specified Person, such Person’s Affiliates and the respective directors, trustees, officers, employees, agents and advisors of such Person and such Person’s Affiliates.

“**Reportable Event**” means any of the events set forth in Section 4043(c) of ERISA, other than events for which the 30 day notice period has been waived.

“**Required Lenders**” means, at any time, Lenders having funded Credit Extensions and having Term Loan Commitments representing more than 50% of the sum of all Credit Extensions and Term Loan Commitments at such time.

“**Requirement of Law**” means as to any Person, the organizational or governing documents of such Person, and any law (statutory or common), treaty, rule or regulation or determination of an arbitrator or a court or other Governmental Authority, in each case applicable to or binding upon such Person or any of its property or to which such Person or any of its property is subject.

“**Responsible Officer**” means any of the Chief Executive Officer, President, Chief Financial Officer and Controller of Borrower.

“**Restricted License**” is any material license or other material agreement with respect to which Borrower is the licensee (a) that prohibits or otherwise restricts Borrower from granting a security interest in Borrower’s interest in such license or agreement or any other property, or (b) for which a default under or termination of could interfere with Agent’s right to sell any Collateral.

“**Restricted Payment**” is defined in Section 6.7.

“**Revenue**” means, on a consolidated basis for Borrower and all other Loan Parties, revenue received by Borrower and all other Loan Parties in accordance with GAAP from the sale of finished Goods Inventory or services, in all cases in the ordinary course of such entity’s business, less returns, credits and sales taxes.

“**SBA Forms**” mean SBA Form 480 (11-10), SBA Form 652 (11-91) and SBA Form 1031 (12/10) promulgated by the U.S. Small Business Administration.

“**SEC**” means the Securities and Exchange Commission or any other similar or successor agency of the United States federal government administering the Securities Act.

“**Securities Account**” means any “securities account” as defined in the Code with such additions to such term as may hereafter be made.

“**Securities Act**” means the Securities Act of 1933, as amended, or any similar United States Federal statute, and the rules and regulations of the SEC thereunder, all as the same shall be in effect from time to time.

“**Security Documents**” mean the Pledge Agreements, Perfection Certificates, any Joinder, any Control Agreement, any Subordination Agreement and each of the security agreements and other instruments and documents executed and delivered pursuant to any of the foregoing or in connection with Section 5.8.

“**Solvent**” means, with respect to any Person as of any date of determination, that (a) at fair valuations, the sum of such Person’s debts (including contingent liabilities) is less than all of such Person’s assets, (b) such Person is not engaged or about to engage in a business or transaction for which the remaining assets of such Person are unreasonably small in relation to the business or transaction or for which the property remaining with such Person is an unreasonably small capital, and (c) such Person has not incurred and does not intend to incur, or reasonably believe that it will incur, debts beyond its ability to pay such debts as they become due (whether at maturity or otherwise), and (d) such Person is “solvent” or not “insolvent”, as applicable within the meaning given those terms and similar terms under applicable laws relating to fraudulent transfers and conveyances. For purposes of this definition, the amount of any contingent liability at any time shall be computed as the amount that, in light of all of the facts and circumstances existing at such time, represents the amount that can reasonably be expected to become an actual or matured liability (irrespective of whether such contingent liabilities meet the criteria for accrual under Statement of Financial Accounting Standard No. 5).

“**Subordination Agreement**” means any subordination, intercreditor, or other similar agreement in form and substance satisfactory to Agent entered into between Agent and the other creditor, on terms acceptable to Agent whereby a Person subordinates the Indebtedness of any Loan Party to such Person to the Indebtedness of any Loan Party to Agent and/or Lenders.

“**Subordinated Debt**” means indebtedness subject to a Subordination Agreement.

“**Subsidiary**” means, as to any Person, a corporation, partnership, limited liability company or other entity of which shares of stock or other ownership interests having ordinary voting power (other than stock or such other ownership interests having such power only by reason of the happening of a contingency) to elect a majority of the board of directors or other managers of such corporation, partnership or other entity are at the time owned, or the management of which is otherwise controlled, directly or indirectly through one or more intermediaries, or both, by such Person. Unless the context otherwise requires, each reference to a Subsidiary herein shall be a reference to a Subsidiary of Borrower.

“**Tax Returns**” mean all returns, declarations, reports, schedules, forms or information return or statement of, or with respect to, Taxes filed or required to be filed with any Governmental Authority or depository.

“**Taxes**” mean any and all present or future taxes, levies, imposts, duties, deductions, withholdings (including backup withholding), assessments, fees or other charges imposed by any Governmental Authority, including any interest, additions to tax or penalties applicable thereto.

“**Term Loan**” means the term loan made available by Lenders to Borrower pursuant to Section 1.2 of the Agreement, which amount shall not exceed Twenty Five Million Dollars (\$25,000,000).

“**Term Loan Alternate Base Rate**” means, for any day, the greater of (a) 10.25% and (b) a fluctuating rate of interest per annum equal to the Prime Rate in effect on such day plus 6.75%, provided that upon the occurrence of the Interest Rate Reduction Trigger, the Term Loan Alternate Base Rate shall be reduced by

1.0%. Any change in the Term Loan Alternate Base Rate due to a change in the Prime Rate shall be effective from and including the effective day of such change in the Prime Rate.

“**Term Loan Commitment**” means with respect to each Term Loan Lender, the commitment of such Lender to make Credit Extensions under the Term Loan hereunder as set forth on Schedule 1.2 directly below the column entitled “Term Loan Commitment,” or in the Assignment and Acceptance pursuant to which such Lender assumed its Term Loan Commitment, in all cases as the same may be reduced, terminated or adjusted as provided in the Agreement. The aggregate amount of Lenders’ Term Loan Commitments is Twenty Five Million Dollars (\$25,000,000).

“**Term Loan Lender**” mean each Lender with a Term Loan Commitment or with outstanding Term Loan.

“**Term Loan Interest Rate**” means, for any given day, the greater of (a) 10.25%, and (b) a fluctuating rate of interest per annum equal to the LIBOR Rate plus 9.5625%; provided that all times during which there is an effective LIBOR Unavailability Notice, the Term Loan Interest Rate shall mean the Term Loan Alternate Base Rate; provided further, that upon the occurrence of the Interest Rate Reduction Trigger, the Term Loan Interest Rate shall be reduced by 1.0%. Any change in the Term Loan Interest Rate due to a change in the LIBOR Rate shall be effective from and including the effective day of such change in the LIBOR Rate.

“**Term Loan Maturity Date**” means July 1, 2020.

“**Trademarks**” means any trademark and servicemark rights, whether registered or not, applications to register and registrations of the same and like protections, and the entire goodwill of the business of a Person connected with and symbolized by such trademarks.

“**USA FREEDOM Act**” means The Uniting and Strengthening America by Fulfilling Rights and Ending Eavesdropping, Dragnet-collection and Online Monitoring (USA FREEDOM ACT) Act of 2015, Public Law 114-23 (June 2, 2015), as may be amended.

“**USA PATRIOT Act**” means The Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism Act of 2001 (Title III of Pub. L. No. 107-56 (signed into law October 26, 2001)), as may be amended.

“**U.S. Person**” means any Person that is a “United States Person” as defined in Section 7701(a)(30) of the IRC.

“**Wells Fargo Credit Agreement**” means that certain AMENDED AND RESTATED CREDIT AGREEMENT by and among WELLS FARGO BANK, NATIONAL ASSOCIATION, as administrative agent, the lenders that are parties thereto as the Lenders, and ENPHASE ENERGY, INC., as borrower dated as of December 18, 2015, as such agreement may be amended, restated, supplemented, amended and restated or otherwise modified from time to time.

“**Wells Fargo Guaranty and Security Agreement**” means that certain AMENDED AND RESTATED GUARANTY AND SECURITY AGREEMENT executed and delivered by Borrower and each of the guarantor parties thereto as grantors, and WELLS FARGO BANK, NATIONAL ASSOCIATION as agent dated as of December 18, 2015, as such agreement may be amended, restated, supplemented, amended and restated or otherwise modified from time to time,

“**Wells Fargo Indebtedness**” means the “Obligations” (as defined in the Wells Fargo Credit Agreement) arising under the Wells Fargo Credit Agreement and secured by the Wells Fargo Guaranty and Security Agreement.

[Signature page follows.]

IN WITNESS WHEREOF, the parties hereto have caused this Agreement to be executed as of the Effective Date.

LENDER:

Tennenbaum Special Situations Fund IX, LLC

By Tennenbaum Capital Partners, LLC, its Investment Manager

By: /s/ Philip Tseng
Name: Philip Tseng
Title: Managing Partner

Address:
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405
Attention: Todd Jaquez-Fissori and Asher Finci

Tennenbaum Special Situations IX-A, LLC

By Tennenbaum Capital Partners, LLC, its Investment Manager

By: /s/ Philip Tseng
Name: Philip Tseng
Title: Managing Partner

Address:
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405
Attention: Todd Jaquez-Fissori and Asher Finci

Tennenbaum Special Situations IX-O, L.P.

By Tennenbaum Capital Partners, LLC, its Investment Manager

By: /s/ Philip Tseng
Name: Philip Tseng
Title: Managing Partner

Address:
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405
Attention: Todd Jaquez-Fissori and Asher Finci

Tennenbaum Special Situations IX-C, L.P.

By Tennenbaum Capital Partners, LLC, its Investment Manager

By: /s/ Philip Tseng
Name: Philip Tseng
Title: Managing Partner

Address:
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405
Attention: Todd Jaquez-Fissori and Asher Finci

AGENT:

Obsidian Agency Services, Inc.

By: /s/ Philip Tseng
Name: Philip Tseng
Title: Managing Partner

BORROWER:

Enphase Energy, Inc.

By: /s/ Paul Nahi
Name: Paul Nahi
Title: President & CEO

SCHEDULES AND EXHIBITS

Schedule 1.2 – List of Lenders and Term Loan Commitments

Exhibit A – Collateral Description

Exhibit B – Compliance Certificate

Exhibit C – Notice of Borrowing

Exhibit D – Joinder

Exhibit E – Note – Term Loan

Exhibit F – Form of Assignment and Acceptance

Exhibit G – Administrative Questionnaire

Exhibit H – Tax Certificates

Exhibit I – Interest Rate Reduction Trigger Amounts

SCHEDULE 1.2**LIST OF LENDERS AND TERM LOAN COMMITMENTS**

Name of Lender	Loan Commitment	Comments
Tennenbaum Special Situations Fund IX, LLC	\$15,291,000.00	Lender will fund its Pro Rata Percentage of the applicable Credit Extension
Tennenbaum Special Situations IX-A, LLC.	\$3,052,000.00	Lender will fund its Pro Rata Percentage of the applicable Credit Extension
Tennenbaum Special Situations IX-O, L.P.	3,804.000.00	Lender will fund its Pro Rata Percentage of the applicable Credit Extension
Tennenbaum Special Situations IX-C, L.P.	\$2,853,000.00	Lender will fund its Pro Rata Percentage of the applicable Credit Extension
TOTAL	\$25,000,000	

SCHEDULE 1.4

WIRE TRANSFER INSTRUCTIONS

1. Tennenbaum Special Situations Fund IX, LLC

Name of Bank: Wells Fargo Bank, NA
ABA Number: 121-000-248
Account Number: 6355067033
Account Name: CDO Clearing
FFC Account Number: 83486400
FFC Account Name: Tennenbaum Special Situations Fund IX, LLC

2. Tennenbaum Special Situations IX-O, L.P.

Name of Bank: MUFG Union Bank, N.A.
ABA Number: 122-000-496
Account Number: 6733002890
Account Name: Tennenbaum Special Situations IX-O, LP

3. Tennenbaum, Special Situations Fund IX-A, LLC

Name of Bank: Wells Fargo Bank, NA
ABA Number: 121-000-248
Account Number: 6355067033
Account Name: CDO Clearing
FFC Account Number: 79053400
FFC Account Name: Tennenbaum Special Situations Fund IX-A, LLC

4. Tennenbaum Special Situations IX-C, L.P.

Bank Name: State Street
ABA: 011-000-028
Acct Name: Tennenbaum Special Situations IX-C LP CPUC
DDA: 10668341
Ref: Enphase Energy, Inc.

EXHIBIT A

COLLATERAL DESCRIPTION

The Collateral consists of all of Borrower's real and personal property of every kind and nature whether now owned or hereafter acquired by, or arising in favor of Borrower, and regardless of where located, including, without limitation, all of Borrower's right, title and interest in and to the following property:

1. All Goods, Accounts (including health-care receivables), Pledged Accounts, Equipment, Inventory, contract rights (excluding Intellectual Property and Intellectual Property Licenses) or rights to payment of money, leases, license agreements (excluding Intellectual Property and Intellectual Property Licenses), franchise agreements, General Intangibles (excluding Intellectual Property and Intellectual Property Licenses), Commercial Tort Claims, Documents, Instruments (including any Promissory Notes), Chattel Paper (whether tangible or electronic), cash and Cash Equivalents, Fixtures, letters of credit, Letter of Credit Rights (whether or not the letter of credit is evidenced by a writing), Securities, and all other Investment Property, Supporting Obligations, and Financial Assets, whether now owned or hereafter acquired, wherever located, provided however, that (i) the Collateral shall include all Accounts and General Intangibles that consist of rights to payment and proceeds from the sale, licensing or disposition of all or any part, or rights in, the Intellectual Property or Intellectual Property Licenses (the "Rights to Payment"); and (ii) if a judicial authority (including a U.S. Bankruptcy Court) holds that a security interest in Borrower's Intellectual Property or Intellectual Property Licenses is necessary to have a security interest in the Rights to Payment, then the Collateral shall automatically, and effective as of the date of this Agreement, include the Intellectual Property to the extent necessary to permit perfection of Agent's security interest in the Rights to Payment; and
2. All Borrower's Books relating to the foregoing, and all additions, attachments, accessories, accessions and improvements to any of the foregoing, and all substitutions, replacements or exchanges therefor, and all Proceeds, insurance claims, products, profits and other rights to payments not otherwise included in the foregoing;

provided, that, the grant of security interest herein shall not extend to and the term "Collateral" shall not include (a) any rights or interests held under any contract, lease, permit, license, or license agreement covering real or personal property of any Loan Party that are not assignable or prohibit the grant of a security interest or lien therein by applicable law or their terms without the consent of the licensor thereof (but only to the extent such restriction on assignment is enforceable under applicable law); (b) equipment subject to liens permitted pursuant to Subsection (c) of the definition of Permitted Liens where the agreements governing the capital lease obligations or purchase money Indebtedness related thereto prohibit such security interest, for so long as such prohibition exists; (c) voting Equity Interests of any Foreign Subsidiary or Excluded Domestic Subsidiary, solely to the extent that such Equity Interests represent more than 65% of the outstanding voting Equity Interests of such Foreign Subsidiary or Excluded Domestic Subsidiary; or (d) any United States intent-to-use trademark applications to the extent that, and solely during the period in which, the grant of a security interest therein would impair the validity or enforceability of such intent-to use trademark applications under applicable federal law; provided, that upon submission and acceptance by the PTO of an amendment to allege use pursuant to 15 U.S.C. Section 1060(a) (or any successor provision), such intent-to-use trademark application shall be considered Collateral.

In addition, in the event that the Wells Fargo Indebtedness is secured or in the future becomes secured by any of Borrower's real property interests of any nature, then all such assets shall be considered as part of the Collateral. Once the Wells Fargo Indebtedness is no longer outstanding, all of Borrower's real property interests shall be considered as part of the Collateral.

EXHIBIT B

COMPLIANCE CERTIFICATE

TO:
FROM:
DATE:

The undersigned authorized officer of _____ (“Borrower”) certifies that under the terms and conditions of the Loan and Security Agreement among Borrower, Agent and Lenders dated as of _____ 2016 (the “Agreement”):

- (1) Borrower is in complete compliance for the period ending _____ with all required covenants except as noted below; (2) there are no Events of Default; (3) all representations and warranties in the Agreement are true and correct on this date except that those representations and warranties expressly referring to a specific date shall be true, accurate and complete in all material respects as of such date; (4) Borrower, and each of its Subsidiaries, has timely filed all required Tax Returns and reports, and Borrower has timely paid all foreign, federal, state and local Taxes, assessments, deposits and contributions owed by Borrower except as otherwise permitted pursuant to the terms of Section 4.9 of the Agreement; and (5) no Liens have been levied or claims made against Borrower or any of its Subsidiaries relating to unpaid employee payroll or benefits of which Borrower has not previously provided written notification to Agent.

Attached are the required documents supporting the certification, including documentation underlying compliance with Section 5.11. The undersigned certifies that all the financial statements delivered with this Compliance Certificate have been prepared in accordance with GAAP consistently applied from one period to the next except as explained in an accompanying letter or, in the case of monthly or quarterly financial statements, the absence of footnotes and normal year-end adjustments. The undersigned acknowledges that no borrowings may be requested at any time or date of determination that Borrower is not in compliance with any of the terms of the Agreement, and that compliance is determined not just at the date this certificate is delivered. Capitalized terms used but not otherwise defined herein shall have the meanings given them in the Agreement.

Please indicate compliance status by circling Yes/No under “Complies” column.

Reporting Covenant	Required	Complies	
Monthly financial statements	Monthly within 30 days (45 days if quarter end, and 60 days if year end)	Yes	No
Quarterly financial statements	Quarterly within 45 days	Yes	No
Annual financial statement (CPA Audited)	FYE within 90 days	Yes	No
Board approved Operating Budget	FYE within 60 days after the end of year	Yes	No

The following space should be used to list:

- Intellectual Property registered (or a registration application submitted) after the Effective Date and which has not yet been listed on a previous Compliance Certificate, or any other permitted updates to the Perfection Certificates; and
- any material change in the composition of (i) Borrower’s or any of its Subsidiaries’ Intellectual Property, (ii) the registration of any copyright, including any subsequent ownership right of Borrower or any of its Subsidiaries’ in or to any registered copyright, patent or trademark not shown in the Perfection Certificates, and (iii) Borrower’s knowledge of an event that could reasonably be expected to materially and adversely affect the value of its or any of its Subsidiaries’ Intellectual Property.

(if no registrations or updates, state “None”)

The following are the exceptions with respect to the certification above: (If no exceptions exist, state “No exceptions to note.” The listing of an exception does not excuse non-compliance.)

Date: [Borrower]

Name:
Title:

EXHIBIT C

FORM OF NOTICE OF BORROWING

TO: Obsidian Agency Services, Inc.
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405,
Attention: Todd Jaquez-Fissori

RE: Enphase Energy, Inc.

Reference is made to that certain Loan and Security Agreement, dated as of July __, 2016 (as the same may be amended, restated, supplemented, amended and restated or otherwise modified from time to time, the "**Credit Agreement**"), by and among Enphase Energy, Inc. (the "**Borrower**") and _____ and _____ (collectively, "**Lenders**"). Capitalized terms used herein and not otherwise defined herein are used herein as defined in the Credit Agreement.

Borrower hereby gives you notice, irrevocably, pursuant to Section 2.4(a) of the Credit Agreement that it hereby requests a borrowing (the "**Proposed Borrowing**") under the Credit Agreement and, in connection therewith, sets forth below the information relating to the Proposed Borrowing as required by Section 2.4(a) of the Credit Agreement:

- a. The date of the Proposed Borrowing is _____, 201_ (the "**Funding Date**").
- b. The aggregate principal amount of the Proposed Borrowing is \$ _____, and is to be made under the Term Loan.
- c. The proceeds are to be funded to the following account:

Bank Name: _____
Bank Address: _____
Account Number: _____
ABA Number: _____
Account Name: _____

The undersigned, being the Chief Financial Officer of Borrower, after due inquiry hereby certifies that the following statements are true on the date hereof, shall be true on the Funding Date, both before and after giving effect to the Proposed Borrowing and any other Loan to be made on or before the Funding Date:

- (i) as of the Funding Date, the representations and warranties contained in the Credit Agreement and in the other Loan Documents are true and correct in all respects on and as of the Funding Date to

the same extent as though made on and as of the Funding Date (or to the extent such representations and warranties specifically relate to a specified date on and as of such specified date);

- (ii) as of the Funding Date, no event has occurred and is continuing or would result from the consummation of the Proposed Borrowing that would constitute a Default or an Event of Default; and
- (iii) as of the Funding Date, no injunction or other restraining order has been issued and no hearing to cause an injunction or other restraining order to be issued is pending or noticed with respect to any action, suit or proceeding seeking to enjoin or otherwise prevent the consummation of, or to recover any damages or obtain relief as a result of, the transactions contemplated by the Credit Agreement or the making of the Proposed Borrowing or the making of a Credit Extension under the Credit Agreement.

Delivery of an executed counterpart of this Notice of Borrowing by facsimile or other electronic means shall be effective as delivery of an original executed counterpart of this Notice of Borrowing.

[Remainder of page intentionally left blank]

Enphase Energy, Inc.

By: _____
Name:
Title:

EXHIBIT D

Joinder

This Joinder (the "**Agreement**") is entered into as of _____, 201_, by and between Obsidian Agency Services, Inc. ("**Agent**") and _____, a _____ [corporation / limited liability company] ("**Co-Borrower**").

WHEREAS, as a condition to Agent and Lenders entering into that certain Loan and Security Agreement dated _____, 2016, as such may be amended, restated, supplemented, amended and restated or otherwise modified from time to time (the "**Credit Agreement**") with Enphase Energy, Inc. ("**Borrower**"), Agent and Lenders require that each of Borrower's Subsidiaries agree to become bound by Credit Agreement as if such entity were a party thereto, as modified by this Agreement.

WHEREAS, Co-Borrower is a Subsidiary.

WHEREAS, Co-Borrower acknowledges and agrees that it derives a substantial benefit from the Credit Agreement even if it does not directly receive proceeds thereunder, and that it is willing to deliver this Agreement in order to induce Lenders to extend such credit.

NOW, THEREFORE, based on the promises contained herein and for other good and valuable consideration, the receipt and sufficiency of which are acknowledged, Agent, Lenders and Co-Borrower hereby agree:

1. Capitalized terms used but not defined herein shall have the meaning provided in the Credit Agreement. The recitals set forth above are incorporated herein by reference.
2. By signing below, Co-Borrower shall be bound by the Credit Agreement as if it were Borrower with the following exceptions:
 - a. Co-Borrower is a _____ [corporation/ LLC/etc.];
 - b. Co-Borrower shall not be entitled to submit a Notice of Borrowing or otherwise be entitled to require Lenders to make a Credit Extension to Co-Borrower, it being acknowledged that only Borrower has any right to such obtain funds from Lenders;
 - c. Co-Borrower need not maintain separate insurance as long as it is covered under Borrower's insurance in compliance with Section 5.6 of the Credit Agreement.
 - d. Co-Borrower need not provide the periodic information or reports required by Section 5.2 of the Credit Agreement as long as the information and reports submitted by Borrower contains complete and accurate information for Co-Borrower; and
 - e. Neither Agent nor Lender shall be required to provide Co-Borrower with any notice or other deliverables under the Credit Agreement, it being agreed that Co-Borrower shall look exclusively to Borrower for all such items. In furtherance thereof, to the extent that Agent or Lenders have any duties, obligations or responsibilities to Borrower under the Credit Agreement, those duties, obligations and responsibilities will be limited to Borrower and not extend to Co-Borrower.
3. [Co-Borrower's securities have not been certificated. If Co-Borrower certifies its securities, it shall immediately deliver the original certificate evidencing such securities to Agent and shall follow Agent's directions regarding such securities after the occurrence and during the continuation of any Event of Default.]

4. The provisions of Sections 11, 13 and 14 of the Credit Agreement are incorporated herein by reference, mutatis mutandis.
5. Co-Borrower acknowledges that the providing of this Agreement to Agent is integral and material to Agent and Lenders' decision to proceed with the Credit Agreement, without which Agent and Lenders would not proceed. Co-Borrower further agrees that it is receiving substantial and material benefits from Borrower's execution of the Credit Agreement and receipt of the loan proceeds thereunder, even if the loan proceeds have not directly been made available to Co-Borrower. At a minimum, Co-Borrower acknowledges that it has received reasonably equivalent value in connection with the execution and delivery of this Agreement. Co-Borrower waives, for itself and any successors (e.g., an assignee for the benefit of creditors, a receiver, a trustee in Bankruptcy, a debtor-in-possession, etc.), to the fullest extent provided by law, any rights or remedies regarding the enforceability of this Agreement, including without limitation, that Co-Borrower did not receive adequate consideration in connection with this Agreement or any of the transactions or agreements relating thereto.

[signatures continued on the following page]

IN WITNESS WHEREOF, the parties hereto have caused this Joiner to be executed as of the date first written above.

AGENT:

Obsidian Agency Services, Inc.

By: _____
Name: _____
Title: _____

CO-BORROWER:

[_____]

By: _____
Name: _____
Title: _____

EXHIBIT E

Note – Term Loan

FORM OF TERM NOTE

\$ _____ .00 _____, 20__

FOR VALUE RECEIVED, the undersigned, [NAME OF BORROWER], a [_____] (the “**Borrower**”, together with all successors and assigns), promises to pay [NAME OF LENDER] hereinafter, together with its successors in title and permitted assigns, “**Lender**”, the principal sum of _____ DOLLARS (\$ _____ .00), or such lesser amount as is outstanding from time to time, on the dates and in the amounts set forth in the Credit Agreement (as hereafter defined), with interest, fees, expenses and costs at the rate and payable in the manner stated in the Credit Agreement. As used herein, the “**Credit Agreement**” means and refers to that certain Loan and Security Agreement, dated as of [DATE OF AGREEMENT] (as such may be amended, restated, supplemented, amended and restated or otherwise modified from time to time) by and among Borrower, Lender and Obsidian Agency Services, Inc. as Agent (in such capacity, including any successor thereto, the “**Agent**”) and as Agent for Lenders. Agent. Capitalized terms used herein and not otherwise defined herein are used herein as defined in the Credit Agreement.

This Term Note is a “Note” to which reference is made in the Credit Agreement and is subject to all terms and provisions thereof. This Term Note is also entitled to the benefits of the Credit Agreement and is secured by the Collateral. The principal of, and interest on, this Term Note shall be payable at the times, in the manner, and in the amounts as provided in the Credit Agreement and shall be subject to prepayment and acceleration as provided therein. Agent’s books and records concerning the Term Loan, the accrual of interest and fees thereon and the repayment of such Term Loan shall be prima facie evidence of the indebtedness to Lender hereunder, absent manifest error.

No delay or omission by Lender or Agent in exercising or enforcing any of its powers, rights, privileges, remedies or discretions hereunder shall operate as a waiver thereof on that occasion nor on any other occasion. No waiver of any Event of Default shall operate as a waiver of any other Event of Default, nor as a continuing waiver.

Borrower waives presentment, demand, notice and protest, and also waives any delay on the part of the holder hereof. Borrower assents to any extension or other indulgence (including, without limitation, the release or substitution of Collateral) permitted by Agent, Agent and/or Lender with respect to this Term Note and/or any Loan Document or any extension or other indulgence with respect to any other liability or any collateral given to secure any other liability of Borrower or any other Person obligated on account of this Term Note.

This Term Note shall be binding upon Borrower and upon its successors, assigns, and representatives, and shall inure to the benefit of Lender and its successors, endorsees and assigns.

Borrower agrees that any action or proceeding arising out of or relating to this Term Note or for recognition or enforcement of any judgment, may be brought in any California State court or Federal court of the United States of America sitting in Los Angeles, and any appellate court from any thereof, and by execution and delivery of this Term Note, Borrower and Lender each consent, for itself and in respect of its property, to the exclusive jurisdiction of those courts. Each of Borrower and, by its acceptance hereof, Lender, irrevocably and unconditionally waives, to the fullest extent that it may legally and effectively do so, any objection which it may now or hereafter have to the laying of venue of any suit, action or proceeding arising out of or relating to this Term Note in any California State or Federal court. Each of Borrower and, by its acceptance hereof, Lender, hereby irrevocably waives, to the fullest extent permitted by law, the defense of an inconvenient forum to the maintenance of such action or proceeding in any such court.

THIS TERM NOTE SHALL BE GOVERNED BY, AND CONSTRUED IN ACCORDANCE WITH, THE INTERNAL LAWS OF THE STATE OF CALIFORNIA WITHOUT REFERENCE TO ITS CONFLICT OF LAW PRINCIPALS.

Each of Borrower and, by its acceptance hereof, Lender, makes the following waiver knowingly, voluntarily, and intentionally, and understands that Lender or Borrower, as applicable, are each relying thereon. EACH OF BORROWER AND LENDER BY ITS ACCEPTANCE HEREOF, HEREBY WAIVES, TO THE FULLEST EXTENT PERMITTED BY APPLICABLE LAW, ANY RIGHT IT MAY HAVE TO A TRIAL BY JURY IN RESPECT OF ANY LITIGATION DIRECTLY OR INDIRECTLY ARISING OUT OF, UNDER OR IN CONNECTION WITH THIS TERM NOTE. If such waiver is for any reason not enforceable as provided, then the provisions of Sections 11.3 and 11.4 of the Credit Agreement shall be deemed incorporated herein by reference.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, the undersigned has caused this Term Note to be duly executed and delivered by its duly authorized officer as of the date first above written.

[NAME OF BORROWER]

By: _____

Name:

Title:

[SIGNATURE PAGE TO FORM OF TERM NOTE]

TERM LOAN AND PAYMENTS

Date	Amount of Term Loan	Maturity Date	Payments of Principal/Interest	Principal Balance of Term Note	Name of Person Making this Notation

EXHIBIT F

FORM OF ASSIGNMENT AND ACCEPTANCE

This Assignment and Acceptance (this “*Assignment and Acceptance*”) is dated as of the Effective Date set forth below and is entered into by and between [the][each] Assignor identified in item 1 below ([the][each, an] “*Assignor*”) and [the][each] Assignee identified in item 2 below ([the][each, an] “*Assignee*”). [It is understood and agreed that the rights and obligations of [the Assignors][the Assignees] hereunder are several and not joint.] Capitalized terms used but not defined herein shall have the meanings given to them in the Loan and Security Agreement identified below (the “*Credit Agreement*”), receipt of a copy of which is hereby acknowledged by the Assignee. The Standard Terms and Conditions set forth in Annex 1 attached hereto are hereby agreed to and incorporated herein by reference and made a part of this Assignment and Acceptance as if set forth herein in full.

For an agreed consideration set forth below as the “Purchase Price”, [the][each] Assignor hereby irrevocably sells and assigns to [the Assignee][the respective Assignees], and [the][each] Assignee hereby irrevocably purchases and assumes from [the Assignor][the respective Assignors], subject to and in accordance with the Standard Terms and Conditions and the Credit Agreement, as of the Effective Date inserted by Agent as contemplated below (i) all of [the Assignor’s][the respective Assignors’] rights and obligations in [its capacity as a Lender][their respective capacities as Lenders] under the Credit Agreement and any other documents or instruments delivered pursuant thereto to the extent related to the amount and percentage interest identified below of all of such outstanding rights and obligations of [the Assignor][the respective Assignors] under the respective facilities identified below and (ii) to the extent permitted to be assigned under applicable law, all claims, suits, causes of action and any other right of [the Assignor (in its capacity as a Lender)][the respective Assignors (in their respective capacities as Lenders)] against any Person, whether known or unknown, arising under or in connection with the Credit Agreement, any other documents or instruments delivered pursuant thereto or the loan transactions governed thereby or in any way based on or related to any of the foregoing, including, but not limited to, contract claims, tort claims, malpractice claims, statutory claims and all other claims at law or in equity related to the rights and obligations sold and assigned pursuant to clause (i) above (the rights and obligations sold and assigned by [the][any] Assignor to [the][any] Assignee pursuant to clauses (i) and (ii) above being referred to herein collectively as [the][an] “*Assigned Interest*”). Each such sale and assignment is without recourse to [the][any] Assignor and, except as expressly provided in this Assignment and Acceptance, without representation or warranty (express or implied) by [the][any] Assignor.

1. Assignor[s]: _____

2. Assignee[s]: _____

[for each Assignee *identify Lender*] _____

3. Borrower: Enphase Energy, Inc., a Delaware corporation

4. Agent: Obsidian Agency Services, Inc., a California corporation, including any successor thereto, as the “Agent” under the Credit Agreement.

5. Credit Agreement: The Loan and Security Agreement, dated as of _____, 2016, among Enphase Energy, Inc., a Delaware corporation, as Borrower, Lenders from time to time party thereto, and Obsidian Agency Services, Inc., a Delaware corporation, as agent for Lenders.

6. Term Loan Assigned Interest:

<u>Assignor[s]</u>	<u>Assignee[s]</u>	<u>Aggregate Amount of Term Loan for all Lenders</u>	<u>Amount of Term Loan Assigned</u>	<u>Percentage Assigned of Term Loan</u>	<u>CUSIP Number</u>
		\$	\$	%	
		\$	\$	%	
		\$	\$	%	

7. Reserved.

8. Purchase Price: \$___

9. Trade Date: _____

Effective Date: _____, 20__ [TO BE INSERTED BY AGENT AND WHICH SHALL BE THE EFFECTIVE DATE OF RECORDATION OF TRANSFER IN THE REGISTER THEREFOR.]

[Remainder of page intentionally left blank]

The terms set forth in this Assignment and Acceptance are hereby agreed to:

ASSIGNOR

[NAME OF ASSIGNOR]

By: _____

Name:

Title:

ASSIGNEE

[NAME OF ASSIGNEE]

By: _____

Name:

Title:

Consented to and Accepted:

Obsidian Agency Services, Inc. as Agent

By: __

Name:

Title:

STANDARD TERMS AND CONDITIONS FOR ASSIGNMENT AND ACCEPTANCE**1. Representations and Warranties.**

1.1. Assignor. [The][Each] Assignor (a) represents and warrants that it is the legal and beneficial owner of the interest being assigned thereby free and clear of any adverse claim and that its Commitment, and the outstanding balance of its Loan, without giving effect to the assignments pursuant thereto, are as set forth herein; and (b) except as set forth in (a) above, makes no representation or warranty and assumes no responsibility with respect to any statements, warranties or representations made in or in connection with the Credit Agreement or any other Loan Document, or the execution, legality, validity, enforceability, genuineness, sufficiency or value of the Credit Agreement, any other Loan Document or any other instrument or document furnished pursuant to the Credit Agreement, or the financial condition of, Borrower or any Subsidiary or the performance or observance by Borrower or any Subsidiary of any of its obligations under the Credit Agreement, any other Loan Document or any other instrument or document furnished pursuant to the Credit Agreement.

1.2. Assignee. [The][Each] Assignee (a) represents and warrants that (i) it is legally authorized to enter into such Assignment and Acceptance; (ii) it meets all the requirements to be an assignee under Section 13.1 of the Credit Agreement (subject to such consents, if any, as may be required under Section 13.1 of the Credit Agreement); (iii) from and after the Effective Date referred to in this Assignment and Acceptance, it shall be bound by the provisions of the Credit Agreement as a Lender thereunder and, to the extent of [the][the relevant] Assigned Interest, shall have the obligations of a Lender thereunder; (iv) it is sophisticated with respect to decisions to acquire assets of the type represented by [the][such] Assigned Interest and either it, or the Person exercising discretion in making its decision to acquire [the][such] Assigned Interest, is experienced in acquiring assets of such type; (v) it has, independently and without reliance upon Agent or any other Lender and based on such documents and information as it has deemed appropriate, made its own credit analysis and decision to enter into this Assignment and Acceptance and to purchase [the][such] Assigned Interest; (vi) it is not the Excluded Lender and (vii) attached hereto is any documentation required to be delivered by it pursuant to the terms of the Credit Agreement, duly completed and executed by [the][such] Assignee; (b) confirms that it has received a copy of the Credit Agreement, together with copies of the most recent financial statements delivered pursuant to Section 5.2 of the Credit Agreement and such other documents and information as it has deemed appropriate to make its own credit analysis and decision to enter into this Assignment and Acceptance; (c) will independently and without reliance upon Agent, such assigning Lender or any other Lender and based on such documents and information as it shall deem appropriate at the time, continue to make its own credit decisions in taking or not taking action under the Loan Documents; (d) appoints and authorizes Agent to take such action as agent on its behalf and to exercise such powers under the Credit Agreement as are delegated to Agent by the terms of the Credit Agreement, together with such powers as are reasonably incidental thereto; and I agrees that it will perform in accordance with their terms all the obligations which by the terms of the Loan Documents are required to be performed by it as a Lender.

2. Payments. From and after the Effective Date, Agent shall make all payments in respect of [the][each] Assigned Interest (including payments of principal, interest, fees and other amounts) to [the][the relevant] Assignor for amounts which have accrued to but excluding the Effective Date and to [the][the relevant] Assignee for amounts which have accrued from and after the Effective Date.

3. General Provisions. This Assignment and Acceptance shall be binding upon, and inure to the benefit of, the parties hereto and their respective successors and permitted assigns. This Assignment and Acceptance may be executed in any number of counterparts (and by different parties hereto in different counterparts), each of which shall constitute an original, but all of which together shall constitute one

instrument. Delivery of an executed counterpart of a signature page of this Assignment and Acceptance by telecopy or other electronic imaging means shall be effective as delivery of a manually executed counterpart of this Assignment and Acceptance. This Assignment and Acceptance shall be governed by, and construed in accordance with, the internal laws of the State of California.

4. Eligible Assignee. Each Person who is to become a Lender under the Credit Agreement is required to meet the requirements in Section 13.1 of the Credit Agreement and be approved in writing by Agent.

EXHIBIT G

ADMINISTRATIVE QUESTIONNAIRE

[AGENT LOGO]

Enphase Energy, Inc.

Obsidian Agency Services, Inc., c/o Tennenbaum Capital Partners, LLC, 2951 28th Street, Suite 1000, Santa Monica, CA 90405, Attention: Todd Jaquez-Fissori, (Email: todd.fissori@tennenbaumcapital.com), with a copy (which shall not constitute notice) to PremierCounsel LLP, Attention: Steven O. Gasser (Fax No. (415) 357-1414 and Email: sgasser@premiercounsel.com)

Return form to:

Obsidian Agency Services, Inc.,
c/o Tennenbaum Capital Partners, LLC
2951 28th Street, Suite 1000
Santa Monica, CA 90405
Attention: Todd Jaquez-Fissori
Email: todd.fissori@tennenbaumcapital.com

It is very important that **all** of the requested information be completed accurately and that this questionnaire be returned promptly. If your institution is sub-allocating its allocation, please fill out an administrative questionnaire for each legal entity.

Legal Name of Lender to appear in Documentation:

Tax ID Number: _____

Signature Block Information: _____

Signing Credit Agreement Yes No

Coming in via Assignment Yes No

Type of Lender:

Bank | Asset Manager | Broker/Dealer | CLO/CDO | Finance Company | Hedge Fund | Insurance | Mutual Fund | Pension Fund |Other Regulated Investment Fund |Special Purpose Vehicle |Other-please specify |

Lender Parent: ___

Address

Contacts/Notification Methods: Borrowings, Paydowns, Interest, Fees, etc.

Primary Credit Contact

Secondary Credit Contact

Syndicate-level information (which may contain material non-public information about Borrower and its related parties or their respective securities) will be made available to the Credit Contact(s). The Credit Contacts identified must be able to receive such information in accordance with his/her institution's compliance procedures and applicable laws, including Federal and state securities laws.

Name:

Company:

Title:

Address:

Telephone:

Facsimile:

E-Mail Address:

Primary Operations Contact

Secondary Operations Contact

Name:

Company:

Title:

Address:

Telephone:

Facsimile:

E-Mail Address:

Lender's Domestic Wire Instructions

Bank Name: _____

ABA/Routing No.: _____

Account Name: _____

Account No.: _____

FFC Account Name: _____

FFC Account No.: _____

Attention: _____

Reference: _____

Lender's Foreign Wire Instructions

Currency: _____

Bank Name: _____

Swift/Routing No.: _____

Account Name: _____

Account No.: _____

FFC Account Name: _____

FFC Account No.: _____

Attention: _____

Reference: _____

Agent's Wire Instructions

Bank Name: _____

ABA/Routing No.: _____

Account Name: _____

Account No.: _____

FFC Account Name: _____

FFC Account No.: _____

Attention: _____

Reference: _____

NON-U.S. LENDER INSTITUTIONS :

I. Corporations:

If your institution is incorporated outside of the United States for U.S. federal income tax purposes, and is the beneficial owner of the interest and other income it receives, you must complete one of the following three tax forms, as applicable to your institution: **a.) Form W-8BEN-E** (*Certificate of Status of Beneficial Owner for United States Tax Withholding and Reporting (Entities)*), **b.) Form W-8ECI** (*Income Effectively Connected to a U.S. Trade or Business*), or **c.) Form W-8EXP** (*Certificate of Foreign Government or Governmental Agency*).

A U.S. taxpayer identification number is required for any institution submitting Form W-8ECI. It is also required on Form W-8BEN-E for certain institutions claiming the benefits of a tax treaty with the U.S. Please refer to the instructions when completing the form applicable to your institution. In addition, please be advised that U.S. tax regulations do not permit the acceptance of faxed forms. **An original tax form must be submitted.**

II. Flow-Through Entities:

If your institution is organized outside the U.S., and is classified for U.S. federal income tax purposes as either a Partnership, Trust, Qualified or Non-Qualified Intermediary, or other non-U.S. flow-through entity, an original **Form W-8IMY** (*Certificate of Foreign Intermediary, Foreign Flow-Through Entity, or Certain U.S. Branches for United States Tax Withholding*) must be completed by the intermediary together with a withholding statement. Flow-through entities other than Qualified Intermediaries are required to include tax forms for each of the underlying beneficial owners.

Please refer to the instructions when completing this form. In addition, please be advised that U.S. tax regulations do not permit the acceptance of faxed forms. **Original tax form(s) must be submitted.**

U.S. LENDER INSTITUTIONS:

If your institution is incorporated or organized within the United States, you must complete and return **Form W-9** (*Request for Taxpayer Identification Number and Certification*). **Please be advised that we request that you submit an original Form W-9.**

Pursuant to the language contained in the tax section of the Credit Agreement, the applicable tax form for your Non-U.S. or U.S. institution must be completed and returned on or prior to the date on which your institution becomes a Lender under the Credit Agreement. Failure to provide the proper tax form when requested may subject your institution to U.S. tax withholding.

Exhibit H-1

FORM OF U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Lenders That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Loan and Security Agreement dated as of [] (as amended, supplemented or otherwise modified from time to time, the "Agreement"), among Enphase Energy, Inc., a Delaware corporation, each Lender (as defined in Section 14 therein) and Obsidian Agency Services, Inc., a California corporation, in its capacity as administrative and collateral agent for Lenders (the "Agent").

Pursuant to the provisions of Section 1.11 of the Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 8811(3)(A) of the IRC, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the IRC and (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the IRC.

The undersigned has furnished the Agent and the Borrower with a certificate of its non-U.S. Person status on IRS Form W-8BEN or W-8BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Agent, and (2) the undersigned shall have at all times furnished the Borrower and the Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Agreement and used herein shall have the meanings given to them in the Agreement.

[NAME OF LENDER]

By: _____

Name:

Title:

Date: _____, 20[]

EXHIBIT H-2

FORM OF U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Participants That Are Not Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Loan and Security Agreement dated as of [] (as amended, supplemented or otherwise modified from time to time, the “Agreement”), among Enphase Energy, Inc., a Delaware corporation, each Lender (as defined in Section 14 therein) and Obsidian Agency Services, Inc., a California corporation, in its capacity as administrative and collateral agent for Lenders (the “Agent”).

Pursuant to the provisions of Section 1.11 of the Agreement, the undersigned hereby certifies that (i) it is the sole record and beneficial owner of the participation in respect of which it is providing this certificate, (ii) it is not a bank within the meaning of Section 881I(3)(A) of the IRC, (iii) it is not a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the IRC, and (iv) it is not a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the IRC.

The undersigned has furnished its participating Lender with a certificate of its non-U.S. Person status on IRS Form W-8BEN or W-8BEN-E. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender in writing, and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Agreement and used herein shall have the meanings given to them in the Agreement.

[NAME OF PARTICIPANT]

By: _____

Name:

Title:

Date: _____, 20[]

EXHIBIT H-3

FORM OF U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Participants That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Loan and Security Agreement dated as of [] (as amended, supplemented or otherwise modified from time to time, the “Agreement”), among Enphase Energy, Inc., a Delaware corporation, each Lender (as defined in Section 14 therein) and Obsidian Agency Services, Inc., a California corporation, in its capacity as administrative and collateral agent for Lenders (the “Agent”).

Pursuant to the provisions of Section 1.11 of the Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the participation in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such participation, (iii) with respect such participation, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881I(3)(A) of the IRC, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the IRC and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(e)(3)(C) of the IRC.

The undersigned has furnished its participating Lender with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or W-8BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or W-8BEN-E from each of such partner’s/member’s beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform such Lender and (2) the undersigned shall have at all times furnished such Lender with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Agreement and used herein shall have the meanings given to them in the Agreement.

[NAME OF PARTICIPANT]

By: _____

Name:

Title:

Date: _____, 20[]

EXHIBIT H-4

FORM OF U.S. TAX COMPLIANCE CERTIFICATE

(For Foreign Lenders That Are Partnerships For U.S. Federal Income Tax Purposes)

Reference is hereby made to the Loan and Security Agreement dated as of [] (as amended, supplemented or otherwise modified from time to time, the "Agreement"), among Enphase Energy, Inc., a Delaware corporation, each Lender (as defined in Section 14 therein) and Obsidian Agency Services, Inc., a California corporation, in its capacity as administrative and collateral agent for Lenders (the "Agent").

Pursuant to the provisions of Section 1.11 of the Agreement, the undersigned hereby certifies that (i) it is the sole record owner of the Loan(s) (as well as any Note(s) evidencing such Loan(s)) in respect of which it is providing this certificate, (ii) its direct or indirect partners/members are the sole beneficial owners of such Loan(s) (as well as any Note(s) evidencing such Loan(s)), (iii) with respect to the extension of credit pursuant to this Agreement or any other Loan Document, neither the undersigned nor any of its direct or indirect partners/members is a bank extending credit pursuant to a loan agreement entered into in the ordinary course of its trade or business within the meaning of Section 881(3)(A) of the IRC, (iv) none of its direct or indirect partners/members is a ten percent shareholder of the Borrower within the meaning of Section 871(h)(3)(B) of the IRC and (v) none of its direct or indirect partners/members is a controlled foreign corporation related to the Borrower as described in Section 881(c)(3)(C) of the IRC.

The undersigned has furnished the Agent and the Borrower with IRS Form W-8IMY accompanied by one of the following forms from each of its partners/members that is claiming the portfolio interest exemption: (i) an IRS Form W-8BEN or W-8BEN-E or (ii) an IRS Form W-8IMY accompanied by an IRS Form W-8BEN or W-8BEN-E from each of such partner's/member's beneficial owners that is claiming the portfolio interest exemption. By executing this certificate, the undersigned agrees that (1) if the information provided on this certificate changes, the undersigned shall promptly so inform the Borrower and the Agent, and (2) the undersigned shall have at all times furnished the Borrower and the Agent with a properly completed and currently effective certificate in either the calendar year in which each payment is to be made to the undersigned, or in either of the two calendar years preceding such payments.

Unless otherwise defined herein, terms defined in the Agreement and used herein shall have the meanings given to them in the Agreement.

[NAME OF LENDER]

By: _____

Name:

Title:

Date: _____, 20[]

Exhibit I

INTEREST RATE REDUCTION TRIGGER AMOUNTS

For the twelve consecutive month period beginning July 1, 2016 and ending June 30, 2017, Borrower's Revenue shall be not less than \$379,350,000 and Borrower's EBITDA shall not be less than negative \$13,794,000 (e.g., EBITDA shall not be negative \$14,000,000).

**AMENDMENT NO. 2
TO
COOPERATION AGREEMENT AND AMENDMENT NO. 1**

THIS AMENDMENT NO. 2 TO COOPERATION AGREEMENT AND AMENDMENT NO. 1 (this "**Amendment**") is entered into this 1st day of September, 2016 by and between **Enphase Energy, Inc.**, a Delaware corporation ("**Enphase**") and **Phoenix Contact GmbH & Co. KG and Phoenix Contact USA, Inc.**, (collectively "**Phoenix Contact**"). Capitalized terms used herein without definition shall have the same meanings given them in the Cooperation Agreement (as defined below).

RECITALS

- A. Enphase and Phoenix Contact have entered into that certain Cooperation Agreement dated as of December 7, 2010 and the Amendment No. 1 dated as of October 2011(as amended, restated, supplemented or otherwise modified from time to time, the "**Cooperation Agreement**").
- B. Enphase and Phoenix Contact have agreed to amend the Cooperation Agreement and Amendment No.1 upon the terms and conditions more fully set forth herein.

AGREEMENT

NOW, THEREFORE, in consideration of the foregoing Recitals and intending to be legally bound, the parties hereto agree as follows:

1. AMENDMENTS.

NOW, THEREFORE, in exchange for the mutual promises and covenants contained herein, and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, the Parties, intending to be legally bound, agree to the following changes:

- 1.1 **Section 4 of Annex 6 to the Cooperation Agreement and Amendment No.1**, "Forecast and Raw Material Liability", is deleted in its entirety.
- 1.2 **Section 6 of Annex 6 to the Cooperation Agreement and Amendment No.1**, "Payment Terms", shall be deleted and replaced with the following:
 - "6. **Payment Terms** Cash in advance with each Purchase Order."
- 1.3 **EFFECTIVENESS**: Until September 7, 2016 confirmed purchase orders from Enphase regarding the average amount of supplied CONTRACTUAL PRODUCTS of the last eight (8) months shall be supplied under the conditions of the Cooperation Agreement and Amendment No. 1. All purchase orders which are confirmed after September 7, 2016 and/or have a higher amount than the average amount of

Amendment #1 to the Flextronics Logistics Services Agreement

This Amendment # 1 ("Amendment #1") to the Flextronics Logistics Services Agreement with an effective date of May 1st, 2009 ("Agreement") is entered into as of this 28th day of July, 2016 (the "Effective Date"), by and between Enphase Energy, Inc. ("Enphase"), with an address at 201 1st Street, Petaluma, CA 94952, and Flextronics America LLC ("Flextronics") with an address of 260 South Milpitas Blvd., Milpitas, CA 95035 (together the "Parties").

For valuable consideration, the sufficiency of which is hereby acknowledged, the Parties agree:

1. That from time to time, Enphase will request Flex to arrange for the shipment of certain Goods including but not limited to raw materials, finished goods inventory, defective product returned, demonstration or evaluation units and equipment to Australia ("Australia Goods").
2. In connection with these Australia Goods, Enphase intends to use the services of a logistics services provider called YUSEN LOGISTICS (AUST) PTY LTD ("Yusen") located at 3 Davis Rd, Wetherill Park, NSW 2164, Australia. For a separately agreed service fee, Flextronics shall manage the relationship with Yusen.
3. Notwithstanding any terms to the contrary in the Agreement, Flextronics shall have no liability of any kind in connection with Australia Goods delivered to Yusen by Enphase or by Flextronics on behalf of Enphase.
4. Flextronics shall have no liability for loss or damage to Goods while such Australia Goods are in the care, control or custody of Yusen or in transit to Yusen or from Yusen.
5. Enphase shall be solely responsible for insuring the Australia Goods against all risks while they are under Yusen's or under Flextronics's care, control and custody, and Flextronics will not provide or obtain on behalf of Enphase any form or type of insurance on the Australia Goods.
6. Flextronics will make commercially reasonable efforts to assist Enphase to obtain relevant documentation to assist Enphase if a claim is made involving loss or damage to Australia Goods while in transit to or from Yusen, or while Australia Goods are in the control, care or custody of Yusen.
7. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Agreement. Except as set forth herein, all other terms and conditions of the Agreement remain in full force and effect.
8. In the event of a conflict between the provisions of the Agreement and this Amendment #1, the provisions of this Amendment #1 shall supersede and prevail.

Accepted and Agreed to by:

Enphase Energy, Inc.

Flextronics America LLC:

Signature:

/s/ Jeffery Rosen

Signature:

/s/ Timothy Stewart

Name:

Jeffery Rosen

Name:

Timothy Stewart

Date:

September 8, 2016

Date:

September 12, 2016

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 2, 2016

/s/ Paul B. Nahi

Paul B. Nahi

President and Chief Executive Officer

(Principal Executive Officer)

CERTIFICATION

I, Humberto Garcia, 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 2, 2016

/s/ Humberto Garcia

Humberto Garcia

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 Humberto Garcia, 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, 2016, 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 2nd day of November, 2016.

/s/ Paul B. Nahi

Paul B. Nahi

President and Chief Executive Officer

/s/ Humberto Garcia

Humberto Garcia

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.