

Edgar Filing: Enphase Energy, Inc. - Form 10-Q

Enphase Energy, Inc.
Form 10-Q
April 30, 2019

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**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, 2019**

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.)

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47281 Bayside Parkway **94538**
Fremont, CA

(Address of principal executive offices) (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 every Interactive Data File required to be submitted 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 such files). Yes No

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

Large accelerated filer Accelerated filer

Non-accelerated filer Smaller reporting company

Emerging growth company

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act.

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

As of April 23, 2019, there were 110,226,728 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, 2019
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| | March 31, 2019 | December 31, 2018 |
|---|---------------------------|------------------------------|
| ASSETS | | |
| Current assets: | | |
| Cash and cash equivalents | \$ 78,087 | \$ 106,237 |
| Accounts receivable, net | 81,715 | 78,938 |
| Inventory | 12,971 | 16,267 |
| Prepaid expenses and other assets | 22,669 | 20,860 |
| Total current assets | 195,442 | 222,302 |
| Property and equipment, net | 20,178 | 20,998 |
| Operating lease, right of use asset | 7,963 | — |
| Intangible assets, net | 34,124 | 35,306 |
| Goodwill | 24,783 | 24,783 |
| Other assets | 36,762 | 36,548 |
| Total assets | \$ 319,252 | \$ 339,937 |
| LIABILITIES AND STOCKHOLDERS' EQUITY | | |
| Current liabilities: | | |
| Accounts payable | \$ 52,489 | \$ 48,794 |
| Accrued liabilities | 32,431 | 29,010 |
| Deferred revenues, current | 32,916 | 33,119 |
| Warranty obligations | 7,925 | 8,083 |
| Debt, current | 2,985 | 28,155 |
| Total current liabilities | 128,746 | 147,161 |
| Long-term liabilities: | | |
| Deferred revenues, noncurrent | 78,393 | 76,911 |
| Warranty obligations, noncurrent | 23,117 | 23,211 |
| Other liabilities | 9,466 | 3,250 |
| Debt, noncurrent | 65,406 | 81,628 |
| Total liabilities | 305,128 | 332,161 |
| Commitments and contingent liabilities (Note 9) | | |
| Stockholders' equity: | | |
| Preferred stock, \$0.00001 par value, 10,000 shares authorized; none issued and outstanding | — | — |
| Common stock, \$0.00001 par value, 150,000 shares and 150,000 shares authorized; and 110,211 shares and 107,035 shares issued and outstanding at March 31, 2019 and December 31, 2018, respectively | 1 | 1 |
| Additional paid-in capital | 357,023 | 353,335 |
| Accumulated deficit | (343,563) | (346,302) |
| Accumulated other comprehensive income | 663 | 742 |
| Total stockholders' equity | 14,124 | 7,776 |
| Total liabilities and stockholders' equity | \$ 319,252 | \$ 339,937 |

See Notes to Condensed Consolidated Financial Statements.

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ENPHASE ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share data)
(Unaudited)

| | Three Months Ended | |
|---------------------------------------|--------------------|------------|
| | March 31, | |
| | 2019 | 2018 |
| Net revenues | \$100,150 | \$69,972 |
| Cost of revenues | 66,811 | 51,657 |
| Gross profit | 33,339 | 18,315 |
| Operating expenses: | | |
| Research and development | 8,524 | 7,620 |
| Sales and marketing | 7,433 | 6,227 |
| General and administrative | 9,880 | 6,943 |
| Restructuring charges | 368 | — |
| Total operating expenses | 26,205 | 20,790 |
| Income (loss) from operations | 7,134 | (2,475) |
| Other expense, net | | |
| Interest expense | (3,540) | (2,292) |
| Other expense | (481) | (126) |
| Total other expense, net | (4,021) | (2,418) |
| Income (loss) before income taxes | 3,113 | (4,893) |
| Provision for income taxes | (348) | (235) |
| Net income (loss) | \$2,765 | \$(5,128) |
| Net income (loss) per share: | | |
| Basic | \$0.03 | \$(0.06) |
| Diluted | \$0.02 | \$(0.06) |
| Shares used in per share calculation: | | |
| Basic | 108,195 | 91,422 |
| Diluted | 115,863 | 91,422 |

See Notes to Condensed Consolidated Financial Statements.

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ENPHASE ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (LOSS)
(In thousands)
(Unaudited)

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Net income (loss) | \$2,765 | \$(5,128) |
| Other comprehensive (loss) income: | | |
| Foreign currency translation adjustments (79) | 288 | |
| Comprehensive income (loss) | \$2,686 | \$(4,840) |

See Notes to Condensed Consolidated Financial Statements.

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ENPHASE ENERGY, INC.
CONDENSED CONSOLIDATED STATEMENTS OF STOCKHOLDER'S EQUITY (DEFICIT)
(In thousands)
(Unaudited)

| | Three Months Ended | |
|---|---------------------------|-------------|
| | March 31, | |
| | 2019 | 2018 |
| <i>Common stock and paid-in capital</i> | | |
| Balance, beginning of period | \$353,336 | \$287,257 |
| Cumulative-effect adjustment to additional paid in capital ⁽¹⁾ | 26 | — |
| Common stock issued under equity incentive and stock purchase plans, net | 309 | 269 |
| Issuance of common stock, net | — | 19,923 |
| Stock-based compensation expense and other | 3,353 | 1,571 |
| Balance, end of period | \$357,024 | \$309,020 |
| <i>Retained earnings</i> | | |
| Balance, beginning of period | \$(346,302) | \$(295,727) |
| Cumulative-effect adjustment to accumulated deficit ⁽¹⁾ | (26) | (38,948) |
| Net income (loss) | 2,765 | (5,128) |
| Balance, end of period | \$(343,563) | \$(339,803) |
| <i>Accumulated other comprehensive income (loss)</i> | | |
| Balance, beginning of period | \$742 | \$(656) |
| Foreign currency translation adjustments | (79) | 288 |
| Balance, end of period | \$663 | \$(368) |
| Total stockholders' equity, ending balance | \$14,124 | \$(31,151) |

Includes the adoption of Accounting Standards Update ("ASU") 2018-07, "Compensation - Stock Compensation: Improvements to (1) Non-employee Share-Based Payment Accounting" on January 1, 2019 and the adoption of Accounting Standards Codification ("ASC") No. 606, "Revenue Recognition" on January 1, 2018.

See Notes to Condensed Consolidated Financial Statements.

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

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| Cash flows from operating activities: | | |
| Net income (loss) | \$2,765 | \$(5,128) |
| Adjustments to reconcile net income (loss) to net cash provided by operating activities: | | |
| Depreciation and amortization | 3,572 | 2,276 |
| Provision for doubtful accounts | — | 600 |
| Amortization of debt issuance costs | 1,490 | 537 |
| Financing fees on extinguishment of debt | 2,152 | — |
| Stock-based compensation | 3,290 | 1,571 |
| Changes in operating assets and liabilities: | | |
| Accounts receivable | (3,266) | 9,125 |
| Inventory | 3,296 | 7,457 |
| Prepaid expenses and other assets | (2,413) | (1,039) |
| Accounts payable, accrued and other liabilities | 4,851 | (11,667) |
| Warranty obligations | (252) | 809 |
| Deferred revenues | 1,578 | (1,180) |
| Net cash provided by operating activities | 17,063 | 3,361 |
| Cash flows from investing activities: | | |
| Purchases of property and equipment | (658) | (1,043) |
| Net cash used in investing activities | (658) | (1,043) |
| Cash flows from financing activities: | | |
| Proceeds from issuance of common stock, net of issuance costs | — | 19,923 |
| Proceeds from debt, net of issuance costs | — | 2,309 |
| Principal payments and financing fees on debt | (44,731) | (771) |
| Proceeds from issuance of common stock under employee stock plans, net | 309 | 269 |
| Net cash provided by (used in) financing activities | (44,422) | 21,730 |
| Effect of exchange rate changes on cash | (133) | 63 |
| Net increase (decrease) in cash and cash equivalents | (28,150) | 24,111 |
| Cash and cash equivalents—Beginning of period | 106,237 | 29,144 |
| Cash and cash equivalents—End of period | \$78,087 | \$53,255 |
| Supplemental disclosures of non-cash investing and financing activities: | | |
| Purchases of fixed assets included in accounts payable | \$458 | \$117 |
| Operating lease, right of use asset | \$8,392 | \$— |

See Notes to Condensed Consolidated Financial Statements.

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ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Enphase Energy, Inc. (the “Company”) is a global energy technology company. The Company delivers smart, easy-to-use solutions that connect solar generation, storage and management on one intelligent platform. The Company revolutionized solar with its microinverter technology and produces a fully-integrated solar plus storage solution.

Basis of Presentation and Consolidation

The accompanying condensed consolidated financial statements are presented in accordance with accounting principles generally accepted in the United States (“U.S”), or GAAP. The condensed consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries. All intercompany balances and transactions have been eliminated in consolidation. The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by accounting principles generally accepted in the U.S. The Company filed audited consolidated financial statements, which included all information and notes necessary for such a complete presentation in conjunction with its 2018 Annual Report on Form 10-K.

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, 2019 are not necessarily indicative of the operating results for the full year.

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.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)*****Recently Adopted Accounting Pronouncements***

In February 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) 2016-02, “Leases (Topic 842).” ASU 2016-02 requires an entity to recognize a right-of-use asset and lease liability for all leases with terms of more than 12 months. The guidance requires lessees to recognize all leases, with certain exceptions, on their balance sheets, whether operating or financing, while continuing to recognize the expenses on their income statements in a manner similar to current practice. The guidance states that a lessee must recognize a lease liability for the obligation to make lease payments and a right-to-use asset for the right to use the underlying asset for the lease term. On January 1, 2019, the Company adopted ASU 2016-02 using the modified retrospective transition option of applying the new standard at the adoption date for all leases with terms greater than 12 months. The Company elected certain practical expedients upon adoption and as such did not reassess the following: 1) whether any expired or existing contracts are or contain leases; 2) lease classification for any expired or existing leases; 3) initial direct costs for any expired or existing leases; 4) whether existing or expired land easements are or contain leases; and 5) regarding the lease term, from a hindsight perspective, whether or not the Company is reasonably certain to exercise the lease options. However, the Company will evaluate new or modified land easements under the new guidance after the commencement date. The Company also elected the practical expedient to not separate lease and non-lease components. The adoption of ASU 2016-02 on January 1, 2019 resulted in an increase in operating leases, right of use asset of \$8.4 million, an increase in other liabilities of \$6.8 million, an increase in accrued liabilities and other of \$1.5 million and a decrease in other assets of \$0.1 million on the Company’s consolidated balance sheets with no impact on the Company’s consolidated statements of operations.

In June 2018, the FASB issued ASU 2018-07, “Compensation - Stock Compensation: Improvements to Non-employee Share-Based Payment Accounting.” ASU 2018-07 was issued to provide to provide guidance on share-based payments granted to non-employees in exchange for goods or services used or consumed in an entity’s own operations and supersedes the guidance in ASC 505-50, “Equity-Based Payments to Non-Employees.” ASU 2018-07 aligns much of the guidance on measuring and classifying non-employee awards with that of awards to employees. The Company adopted ASU 2018-07 on January 1, 2019 a modified retrospective basis. The adopted standard did not have a material impact on the consolidated financial statements.

Recently Issued Accounting Pronouncements Not Yet Effective

In August 2018, the FASB issued ASU 2018-15, “Customer’s Accounting for Implementation Costs Incurred in a Cloud Computing Arrangement That Is a Service Contract,” to reduce diversity in practice in accounting for the costs of implementing cloud computing arrangements that are service contracts. ASU 2018-15 allows entities to apply the guidance in the ASC 350-40, “Intangibles—Goodwill and Other—Internal-Use Software,” to determine which implementation costs are eligible to be capitalized as assets in a cloud computing arrangement that is considered a service contract. ASU 2018-15 is effective for fiscal years beginning after December 15, 2019, and interim periods within those fiscal years. Early adoption is permitted, including adoption in any interim period. Entities have the option to apply the guidance prospectively to all implementation costs incurred after the date of adoption or retrospectively and are required to make certain disclosures in the interim and annual period of adoption. The Company is currently evaluating the impact this update will have on its consolidated financial statements.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****2. REVENUE RECOGNITION****Disaggregated Revenue**

The Company has one business activity, which is the design, manufacture and sale of solutions for the solar photovoltaic ("PV") industry. The following table provides information about disaggregated revenue by primary geographical market and timing of revenue recognition for the Company's single product line:

| | Three Months Ended March 31, | |
|-------------------------------|---|-------------|
| | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Primary geographical markets: | | |
| United States | \$77,686 | \$43,130 |
| International | 22,464 | 26,842 |
| Total | \$100,150 | \$69,972 |

Timing of revenue recognition:

| | | |
|---|-----------|----------|
| Products delivered at a point in time | \$90,400 | \$59,371 |
| Products and services delivered over time | 9,750 | 10,601 |
| Total | \$100,150 | \$69,972 |

Contract Balances

Receivables, and contract assets and contract liabilities from contracts with customers are as follows:

| | March 31, December 31, | |
|--|-------------------------------|-------------|
| | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Receivables | \$81,715 | \$ 78,938 |
| Short-term contract assets (Prepaid expenses and other assets) | 13,595 | 13,516 |
| Long-term contract assets (Other assets) | 34,683 | 34,148 |
| Short-term contract liabilities (Deferred revenues) | 32,916 | 33,119 |
| Long-term contract liabilities (Deferred revenues) | 78,393 | 76,911 |

The Company receives payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets include deferred product costs and commissions associated with the deferred revenue and will be amortized along with the associated revenue. The Company had no asset impairment charges related to contract assets in the three months ended March 31, 2019. Contract liabilities are recorded as deferred revenue on the accompanying condensed consolidated balance sheets and include payments received in advance of performance obligations under the contract and are realized when the associated revenue is recognized under the contract.

Significant changes in the balances of contract assets (prepaid expenses and other assets) and contract liabilities (deferred revenues) during the period are as follows (in thousands):

Contract Assets

| | |
|------------------------------|----------|
| Balance on December 31, 2018 | \$47,664 |
| Amount recognized | (3,594) |
| Increase | 4,208 |
| Balance as of March 31, 2019 | \$48,278 |

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Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Contract Liabilities**

| | |
|------------------------------|------------|
| Balance on December 31, 2018 | \$ 110,030 |
| Revenue recognized | (9,750) |
| Increase due to billings | 11,029 |
| Balance as of March 31, 2019 | \$ 111,309 |

Remaining Performance Obligations

The following table includes estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period.

| | March 31, 2019 |
|------------------------------|---------------------------|
| | <i>(In thousands)</i> |
| Fiscal year: | |
| 2019 (remaining nine months) | \$ 26,092 |
| 2020 | 27,797 |
| 2021 | 21,626 |
| 2022 | 16,594 |
| 2023 | 10,801 |
| Thereafter | 8,399 |
| Total | \$ 111,309 |

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****3. OTHER FINANCIAL INFORMATION****Accounts Receivable, Net**

Accounts receivable, net consist of the following:

| | March 31, 2019 | December 31, 2018 |
|---------------------------------|-----------------------|----------------------|
| | <i>(In thousands)</i> | |
| Accounts receivable | \$83,855 | \$ 81,076 |
| Allowance for doubtful accounts | (2,140) | (2,138) |
| Accounts receivable, net | \$81,715 | \$ 78,938 |

Inventory

Inventory consist of the following:

| | March 31, 2019 | December 31, 2018 |
|-----------------|-----------------------|----------------------|
| | <i>(In thousands)</i> | |
| Raw materials | \$950 | \$ 970 |
| Finished goods | 12,021 | 15,297 |
| Total inventory | \$12,971 | \$ 16,267 |

Accrued Liabilities

Accrued liabilities consist of the following:

| | March 31, 2019 | December 31, 2018 |
|--|-----------------------|----------------------|
| | <i>(In thousands)</i> | |
| Salaries, commissions, incentive compensation and benefits | \$6,442 | \$ 4,107 |
| Customer rebates and sales incentives | 8,769 | 8,527 |
| Freight | 7,599 | 7,286 |
| Other | 9,621 | 9,090 |
| Total accrued liabilities | \$32,431 | \$ 29,010 |

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****4. GOODWILL AND INTANGIBLE ASSETS**

The following table presents the details of the Company's goodwill and purchased intangible assets:

| | March 31, 2019 | | | December 31, 2018 | | | |
|--------------------------------------|-----------------------|-----------------------------|----------|-------------------|-----------|-----------------------------|----------|
| | Gross | Accumulated Amortization | Net | Gross | Additions | Accumulated Amortization | Net |
| | <i>(In thousands)</i> | | | | | | |
| Goodwill | \$24,783 | \$ — | \$24,783 | \$3,664 | \$21,119 | \$ — | \$24,783 |
| Intangible assets: | | | | | | | |
| Other indefinite-lived intangibles | \$286 | \$ — | \$286 | \$286 | \$ — | \$ — | \$286 |
| Intangible assets with finite lives: | | | | | | | |
| Patents and licensed technology | 1,665 | (1,665) | — | 1,665 | — | (1,665) | — |
| Developed technology | 13,100 | (1,455) | 11,645 | — | 13,100 | (909) | 12,191 |
| Customer relationships | 23,100 | (907) | 22,193 | — | 23,100 | (271) | 22,829 |
| Total purchased intangible assets | \$38,151 | \$ (4,027) | \$34,124 | \$1,951 | \$36,200 | \$ (2,845) | \$35,306 |

In August 2018, the Company acquired certain finite-lived intangible assets in its acquisition of SunPower Corporation's ("SunPower") microinverter business pursuant to an Asset Purchase Agreement ("APA"), primarily developed technology and customer relationships. See Note 20. "Acquisition," of the notes to consolidated financial statements included in Item 8 of the Company's 2018 Form 10-K filed with the SEC on March 15, 2019 for additional information related to this acquisition.

Amortization expense related to finite-lived intangible assets are as follows:

| | Three Months Ended March 31, 2019 | | 2018 |
|---|---|------|------|
| | <i>(In thousands)</i> | | |
| Developed technology, and patents and licensed technology | \$546 | \$76 | |
| Customer relationships | 636 | — | |
| Total amortization expense | \$1,182 | \$76 | |

Amortization of developed technology, patents and licensed technology is primarily recorded to sales and marketing expense. The developed technology acquired from the Company's acquisition of SunPower's microinverter business is embedded in the microinverters that SunPower sells to its customers. The Company does not actively use the developed technology acquired from SunPower and holds the developed technology to prevent others from using it. Accordingly, the Company accounts for the developed technology as a defensive intangible asset and amortizes the associated value over a period of six years from the date of acquisition.

The master service agreement ("MSA") negotiated with SunPower in August 2018 provides the Company with the exclusive right to supply SunPower with module level power electronics for a period of five years, with options for renewals. The exclusivity arrangement extends throughout the term of the MSA, which comprises all of the expected cash flows from the customer relationship intangible asset, and was a condition to, and was an essential part of the acquisition of the SunPower's microinverter business by the Company. As the fair value ascribed to the customer relationship intangible asset represents payments to a customer, the Company amortizes the value of the customer relationship intangible asset as a reduction to

revenue using a pattern of economic benefit method over a useful life of nine years.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****5. WARRANTY OBLIGATIONS**

The Company's warranty activities were as follows:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Warranty obligations, beginning of period | \$31,294 | \$29,816 |
| Accruals for warranties issued during period | 858 | 758 |
| Changes in estimates | 804 | 1,450 |
| Settlements | (2,296) | (1,676) |
| Increase due to accretion expense | 551 | 419 |
| Other | (169) | (142) |
| Warranty obligations, end of period | 31,042 | 30,625 |
| Less current portion | (7,925) | (7,699) |
| Noncurrent | \$23,117 | \$22,926 |

6. 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 liabilities that were measured at fair value on a recurring basis and its categorization within the fair value hierarchy:

| | Fair Value March 31, December 31, | |
|------------------------------------|--|-------------|
| Hierarchy | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Warranty obligations | | |
| Current | \$4,237 | \$ 4,288 |
| Non-current | 7,828 | 7,469 |
| Total warranty obligations Level 3 | \$12,065 | \$ 11,757 |

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Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****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:

| | Three Months Ended | |
|--|---------------------------|-------------|
| | March 31, | |
| | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Balance at beginning of period | \$11,757 | \$9,791 |
| Accruals for warranties issued during period | 858 | 758 |
| Changes in estimates | 341 | 1,785 |
| Settlements | (1,272) | (891) |
| Increase due to accretion expense | 551 | 419 |
| Other | (170) | (142) |
| Balance at end of period | \$12,065 | \$11,720 |

Quantitative and Qualitative Information about Level 3 Fair Value Measurements

As of March 31, 2019 and December 31, 2018, 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) | |
|--|-----------------------|---|---------------------------------|-------------------|
| | | | March 31, 2019 | December 31, 2018 |
| Warranty obligations for microinverters sold since January 1, 2014 | Discounted cash flows | Profit element and risk premium | 14% | 16% |
| | | Credit-adjusted risk-free rate | 18% | 19% |

Sensitivity of Level 3 Inputs - Warranty Obligations

Each of the significant unobservable inputs is independent of the other. The profit element and risk premium are estimated based on requirements of a third-party participant willing to assume the Company's warranty obligations. The credit adjusted risk free rate ("discount rate") is determined by reference to the Company's own credit standing at the fair value measurement date. Increasing the profit element and risk premium input by 100 basis points would result in a \$0.1 million increase to the liability. Decreasing the profit element and risk premium by 100 basis points would result in a \$0.1 million reduction of the liability. Increasing the discount rate by 100 basis points would result in a \$0.5 million reduction of the liability. Decreasing the discount rate by 100 basis points would result in a \$0.5 million increase to the liability.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****7. RESTRUCTURING**

Restructuring expense consist of the following:

| | Three Months Ended March 31, | |
|--|---|-------------|
| | 2019 | 2018 |
| | <i>(In thousands)</i> | |
| Redundancy and employee severance and benefit arrangements | \$ 468 | \$ — |
| Lease loss reserves | (100) | — |
| Total restructuring charges | \$ 368 | \$ — |

2018 Plan

In the third quarter of 2018, the Company began implementing restructuring actions (the “2018 Plan”) to lower its operating expenses. The restructuring actions include reorganization of the Company’s global workforce, elimination of certain non-core projects and consolidation of facilities. The Company expects to complete this restructuring in 2019.

The following table provides information regarding changes in the Company’s 2018 Plan accrued restructuring balance for the periods indicated:

| | Redundancy and Employee Severance and Benefits | Lease Loss Reserves and Contractual Obligations | Total |
|---------------------------------|---|--|--------------|
| | <i>(In thousands)</i> | | |
| Balance as of December 31, 2018 | \$ 904 | \$ 288 | \$ 1,192 |
| Charges | 468 | — | 468 |
| Cash payments | (752) | — | (752) |
| Non-cash settlement and other | (55) | (288) | (343) |
| Balance as of March 31, 2019 | \$ 565 | \$ — | \$ 565 |

2016 Plan

In the third quarter of 2016, the Company began implementing restructuring actions (the “2016 Plan”) to lower its operating expenses. The restructuring actions have included reductions in the Company’s global workforce, the elimination of certain non-core projects, consolidation of office space at the Company’s corporate headquarters and the engagement of management consultants to assist the Company in making organizational and structural changes to improve operational efficiencies and reduce expenses. The Company substantially completed its restructuring activities under the 2016 Plan in 2017.

The following table provides information regarding changes in the Company’s 2016 Plan accrued restructuring balance for the periods indicated:

| | Lease Loss Reserves and Contractual Obligations |
|---------------------------------|--|
| | <i>(In thousands)</i> |
| Balance as of December 31, 2018 | \$ 1,591 |
| Other ⁽¹⁾ | (1,591) |

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Balance as of March 31, 2019 \$ —

(1) Adoption of ASU 2016-02.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****8. DEBT**

Long-term debt was comprised of the following:

| | March 31, 2019 | December 31, 2018 |
|--|---------------------------|------------------------------|
| | <i>(In thousands)</i> | |
| Convertible notes due 2023 | \$65,000 | \$ 65,000 |
| Less unamortized issuance costs | (2,232) | (2,361) |
| Carrying amount of convertible notes due 2023 | 62,768 | 62,639 |
| | | |
| Term loan | — | 41,524 |
| Less unamortized discount and issuance costs | — | (1,059) |
| Carrying amount of term loan | — | 40,465 |
| | | |
| Sale of long-term financing receivable recorded as debt | 5,623 | 6,679 |
| Less value of future purchase option | — | — |
| Carrying amount of sale of long-term financing receivable recorded as debt | 5,623 | 6,679 |
| Total carrying amount of debt | 68,391 | 109,783 |
| Less current portion term loan | — | (25,417) |
| Less current portion of long-term financing receivable recorded as debt | (2,985) | (2,738) |
| Long-term debt | \$65,406 | \$ 81,628 |

Term Loan

In July 2016, the Company entered into a Loan and Security Agreement (the “Original Term Loan Agreement”) with lenders that are affiliates of Tennenbaum Capital Partners, LLC. In February 2017, the Company entered into an Amended and Restated Loan and Security Agreement (the “Loan Agreement”) that amended and restated the Original Term Loan Agreement. The Loan Agreement provided for a \$25.0 million secured term loan to the Company (the “New Term Loan”), which is in addition to the \$25.0 million secured term loan borrowed by the Company under the Original Term Loan Agreement (together with the “New Term Loan” the “Term Loans”).

On January 28, 2019, the Company repaid in full the remaining principal amount of the Term Loans of approximately \$39.5 million plus accrued interest and fees.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****9. COMMITMENTS AND CONTINGENT LIABILITIES****Operating Leases**

The Company leases office facilities under noncancelable operating leases that expire on various dates through 2028, some of which may include options to extend the leases for up to 12 years.

The terms of the lease agreements generally provide for rental payments on a graduated basis, and certain leases require the Company to pay its portion of executory costs such as taxes, insurance, and operating expenses. The Company recognizes rent expense on a straight-line basis over the lease term.

The components of lease expense are presented as follows:

**Three
Months
Ended
March 31,
2019**
*(In
thousands)*

Operating lease cost \$ 499

The components of lease liabilities are presented as follows:

**March 31,
2019**
(In thousands)

| | | |
|--|-------|--------|
| Lease liabilities, current (Accrued liabilities) | \$ | 2,181 |
| Lease liabilities, non-current (Other liabilities) | 7,837 | |
| Total lease liabilities | \$ | 10,018 |

Supplemental lease information

Weighted average remaining lease term 4.4 years

Weighted average discount rate 9.2%

Other information related to operating leases, are as follows:

**Three
Months
Ended
March 31,
2019**
*(In
thousands)*

Cash paid for amounts included in the measurement of lease liabilities \$ 737

Maturities of lease liabilities as of March 31, 2019 are as follows:

**Lease
Amounts**
*(In
thousands)*

| | |
|------------------------------|----------|
| Year: | |
| 2019 (remaining nine months) | \$ 2,248 |
| 2020 | 3,071 |
| 2021 | 3,155 |
| 2022 | 1,717 |
| 2023 | 893 |

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| | |
|-----------------------------|-----------|
| Thereafter | 1,227 |
| Total | 12,311 |
| Less imputed lease interest | (2,293) |
| Total lease liabilities | \$ 10,018 |

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Litigation**

From time-to-time, the Company may be involved in litigation relating to claims arising out of its operations. The Company is not currently involved in any material legal proceedings; however, the Company may 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 effect on its business, results of operations, financial position or cash flows.

10. STOCK-BASED COMPENSATION**Stock-based Compensation Expense**

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

| | Three Months Ended March 31, 2019 2018 | |
|----------------------------|--|---------|
| | <i>(In thousands)</i> | |
| Cost of revenues | \$231 | \$198 |
| Research and development | 716 | 618 |
| Sales and marketing | 999 | 361 |
| General and administrative | 1,288 | 394 |
| Restructuring | 55 | — |
| Total | \$3,289 | \$1,571 |

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

| | Three Months Ended March 31, 2019 2018 | |
|-------------------------------|--|---------|
| | <i>(In thousands)</i> | |
| Stock options, RSUs, and PSUs | \$3,222 | \$1,317 |
| Employee stock purchase plan | 67 | 254 |
| Total | \$3,289 | \$1,571 |

As of March 31, 2019, there was approximately \$30.3 million of total unrecognized stock-based compensation expense related to unvested equity awards expected to be recognized over a weighted-average period of 2.1 years.

No income tax benefit has been recognized relating to stock-based compensation expense and no tax benefits have been realized from exercised stock options for the three months ended March 31, 2019.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Valuation of Equity Awards***Stock Options*

The fair value of each option granted was estimated on the date of grant using the Black-Scholes option-pricing model with the following assumptions:

Expected term—The expected term of the option awards represents the period of time between the grant date of the option awards and the date the option awards are either exercised, converted or canceled, including an estimate for those option awards still outstanding. The Company used the simplified method, as permitted by the SEC for companies with a limited history of stock option exercise activity, to determine the expected term for its option grants.

Expected volatility—The expected volatility was calculated based on the Company's historical stock prices, supplemented as necessary with historical volatility of the common stock of several peer companies with characteristics similar to those of the Company.

Risk-free interest rate—The risk-free interest rate was based on the U.S. Treasury yield curve in effect at the time of grant and with a maturity that approximated the Company's expected term.

Dividend yield—The dividend yield was based on the Company's dividend history and the anticipated dividend payout over its expected term.

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, 2019 2018 | |
|--|---|---------|
| Weighted average grant date fair value | ** | \$ 1.83 |
| Expected term (in years) | ** | 4.2 |
| Expected volatility | ** | 86.4 % |
| Annual risk-free rate of return | ** | 2.4 % |
| Dividend yield | ** | — % |

**No stock options were granted during the period.

Restricted Stock Units

The fair value of the Company's restricted stock units ("RSU") awards granted is based upon the closing price of the Company's stock price on the date of grant.

Performance Stock Units

The fair value of the Company's non-market performance stock units ("PSU") awards granted was based upon the closing price of the Company's stock price on the date of grant. The fair value of awards of the Company's PSU awards containing market conditions was determined using a Monte Carlo simulation model based upon the terms of the conditions, the expected volatility of the underlying security, and other relevant factors.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****Equity Awards Activity***Stock Options*

The following is a summary of stock option activity:

| | Number of Shares Outstanding | Weighted- Average Exercise Price per Share | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value ⁽¹⁾ |
|---|---|---|---|---|
| | <i>(In thousands)</i> | | <i>(Years)</i> | <i>(In thousands)</i> |
| Outstanding at December 31, 2018 | 6,772 | \$ 1.76 | | |
| Granted | — | — | | |
| Exercised | (1,573) | 1.06 | | \$ 10,715 |
| Canceled | (55) | 5.55 | | |
| Outstanding at March 31, 2019 | 5,144 | 1.94 | 4.8 | \$ 37,671 |
| Vested and expected to vest at March 31, 2019 | 5,144 | 1.94 | 4.8 | \$ 37,671 |
| Exercisable at March 31, 2019 | 3,318 | 2.20 | 4.6 | \$ 23,471 |

The intrinsic value of options exercised is based upon the value of the Company's stock at exercise. The intrinsic value of options outstanding, vested and expected to vest, and exercisable as of March 31, (1)2019 is based on the closing price of the Company's stock fair value on March 31, 2019 or the earlier of the last trading day prior to March 31, 2019, if March 31, 2019 is a non-trading day. The Company's stock fair value used in this computation was \$9.23 per share.

The following table summarizes information about stock options outstanding at March 31, 2019:

| Range of Exercise Prices | Options Outstanding | | | Options Exercisable | |
|---------------------------------|---------------------------------|---|---|---------------------------------|---|
| | Number of Shares | Weighted- Average Remaining Life | Weighted- Average Exercise Price | Number of Shares | Weighted- Average Exercise Price |
| | <i>(In thousands)</i> | <i>(Years)</i> | | <i>(In thousands)</i> | |
| \$0.27 — \$1.14 | 1,061 | 5.6 | \$ 0.83 | 703 | \$ 0.79 |
| \$1.29 — \$1.29 | 1,000 | 5.5 | 1.29 | 375 | 1.29 |
| \$1.31 — \$1.31 | 1,752 | 5.0 | 1.31 | 1,230 | 1.31 |
| \$1.37 — \$6.98 | 1,034 | 3.9 | 2.90 | 713 | 3.03 |
| \$7.01 — \$12.57 | 297 | 2.2 | 8.40 | 297 | 8.40 |
| Total | 5,144 | 4.8 | 1.94 | 3,318 | 2.20 |

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)***Restricted Stock Units*

The following is a summary of RSU activity:

| | Number of Shares Outstanding | Weighted- Average Fair Value per Share at Grant Date | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value ⁽¹⁾ |
|------------------------------------|------------------------------------|--|--|--|
| | <i>(In thousands)</i> | | <i>(Years)</i> | <i>(In thousands)</i> |
| Outstanding at December 31, 2018 | 4,352 | \$ 3.52 | | |
| Granted | 1,114 | 8.12 | | |
| Vested | (716) | 3.70 | | \$ 6,255 |
| Canceled | (216) | 2.02 | | |
| Outstanding at March 31, 2019 | 4,534 | 4.70 | 1.5 | \$ 41,845 |
| Expected to vest at March 31, 2019 | 4,532 | 4.70 | 1.5 | \$ 41,835 |

The intrinsic value of RSUs vested is based upon the value of the Company's stock when vested. The intrinsic value of RSUs outstanding and expected to vest as of March 31, 2019 is based on the closing (1) price of the Company's stock on March 31, 2019 or the earlier of the last trading day prior to March 31, 2019, if March 31, 2019 is a non-trading day. The Company's stock fair value used in this computation was \$9.23 per share.

Performance Stock Units

The following is a summary of PSU activity:

| | Number of Shares Outstanding | Weighted- Average Fair Value per Share at Grant Date | Weighted- Average Remaining Contractual Term | Aggregate Intrinsic Value ⁽¹⁾ |
|------------------------------------|------------------------------------|--|--|--|
| | <i>(In thousands)</i> | | <i>(Years)</i> | <i>(In thousands)</i> |
| Outstanding at December 31, 2018 | 1,330 | \$ 4.66 | | |
| Granted | 1,046 | 9.40 | | |
| Vested | (1,026) | 4.63 | | \$ 9,925 |
| Canceled | (337) | 4.78 | | |
| Outstanding at March 31, 2019 | 1,013 | 8.64 | 1.0 | \$ 9,349 |
| Expected to vest at March 31, 2019 | 1,013 | 8.64 | 1.0 | \$ 9,349 |

The intrinsic value of PSUs vested is based upon the value of the Company's stock when vested. The intrinsic value of PSUs outstanding and expected to vest as of March 31, 2019 is based on the closing (1) price of the Company's stock on March 31, 2019 or the earlier of the last trading day prior to March 31, 2019, if March 31, 2019 is a non-trading day. The Company's stock fair value used in this computation was \$9.23 per share.

11. INCOME TAXES

The Company used the discrete tax approach in calculating the tax expense for the three months ended March 31, 2019 and 2018 due to the fact that a relatively small change in the Company's projected pre-tax

net income (loss) could result in a volatile effective tax rate. Under the discrete method, the Company determines its tax (expense) benefit based upon actual results as if the interim period was an annual period. The tax provision recorded was primarily related to income taxes attributable to its foreign operations.

Table of Contents**ENPHASE ENERGY, INC.****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS****(Unaudited)****12. NET INCOME (LOSS) PER SHARE**

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

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

| | Three Months Ended March 31, 2019 2018 | |
|--|--|------------|
| | <i>(In thousands, except per share data)</i> | |
| Numerator: | | |
| Net income (loss) | \$2,765 | \$(5,128) |
| Denominator: | | |
| Weighted average common shares outstanding | 108,19591,422 | |
| Effect of dilutive securities | | |
| Employee stock-based awards | 7,668 | — |
| Weighted average common shares outstanding for diluted calculation | 115,86391,422 | |
| Net income (loss) per share, basic | \$0.03 | \$(0.06) |
| Net income (loss) per share, diluted | \$0.02 | \$(0.06) |

As the Company incurred a net loss for the three months ended March 31, 2018, potential dilutive securities from employee stock options, RSUs, PSUs, and shares to be purchased under the Company's ESPP have been excluded from the diluted net loss per share computation because the effect of including such shares would have been antidilutive.

The following outstanding shares of common stock equivalents were excluded from the calculation of the diluted net income (loss) per share attributable to common stockholders because their effect would have been antidilutive:

| | Three Months Ended March 31, 2019 2018 | |
|------------------------|--|--------|
| | <i>(In thousands)</i> | |
| Employee stock options | 112 | 8,418 |
| RSUs and PSUs | 91 | 3,659 |
| Convertible notes | 11,701 | — |
| Total | 11,904 | 12,077 |

13. RELATED PARTY

The Company sells products to SunPower, which as of March 31, 2019 held 7.5 million shares of the Company's common stock, under the August 2018 MSA. Revenue recognized under the MSA for the three months ended March 31, 2019 was \$4.5 million, net of amortization of the customer relationship intangible asset (see Note 4. "Goodwill and Intangible Assets"). At March 31, 2019 and December 31, 2018, the Company had accounts receivable of \$5.2 million and \$10.3 million, respectively, from SunPower.

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

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations and involves risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as “may,” “will,” “should,” “expect,” “plan,” “anticipate,” “believe,” “estimate,” “predict,” “intend,” “potential” or “continue” or the negative of these terms or other comparable terminology. Such statements, include but are not limited to statements regarding our expectations as to future financial performance, expense levels, liquidity sources, the capabilities and performance of our technology and products and planned changes, timing of new product releases, our business strategies, including anticipated trends, growth and developments in markets in which we target, the anticipated market adoption of our current and future products, performance in operations, including component supply management, product quality and customer service, and the anticipated benefits and risks relating to the transaction with SunPower Corporation. 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, 2018.

Overview and Q1 2019 Highlights

We are a global energy technology company. We deliver smart, easy-to-use solutions that connect solar generation, storage and management on one intelligent platform. We revolutionized solar with our microinverter technology and produces a fully-integrated solar plus storage solution. We have shipped more than 20 million microinverters, and more than 895,000 Enphase residential and commercial systems have been deployed in over 125 countries.

We sell our solutions primarily to distributors who resell them to solar installers. We also sell directly to large installers, OEMs, strategic partners and homeowners.

On January 28, 2019, we repaid in full the remaining principal amount of the Term Loans of approximately \$39.5 million plus accrued interest and fees owed to lenders affiliated with Tennenbaum Capital Partners, LLC.

Products

Enphase IQ Microinverter System

The Enphase IQ™ microinverter is a key component of the Enphase Home Energy Solution™, which can also include our Envoy™ Communications Gateway with IQ Combiner+, Enphase Enlighten™, a cloud-based energy management platform, and our Enphase AC Battery™. System owners can use Enphase Enlighten to monitor their home’s solar generation, energy storage and consumption from any web-enabled device. Our IQ 7X™ product addresses 96-cell photovoltaic (“PV”) modules up to 400W direct current (“DC”) and with its 97.5 percent California Energy Commission (“CEC”) efficiency rating, is ideal for integration into high power modules. In the first quarter of 2019, we shipped limited quantities of our new product IQ 7A™ which addresses up to 450W DC modules. In addition, we recently started shipping our IQ 7AS™ microinverters to SunPower Corporation (“SunPower”), which is expected to integrate our IQ 7AS into its 66-cell Next Generation Technology (“NGT”) DC modules.

Our IQ 8™ system is based upon our grid-agnostic “always on” technology called Ensemble. This system has four components: 1) energy generation, which is accomplished with the grid-agnostic microinverter IQ8; 2) energy storage, which is achieved by the Encharge™ battery with capacities of 3.3 kWh, 10 kWh and 13.2 kWh; 3) communication and control, which consists of the automatic transfer switch called Enpower™, and the combiner box with the Envoy gateway; and 4) Enlighten, which is the internet of things, or IoT, cloud software. We anticipate introducing Ensemble in a phased manner starting in the fourth quarter of 2019.

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Table of Contents**Results of Operations****Net Revenues**

| Three Months Ended | | Change in | |
|-----------------------|------|-----------|---|
| March 31, | | | |
| 2019 | 2018 | \$ | % |
| <i>(In thousands)</i> | | | |

Net revenues \$100,150 \$69,972 \$30,178 43%

Three months ended March 31, 2019 and 2018

Net revenues increased by 43% for the three months ended March 31, 2019, as compared to the same period in 2018, primarily due to higher unit volume. We sold approximately 976,000 microinverter units in the three months ended March 31, 2019, as compared to approximately 611,000 units in the same period in 2018.

Cost of Revenues and Gross Profit

| Three Months Ended | | Change in | |
|-----------------------|------|-----------|---|
| March 31, | | | |
| 2019 | 2018 | \$ | % |
| <i>(In thousands)</i> | | | |

Cost of revenues \$66,811 \$51,657 \$15,154 29%

Gross profit 33,339 18,315 15,024 82%

Gross margin 33.3 % 26.2 %

Three months ended March 31, 2019 and 2018

Cost of revenues increased by 29% for the three months ended March 31, 2019, as compared to the same period in 2018, primarily due to higher volume of microinverter units sold and expedited freight costs, partially offset by a decrease in the cost of our products as a result of our cost reduction efforts. Gross margin increased by 7.1 percentage points for the three months ended March 31, 2019, as compared to the same period in 2018. The increase in gross margin was primarily attributable to higher product margins as a result our IQ 7 family of microinverters, which has a lower cost than previous microinverters, as well as our overall pricing management efforts. In the first quarter of 2019, IQ 7 sales represent 94% of our total microinverter sales, as compared to 8% of our total microinverter sales in the first quarter of 2018.

Research and Development

| Three Months Ended | | Change in | |
|-----------------------|------|-----------|---|
| March 31, | | | |
| 2019 | 2018 | \$ | % |
| <i>(In thousands)</i> | | | |

Research and development \$8,524 \$7,620 \$904 12%

Three months ended March 31, 2019 and 2018

Research and development expense increased by 12% for the three months ended March 31, 2019, as compared to the same period in 2018. The increase is due to higher expenses associated with the development of our products, personnel-related costs, equipment costs, and facility costs. The increase in personnel-related expenses included higher bonus and stock-based compensation expense, partially offset by lower compensation and benefit costs associated with moving certain functions to lower cost locations as part of restructuring actions taken in 2018.

Table of Contents**Sales and Marketing**

| Three Months Ended March 31, | | Change in | |
|------------------------------|------|-----------|---|
| 2019 | 2018 | \$ | % |

(In thousands)

Sales and marketing \$7,433 \$6,227 \$1,206 19%

Three months ended March 31, 2019 and 2018

Sales and marketing expense increased by 19% for the three months ended March 31, 2019, as compared to the same period in 2018. The increase was due to an increase in personnel-related expenses and equipment costs, partially offset by lower bad debt expense and facilities costs. The increase in personnel-related expenses included higher stock-based compensation expense, sales bonus and commissions, and employee compensation.

General and Administrative

| Three Months Ended March 31, | | Change in | |
|------------------------------|------|-----------|---|
| 2019 | 2018 | \$ | % |

(In thousands)

General and administrative \$9,880 \$6,943 \$2,937 42%

Three months ended March 31, 2019 and 2018

General and administrative expense increased 42% for the three months ended March 31, 2019, as compared to the same period in 2018. The increase is primarily due to an increase in personnel-related expenses and additional consulting and advisory fees due to our first year of being subject to SOX auditor attestation requirements, partially offset by lower facilities costs and \$1.8 million paid to resolve a dispute with a supplier in 2018 that did not repeat in 2019. The increase in personnel-related expenses included higher stock-based compensation expense, employee compensation expense and benefit costs.

Restructuring Charges

| Three Months Ended March 31, | | Change in | |
|------------------------------|------|-----------|---|
| 2019 | 2018 | \$ | % |

(In thousands)

Restructuring charges \$368 \$ —\$368 **

** Not meaningful

Three months ended March 31, 2019 and 2018

Restructuring expense for the three months ended March 31, 2019 primarily include a \$0.5 million of one-time termination benefits and other employee-related expenses, partially offset by \$0.1 million reduction in lease loss reserves.

In the first quarter of 2018, we incurred no restructuring expense.

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For the three months ended March 31, 2018, net cash provided by operating activities of \$3.4 million was primarily attributable to a net loss of \$5.1 million offset by non-cash charges of \$5.0 million and net cash inflows from changes in operating assets and liabilities of \$3.5 million. Non-cash charges included \$1.6 million of stock-based compensation, \$2.3 million of depreciation and amortization, and \$0.6 million provision for doubtful accounts. The primary driver of cash outflows from changes in operating assets and liabilities was a \$9.1 million decrease in accounts receivable due to seasonally lower revenues and a \$7.5 million decrease in inventory due to supply chain management efforts, which were partially offset by an \$12.0 million decrease in accounts payable as a result of lower inventory levels and the timing of vendor payments.

Cash Flows from Investing Activities

For the three months ended March 31, 2019, net cash used in investing activities of \$0.7 million primarily resulted from purchases of test and assembly equipment and capitalized costs related to internal-use software.

For the three months ended March 31, 2018, net cash used in investing activities of \$1.0 million primarily resulted from purchases of test and assembly equipment and capitalized costs related to internal-use software.

Cash Flows from Financing Activities

For the three months ended March 31, 2019, net cash used in financing activities of \$44.4 million consisted of \$44.7 million of principal payments on debts and financing fees associated with repayment of our term loan, which was partially offset by \$0.3 million in net proceeds from sales of common stock under our employee stock incentive program.

For the three months ended March 31, 2018, net cash provided by financing activities of \$21.7 million consisted of \$20.2 million in net proceeds from sales of common stock and \$2.3 million in net proceeds from the sale of certain long-term financing receivables. These proceeds were partially offset by a \$0.8 million principal payment on our term debt.

Contractual Obligations

Other than as described below, there were no material changes during the three months ended March 31, 2019 to our contractual commitments as presented in “Management’s Discussion and Analysis of Financial Condition and Results of Operations” of our 2018 Form 10-K filed with the SEC on March 15, 2019. See Note 9. “Commitments and Contingent Liabilities,” of the condensed consolidated financial statements.

On January 28, 2019, we repaid in full the remaining principal amount of the Term Loans of approximately \$39.5 million plus accrued interest and fees owed to lenders affiliated with Tennenbaum Capital Partners, LLC.

Off-Balance Sheet Arrangements

As of March 31, 2019, we did not have any off-balance sheet arrangements, as defined in Item 303(a)(4)(ii) of SEC Regulation S-K.

Critical Accounting Policies

Our condensed consolidated financial statements are prepared in accordance with accounting principles generally accepted in the U.S., or GAAP. In connection with the preparation of our condensed consolidated financial statements, we are required to make assumptions and estimates about future events and apply judgments that affect the reported amounts of assets, liabilities, revenue, expenses and related disclosures. We base our assumptions, estimates and judgments on historical experience, current trends and other factors that management believes to be relevant at the time our consolidated financial statements are prepared. On a regular basis, we review the accounting policies, assumptions, estimates and judgments to ensure that our condensed 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.

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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 condensed consolidated financial statements.

Adoption of New and Recently Issued Accounting Pronouncements

Refer to Note 1. “Summary of Significant Accounting Policies” of the notes to condensed consolidated financial statements included in Part I, Item 1 of this Form 10-Q for a discussion of adoption of new and recently issued accounting pronouncements.

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 2018 Form 10-K filed with the SEC on March 15, 2019. Our exposures to market risk have not changed materially since December 31, 2018.

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, 2019. 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, 2019, 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.

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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, and our management believes there are currently no claims or actions pending against us, the ultimate disposition of which could have a material adverse effect on our operations, financial condition, or cash flows. 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

There has been no material changes in our risk factors from those disclosed in Part I, Item 1A, in our 2018 Form 10 K filed with the SEC on March 15, 2019.

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

None.

Table of Contents**Item 6. Exhibits**

A list of exhibits filed with this report or incorporated herein by reference is found in the Exhibit Index below.

| Exhibit Number | Exhibit Description | Incorporation by Reference | | | Filed Herewith | |
|----------------|--|----------------------------|--------------|---------------------|----------------|---|
| | | Form | SEC File No. | Exhibit Filing Date | | |
| 10.1 | <u>Bonus Program Summary.</u> | 8-K | 001-35480 | 10.1 | 2/6/2019 | |
| 10.2 | <u>Amendment No. 2 dated February 7, 2019 to Securities Purchase Agreement, by and among Enphase Energy, Inc. and the purchasers identified on Exhibit A thereto, dated January 9, 2017.</u> | | | | | X |
| 31.1 | <u>Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).</u> | | | | | X |
| 31.2 | <u>Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).</u> | | | | | X |
| 32.1* | <u>Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.</u> | | | | | X |
| 101.INS | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document. | | | | | |
| 101.SCH | XBRL Taxonomy Extension Schema Document. | | | | | X |
| 101.CAL | <u>XBRL Taxonomy Extension Calculation Linkbase Document.</u> | | | | | X |
| 101.DEF | <u>XBRL Taxonomy Extension Definition Linkbase Document.</u> | | | | | X |
| 101.LAB | <u>XBRL Taxonomy Extension Label Linkbase Document.</u> | | | | | X |
| 101.PRE | <u>XBRL Taxonomy Extension Presentation Document.</u> | | | | | X |

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.

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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: April 30, 2019

ENPHASE ENERGY, INC.

By: /s/ Eric Branderiz
Eric Branderiz
Vice President and Chief Financial Officer
(Duly Authorized Officer)