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 March 31, 2015

or

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

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

Enphase Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware **(State or other jurisdiction of incorporation or organization)**	**20-4645388** **(I.R.S. Employer Identification No.)**
1420 N. McDowell Blvd. **Petaluma, California** **(Address of principal executive offices)**	**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	☐	Accelerated filer	☒
Non-accelerated filer	☐ (Do not check if a smaller reporting company)	Smaller reporting company	☐

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

As of April 30, 2015, there were 44,155,790 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 MARCH 31, 2015

TABLE OF CONTENTS

Table of Contents

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements (Unaudited)

ENPHASE ENERGY, INC.

CONDENSED CONSOLIDATED BALANCE SHEETS
(In thousands, except par value)
(Unaudited)

	March 31, 2015	December 31, 2014
ASSETS		
Current assets:		
Cash and cash equivalents	$ 27,127	$ 42,032
Accounts receivable, net of allowances of $533 and $569 at March 31, 2015 and December 31, 2014, respectively	45,870	45,119
Inventory	34,746	21,590
Prepaid expenses and other assets	7,087	6,155
Total current assets	114,830	114,896
Property and equipment, net	31,197	30,824
Goodwill	3,745	3,745
Intangibles, net	1,704	1,811
Other assets	2,014	916
Total assets	$ 153,490	$ 152,192
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 30,954	$ 22,316
Accrued liabilities	20,230	26,036
Deferred revenues	3,558	2,747
Warranty obligations, current portion (includes $1,534 and $1,125 measured at fair value at March 31, 2015 and December 31, 2014, respectively)	7,550	7,607
Total current liabilities	62,292	58,706
Long-term liabilities:		
Deferred revenues, noncurrent	18,217	16,612
Warranty obligations, noncurrent (includes $3,249 and $2,437 measured at fair value at March 31, 2015 and December 31, 2014, respectively)	26,613	26,333
Other liabilities	2,387	3,589
Total liabilities	109,509	105,240
Commitments and contingencies		
Stockholders' equity:		
Preferred stock, $0.00001 par value, 10,000 shares authorized; none issued and outstanding	—	—
Common stock, $0.00001 par value, 100,000 shares authorized; 44,117 and 43,756 shares issued and outstanding at March 31, 2015 and December 31, 2014, respectively	—	—
Additional paid-in capital	211,687	208,022
Accumulated deficit	(167,311)	(160,991)
Accumulated other comprehensive loss	(395)	(79)
Total stockholders' equity	43,981	46,952
Total liabilities and stockholders' equity	$ 153,490	$ 152,192

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.

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

	Three Months Ended March 31,	
	2015	**2014**
Net revenues	$ 86,653	$ 57,580
Cost of revenues	58,629	38,925
Gross profit	28,024	18,655
Operating expenses:		
Research and development	13,430	9,086
Sales and marketing	11,937	8,828
General and administrative	8,205	6,526
Total operating expenses	33,572	24,440
Loss from operations	(5,548)	(5,785)
Other income (expense), net:		
Interest expense	(78)	(449)
Other (expense) income	(527)	107
Total other expense, net	(605)	(342)
Loss before income taxes	(6,153)	(6,127)
Provision for income taxes	(167)	(109)
Net loss	$ (6,320)	$ (6,236)
Net loss per share, basic and diluted	$ (0.14)	$ (0.15)
Shares used in computing net loss per share, basic and diluted	43,950	42,205

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended March 31,	
	2015	2014
Net loss	$ (6,320)	$ (6,236)
Other comprehensive (loss) income:		
Foreign currency translation adjustments	(316)	1
Comprehensive loss	$ (6,636)	$ (6,235)

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.

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

	Three Months Ended March 31, 2015	Three Months Ended March 31, 2014
Cash flows from operating activities:		
Net loss	$ (6,320)	$ (6,236)
Adjustments to reconcile net loss to net cash used in operating activities:		
Depreciation and amortization	2,532	1,910
Provision for doubtful accounts	—	26
Net loss on disposal of assets	191	6
Non-cash interest expense	39	102
Stock-based compensation	2,988	2,013
Revaluation of contingent consideration liability	104	—
Changes in operating assets and liabilities:		
Accounts receivable	(751)	3,608
Inventory	(13,156)	2,467
Prepaid expenses and other assets	(2,069)	(977)
Accounts payable, accrued and other liabilities	2,305	1,159
Warranty obligations	223	296
Deferred revenues	2,416	(93)
Net cash (used in) provided by operating activities	(11,498)	4,281
Cash flows from investing activities:		
Purchases of property and equipment	(3,611)	(2,172)
Net cash used in investing activities	(3,611)	(2,172)
Cash flows from financing activities:		
Repayments of term loans	—	(866)
Proceeds from issuance of common stock under employee stock plans	677	454
Net cash provided by (used in) financing activities	677	(412)
Effect of exchange rate changes on cash	(473)	48
Net (decrease) increase in cash and cash equivalents	(14,905)	1,745
Cash and cash equivalents—Beginning of period	42,032	38,190
Cash and cash equivalents—End of period	$ 27,127	$ 39,935
Supplemental disclosures of non-cash investing and financing activities:		
Purchases of property and equipment included in accounts payable	$ 1,269	$ 497

See notes to condensed consolidated financial statements.

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. OVERVIEW AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of Business

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

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

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

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

Use of Estimates

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

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under US GAAP. The updated standard's core principle is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard generally requires an entity to identify performance obligations in its contracts, estimate the amount of variable consideration to be received in the transaction price, allocate the transaction price to each separate performance obligation, and recognize revenue as obligations are satisfied. In addition, the updated standard requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted.

Accordingly, the ASU will be effective for the Company beginning in the first quarter of 2017. The Company is currently evaluating the impact of the adoption on its consolidated financial statements.

2. INVENTORY

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

	March 31, 2015	December 31, 2014
Raw materials	$ 4,179	$ 3,429
Finished goods	30,567	18,161
Total inventory	$ 34,746	$ 21,590

3. WARRANTY OBLIGATIONS

The Company’s warranty activities during the three months ended March 31, 2015 and 2014 were as follows (in thousands):

	Three Months Ended March 31,	
	2015	2014
Warranty obligations, beginning of period	$ 33,940	$ 30,432
Accruals for warranties issued during period	1,105	613
Changes in estimates	58	1,400
Settlements	(1,151)	(1,733)
Increase due to accretion expense	161	20
Other	50	(4)
Warranty obligations, end of period	$ 34,163	$ 30,728
Less current portion	$ (7,550)	$ (5,894)
Noncurrent	$ 26,613	$ 24,834

For the three months ended March 31, 2014, warranty expense included net changes in estimates of $1.4 million to reflect higher than originally estimated replacement unit costs related to the Company’s second generation microinverter.

As of March 31, 2015, the $34.2 million in warranty obligations included $4.8 million measured at fair value (see Note 4—Fair Value Measurements).

4. FAIR VALUE MEASUREMENTS

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

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

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

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

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

	Fair Value Hierarchy	March 31, 2015	December 31, 2014
Assets:			
Foreign currency forward contracts	Level 2	$ 59	$ 76
Liabilities:			
Foreign currency forward contracts	Level 2	$ —	$ —
Warranty obligations	Level 3	4,783	3,562
Contingent consideration	Level 3	2,404	2,300

Derivative Instruments

The Company utilizes foreign currency forward contracts from time to time to reduce the impact of foreign currency fluctuations arising from both sales and purchases denominated in Euros and the British Pound Sterling. At March 31, 2015 and December 31, 2014, the notional amounts of the Company's foreign currency forward contracts outstanding were $1.3 million and $1.5 million, respectively. For the three months ended March 31, 2015 and 2014, the Company recorded net gains of $148,000 and $50,000, respectively, related to foreign currency forward contracts in other income (expense), net.

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

The Company 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 March 31,	
	2015	2014
Balance at beginning of period	$ 3,562	$ —
Accruals for warranties issued during period	1,047	571
Changes in estimates	—	—
Settlements	(36)	—
Increase due to accretion expense	161	20
Other	49	(4)
Balance at end of period	$ 4,783	$ 587

Contingent Consideration Liability

The contingent consideration liability relates to the Company's December 2014 acquisition of substantially all of the assets of Next Phase Solar, Inc. ("NPS"). The selling party may be entitled to receive two contingent payments, each based on achievement of defined revenue targets for the two annual periods subsequent to the acquisition date. The range of undiscounted amounts the Company could be required to pay for each contingent payment is between zero and $2.8 million.

The amounts are payable, if at all, in early 2016 and 2017 based on achievement of defined 2015 and 2016 revenue targets, respectively.

The Company is required to reevaluate the fair value of the contingent consideration liability at each reporting period based on new developments and record changes in fair value until such consideration is satisfied through payment upon the achievement of the specified revenue targets or is no longer payable due to failure to achieve the specified revenue targets. The fair value of the contingent consideration liability was estimated by applying the income approach. That measure is based on significant Level 3 inputs not observable in the market. Key assumptions include (i) probability adjusted level of revenues and the resultant payout; and (ii) a risk-adjusted discount rate was estimated using a capital asset pricing model, which reflects an expected rate of return required by a market participant holding a financial instrument with risk attributes similar to the Company's contingent consideration liability.

The following table provides information regarding changes in financial liabilities related to the contingent consideration liability measured at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2015 (in thousands):

Balance—December 31, 2014	$	2,300
Revaluations		104
Balance—March 31, 2015	$	2,404

The increase in fair value of the contingent consideration liability for the three months ended March 31, 2015 was attributed to the shorter discount period between the current balance sheet date and the contingent payment due dates.

Quantitative and Qualitative Information about Level 3 Fair Value Measurements

As of March 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	18%
Contingent consideration liability	Probability-weighted discounted cash flows	Risk-adjusted discount rate	18%

Sensitivity of Level 3 Inputs

Warranty Obligations

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

Contingent Consideration Liability

Changes in assumed probability adjustments with respect to achievement of target metric 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 will require less subjectivity over the course of the earnout period as management refines estimates based on actual events. Due to the short duration of the earnout period of two years, increasing or decreasing the risk-adjusted discount rate by 100 basis points would not have a material impact on the fair value measurement of the contingent consideration liability.

5. GOODWILL AND INTANGIBLE ASSETS

	March 31, 2015			December 31, 2014		
	Gross	Accumulated Amortization	Net	Gross	Accumulated Amortization	Net
Goodwill	$ 3,745	$ —	$ 3,745	$ 3,745	$ —	$ 3,745
Other indefinite-lived intangibles	$ 286	$ —	$ 286	$ 286	$ —	$ 286
Intangibles assets with finite lives:						
Customer relationships	900	(45)	855	900	—	900
Patents	750	(187)	563	750	(125)	625
Total	$ 1,650	$ (232)	$ 1,418	$ 1,650	$ (125)	$ 1,525

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

For the three months ended March 31, 2015, amortization expense related to intangible assets was $0.1 million. As of March 31, 2015, estimated future amortization expense related to finite-lived intangible assets was as follows:

Year	(In thousands)
2015 (remaining 9 months)	$ 323
2016	430
2017	305
2018	180
2019	180
Total	$ 1,418

6. COMMITMENTS AND CONTINGENCIES

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

7. STOCK-BASED COMPENSATION

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

Equity Awards Activity

Stock Options

The following is a summary of stock option activity for the three months ended March 31, 2015 (in thousands, except per share data):

	Number of Shares Outstanding	Weighted-Average Exercise Price per Share
Outstanding at December 31, 2014	8,632	$ 4.75
Granted	197	12.17
Exercised	(188)	3.65
Canceled	(45)	9.83
Outstanding at March 31, 2015	8,596	4.92

The intrinsic value of options exercised in the three months ended March 31, 2015 was $1.8 million. As of March 31, 2015, the intrinsic value of options outstanding was $71.7 million based on the closing price of the Company's stock as of March 31, 2015.

Restricted Stock Units

The following is a summary of restricted stock unit activity for the three months ended March 31, 2015 (in thousands, except per share data):

	RSUs	Weighted Average Fair Value per Share at Grant Date
Outstanding at December 31, 2014	1,345	$ 8.25
Granted	450	13.05
Vested	(172)	8.04
Canceled	—	
Outstanding at March 31, 2015	1,623	9.60

The total fair value of restricted stock units that vested in the three months ended March 31, 2015 was $2.5 million. As of March 31, 2015, the intrinsic value of restricted stock units outstanding was $21.4 million based on the closing price of the Company's stock as of March 31, 2015.

Stock-Based Compensation Expense

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

	Three Months Ended March 31,	
	2015	2014
Cost of revenues	$ 264	$ 149
Research and development	1,079	613
Sales and marketing	765	532
General and administrative	880	719
Total	$ 2,988	$ 2,013

The following table summarizes stock-based compensation associated with each type of award for the periods presented (in thousands):

	Three Months Ended March 31,	
	2015	2014
Stock options and restricted stock units	$ 2,526	$ 1,839
Employee stock purchase plan	462	174
Total	$ 2,988	$ 2,013

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 March 31,	
	2015	2014
Weighted average grant date fair value	$ 6.89	$ 3.99
Expected term (in years)	4.6	4.6
Expected volatility	71.1%	62.2%
Annual risk-free rate of return	1.3%	1.4%
Dividend yield	0.0%	0.0%

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

As of March 31, 2015, there was approximately $24.4 million of total unrecognized compensation cost related to unvested equity awards expected to be recognized over a weighted-average period of 2.8 years.

8. INCOME TAXES

The Company has used the discrete tax approach in calculating the tax expense for the three months ended March 31, 2015 and 2014 due to the fact that a relatively small change in the Company's projected pre-tax net income (loss) could result in a volatile effective tax rate. Under the discrete method, the Company determines its tax (expense) benefit based upon actual results as if the interim period was an annual period. For the three months ended March 31, 2015, the Company recorded a tax provision of $167,000 on a pretax loss of $6.2 million. For the three months ended March 31, 2014, the Company recorded a tax provision of $109,000 on a pretax loss of $6.1 million. The tax provisions recorded were primarily related to income taxes in profitable jurisdictions outside of the U.S.

9. NET LOSS PER SHARE

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

	Three Months Ended March 31,	
	2015	2014
Numerator:		
Net loss	$ (6,320)	$ (6,236)
Denominator:		
Weighted average number of common shares outstanding	43,950	42,205
Net loss per share, basic and diluted	$ (0.14)	$ (0.15)

As the Company incurred a net loss for all periods presented, potential dilutive securities from employee stock options, restricted stock units and warrants have been excluded from the diluted net loss per share computations because the effect of including such shares would have been anti-dilutive. The following table sets forth the potentially dilutive securities excluded from the computation of the diluted net loss per share (in thousands):

	Three Months Ended March 31,	
	2015	2014
Employee stock options	8,627	8,489
Restricted stock units	1,433	732
Warrants to purchase common stock	111	293
Total	10,171	9,514

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

Forward-Looking Statements

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

Overview

We deliver microinverter technology for the solar industry that increases energy production, simplifies design and installation, improves system uptime and reliability, reduces fire safety risk and provides a platform for intelligent energy management. We were founded in March 2006 and have grown rapidly to become the market leader in the microinverter category. Since our first commercial shipment in mid-2008, we have sold over 7.9 million microinverters as of March 31, 2015, which represents over 1.7 gigawatts (AC) of solar PV generating capacity. We currently offer microinverter systems targeting the residential and commercial markets in the United States, Canada, the United Kingdom, France, the Benelux region, certain other European markets, Australia and New Zealand.

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

Components of Condensed Consolidated Statements of Operations

Net Revenues

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

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

Cost of Revenues and Gross Profit

Cost of revenues is comprised primarily of product costs, warranty, manufacturing personnel and logistics costs, freight costs, depreciation and amortization of test equipment and hosting services costs. Our product costs are impacted by technological innovations, such as advances in semiconductor integration and new product introductions, economies of scale resulting in lower component costs, and improvements in production processes and automation. Certain costs, primarily personnel and depreciation and amortization of test equipment, are not directly affected by sales volume.

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

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

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

Operating Expenses

Operating expenses consist of research and development, sales and marketing and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense categories and include salaries, benefits, payroll taxes, recruiting costs, sales commissions, incentive compensation and stock-based compensation. We expect personnel costs to continue to increase as we hire new employees to support our anticipated growth. We expect that each of the categories of operating expenses discussed below will increase in absolute dollars, but will decline as a percentage of total revenues in the long term.

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 and networking and software functionality. Research and development expense also includes third-party design and development costs, testing and evaluation costs, depreciation expense and other indirect costs. We devote substantial resources in ongoing research and development programs that focus on enhancements to and cost efficiencies in our existing products as well as development of new products that utilize technological innovation to drive down product costs, improve functionality, and enhance reliability. We intend to continue to invest substantial resources in our research and development efforts because we believe they are critical to maintaining our competitive position.

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

General and administrative expense consists primarily of salaries, incentive 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.

Other Income (Expense), Net

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

Provision for Income Taxes

We are subject to income taxes in the countries where we sell our products. We are subject to taxation in the United States because we sell the 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 March 31, 2015.

Results of Operations for the Three Months Ended March 31, 2015 and 2014

Net Revenues

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
Net revenues	$ 86,653	$ 57,580	$ 29,073	50%

Three Months Ended March 31, 2015 and 2014

Net revenues increased by 50% for the three months ended March 31, 2015, as compared to the same period in 2014, due to higher volume of microinverter systems sold. We sold 719,000 microinverter units in the three months ended March 31, 2015, compared to 423,000 units in the same period in 2014. The favorable impact of the higher volume was partially offset by a decline in the average selling price of our products.

Cost of Revenues and Gross Profit

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
Cost of revenues	$ 58,629	$ 38,925	$ 19,704	51%
Gross profit	28,024	18,655	9,369	50%
Gross margin	32.3%	32.4%		

Three Months Ended March 31, 2015 and 2014

Cost of revenues increased by 51% for the three months ended March 31, 2015, as compared to the same period in 2014, due to the corresponding increase in net revenues. Gross margin remained relatively flat for the three months ended March 31, 2015, as compared to the same period in 2014. Warranty expense as a percentage of net revenues for the three months ended March 31, 2015 was 1.6 percent compared to 3.5 percent for the same period in 2014. Warranty expense in the prior year period included a $1.4 million incremental charge due to changes in estimates related to our second generation product, which reduced gross margin by 2 percentage points. The gross margin improvement attributable to lower warranty expense as a percentage of net revenues was offset by a decline in the average selling price of our products.

Research and Development

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
Research and development	$ 13,430	$ 9,086	$ 4,344	48%
Percentage of net revenues	15%	16%		

Three Months Ended March 31, 2015 and 2014

Research and development expenses increased by 48% for the three months ended March 31, 2015, as compared to the same period in 2014. The increase was due primarily to a $2.7 million increase in personnel-related costs due to growth in headcount to support expanded research and development initiatives including development of new products as well as enhancements to existing products. In addition, costs related to outside contract services and prototype materials increased by $1.2 million. The remaining increase of $0.4 million was attributed to higher depreciation and amortization of research and development equipment.

Sales and Marketing

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
Sales and marketing	$ 11,937	$ 8,828	$ 3,109	35%
Percentage of net revenues	14%	15%		

Three Months Ended March 31, 2015 and 2014

Sales and marketing expenses increased by 35% for the three months ended March 31, 2015, as compared to the same period in 2014. The increase was due primarily to a $2.4 million increase in personnel-related costs due to growth in headcount to support our growing business both domestically and internationally. The remaining increase of $0.7 million was attributed to increased use of outside consultants and costs related to trade shows and other marketing programs.

General and Administrative

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
General and administrative	$ 8,205	$ 6,526	$ 1,679	26%
Percentage of net revenues	9%	11%		

Three Months Ended March 31, 2015 and 2014

General and administrative expenses increased by 26% for the three months ended March 31, 2015, as compared to the same period in 2014. The increase was due primarily to $0.9 million increase in personnel-related costs including higher stock-based compensation and employee recruiting costs. In addition, costs related to outside legal, accounting and other professional fees increased by $0.5 million and facilities-related expenses increased by $0.3 million.

Other Income (Expense), Net

	Three Months Ended March 31,		Change in	
	2015	2014	$	%
	(dollars in thousands)			
Other expense, net	$ (605)	$ (342)	$ (263)	77%

Three Months Ended March 31, 2015 and 2014

Other expense, net, for the three months ended March 31, 2015 increased by $0.3 million, as compared to the same period in 2014. The increase was attributable to unfavorable foreign currency exchange movements associated with transactions denominated in foreign currencies, offset in part by lower interest expense.

Liquidity and Capital Resources

Sources of Liquidity

As of March 31, 2015, we had $27.1 million in cash and cash equivalents and no outstanding indebtedness. Cash and cash equivalents held in the United States were $22.3 million and consisted primarily of non-interest bearing checking deposits, with the remainder held in various foreign subsidiaries. In addition, we have a revolving credit facility (the “Revolver”) with Wells Fargo Bank, N.A. (“Wells Fargo”) which provides for up to $50.0 million in borrowings. The Revolver has a maturity date of November 7, 2016. The amount of borrowings available to be drawn 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. Based on eligible accounts receivable and inventory balances pursuant to the agreement, approximately $27.8 million was available for borrowing at March 31, 2015. 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 1.5% and 4.25% depending on the currency borrowed and the specific term of repayment. The Revolver contains customary affirmative and negative covenants and events of default, and requires us to maintain at least $15.0 million of liquidity at all times, of which at least $5.0 million must be undrawn availability. As of March 31, 2015, we were in compliance with all financial and non-financial covenants under the Revolver. To date, we have not drawn down any amounts; however, we may elect to draw on the Revolver as a potential source of liquidity to finance our short-term working capital requirements and other general corporate purposes.

We believe our current cash and cash equivalents of $27.1 million as of March 31, 2015, together with borrowings expected to be available under our Revolver with Wells Fargo, will be sufficient to satisfy our working capital needs, capital asset purchases, outstanding commitments and fund our operations for at least the next 12 months.

If additional sources of liquidity were needed, we may consider new debt or equity offerings, but there is no assurance that such transactions could be consummated on acceptable terms or at all. Failure to raise sufficient capital when needed could have a material adverse effect on our business, results of operations and financial position.

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

	Three Months Ended March 31,	
	2015	2014
	(In thousands)	
Net cash (used in) provided by operating activities	$ (11,498)	$ 4,281
Net cash used in investing activities	(3,611)	(2,172)
Net cash provided by (used in) financing activities	677	(412)

Operating Activities

For the three months ended March 31, 2015, net cash used in operating activities of $11.5 million was primarily attributable to a net loss of $6.3 million, net changes in our operating assets and liabilities of $11.0 million, offset by non-cash charges of $5.8 million primarily consisting of stock-based compensation and depreciation and amortization. Cash used for operating assets and liabilities includes a $13.2 million increase in inventory as a result of an influx of inventory received upon the resolution of a labor dispute related to West Coast seaports. Other changes in operating assets and liabilities that used cash include a $0.8 million increase in accounts receivable and a $2.1 million increase in other assets primarily attributable to an increase in customer financing receivables and the corresponding deferred costs. Cash provided by changes in operating assets and liabilities include a $2.4 million increase in deferred revenue, a $2.3 million increase in accounts payable, accrued and other liabilities and a $0.2 million in warranty obligations. The increase in deferred revenue includes revenue related to our Enlighten service as well as deferred product revenue corresponding with the increase in customer financing receivables. The increase in accounts payable, accrued and other liabilities was primarily attributable to the increase in inventory, offset by the payment of accrued bonus compensation.

For the three months ended March 31, 2014, net cash provided by operating activities of $4.3 million was primarily attributable to net changes in operating assets and liabilities of $6.5 million and non-cash charges of $4.0 million, offset by a net loss of $6.2 million. The increase in cash provided by operating assets and liabilities was primarily attributable to a decrease of $3.6 million in accounts receivable, a $2.5 million decrease in inventory and a $1.2 million increase in accounts payable, accrued and other liabilities, offset by a $1.0 million increase in prepaid expenses and other assets. Non-cash charges for the three months ended March 31, 2014 include stock compensation expense of $2.0 million and depreciation and amortization expense of $1.9 million.

Investing Activities

For the three months ended March 31, 2015, net cash used in investing activities was $3.6 million, primarily as a result of purchases of test and assembly equipment as well as additions to internally developed software.

For the three months ended March 31, 2014, net cash used in investing activities was $2.2 million, primarily as a result of purchases of test and assembly equipment as well as additions to internally developed software.

Financing Activities

For the three months ended March 31, 2015, net cash provided by financing activities of $0.7 million was due to proceeds from employee option exercises.

For the three months ended March 31, 2014, net cash used in financing activities was $0.4 million and was attributable to $0.9 million in principal repayments of our term loans, offset by $0.5 million in proceeds from employee option exercises and employee stock purchases.

Contractual Obligations

Our contractual obligations as of March 31, 2015 have not materially changed from the amounts set forth in our Annual Report on Form 10-K for the year ended December 31, 2014.

Off-Balance Sheet Arrangements

As of March 31, 2015, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., or GAAP. In connection with the preparation of our condensed consolidated financial statements, we are required to make assumptions and estimates about future events, and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and the 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 three months ended March 31, 2015 to the items that we disclosed as our critical accounting policies and estimates in Management's Discussion and Analysis of Financial Condition and Results of Operations in our Annual Report on Form 10-K for the year ended December 31, 2014.

Recent Accounting Pronouncements Not Yet Effective

In May 2014, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2014-09 (Topic 606), Revenue from Contracts with Customers, which will replace most existing revenue recognition guidance under US GAAP. The updated standard's core principle is that revenue is recognized when promised goods or services are transferred to customers in an amount that reflects the consideration to which an entity expects to be entitled in exchange for those goods or services. The standard generally requires an entity to identify performance obligations in its contracts, estimate the amount of variable consideration to be received in the transaction price, allocate the transaction price to each separate performance obligation, and recognize revenue as obligations are satisfied. In addition, the updated standard requires additional disclosure about the nature, amount, timing and uncertainty of revenue and cash flows arising from customer contracts. ASU 2014-09 is effective for annual and interim periods beginning after December 15, 2016. Early adoption is not permitted. Accordingly, the ASU will be effective for us beginning in the first quarter of 2017. We are currently evaluating the impact of the adoption on our consolidated financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our chief executive officer and chief financial officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2015. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended, or the Exchange Act, includes, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of March 31, 2015, our chief executive officer and chief financial officer concluded that, as of such date, our disclosure controls and procedures were effective at the reasonable assurance level.

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

Changes in Internal Control

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

Item 1A. Risk Factors

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

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

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

We have incurred significant net losses since we began doing business, including a net loss of $6.3 million during the three months ended March 31, 2015. As of March 31, 2015, we had an accumulated deficit of $167.3 million. We have incurred substantial operating losses since our inception, and we may continue to incur additional losses in the future. Our revenue growth may slow or revenue may decline for a number of possible reasons, many of which are outside our control, including a decline in demand for our offerings, increased competition, a decrease in the growth of the solar industry or our market share, or our failure to continue to capitalize on growth opportunities. If we fail to generate sufficient revenue to support our operations, we may not be able to achieve or sustain profitability.

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

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

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

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

Our microinverter systems are utilized in solar photovoltaic, or PV, installations, which provide on-site distributed power generation. As a result, our future success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. The solar industry is an evolving industry that has experienced substantial changes in recent years, and we cannot be certain that consumers and businesses will adopt solar PV systems as an alternative energy source at levels sufficient to continue to grow our business. Traditional electricity distribution is based on the regulated industry model whereby businesses and consumers obtain their electricity from a government regulated utility. For alternative methods of distributed power to succeed, businesses and consumers must adopt new purchasing practices. The viability and continued growth in demand for solar energy solutions, and in turn, our products, may be impacted by many factors outside of our control, including:

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

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

If demand for solar energy solutions fails to develop sufficiently, demand for our customers' products as well as demand for our products will decrease, which would have an adverse impact on our ability to increase our revenue and grow our business.

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

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

The market for on-grid applications, where solar power is used to supplement a customer's electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government and economic incentives that vary by geographic market. Because our customers' sales are typically into the on-grid market, the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity may negatively affect the competitiveness of solar electricity relative to conventional and non-solar renewable sources of electricity, and could harm or halt the growth of the solar electricity industry and our business.

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

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

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

To date, we have generated the majority of our revenues from North America and expect to continue to generate a substantial amount of our revenues from North America in the future. There are a number of important incentives that are expected to phase-out or terminate in the future, which could adversely affect sales of our products. A substantial majority of our revenues come from the United States, which has both federal and state incentives. The Renewable Energy and Job

Creation Act of 2008 provides a 30% federal tax credit for residential and commercial solar installations, which expires on December 31, 2016. The American Recovery and Reinvestment Act of 2009, as amended, created a renewable energy grant program that offered cash payments in lieu of investment tax credits to renewable energy project developers for eligible property placed in service prior to December 31, 2011 or placed in service by the specified credit termination date if construction began prior to December 31, 2011. We believe the tax credit and grant programs have had a positive effect on our sales since inception. However, unless the tax credit program is further extended, the eventual phase-out of this program could adversely affect sales of our products in the future.

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

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

We also sell our products in Europe. A number of European countries, including Germany, Belgium and the United Kingdom, have adopted reductions to their FiTs, Spain announced a suspension of its FiT for new renewable energy projects in January 2012 and Italy concluded its FiT program in July 2013. 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. The reductions in European tariffs and subsidies and other requirements or incentives, including local content requirements or incentives, have negatively affected and may continue to negatively affect our business, financial condition and results of operations as we seek to increase our sales in Europe.

In the first quarter of 2013, we began selling 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. Australia recently elected a new national government. The new leadership has 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. The reductions in incentives and uncertainty around future energy policy may negatively affect our business financial condition, and results of operations as we seek to increase our business in Australia. 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.

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 discounts and rebates;

- ability to reduce and control product costs;
- 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 older products over time;
- changes in shipment volume;
- changes in distribution channels;
- excess and obsolete inventory and inventory holding charges;
- expediting costs incurred to meet customer delivery requirements; and
- fluctuations in foreign currency exchange rates.

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

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

To date, we have competed primarily against central or string inverter manufacturers. Marketing and selling our microinverter systems against traditional inverter solutions is highly competitive. Currently, competitors in the inverter market range from large companies such as SMA Solar Technology AG, Fronius International GmbH and ABB to emerging companies such as SolarEdge Technologies offering alternative microinverter or other solar electronics products, including DC to DC optimizer products. Several of our existing and potential competitors are significantly larger, have greater financial, marketing, distribution, customer support and other resources, are more established than we are, and have significantly better brand recognition, especially in certain markets. Some of our competitors have more resources to develop or acquire, and more experience in developing or acquiring, new products and technologies and in creating market awareness for these products and technologies. Further, certain competitors may be able to develop new products more quickly than we can and may be able to develop products that are more reliable or that provide more functionality than ours. In addition, some of our competitors have the financial resources to offer competitive products at aggressive or below-market pricing levels, which could cause us to lose sales or market share or require us to lower prices for our microinverter systems in order to compete effectively. Suppliers of solar products, particularly solar modules, have experienced eroding prices over the last several years and as a result many have faced margin compression and declining revenues. If we have to reduce our prices by more than we anticipated, or if we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our revenues and gross profit would suffer.

Competition has intensified and we expect it to continue to intensify as new and existing competitors enter the microinverter market and additional add-on components like DC to DC optimizers that can be used with central or string inverters continue to gain more traction. SMA Solar Technology AG and ABB market and sell microinverter 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 addition, several new entrants to the microinverter market have recently announced plans to ship or have already shipped products.

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

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.

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

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

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

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

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

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

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

Our products must meet stringent quality requirements and may contain undetected errors or defects, especially when first introduced or when new generations are released. Errors, defects or poor performance can arise due to design flaws, defects in raw materials or components or manufacturing difficulties, which can affect both the quality and the yield of the product. These errors or defects may be dangerous, as defective power components may cause power overloads, potentially resulting in explosion or fire. As we develop new generations of our products and enter new markets, we face higher risk of undetected defects because our testing protocols may not be able to fully test the products under all possible operating conditions. In the past, we have experienced defects in our products due to certain errors in the manufacturing and design process. Any actual or perceived errors, defects or poor performance in our products could result in the replacement or recall of our products, shipment delays, rejection of our products, damage to our reputation, lost revenue, diversion of our engineering personnel from our product development efforts in order to address or remedy any defects and increases in customer service and support costs, all of which could have a material adverse effect on our business and operations.

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

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

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

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

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

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

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

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

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

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

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

Failure to develop and introduce these new products successfully, to generate sufficient revenue from these products to offset associated research and development, marketing and manufacturing costs, or to otherwise effectively anticipate and manage the risks and challenges associated with our potential expansion into new product and geographic markets, could adversely affect our revenues and our ability to achieve or sustain profitability.

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.

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

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

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

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

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

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

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

Changes in current laws or regulations applicable to us or the imposition of new laws and regulations in the United States or other jurisdictions in which we do business, such as Australia, New Zealand, Canada, France, Italy, the United Kingdom, the Benelux region and China, could materially and adversely affect our business, financial condition and results of operations. In addition, changes in our products or changes in export and import laws and implementing regulations may create delays in the introduction of new products in international markets, prevent our customers from deploying our products internationally or, in some cases, prevent the export or import of our products to certain countries altogether.

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

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

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

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. 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. In 2014, Vivint Solar, Inc. and CED Greentech accounted for 24% and 16% of total net revenues, respectively. In 2013, Vivint Solar, Inc., CED Greentech and Focused Energy, Inc. accounted for 15%, 14% and 11% of total net revenues, respectively. We do not have exclusive arrangements with these third parties and, as a result, many of our customers also market and sell products from our competitors, which may reduce our sales. Our customers may 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.

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

We are currently working on variants of our microinverter system that will enable an “AC module” for direct attachment of the microinverter to the solar modules. The market success of such solutions will depend in part on our ability to continue to work closely with solar module manufacturers to design solar modules that are compatible with such direct attachment of our microinverter. We may not be able to encourage solar module manufacturers to work with us on the development of such compatible solutions combining our microinverter system and solar modules for a variety of reasons, including differences in marketing or selling strategy, competitive considerations, lack of competitive pricing, and technological compatibility. In addition, our ability to form effective partnerships with solar module manufacturers may be adversely affected by the substantial changes faced by many of these manufacturers due to declining prices and revenues from sales of solar modules.

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

Our future success and ability to implement our business strategy depends, in part, on our ability to attract and retain key personnel, and on the continued contributions of members of our senior management team and key technical personnel, each of whom would be difficult to replace. All of our employees, including our senior management, are free to terminate their employment relationships with us at any time. Competition for highly skilled technical people is extremely intense, and we face challenges identifying, hiring and retaining qualified personnel in many areas of our business. If we fail to retain our senior management and other key personnel or if we fail to attract additional qualified personnel, we may not be able to achieve our strategic objectives and our business could suffer.

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

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

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

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

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

Our competitors and other third parties hold numerous patents related to technology used in our industry, and claims of patent or other intellectual property right infringement or violation have been litigated against certain of our competitors. From time to time we may also be subject to such claims and litigation. Regardless of their merit, responding to such claims can be time consuming, divert management's attention and resources and may cause us to incur significant expenses. While we believe that our products and technology do not infringe in any material respect upon any valid intellectual property rights of third parties, we cannot be certain that we would be successful in defending against any such claims. Furthermore, patent applications in the United States and most other countries are confidential for a period of time before being published, so we cannot be certain that we are not infringing third parties' patent rights or that we were the first to conceive or protect inventions covered by our patents or patent applications. As we become more visible as a publicly traded company, the possibility that third parties may make claims of intellectual property infringement or other violations against us may grow. An adverse outcome with respect to any such claim could invalidate our proprietary rights and force us to do one or more of the following:

- obtain from a third party claiming infringement a license to sell or use the relevant technology, which may not be available on reasonable terms, or at all;

- stop manufacturing, selling, incorporating or using our products that embody the asserted intellectual property;
- pay substantial monetary damages;
- indemnify our customers pursuant to indemnification obligations under some of our customer contracts; or
- expend significant resources to redesign the products that use the infringing technology and to develop or acquire non-infringing technology.

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

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

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

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

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

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

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

We may fail to capture customers in the new markets that we are pursuing.

We are pursuing opportunities in energy management and energy storage. We have made and will continue to make investments in our infrastructure, increased our operating costs and forgone other business opportunities in order to seek opportunities in these areas. If these new potential business segments fail to translate into revenue in the quantities or timeline projected it could have 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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

The market price of our common stock has been and could be subject to wide fluctuations in response to, among other things, the risk factors described in "Part II. Item 1A. Risk Factors" of this Quarterly Report on Form 10-Q, and other factors beyond our control, such as fluctuations in the valuation of companies perceived by investors to be comparable to us. Furthermore, the stock markets have experienced price and volume fluctuations that have affected and continue to affect the market prices of equity securities of many companies. These fluctuations often have been unrelated or disproportionate to the operating performance of those companies. These broad market and industry fluctuations, as well as general economic, political and market conditions, such as recessions, interest rate changes or international currency fluctuations, may negatively affect the market price of our common stock. In the past, many companies that have experienced volatility in the market price of their stock have been subject to securities class action litigation. We may become the target of this type of litigation in the future. Securities litigation against us could result in substantial costs and divert our management's attention from other business concerns, which could seriously harm our business.

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

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

- fluctuations in demand for our products;
- the timing, volume and product mix of sales of our products, which may have different average selling prices or profit margins;
- changes in our pricing and sales policies or the pricing and sales policies of our competitors;
- our ability to design, manufacture and deliver products to our customers in a timely and cost-effective manner and that meet customer requirements;
- our ability to manage our relationships with our contract manufacturers, customers and suppliers;
- quality control or yield problems in our manufacturing operations;
- the anticipation, announcement or introductions of new or enhanced products by our competitors and ourselves;
- reductions in the retail price of electricity;
- changes in laws, regulations and policies applicable to our business and products, particularly those relating to government incentives for solar energy applications;
- unanticipated increases in costs or expenses;
- the amount and timing of operating costs and capital expenditures related to the maintenance and expansion of our business operations;
- the impact of government-sponsored programs on our customers;
- our exposure to the credit risks of our customers, particularly in light of the fact that some of our customers are relatively new entrants to the solar market without long operating or credit histories;
- our ability to estimate future warranty obligations due to product failure rates, claim rates or replacement costs;
- our ability to forecast our customer demand and manufacturing requirements, and manage our inventory;

- fluctuations in our gross profit;
- our ability to predict our revenue and plan our expenses appropriately; and
- fluctuations in foreign currency exchange rates.

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

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

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

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

Our affiliated stockholders, executive officers and directors collectively own approximately 42% of our common stock. This significant concentration of share ownership may adversely affect the trading price for our common stock because investors often perceive disadvantages in owning stock in companies with controlling stockholders. Also, as a result, these stockholders, acting together, may be able to control our management and affairs and matters requiring stockholder approval, including the election of directors and approval of significant corporate transactions, such as mergers, consolidations or the sale of substantially all of our assets. Consequently, this concentration of ownership may have the effect of delaying or preventing a change in control, including a merger, consolidation or other business combination involving us, or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control, even if this change in control would benefit our other stockholders.

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

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

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

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

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

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

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

- providing for a classified board of directors with staggered, three-year terms, which could delay the ability of stockholders to change the membership of a majority of our board of directors;
- not providing for cumulative voting in the election of directors, which limits the ability of minority stockholders to elect director candidates;
- authorizing our board of directors to issue, without stockholder approval, preferred stock rights senior to those of common stock, which could be used to significantly dilute the ownership of a hostile acquiror;
- prohibiting stockholder action by written consent, which forces stockholder action to be taken at an annual or special meeting of our stockholders;
- requiring the affirmative vote of holders of at least 66 2/3% of the voting power of all of the then outstanding shares of voting stock, voting as a single class, to amend provisions of our certificate of incorporation relating to the management of our business, our board of directors, stockholder action by written consent, advance notification of stockholder nominations and proposals, forum selection and the liability of our directors, or to amend our bylaws, which may inhibit the ability of stockholders or an acquiror to effect such amendments to facilitate changes in management or an unsolicited takeover attempt;
- requiring special meetings of stockholders may only be called by our chairman of the board, if any, our chief executive officer, our president or a majority of our board of directors, which could delay the ability of our stockholders to force consideration of a proposal or to take action, including the removal of directors; and
- requiring advance notification of stockholder nominations and proposals, which may discourage or deter a potential acquiror from conducting a solicitation of proxies to elect the acquiror’s own slate of directors or otherwise attempting to obtain control of us.

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

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

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

None.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

None.

Item 6. Exhibits

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

SIGNATURE

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this Quarterly Report on Form 10-Q to be signed on its behalf by the undersigned, thereunto duly authorized.

Dated: May 6, 2015

ENPHASE ENERGY, INC.

By:	/s/ Kris Sennesael
	Kris Sennesael
	Vice President and Chief Financial Officer

Table of Contents

EXHIBIT INDEX

Exhibit Number	Description
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 June 2011 Warrant to Purchase Common Stock of Enphase Energy, Inc., pursuant to that certain Amended and Restated Subordinated Convertible Loan Facility and Security Agreement.(3)
4.4	Form of November 2011 Warrant to Purchase Common Stock of Enphase Energy, Inc., pursuant to that certain Amended and Restated Subordinated Convertible Loan Facility and Security Agreement.(3)
10.1	Master Development & Product Agreement by and between the Company and Fujitsu Microelectronics America, Inc., dated August 19, 2009.
10.2***	Amendment No. 1 to Long Term Product Supply Agreement by and between the Company and Vivint Solar Developer, LLC, dated March 3, 2015.
10.3	Amendment No. 2 to Credit Agreement by and among the Company, the lenders identified on the signature pages thereto and Wells Fargo Bank, National Association, dated February 2, 2015.
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).
32.1	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.*
101.INS	XBRL Instance Document.
101.SCH	XBRL Taxonomy Extension Schema Document.
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.
101.PRE	XBRL Taxonomy Extension Presentation Document.

---

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

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

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

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

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

Exhibit 10.1

Enphase Energy
201 1st Street, Suite 300
Petaluma, CA 94952

MASTER DEVELOPMENT & PRODUCTION AGREEMENT

APPLICATION SPECIFIC INTEGRATED CIRCUIT (ASIC)

by
and between

Enphase Energy, Inc.

and

Fujitsu Microelectronics America, Inc.

Exhibit 10.1

This Master Development and Production Agreement (the "Agreement") is entered into this 19 day of August, 2009 ("Effective Date") by and between Enphase Energy, Inc., having its principal place of business at 201 1st St., Suite 300, Petaluma, CA 94952 ("Buyer") and Fujitsu Microelectronics America, Inc., having its principal place of business at 1250 E. Arques Ave., Sunnyvale, CA 94085 ("Seller"). In consideration of the mutual promises herein contained, the parties hereby agree as follows:

1. **PURPOSE OF AGREEMENT**
Buyer intends to place Purchase Orders with Seller for the development and production of Application Specific Integrated Circuits ("ASIC" or "Product"). This Agreement sets forth the terms and conditions that will govern the development and supply of Products by Seller and purchase of the Products by Buyer.

2. **DEFINITIONS**
This Agreement will refer to several documents, each of which are integral to the ASIC Design and development process.

   a. **Development Task Order ("Task Order" - Exhibit A):** This document sets forth the terms under which Seller will develop the Product, including the Statement of Work and the Nonrecurring Engineering Charges ("NRE").

   b. **Change Order (Exhibit B):** This document allows the Buyer and Seller to agree to changes to the Task Order.

   c. **Risk and annual ASIC Production Terms ("APT" - Exhibit C):** This document provides the terms under which Buyer authorizes Seller to manufacture and deliver an ASIC in development under this Agreement prior to Buyer having provided written approval of engineering samples ("Engineering Samples" or "ES"'). Also, this document provides the specific terms for the production of each ASIC manufactured under this Agreement.

   d. **Design Specifications ("Specifications"):** This refers to the terms set forth in the Design Specifications Summary and in Buyer's approved post-layout simulation results based on final netlist.

   e. **Register Transfer Language ("RTL"):** A high-level description ASIC language provided by Buyer if the interface is " RTL Handoff."

   f. **Timing Constraints:** Chip input, chip output and chip internal timing requirements.

   g. **Synthesis:** This process converts RTL to a netlist based on Seller's ASIC components library. Synthesis is done by Seller since this is an RTL-Handoff.

   h. **Design Specifications Summary (Exhibit D):** This document is used by Buyer to set forth the technical information necessary to define the manufacture of the final Product.

   i. **Floor Planning and Trial Place and Route Phase:** Phase begins when Seller accepts or begins work on a partial or complete RTL. The RTL will be synthesized and the synthesized netlist may be used to make and verify component placement information. Phase continues until Seller accepts or begins work on agreed-to final RTL.

   j. **Approval to Start Final Place and Route Sheet:** This document authorizes Seller to begin final place and/or route when the criteria in the document are met. The execution of this form is a pre-requisite lo start the final layout of the Product.

k. **Final Place and Route Phase:** Phase begins with Seller's acceptance of final RTL.

l. **Timing Data Extraction:** Delay information pertaining to the ASIC, extracted from the layout. Final timing data extraction is the first one provided after Final Place and Route Phase starts that meets the agreed to Timing Constraints set when entering the Final Place and Route Phase.

m. **Layout Data Verification:** Seller verifies that the ASIC obeys physical manufacturing rules and the layout functionally matches the Buyer's circuit.

n. **Post-Layout Approval Sheet:** This document sets forth the post-layout output from the Seller's design verification tools and allows Buyer and Seller to indicate whether the data are acceptable and within the Buyer's Specifications. The execution of this form is a prerequisite to tapeout and mask making for the Product and shall be deemed to incorporate Buyer's Design Specifications Summary and Buyer's approved post-layout results.

o. **Approval to Move to Mass Production:** The Buyer must indicate approval in writing to move production control from Seller's engineering to Seller's production control. The execution of this form is a prerequisite to mass production of the Product. This form may be signed by either the *VP* of Operations or the Vice President of Engineering of Buyer, with the individuals currently holding such titles shown on Exhibit E.

p. **Statement of Work ("SOW" - Exhibit F):** It defines technical deliverables and responsibilities. It contains detailed schedules of ASIC design project. Subsequent SOWs may be executed as Exhibit F-1, F-2, etc.

q. **Product:** Semiconductor ASIC (Application Specific Integrated Circuit) device supplied by Seller in accordance with the terms and conditions of this Agreement.

3. TERM

This Agreement will commence on the Effective Date and will remain in effect for five (5) years, followed by automatic one-year renewals, unless and until either party provides the other with at least six (6) months prior written notice of termination of this Agreement.

4. DEVELOPMENT PRODUCT

The following terms and conditions apply to Products that are in the development stage:

a. **Development Task Order**

For each Product in development, Buyer will execute a Task Order. Seller is authorized to proceed with Final Place & Route Phase only after the Task Order has
been signed by Buyer and Seller.

b. **Change Orders**

Buyer may request changes to the then-current Task Order by submitting a Change Order to Seller. Seller will be obligated to proceed with development under the Change Order as of the date that both parties have signed the Change Order. Seller will not unreasonably, taking into consideration the significance of the change, withhold or delay its signing of each such Change Order submitted by Buyer. Once the Change Order is signed by Buyer and Seller, then work pursuant to the Change Order will be undertaken in accordance with the schedule set forth in the Change Order and any applicable Task Order and/or Statement of Work.

Exhibit 10.1

c. **Payment**

Subject to credit approval by Seller (which shall be consistent with Seller's standard credit approval practices), as of the date of execution of this Agreement, Buyer has paid Seller fifty percent (50%) of NRE for development of the ASICs referred to by the parties as “Raven” and “Jay”, respectively, and payment for Item 2 for Jay in Table 1 below (in the amount of $48.000). The remaining NRE payments (those not paid by Buyer as of the date of execution of this Agreement) will be based on Seller's achievement of the milestones set forth in the below tables. Seller shall notify Buyer in writing of each achievement of a milestone set forth in the table below, which notice shall be accompanied by an invoice for the corresponding NRE payment. Payment terms for all invoices issued under this Agreement shall be net 30 days after Buyer's receipt of invoice, which will be issued electronically.

Table 1 Jay NRE Payment Schedule

Item	Activity	Cost	
1	Project Kickoff (paid)	$	80,000.00
2	RTL Handoff (paid)	$	48,000.00
3	IP Development	$	8,000.00
4	SDF Delivery & Timing Closure	$	8,000.00
5	Tapeout	$	8,000.00
6	Engineering Samples	$	8,000.00
	Total	$	160,000.00

Table 2 Raven NRE Payment Schedule

Item	Activity	Cost
1	Project Kickoff (paid)	$ 100,000.00
2	RTL Handoff (paid)	$ 60,000.00
3	IP Development	$ 10,000.00
4	SDF Delivery & Timing Closure	$ 10,000.00
5	Tapeout	$ 10,000.00
6	Engineering Samples	$ 10,000.00
	Total	$ 200,000.00

*Invoiced 6/20/09, payment due by 8/19/09 as previously agreed.

d. **NRE Costs**

- Total NRE costs (Jay and Raven) - $360.000
- Engineering Cost of ASIC Synthesis. IP Development. Backend Design DFT insertion, Physical Layout, Physical Verification, ATPG, Logic Verification for testing), Timing Closure, Equivalency Checking, IR Drop Analysis, Package Design & Development.
- Mask Costs (180nm), Load Boards, Test Boards, Test sockets, IP licensing
- 20 Engineering Samples (10 for Raven and 10 for Jay)

e. **Modification and Re-spin NRE Costs**

If re-spin is required because of package. IP or back-end issues (other than those attributable to Buyer's written instructions or specific requests), then there will be no cost to the Buyer and Seller will bear all costs. Assuming package remains the same as during initial spin, and if the re-spin is required by the Buyer's written instructions or specific requests, then the below costs will apply for each ASIC re- spin so required by the Buyer. For incremental changes to the feature set of the device, when such Buyer-initiated respin requires changes to Seller's analog and/or digital macros, the engineering cost will be mutually agreed upon in writing by Buyer and Seller.

Additionally, engineering development costs of any such Buyer-initiated respin of the package and I/O bonding of the pads will be mutually agreed upon in writing by Buyer and Seller.

Seller will provide a quotation for the total NRE cost of the respins; provided that the quoted total NRE cost for a given respin shall not exceed Seller's actual cost to perform such respin.

Metal layers change only $45.000
All layers change $75.000
Engineering design cost TBD by mutual written agreement of Buyer and Seller

f. **Re-spin payment terms:**

If re-spin occurs:
At time of placement of purchase order: 25% of applicable re-spin NRE costs
At time of delivery of final RTL: 25% of applicable re-spin NRE costs
At time of tape-out: 25% of applicable re-spin NRE costs
At time of delivery of all ES parts 25% of applicable re-spin NRE costs

g. **Additional Engineering Samples; Risk Commercial Samples:**

Buyer may purchase Additional Engineering Samples (“AES”) at 1.5 X unit price (up to 150 pcs)
Buyer may purchase risk commercial samples (Risk CS) at 1.25 X unit price (up to 500 pcs)

- A Risk CS is a production graded commercial sample that Buyer may take at its own risk before complete ES approval
- All orders for Risk CS are non-cancelable
- The Risk CS materials will be purchased at or before the tape out, and are expected to be fabricated at the same time as the first ES/AES fabrication

h. **Activities & Deliverables Included in the Design Support NRE Charge**

Design:

- Under the terms of a separate agreement, Seller has provided its 180nm cell based design kit to Buyer, who will use this design kit to verify the design.

Design Verification & Layout:

- Seller to perform logic and design rule checks.
- Buyer to review and validate the design.
- After final layout and post layout simulation, Seller will complete the Final Post-Layout approval sheet and Design Specifications of the design for Buyer approval and signature.

Test Vectors & Test Program:

- - Buyer to supply functional vectors if necessary.
- - Seller to provide logic SCAN/RAM BJST/JTAG/test bus (PLL).
- - Seller to perform ATPG and Fault Simulation if necessary.
- - Seller to develop wafer sort and final test programs.
- - Seller will perform analog IP testing.
- - Seller will provide the test RTL required for testing the parts on wafer and Buyer will integrate the RTL and deliver the final RTL to Seller.

Prototyping:

- Seller will generate the photo masks, and fabricate prototype wafers.
- Seller will generate the specific production test program if required.
- Seller will deliver 20 Engineering Samples (10 of Raven and 10 of Jay) to Customer.
- Seller may deliver AES to Customer upon request prior to tape-out.

i. **Lead times**

Seller will exercise commercially reasonable efforts to achieve the following lead times; provided, however, if Seller's achievement of the following lead times will be delayed, Seller must notify Buyer in writing of the length of the anticipated delay and the reasons for the delay. For clarity, the exercise of “commercially reasonable efforts” under this subsection (i) does not allow Seller to delay Buyer's lead times in order to preferentially perform under other contracts, but would encompass delays attributable to unanticipated technical difficulties.

1. Tapeout to ES delivery (for both Jay and Raven) 6 weeks
2. Production (after ES sign-off, Purchase Order release and twelve month rolling forecast) 7-9 weeks

j. **IP Support/ Qualification**

IP Support

- Under the terms of separate written agreement(s), Seller will provide support for all the IP including existing IP and new custom IP being developed for Buyer.

IP Qualification

- Seller will ensure that its IP meets Seller's applicable specifications for the IP

(as disclosed to Buyer) and provide support for the current process technology for the same duration as the process life time.

k. **Development Types**

1) RTL HANDOFF

Buyer submits to Seller functionally verified RTL. Timing Constraints, verification test benches, written approval to start Final Place and Route Phase, and written approval of post-layout results. Seller provides logic synthesis, test insertion, layout, Timing Data Extraction, Layout Data Verification, maskmaking, test generation and Engineering Samples in accordance with agreed to Specifications.

J. **Cancellation; Buyer's Approval of Post-Layout Simulation**

If Buyer cancels the development of any specific Product without cause, Buyer will pay Seller for work completed and milestones achieved as of the date of cancellation in accordance with this Agreement and Buyer also will pay for the next milestone payment that would have been earned if Seller had completed the

then-current phase of Product development which was underway at the time of cancellation. Any monies previously paid by Buyer that are in excess of the foregoing amounts due will be refunded to Buyer. On or before the date of Buyer's approval of post-layout simulation, Seller will honor the changes requested by Buyer and these changes will be part of the existing Task Order. In the absence of receipt by Seller of Buyer's written approval or rejection of post-layout simulation within forty-five (45) working days of Buyer's receipt of post-layout simulation data, such post-layout simulation will be deemed approved by Buyer. If Buyer wants such specific Product to be redesigned after Buyer's receipt of such post-layout simulation data, Buyer and Seller will negotiate a new Task Order to cover the redesign.

m. **Approval to Start Final Place and Route Phase**

Each Product under development will be Floor Planned by Seller. Seller will ensure that chip timing is capable of being met in the Final Place and Route Phase.

provided Buyer has provided RTL that is capable of delivering the specified timing. Buyer's RTL will be complete and functionally verified. Timing requirements will also be complete. Seller will begin Final Place & Route Phase upon receipt of Buyer's Approval to Start Final Place and Route Sheet. Buyer's Approval to Start Final Place and Route Sheet confirms that criteria to proceed were met. Seller will accept signature of Director of Engineering or a Vice President from Buyer’s organization as approval to proceed.

n. **Post-Layout Approval**

Tapeout and mask making will not begin until Seller has received Buyer's written approval of the Seller's post-layout results and the Buyer's final Design Specifications Summary, which shall be provided at least one (1) month prior to tapeout unless the parties otherwise mutually agree (for the Jay ASIC, the parties have agreed to a shorter time period). Buyer will use Post-Layout Approval Sheet for approval of the post-layout results. Unless otherwise specified in writing by Buyer. Seller will accept signature of Director of Engineering or a Vice President from Buyer’s organization.

o. **Approval to Move to Mass Production**

For each Product. Seller shall provide Buyer with Engineering Samples as specified in the applicable Task Order relating to the Product. Seller will be responsible for ensuring that the ES meet the requirements of the Post-Layout Approval Sheet. Buyer must accept or reject the ES in writing by completing Seller’s Approval to Move to Mass Production within thirty (30) days of Buyer's receipt of all such ES shipped by Seller. In the absence of receipt by Seller of Buyer's written notice of acceptance or rejection of such ES within such thirty (30) days, all such ES will be deemed accepted by Buyer. FMA warrants that ES will conform to the Post-Layout Approval Form for thirty (30) days following delivery to Buyer. If Buyer requests additional ES based on new design requirements or for any reason other than non-conformity of the ES to the Post-Layout Approval Sheet, Buyer and Seller may negotiate a new NRE. If the cause for the Buyer’s rejection is due to non-conformity of the ES to the Post-Layout Approval Sheet, then Seller will redesign the Product at no charge to Buyer. If there are IP and/or Product/process production issues that require additional time for board changes, then Buyer or Seller (as applicable) will request additional time. Any issues that Buyer identified during Product production that can be attributed to Seller’s acts, omissions, or processes (or to other causes within Seller’s control) will be promptly resolved by Seller.

p, **THE ENGINEERING SAMPLES DELIVERED TO BUYER HEREUNDER ARE FOR VALIDATION PURPOSES ONLY. EXCEPT FOR THE EXPRESS WARRANTIES SET FORTH IN SECTION 4 (o) OF THIS AGREEMENT, ALL WARRANTIES WITH RESPECT TO ENGINEERING SAMPLES, WHETHER EXPRESS OR IMPLIED, AND ALL GUARANTIES AND ALL REPRESENTATIONS AS TO**

PERFORMANCE OF ENGINEERING SAMPLES, INCLUDING ALL WARRANTIESWHICH, BUT FOR THIS PROVISION, MIGHT ARISE FROM COURSE OF DEALING OR CUSTOM OF TRADE AND INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND OF NON-INFRINGEMENT ARE DISCLAIMED. Any rejection of Engineering Samples by Buyer must be in writing and based on a detailed description of the ES's failure to meet the functional and parametric specifications that have been mutually agreed to in the Post-Layout Approval Sheet. Upon receipt of such rejection, Seller shall ban a period of thirty (30) days to cure the defects set forth in such notice of rejection. In the event that Seller is unable to cure the defect within such 30-day period or any extension of such period as may be agreed to by the parties in writing, Buyer may cancel further development without penalty or additional charges. Seller will perform thorough testing of ES, including Scan, DC. Boundary Scan, 1DDQ, Connectivity, Analog Testing, and Functional Testing. Buyer's exclusive remedy and Seller's entire liability under this Agreement with respect to non-conforming ES is to use reasonable efforts to replace any detective ES, or, in the event Seller is unable after such efforts to replace such ES, to issue a credit or refund for the purchase price of such ES. The warranty obligation does not apply to any defects which arise from (i) misuse, neglect, improper installation, repair, alteration or accident by Buyer or its customers or agents; (ii) any modification to the part made by Buyer or its customers or agents; (iii) Buyer's own logic design for the ES; or (iv) the equipment, systems or software used by Buyer or its customers or agents in connection with the ES.

5. **MASS PRODUCTION PRODUCTS**

The following terms apply to mass production Products only. Risk Production products require the execution of a separate Risk Production Task Order. Production testing shall be performed by Seller in all operating conditions that are specified in the Design Specifications. For clarity, Purchase Orders for Products may be submitted to Seller by Buyer or by a third party designated by Buyer which is performing manufacturing or other services on behalf of Buyer. Seller retains the right to qualify such third party contract manufacturers and service providers on the basis of Seller's credit evaluation, and may determine the payment terms (in accordance with objectively reasonable standard criteria that Seller generally uses to establish payment terms) applicable to such third party contract manufacturers and service providers, including cash in advance if such payment term is consistent with such standard criteria of Seller, in its sole discretion.

a. **Price**

The Product price is set forth in the APT. Seller does not have the right to increase the prices in the APT, including any increase which may be attributable to any additional duty, tariff, tax, or other charge imposed as a result of any action by any national or federal government, any state or local government, or any agent or agency thereof. Unless otherwise agreed to in writing by Buyer and Seller or as required by applicable laws, all amounts payable by Buyer will be itemized separately on invoices. If exempt from taxes, Buyer must provide a Certificate of Exemption prior to the time a given Purchase Order is submitted to Seller; provided that, once such Certificate of Exemption has been submitted to Seller, Buyer is not obligated to submit another Certificate of Exemption unless and until the originally submitted Certificate of Exemption is no longer applicable or valid.

b. **Terms of Payment**

Subject to credit approval by Seller (which shall be consistent with Seller's standard credit approval practices), payment terms are net thirty (30) days from the date of Buyer's receipt of Seller's invoice, which will be issued electronically.

Each shipment by Seller to Buyer pursuant to this Agreement will be a separate and independent transaction and will be invoiced separately, and Buyer will pay for each shipment separately and as invoiced (unless such shipment and/or invoice is disputed by Buyer). Buyer will notify Seller of any incorrect or incomplete invoices within ten (10) business days after receipt of the invoice. Seller will issue corrected invoices within two (2) business days after receipt of Buyer's notification. Should Buyer fail to notify Seller of an incorrect invoice within the ten (10) business days. Buyer shall pay the invoice in accordance with the above payment terms *and* issue a separate request for credit. Should Seller fail to issue a corrected invoice within the above-described two (2) business days period, then Seller will accept Buyer's partial payment of an invoice in an amount less than the full amount of any invoice. The Seller's acceptance of partial payment does not constitute a waiver of Seller's right to collect the balance or an accord and satisfaction notwithstanding Seller's endorsement of a check or other instrument.

c. **Title**

Seller will ship by the method requested by Buyer. All Products purchased by Buyer will be shipped FOB Seller's warehouse in Texas or Sellers parent company's warehouse in Japan, unless otherwise agreed by Seller and Buyer. Title passes to Buyer and Seller's liability as to delivery will cease upon delivery of Products to the carrier. Seller will have no obligation to ship via a carrier that does not comply with applicable U.S. law; provided that, if Buyer requests that Seller ship via such carrier, Seller shall provide prompt written notice to Buyer, so that Buyer may rebut Seller's determination of non-compliance or may select another carrier that does comply with applicable U.S. law.

d. Property Rights

The intellectual property created by Seller in designing and developing Products for Buyer hereunder, or in the process of manufacturing Products for Buyer, including the basic ASIC design software and processing technology utilized in the development and manufacture of ASIC's for Buyer and excluding the ASIC logic circuit connection pattern of Buyer's design embedded in the Fujitsu Logic Description Language ("FLDL"), will not be deemed to produce a work made for hire (collectively, "Seller IP"). Buyer shall not have any copyright, trademark, patent, trade secret or other intellectual property rights in the Seller IP, including the mask works relating to the Products which are created by Seller. All such rights in Seller IP will remain the property of Seller and no license of any type, express or implied, under Seller IP is granted to Buyer under this Agreement, Seller will also retain all such right, title and interest to any Seller-provided cells or macros that Seller incorporates into the ASIC design or furnishes to Buyer for use in its design, unless otherwise mutually agreed between the parties. No license, express or implied, with regard to any trademark of Seller or its affiliated companies is granted to Buyer under this Agreement. No license, express or implied, with regard to any trademark of Buyer or its affiliated companies is granted to Seller under this Agreement.

Notwithstanding anything to the contrary in the foregoing paragraph or elsewhere in this Agreement, Seller will provide the Products exclusively to Buyer, and shall not use Seller IP (including the mask works relating to the Products) to design, develop or manufacture similar products for the benefit of any third party. Buyer solely owns and will retain, all intellectual property rights to the Products themselves. excluding Seller IP. Seller will retain possession of all masks relating to the Products, but all such masks which are customized to meet Buyer's Design Specifications will be made, used and held by Seller solely for Buyer's exclusive use and exploitation. Seller will not use such masks for the benefit of any third party without prior written authorization from Buyer (such authorization within Buyer's sole discretion). For the avoidance of doubt, Seller will supply to any third party products which are identical or substantially similar to the Products manufactured for Buyer under this Agreement.

If Buyer places no Purchase Orders for any Product for twelve (12) months from the date of Buyer's ES approval. or for twelve (12) months from the date of last delivery of Products), Seller will keep the masks relating to the Products for Buyer's exclusive use for a period of 5 years from such applicable date, provided Seller has not discontinued manufacture of the Product or the Product manufacturing process (and in such event, Section 6.b. shall apply and govern).

e. **Warranty and Sole Remedy**

For the warrant period specified below, Seller warrants that the Products delivered hereunder will (1) be free from defects in materials and workmanship under normal use and service, and (2) will comply with the Post-Layout Approval Sheet. Seller disclaims any warranty for defects to the extent such defects primarily result from designs or Specifications provided by the Buyer and used by

Seller, including but not limited to Buyer's function and logic design, and RTL. The warranty obligation of Seller does not apply to any defects to the extent such defects primarily result from (i) Product misuse, neglect, improper installation, Repair, alteration or accident by Buyer or its customers or agents after delivery of Product(s) to the Buyer; (ii) any modification to the Product(s) made by Buyer or its customers or agents after delivery of Product(s) to the Buyer: or (iii) the equipment, systems or software used by Buyer or its customers or agents in connection with the Products.

Seller's warranty obligations are limited to replacement of any detective Product(s), or in the event Seller is unable to replace such Product(s), to issue, at the election of Buyer, a credit or refund for the purchase price of such Product(s).

EXCEPT FOR THE EXPRESS WARRANTIES PROVIDED IN THIS SECTION 5.e., ALL WARRANTIES WITH RESPECT TO PRODUCTS, WHETHER EXPRESS OR IMPLIED, AND ALL GUARANTIES AND ALL REPRESENTATIONS AS TO PERFORMANCE OF PRODUCTS, INCLUDING ALL WARRANTIES THAT MIGHT ARISE FROM COURSE OF DEALING OR CUSTOM OF TRADE, INCLUDING ALL IMPLIED WARRANTIES OF MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE, AND OF NON-INFRINGEMENT ARE EXPRESSLY EXCLUDED AND DISCLAIMED BY SELLER.

No agent, employee or representative of Seller has any authority to bind Seller to any affirmation, representation or warranty relating to the Products other than as specifically provided herein. An officer of Seller is deemed to have such authority to bind Seller.

The warranty provided for herein is subject to the following conditions:

1) Buyer will notify Seller promptly in writing of any claims if a Product is or becomes defective during the warranty period.
2) Buyer will follow Seller's Return Material Authorization procedures if Seller advises Buyer to return a defective Product for replacement.
3) Buyer will reimburse Seller for all reasonable expenses incurred by Seller for shipping, handling, and inspection of such Product alleged by Buyer to be defective if such Product is either (i) not under warranty, or (ii) is finally determined not to be defective, or (iii) is defective due to any cause or condition not covered under the warranty provided herein. With respect to clause (ii), if Seller disagrees with Buyer's determination that such Product is defective, Seller shall so notify Buyer in writing within thirty (30) days. In such event, Seller and Buyer shall meet in good faith to attempt to resolve the

issue in a manner agreeable lo both parties (and if circumstances are appropriate, the parties may agree to send such alleged defective Product to an outside Laboratory or consultant for testing, in order to achieve the parties· mutual objective of avoiding material delays to pre-agreed Product timelines and/or delivery dates).

4) Buyer will pay all transportation charges for returned Product. Seller will reimburse Buyer for all such transportation charges incurred by Buyer, unless the returned Product is finally determined not to be defective in accordance with paragraph (3) above.

5) In no event will Seller be liable for any defective Products if it is finally determined that the detect primarily resulted (i) after delivery of Products to Buyer and (ii) from misuse, abuse, improper installation or application, improper maintenance or repair, assembly by Buyer or a third party, alteration, accident or negligence in use, storage, transportation or handling.

6) Any returned Products which were electrically or mechanically damaged while under the control of Buyer or its customers or agents will not be covered by this warranty, unless the reason for the destruction was a defect in the Product itself.

7) This warranty will exist for a period of twelve (12) months after the date of Buyer's receipt of Product shipment. No other warranty period is expressed or implied.

8) If Seller material or Products do not conform to the applicable specifications. then Seller owns responsibility under the terms of this Section 5.e.

f. Intellectual Property Indemnification

1) Seller retains all intellectual property rights in its own intellectual property. Seller will indemnify, defend and hold Buyer harmless against all expenses, damages, costs or losses, including reasonable attorneys' fees, resulting from a suit or proceeding brought by a third party which claims that the Product or any part thereof, or the Seller IP or any part thereof, or the process technology or methodology used to manufacture the Product, infringes any copyright, patent trademark, mask work, trade secret, or other intellectual property right. For clarity, Seller will indemnify Buyer for such claims if Seller-selected processes, materials or IP and/or Seller-selected claim elements (collectively, "Seller Selections") are sufficient (in and of themselves. and not requiring combination with Buyer Selections (as defined in subparagraph (2) below)) to support such alleged infringement claim. Seller will have no duty

to indemnify Buyer for any claims arising out of the circumstances described in subparagraph (2), below. Seller may not sell the Raven or Jay finished Products in any form to any third party. except to Buyer's designated third party contract manufacturers and service providers. Notwithstanding the foregoing, this Agreement shall not limit the right of Seller to develop, have developed, procure and/or market any products or services whatsoever now or in the future. including any products which perform the same function as Products, so long as such products and services do not incorporate or utilize any of Buyer's designs. Buyer IP, as defined below, or any Confidential Information of Buyer under the terms of the Mutual Non-Disclosure Agreement between parties, effective November 13, 2008.

2) Buyer retains all intellectual property rights in its own intellectual property ("Buyer IP"), and will own the Product (i.e., the tangible property delivered to Buyer). Buyer will indemnify, defend and hold Seller harmless against all expenses, damages, costs or losses, including reasonable attorneys· fees. resulting from a suit or proceeding brought by a third party which claims that the practice or use of Buyer IP or of any design provided or specifically requested by Buyer, infringes any copyright, patent, trademark, trade secret, or other intellectual property right. For clarity, Buyer will indemnify Seller for such claims (i) if Buyer-selected processes, materials or IP and/or Buyer-selected claim elements (collectively. "Buyer Selections") are sufficient (in and of themselves, and not requiring combination with Seller Selections) to support such alleged infringement claim. or (ii) if the combination of Buyer Selections and Seller Selections is necessary to support such alleged infringement claim. Buyer will have no duty to indemnify Seller for any claims arising out of the circumstances described in subparagraph (I). above.

3) In order to obtain a defense and indemnification under this subparagraph t~ the party seeking a defense and indemnity will: (i) give prompt written notice of the claim to the other party: (ii) give the other party sole control of the defense and settlement of the claim: and (iii) provide to the other party all reasonably available information and assistance, at the other party's cost and expense. Neither party will enter into any settlement or compromise that materially affects the other party without the other party's prior written approval, and any such settlement or compromise shall release such other party from all liability in respect of such claim.

4) Should the manufacture, use, sale, offer for sale and/or import of a Product be enjoined or become the subject of a claim of infringement for which indemnity is provided by Seller under subparagraph (1) above, Seller shall elect to (a) procure for Buyer the rights to continue to use and distribute the same. or (b) replace or modify the same to make it non-infringing without materially changing the form, fit, or function of the Product: provided that

such replacement or modification shall be subject to Buyer's prior written approval (such approval to be granted or denied in Buyer's sole discretion).

5) In no event will Seller's total liability for an indemnified claim under this subparagraph f exceed two times the total amount paid or payable by Buyer to Seller under this Agreement.

6) **THE FOREGOING STATES THE EXCLUSIVE INDEMNIFICATION OBLIGATIONS OF THE PARTIES WITH RESPECT TO ANY ALLEGED COPYRIGHT, PATENT, TRADEMARK, MASK WORK, TRADE SECRET OR OTHER INTELLECTUAL PROPERTY RIGHT INFRINGEMENT BY SUCH PRODUCTS OR PARTS THEREOF**.

6. **TERMINATION AND PRODUCT DISCONTINUANCE**

a. **Termination**

Should Buyer wish to terminate the development of a Product under a specific line item in a Task Order, or the production of a Product under a specific line item in an Annual APT for the Product (hereinafter collectively referred to as a "collateral agreement"), Buyer may cancel performance under the particular line item. Notwithstanding such cancellation by Buyer, Seller will honor the quantity of Product for which Seller has received and acknowledged a Purchase Order from Buyer. Buyer shall be obligated to pay for finished Product and work-in• process that has commenced in the manufacturing line at the time of any such cancellation. in accordance with the Annual Production Terms, and all such Product and work-in-process shall be delivered to Buyer at Buyers request.

b. **Product Discontinuance**

Seller reserves the right to discontinue production of any Product at anytime, subject to the following conditions. In the event that production of a Product is to be discontinued by Seller, Seller will provide notice to Buyer in writing at least six (6) months in advance of each such discontinuation. At a minimum, for five (5) years after Seller's first delivery of the Product that is the subject of such discontinuance by Seller, Seller will provide such Product for Buyer in accordance with Buyer's Purchase Orders for such Product. If the Product production process is slated for end-of-life while this Agreement is in effect, Buyer may continue its use of all licensed IP and custom-developed IP for purposes of supporting Products sold to Buyer's customers; and (ii) Seller will provide support for all licensed IP and custom developed IP for a period of at least one (1) year after the last shipment of discontinued Product in accordance with the support terms specified in the applicable license agreement.

7. **ADDITIONAL TERMS AND CONDITIONS**

a. **Precedence**

Purchase Orders placed during the term of this Agreement will be governed by and subject to the terms and conditions of this Agreement and applicable Change Orders or Task Orders/ APT. If any inconsistency or conflict should arise between the express terms of this Agreement and the express terms of the applicable Change Order or Task Order/ APT, and if such inconsistent or conflicting Change Order or Task Order/ APT does not expressly state that this Agreement is intended to be amended by such Change Order or Task Order/ APT, the order of precedence in resolving such express inconsistency or conflict will be:

i) This Agreement
ii) Task Order/APT
iii) Change Orders.

In the event such inconsistent or conflicting Change Order or Task Order/ APT does expressly state that this Agreement is intended to be amended by such Change Order or Task Order/ APT, then such amendment shall apply only with respect to such Change Order or Task Order/ APT and not with respect to any other Change Order or Task Order/ APT, unless such other Change Order or Task Order/ APT expressly provides otherwise.

It is expressly agreed that any lack of reference to this Agreement on any Purchase Order issued by Buyer will not affect the applicability of this Agreement to such Purchase Order.

b. **Force Majeure**

Except for Buyer's payment obligations under this Agreement, neither Seller nor Buyer will be responsible for any failure to perform resulting from unforeseen circumstances or causes beyond Seller's or Buyer's (respectively) reasonable control (for example, an act of God or a force majeure event).

In the event of any delay caused by such event, the date of delivery or performance will, at the request of the affected party, be deferred for a period equal to the period of the delay.

c. **INDEPENDENT OF ANY OTHER LIMITATION HEREIN AND REGARDLESS OF WHETHER THE PURPOSE OF SUCH LIMITATION IS SERVED, IT IS AGREED THAT IN NO EVENT WILL EITHER PARTY BE LIABLE FOR SPECIAL, INCIDENTAL, CONSEQUENTIAL, PUNITIVE OR INDIRECT DAMAGES. FOR CLARITY, THERE IS NO LIMITATION ON EITHER PARTY'S (1) LIABILITY FOR BREACH OR OTHER VIOLATION OF ITS OBLIGATIONS REGARDING THE OTHER PARTY'S CONFIDENTIAL INFORMATION AND/OR**

PROPRIETARY PROPERTY, OR (2) LIABILITY FOR ITS INTELLECTUAL PROPERTY INFRINGEMENT INDEMNIFICATION OBLIGATIONS UNDER THIS AGREEMENT. EXCLUDING THE LIABILITIES DESCRIBED IN THE FOREGOING SENTENCE (WHICH ARE NOT SUBJECT TO ANY LIMITATION), SELLER'S TOTAL LIABILITY ARISING OUT OF OR DIRECTLY RELATED TO THIS AGREEMENT (INCLUDING BUT NOT LIMITED TO ANY WARRANTY CLAIMS HEREUNDER) REGARDLESS OF THE FORUM AND REGARDLESS OF WHETHER THE ACTION IS BASED ON CONTRACT, TORT OR OTHERWISE, SHALL NOT EXCEED THE TOTAL AMOUNT PAID BY BUYER TO SELLER UNDER THE AGREEMENT.

d. **Limitations of Actions**

No action against a party for breach will be commenced more than one (1) year after the accrual of the cause of action or a party's knowledge that such cause of action exists, whichever occurs later.

e. **Assignment**

Neither party will assign this Agreement or any interest or rights thereunder without the prior written consent of the other party, such consent not be unreasonably withheld. Notwithstanding the foregoing, so long as Buyer's intended assignee (i) is not a company that at that time of such proposed assignment is a competitor of Seller or Seller's parent company with respect to Seller's line of business to which this Agreement relates, or (ii) is not a company that would reasonably be expected to raise material issues for Seller regarding export control matters, then Buyer may assign this Agreement without Seller's consent (a) to an affiliate of Buyer; (b) to a third party that succeeds to all or substantially all of Buyer's business relating to this Agreement; (c) to a third party purchaser of all or substantially all of Buyer's assets related to this Agreement; or (d) incident to the merger, consolidation, reorganization or acquisition of Buyer's stock or assets affecting substantially all of the assets or actual voting control of Buyer.

f. **Fair Labor Standards Act**

The Seller represents that with respect to the production of the Products and/or the performance of the services covered: it will fully comply with all requirements of the Fair Labor Standards Act of 1938 as amended.

g. **Local Currency**

Any order placed and payment for such order will be in U.S. Dollars.

h. **Governing Law**

The laws of the State of California will govern this Agreement. Any provisions hereof which are unenforceable in any jurisdiction will not affect the remaining provisions or affect the enforceability of such provisions in any other jurisdiction. Each of Buyer and Seller consents to the exercise of jurisdiction over it by any state court in Santa Clara County, California or federal district court within the Northern District of California.

i. **Dispute Resolution**

If a disagreement whether in tort, contract or otherwise arises between Buyer and Seller, the parties will meet to attempt to resolve the disagreement. If the parties cannot resolve the disagreement among themselves, they will submit the matter to mediation. The parties will agree on a suitable mediator. At least 10 business days before the mediation each side will provide the mediator with a statement of its position and copies of all supporting documents. Each party will send to the mediation a person who has authority to bind the party. If the disagreement cannot be resolved at mediation, a binding arbitration will be conducted by a single arbitrator in San Jose, California, USA in accordance with the then-current commercial arbitration rules of the American Arbitration Association ("AAA") To the extent that Buyer and Seller cannot agree on a single arbitrator, the arbitrator shall be appointed by AAA. Neither party will sue the other except for enforcement of the arbitrator's decision. Any arbitration proceeding must be commenced within one (1) year after the first meeting of the parties to attempt to resolve the disagreement. Nothing in this Agreement shall be deemed as preventing either party from seeking injunctive relief (or any other provisional remedy).

j.· **Waiver**

No provision of or right under this Agreement shall be deemed to have been waived by any act or acquiescence on the part of any party, its agents or employees, but only by an instrument in writing signed by an authorized officer of such party. A waiver by either party of any default or of any of the terms and conditions of this Agreement will not be deemed to be a continuing waiver of any other default or of any other of these terms and conditions. It will apply solely to the instance to which the waiver is directed.

k. **Export**

The parties shall comply with applicable export laws and regulations. For "items" and "technologies" controlled under the Export Administration Regulations ("EAR") (l5 C.F.R. 730-774) of the U.S. Department of Commerce, Bureau of Industry & Security, each party will notify the other party of the applicable Export Control Classification Numbers ("ECCN") for each item and/or technology prior to transfer or release to the other party. For items and technologies controlled under the International Traffic in Arms Regulations (22 C.F.R. 120-130). each party will inform the other party of such items and technologies prior to transfer or release to the ocher party.

l. **Publicity**

Neither party will publicize or disclose the existence or terms and conditions of this Agreement, or any transactions hereunder, without the express, prior written consent of the other party.

m. Government Contracts

If Buyer's original Purchase Order indicates by contract number that it is placed under a government contract, Buyer will notify Seller of the Federal Acquisition Regulations (FAR) requirement applicable to the P.O. "Contracting Officer" will mean "Buyer." "Contractor" will mean "Seller," and the term "Contract" will mean this Agreement.

n. **Amendments**

This Agreement may not be modified or amended except in a writing signed by an authorized representative of each of the parties. Any changes made to this Agreement, other than by Task Order, Change Order, or APT, will be made by amendment attached hereto and incorporated by reference.

o. Prohibited Uses

Parties agree that Product is designed and intended for commercial use only. Product is not authorized for use as a critical component in military or medical applications, nuclear facilities or systems, or any other application where Product failure could lead to loss of life or catastrophic property damage. Product is not authorized for use as "critical components" in "life support systems" without the written consent of an officer of Seller. "Life support systems" are either systems intended for surgical implant in the body or systems which sustain Life. A "critical component" is any component of a lite support system whose failure to perform may cause a malfunction or failure of the lite support system or may affect its safety or effectiveness. The inclusion of Product in life support systems without the express written approval of an officer of Seller implies that the Buyer assumes all risk of such use and in so doing indemnifies Seller against all damages and attorneys· foes.

p. **Entire Agreement**

This Agreement, including its Exhibits, sets forth the entire Agreement between Buyer and Seller regarding the development and production of Product and the subject matter of this Agreement, and supersedes all prior oral or written agreements, discussions and understandings, express or implied, and prevails over any conflicting or additional terms of any quote, printed terms of any P.O. or acknowledgment, or similar communication between the parties during the term of this Agreement. However, notwithstanding the foregoing, the provisions of the

Mutual Non-Disclosure Agreement between Buyer and Seller, dated November 13,2008 (“NDA”), shall survive with respect to disclosures made pursuant to the NDA prior to the Effective Date of this Agreement. On and after the Effective Date of this Agreement, (1) the “Business Purpose” described in the NDA shall be amended to include the subject matter of this Agreement, and (2) the term of the NDA shall be extended to end on the date that is five (5) years after expiration or termination of this Agreement.

q. **Notices**

All notices required to be sent to either party under this Agreement shall be sent by overnight commercial courier, or properly transmitted facsimile. to the respective addresses of the parties set forth in the preamble of this Agreement, or to such other address which may hereinafter be designated in writing by the addressee party, and shall be effective upon receipt as demonstrated by reasonable proof of delivery.

<< Signature Page Follows>>

IN WITNESS WHEREOF, this Agreement has been executed effective as of the Effective Date.

BUYER:	Enphase Energy, Inc.	SELLER:	Fujitsu Microelectronics America, Inc
BY:	/s/ Paul Nahi	BY:	/s/ Steve Della Rocchetta
PRINT NAME:	Paul Nahi	PRINT NAME:	Steve Della Rocchetta
PRINT TITLE:	CEO	PRINT TITLE:	VP Sales & Marketing
DATE:	8/27/2009	DATE:	8/27/2009

Exhibits: A. Development Task Order
B. Change Order
C. Risk and Annual Production Terms
D. Designated Signatories to Approval to Move to Mass Production
E. Statement of Work

EXHIBIT E: Designated Buyer Signatories to Approval to Move to Mass Production

Vice President of Operations - Greg Steele
Vice President of Engineering - Nelu Mihai

Exhibit 10.2

AMENDMENT NO. 1
TO
LONG TERM PRODUCT SUPPLY AGREEMENT

This **AMENDMENT NO. 1 TO LONG TERM PRODUCT SUPPLY AGREEMENT** (this "***Amendment***") is entered as of March 3, 2015 (the "***Effective Date***") by and between VIVINT SOLAR DEVELOPER, LLC, a Delaware limited liability company ("***Buyer***") and ENPHASE ENERGY, INC., a Delaware corporation ("***Seller***"). Buyer and Seller are referred to herein individually as a "***Party***", and collectively as the "***Parties***".

RECITALS

A. WHEREAS, the Parties entered into that certain Long Term Product Supply Agreement, dated as of August 11, 2014 (as amended, restated, supplemented or otherwise modified from time to time, the "***Agreement***"); and

B. WHEREAS, pursuant to Section 18.8 of the Agreement, the Parties desire to make certain changes to the Agreement, more fully described herein, and are willing to amend the Agreement, subject to the terms and conditions set forth in this Amendment.

AGREEMENT

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

1. Definitions. Any capitalized term used but not defined in this Amendment shall have the meaning ascribed to such term in the Agreement.

2. Amendment to the Agreement. The Parties hereby agree to amend the Agreement as follows:

(a) *Hosting.* The first sentence of Section 17.1.1 of the Agreement is hereby deleted and replaced in its entirety by the following:

"For the life of every Envoy purchased under this Agreement (the "***Hosting Period***"), for no additional cost to Buyer (except as set forth on Exhibit A), Seller shall (a) host and operate the Enlighten monitoring software service for all monitored Systems, and (b) provide access to such Enlighten monitoring software service to end users via a web-based online interface and to Buyer via Seller's application programming interface ("***API***")."

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

(b) *Pricing*. Exhibit A attached to the Agreement is hereby deleted and replaced in its entirety by Exhibit A attached to this Amendment.

(c) *Limited Envoy Warranty*. The Limited Envoy Warranty found in Exhibit G of the Agreement is hereby deleted and replaced in its entirety by Exhibit B attached to this Amendment.

3. Payment Terms. Notwithstanding anything to the contrary in Section 3.4 of the Agreement, for all Products delivered to the Delivery Point beginning [***] through [***], payment will not be due from Buyer until [***] days after receipt of an Invoice from Seller.

4. Effective Date Pricing. The Unit Price for all Products delivered by Seller to Buyer after [***] shall be [***] to reflect the Unit Price set forth on Exhibit A attached to this Amendment. Seller shall, within five (5) Business Days from the Effective Date, issue a credit in an amount equal to the difference between the original Unit Price invoiced for any Products ordered between [***] and the Effective Date and the new Unit Price set forth in this Amendment.

5. One-Time Payment. Simultaneously with the execution of this Amendment on the Effective Date, Seller shall make a one-time payment to Buyer in an amount equal to [***].

6. 2015 Commitment. Pursuant to Section 2.1.2 of the Agreement, between [***] and [***], Buyer agrees to submit Purchase Orders to Seller for the purchase of an aggregate of [***] Microinverters, with quantities of [***] Microinverters in the [***] and [***] Microinverters in the [***]. The Parties agree that the foregoing purchase(s) of Microinverters shall count towards the anticipated annual volumes set forth in Section 2.3 of the Agreement.

7. Limitation. The amendments and modifications set forth in this Amendment shall be limited precisely as written and shall not be deemed (a) to be a waiver or modification of any other term or condition of the Agreement or of any other instrument or agreement referred to therein or to prejudice any right or remedy which the Parties may now have or may have in the future under or in connection with the Agreement or any instrument or agreement referred to therein; or (b) to be a consent to any future amendment or modification or waiver to any instrument or agreement the execution and delivery of which is consented to hereby, or to any waiver of any of the provisions thereof. Except as expressly amended hereby, the Agreement shall continue in full force and effect.

8. Counterparts. This Amendment may be signed in any number of counterparts and each counterpart shall represent a fully executed original as if signed by both Parties. Delivery of this Amendment may be accomplished by means of an exchange of facsimile or emailed signatures, which shall be deemed originals for all purposes.

9. Integration. This Amendment, the Agreement, and any documents executed in connection herewith or therewith or pursuant hereto or thereto contain the entire agreement between the Parties with respect to the subject matter hereof and supersede all prior agreements, understandings, offers and negotiations, oral or written, with respect thereto and no extrinsic evidence whatsoever may be introduced in any judicial or arbitration proceeding, if any, involving this Amendment.

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

10. Effectiveness. This Amendment shall become effective as of the Effective Date.

11. Governing Law. Pursuant to Section 18.3 of the Agreement, this Amendment, and the rights and obligations of the Parties and any dispute arising under or relating thereto (whether in contract, tort or otherwise) shall be governed by, and construed in accordance with, the laws of the State of New York, without giving effect to the conflict of law rules thereof or any other statute or doctrine that might call for the application of the laws of any other jurisdiction.

[SIGNATURE PAGES FOLLOW]

NOW, THEREFORE, the Parties hereto have entered into this Agreement as of the Effective Date.

SELLER:

ENPHASE ENERGY, INC.

By: /s/ Taylor Browning
Name: J. Taylor Browning
Title: Associate General Counsel and Assistant Secretary

[SIGNATURE PAGES CONTINUE ON FOLLOWING PAGE]

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

BUYER:

VIVINT SOLAR DEVELOPER, LLC

By: /s/ Jan Newman
Name: Jan Newman
Title: Vice President, Business Development

[SIGNATURE PAGE]

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

EXHIBIT A

PRODUCTS AND UNIT PRICE

Model Number	Description	Unit Price	MOQ
Microinverters			
M215-60-2LL-S22[1]	Microinverter, 240 & 208Vac, for 60-cell modules, MC-style PV connector	[***]	1 Box x 12 Units
M250-60-2LL-S22[2]	Microinverter, 240 & 208Vac, for 60-cell modules, MC-style PV connector	[***]	1 Box x 12 Units
n/a	5 Year Extended Warranty Upgrade	[***]	
Communications Gateway			
ENV-120-01 VM	Envoy Communications Gateway,120VAC, with Ethernet Bridge pair	[***][3]	1 Box x 6 Units
RGM-MTR-01	Enphase-compatible GE i210+ Revenue Grade Meter (RGM) with integrated ZigBee wireless[4]	[***]	1 Box x 4 Units
RGM-ZGB-01	ZigBee USB stick for Enphase Envoy communication with RGM	[***]	1 Box x 4 Units
Service Fee for Enlighten			
	Per Envoy per year for [***] years	[***][5]	
Cables			
ET10-240-BULK	240VAC Trunk Cable, 240 Connectors, Portrait	[***]	1 Box (240 Connectors)
ET17-240-BULK	240VAC Trunk Cable, 240 Connectors, Landscape	[***]	1 Box (240 Connectors)
Cables			
ET-TERM-10	Branch Terminator - (QTY 10 Units/Bag)	[***]	1 Box x 10 Bags
ET-DISC-05	Table Disconnect Tool - (QTY 5 Units/Bag)	[***]	1 Box x 20 Bags
ET-SEAL-10	Sealing Cap - (QTY 10 Units/Bag)	[***]	1 Box x 10 Bags
ET-SPLK-05	Engage Coupled - (QTY 5 Units/Bag)	[***]	1 Box x 5 Bags

(1) Includes integrated ground.

(2) Includes integrated ground.

(3) Seller will provide the Envoy Communications Gateway to Buyer [***].

(4) Seller will sell to Buyer [***] RGMs at [***].

(5) For each System incorporating an Envoy Communications Gateway, Seller will provide to Buyer access to Enlighten, a non-cancellable, non-refundable service provided by Seller. For the Enlighten service, Buyer will pay to Seller [***] per System per year for [***] even if Buyer discontinues use of the Enlighten service. The Enlighten service will commence upon activation of an Envoy and continue for the life of the Envoy. Buyer will have access to Enlighten and Enlighten API for the life of the Envoy, provided that the Envoy is connected to the Internet. Seller will send an invoice to Buyer each year on the anniversary of the date each System was activated with the Enlighten service. For example, for all Envoys delivered to Buyer during the month of [***], Seller will send an invoice to Buyer at the [***]. Seller shall deliver such invoices for the foregoing Enlighten service fees separate from any other invoice delivered to Buyer.

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

LIMITED ENVOY WARRANTY

ENVOY WARRANTY

ENPHASE ENERGY ENVOY^{TM} COMMUNICATIONS GATEWAY [***] LIMITED WARRANTY – FOR INSTALLATIONS IN NORTH AMERICA

Enphase Energy, Inc. ("***Enphase***") has developed a highly reliable Envoy Communications Gateway ("***Envoy***") that is designed to withstand normal operating conditions when used for its originally intended purpose in compliance with the Enphase User Manual made available with the originally shipped system. Enphase hereby represents and warrants that all Envoys shall be free of defects in workmanship, materials and design, shall meet the applicable Specification, shall comply with all applicable Laws, and shall be fit for its intended purpose ("***Limited Envoy Warranty***"). The Limited Envoy Warranty covers any failure of an Envoy that is defective or otherwise does not conform to the Limited Envoy Warranty ("***Defective Product***") for a period of [***] ([***]) years from the date of original purchase of such Envoy at point of sale to system owner (the "***Warranty Holder***") at the originally-installed end user location (the "***Warranty Period***") in locations where we have approved our Envoy for installation as listed on our website at http://www.enphase.com/warranty.

During the Warranty Period, the Limited Envoy Warranty is transferable to a different owner ("***Transferee***") as long as the Envoy remains installed at the originally-installed end user location ("***Original Location***").

During the Warranty Period, if Enphase establishes, through inspection, the existence of a defect that is covered by the Limited Envoy Warranty, Enphase will, at its option, either (1) repair or replace the Defective Product free of charge, or (2) issue a credit or refund for the Defective Product to the Warranty Holder of the system in an amount up to its actual value at the time the Warranty Holder notifies Enphase of the defect, as determined by Enphase.

If Enphase elects to repair or replace the Defective Product, Enphase will, at its option, use new and/or reconditioned parts in repairing or replacing the Defective Product. Enphase reserves the right to use parts or products of original or improved design in the repair or replacement of Defective Product. If Enphase repairs or replaces a Defective Product, the Limited Envoy Warranty continues on the repaired or replacement product for the remainder of the original Warranty Period or ninety (90) days from the date of Enphase's return shipment of the repaired or replacement product, whichever is later. The Limited Envoy Warranty covers a replacement unit to replace the Defective Product, but does not include labor costs related to (1) un-installing the Defective Product or (2) if applicable, re-installing a repaired or replacement product. To the extent applicable, the Limited Envoy Warranty also covers the costs of returning the Defective Product via Enphase's RMA policy and procedure described further below, as well as shipping a repaired or replacement product from Enphase, via a non-expedited freight carrier selected by Enphase, to locations specified by the Warranty Holder of the Defective Product. The Limited Envoy Warranty does not cover, and Enphase will not be responsible for, shipping damage or damage caused by mishandling by the freight carrier and any such damage is the responsibility of the freight carrier.

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

Envoys are designed to withstand normal operating conditions and typical wear and tear when used for their original intent and in compliance with the installation and operating instructions supplied with the original equipment. The Limited Envoy Warranty does not apply to, and Enphase will not be responsible for, any defect in or damage to any Envoy: (1) that has been misused, neglected, tampered with, altered, or otherwise damaged, either internally or externally; (2) that has been improperly installed, operated, handled or used, including use under conditions for which the product was not designed, use in an unsuitable environment, or use in a manner contrary to the Enphase User Manual (as supplied to the Warranty Holder) or applicable laws or regulations; (3) that has been subjected to fire, water, generalized corrosion, biological infestations, acts of nature, or input voltage that creates operating conditions beyond the maximum or minimum limits listed in the Enphase Envoy specifications, including high input voltage from generators or lightning strikes; (4) that has been subjected to incidental or consequential damage caused by defects of other components of the solar system; or (5) if the original identification markings (including trademark or serial number) of such Envoy have been defaced, altered, or removed. This Limited Envoy Warranty does not cover cosmetic, technical or design defects, or shortcomings which do not materially influence or affect the energy production or degrade form, fit, or function of the Envoy. The Limited Envoy Warranty does not cover costs related to the removal, installation or troubleshooting of the Warranty Holder's electrical systems. The Limited Envoy Warranty does not extend beyond the original cost of the Enphase Envoy.

To obtain repair or replacement service, credit or refund (as applicable) under this Limited Envoy Warranty, the Warranty Holder must comply with the Return Merchandise Authorization Number (RMA) policy and procedure http://www.enphase.com/rma.

THE LIMITED ENVOY WARRANTY IS THE SOLE AND EXCLUSIVE WARRANTY GIVEN BY ENPHASE AND, WHERE PERMITTED BY LAW, IS MADE EXPRESSLY IN LIEU OF ALL OTHER WARRANTIES, EXPRESS OR IMPLIED, STATUTORY OR OTHERWISE, INCLUDING, WITHOUT LIMITATION, WARRANTIES OF TITLE, QUALITY, MERCHANTABILITY, FITNESS FOR A PARTICULAR PURPOSE OR NON-INFRINGEMENT OR WARRANTIES AS TO THE ACCURACY, SUFFICIENCY OR SUITABILITY OF ANY TECHNICAL OR OTHER INFORMATION PROVIDED IN MANUALS OR OTHER DOCUMENTATION. IN NO EVENT WILL ENPHASE BE LIABLE FOR ANY SPECIAL, DIRECT, INDIRECT, INCIDENTAL OR CONSEQUENTIAL DAMAGES, LOSSES, COSTS OR EXPENSES HOWEVER ARISING, WHETHER IN CONTRACT OR TORT, INCLUDING WITHOUT LIMITATION ANY ECONOMIC LOSSES OF ANY KIND, ANY LOSS OR DAMAGE TO PROPERTY, OR ANY PERSONAL INJURY.

To the extent any implied warranties are required under applicable law to apply to the Envoy, such implied warranties shall be limited in duration to the Warranty Period, to the extent permitted by applicable law. Some regions do not allow limitations or exclusions on implied warranties or on the duration of an implied warranty or on the limitation or exclusion of incidental or consequential damages, so the above limitation(s) or exclusion(s) may not apply. This Limited Envoy Warranty gives the Warranty Holder specific legal rights, and the Warranty Holder may have other rights that may vary from region to region.

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

Exhibit 10.3

AMENDMENT NO. 2 TO CREDIT AGREEMENT

AMENDMENT NO. 2 TO CREDIT AGREEMENT (this "Amendment"), dated as of February 2, 2015, 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 Credit Agreement, dated as of November 7, 2012 (the "Credit Agreement"), by and among Borrower, the Lenders and Agent, as amended by Amendment No. 1 to Credit Agreement dated as of February 14, 2014. 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, Borrower has requested that Agent and the Lenders make certain amendments to the Credit 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

A. 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 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 further, 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 the People's Republic of China."

B. The definition of Permitted Dispositions set forth in Schedule 1.1 of the Credit Agreement hereby amended by deleting the "and" at the end of clause (o), re-designating the existing clause (p) as clause (q) and adding the following clause (p) after clause (o):

"(p) dispositions of assets constituting Equipment sold to Flextronics so long as: (i) it is maintained at one of Flextronic's facilities located in the People's Republic of China, (ii) such Equipment is re-acquired by Borrower within 30 days after its arrival to 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"

C. The definition of Permitted Investments set forth in Schedule 1.1 of the Credit Agreement hereby amended by deleting the "and" at the end of clause (q), deleting the "." At the end of clause (r) and replacing it with a ", and", and adding the following clause (s) after clause (r):

(s) Investments resulting from the re-purchase of Equipment disposed of pursuant to clause (p) of the definition of "Permitted Dispositions".

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

"Amendment No. 2" means that certain Amendment No. 2 to Credit Agreement, dated as of February 2, 2015, by and among Borrower, the Lenders and Agent.

"Amendment No. 2 Effective Date" has the meaning specified therefor in Amendment No. 2.

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. 2 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 as so amended by this Amendment being referred to herein as the "Amended Credit Agreement");

(ii) Agent shall have received evidence that the Hercules Facility has been paid in full and all liens securing the same have been terminated;

(iii) 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;

(iv) 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. 2 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); and

(v) 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. 2 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 Credit Agreement.

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 Credit Agreement 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 Credit Agreement 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 Credit Agreement 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 From Amended Credit Agreement. The representations and warranties of the Loan Parties contained in the Credit

Agreement, the Amended Credit 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. 2 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. 2 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.

(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 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.

[Remainder of page intentionally left blank]

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.

By: /s/ Kris Sennesael

Name: Kris Sennesael

Title: CFO

WELLS FARGO BANK, NATIONAL ASSOCIATION, as Agent and as a Lender

By: /s/ Patrick McCormack

Name: Patrick McCormack

Title: Authorized Signatory

Exhibit 31.1

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: May 6, 2015

/s/ Paul B. Nahi

Paul B. Nahi
President and Chief Executive Officer
(Principal Executive Officer)

Exhibit 31.2

CERTIFICATION

I, Kris Sennesael, certify that:

1. I have reviewed this Form 10-Q of Enphase Energy, Inc.;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer(s) and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15(d)-15(f)) for the registrant and have:

    a. designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

    b. designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

    c. evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

    d. disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer(s) and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

    a. All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

    b. Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: May 6, 2015

/s/ Kris Sennesael

Kris Sennesael
Vice President and Chief Financial Officer
(Principal Financial Officer)

Exhibit 32.1

CERTIFICATION

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

1. The Company’s Quarterly Report on Form 10-Q for the period ended March 31, 2015, to which this Certification is attached as Exhibit 32.1 (the “Periodic Report”), fully complies with the requirements of Section 13(a) or Section 15(d) of the Exchange Act; and

2. The information contained in the Periodic Report fairly presents, in all material respects, the financial condition and results of operations of the Company.

In Witness Whereof, the undersigned have set their hands hereto as of the 6th day of May, 2015.

/s/ Paul B. Nahi	/s/ Kris Sennesael
Paul B. Nahi	Kris Sennesael
President and Chief Executive Officer	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.