Enphase Energy, Inc.
Form S-1/A
March 29, 2012
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As filed with the Securities and Exchange Commission on March 28, 2012

Registration No. 333-174925

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

Amendment No. 10

to

FORM S-1

REGISTRATION STATEMENT

UNDER

THE SECURITIES ACT OF 1933

ENPHASE ENERGY, INC.

(Exact name of registrant as specified in its charter)

Delaware	**3674**	**20-4645388**
(State or other jurisdiction of incorporation or organization)	**(Primary Standard Industrial Classification Code Number)**	**(I.R.S. Employer Identification Number)**

201 1st Street, Suite 100

Petaluma, CA 94952

(707) 774-7000

(Address, including zip code, and telephone number, including area code, of Registrant s principal executive offices)

Paul B. Nahi

Chief Executive Officer

c/o Enphase Energy, Inc.

201 1st Street, Suite 100

Petaluma, CA 94952

(707) 774-7000

(Name, address, including zip code, and telephone number, including area code, of agent for service)

Copies to:

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Cooley LLP
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Palo Alto, CA 94304
(650) 843-5000

Bruce K. Dallas
Davis Polk & Wardwell LLP
1600 El Camino Real
Menlo Park, CA 94025
(650) 752-2000

Approximate date of commencement of proposed sale to the public: As soon as practicable after the effective date of this registration statement.

If any of the securities being registered on this Form are to be offered on a delayed or continuous basis pursuant to Rule 415 under the Securities Act of 1933, check the following box. ¨

If this Form is filed to register additional securities for an offering pursuant to Rule 462(b) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(c) under the Securities Act, check the following box and list the Securities Act registration statement number of the earlier effective registration statement for the same offering. ¨

If this Form is a post-effective amendment filed pursuant to Rule 462(d) under the Securities Act, check the following box and list the Securities Act registration number of the earlier effective registration statement for the same offering. ¨

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 definition of accelerated filer, large accelerated filer, non-accelerated filer and smaller reporting company in Rule 12b-2 of the Act.

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

CALCULATION OF REGISTRATION FEE

Title of Each Class of Securities to be Registered	Amount to be Registered(2)	Proposed Maximum Offering Price Per Share(1)	Proposed Maximum Aggregate Offering Price(1)(2)	Amount of Registration Fee(3)(4)
Common Stock, $0.00001 par value	8,363,636 shares	$7.00	$58,545,452	$6,709.31

(1) Estimated solely for the purpose of calculating the amount of the registration fee in accordance with Rule 457(a) of the Securities Act of 1933, as amended.
(2) Includes 1,090,909 shares that the underwriters have the option to purchase to cover over-allotments, if any.
(3) Calculated pursuant to Rule 457(a) based on an estimate of the proposed maximum aggregate offering price.
(4) The registrant previously paid a registration fee of $11,610 in connection with the initial filing of this registration statement.

The Registrant hereby amends this Registration Statement on such date or dates as may be necessary to delay its effective date until the Registrant shall file a further amendment that specifically states that this Registration Statement shall thereafter become effective in accordance with Section 8(a) of the Securities Act of 1933, as amended, or until the Registration Statement shall become effective on such date as the Commission, acting pursuant to said Section 8(a), may determine.

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The information in this prospectus is not complete and may be changed. We may not sell these securities until the registration statement filed with the Securities and Exchange Commission is effective. This prospectus is not an offer to sell these securities and we are not soliciting offers to buy these securities in any state where the offer or sale is not permitted.

PROSPECTUS (Subject to Completion)

Issued March 28, 2012

7,272,727 Shares

COMMON STOCK

Enphase Energy, Inc. is offering 7,272,727 shares of its common stock. This is our initial public offering and no public market currently exists for our shares. We anticipate that the initial public offering price of our common stock will be between $6.00 and $7.00 per share.

We have applied for the listing of our common stock on the NASDAQ Global Market under the symbol ENPH.

Investing in our common stock involves substantial risks. See Risk Factors beginning on page 10.

PRICE $ A SHARE

	Price to Public	Underwriting Discounts and Commissions	Proceeds to Enphase
Per Share	*$*	*$*	*$*
Total	*$*	*$*	*$*

We have granted the underwriters the right to purchase up to an additional 1,090,909 shares of common stock to cover over-allotments.

Entities affiliated with Third Point LLC (Third Point), Madrone Partners, L.P. (Madrone), KPCB Holdings, Inc., as nominee (KPCB), RockPort Capital Partners II, L.P. (RockPort) and Bay Partners have indicated an interest in purchasing up to an aggregate of $15.0 million of shares of our common stock in this offering at the price offered to the public. As of March 1, 2012, each of Third Point, Madrone, KPCB, RockPort and Bay Partners beneficially owned more than 5% of our common stock and each is affiliated with a member of our board of directors. Because indications of interest are not binding agreements or commitments to purchase, these stockholders may elect not to purchase shares in this offering or the underwriters may elect not to sell any shares in this offering to such stockholders.

The Securities and Exchange Commission and state securities regulators have not approved or disapproved of these securities or determined if this prospectus is truthful or complete. Any representation to the contrary is a criminal offense.

The underwriters expect to deliver the shares of common stock to purchasers on , 2012.

MORGAN STANLEY *BofA MERRILL LYNCH* *DEUTSCHE BANK SECURITIES*

JEFFERIES

LAZARD CAPITAL MARKETS *THINKEQUITY LLC*

, 2012

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Neither we nor the underwriters have authorized anyone to provide you with information other than that contained in this prospectus or any free writing prospectus prepared by or on behalf of us or to which we have referred you. We take no responsibility for, and can provide no assurance as to the reliability of, any information that others may give you.

We are offering to sell, and seeking offers to buy, common stock only in jurisdictions where offers and sales are permitted. The information contained in this prospectus is accurate only as of the date of this prospectus, regardless of the time of delivery of this prospectus or of any sale of our common stock.

Until and including , 2012 (25 days after the date of this prospectus), all dealers that buy, sell or trade our common stock, whether or not participating in this offering, may be required to deliver a prospectus. This delivery requirement is in addition to the obligation of dealers to deliver a prospectus when acting as underwriters and with respect to their unsold allotments or subscriptions.

No action is being taken in any jurisdiction outside the United States to permit a public offering of the common stock or possession or distribution of this prospectus in that jurisdiction. Persons who come into possession of this prospectus in jurisdictions outside the United States are required to inform themselves about and to observe any restrictions as to this offering and the distribution of this prospectus applicable to that jurisdiction.

Unless the context indicates otherwise, we use the terms Enphase Energy, Enphase, we, us and our in this prospectus to refer to Enphase Ene
Inc. and its subsidiaries.

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PROSPECTUS SUMMARY

This summary highlights information contained elsewhere in this prospectus and does not contain all of the information that you should consider in making your investment decision. Before investing in our common stock, you should carefully read this entire prospectus, including our consolidated financial statements and the related notes thereto and the information set forth under the sections Risk Factors and Management s Discussion and Analysis of Financial Condition and Results of Operations, in each case appearing elsewhere in this prospectus.

ENPHASE ENERGY, INC.

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. To date, the solar industry has relied on the traditional central inverter approach that has largely remained unchanged for the past two decades. We have built from the ground up a semiconductor-based microinverter system that converts direct current (DC) electricity to alternating current (AC) electricity at the individual solar module level, and bring a system-based, high technology approach to solar energy generation leveraging our design expertise across power electronics, semiconductors, networking and embedded and web-based software technologies. We are the market leader in the microinverter category and have grown rapidly since our first commercial shipment in mid-2008, with more than 1,700,000 units sold to date, representing over an estimated 42,000 solar installations. Given significant advantages over traditional central inverters, we believe that microinverter solutions will become the standard for residential and commercial solar.

Our microinverter systems have been installed in all 50 U.S. states and eight Canadian provinces. We sell our microinverter systems primarily to distributors who resell them to solar installers. Over 3,700 installers in North America have installed our microinverters through March 1, 2012, and this number is increasing by approximately 100 new installers per month. We also sell directly to large installers as well as through original equipment manufacturers, or OEMs, and strategic partners. A substantial majority of our revenue has been generated by sales within the United States. Sales to customers in Canada commenced in 2009 and accounted for approximately 12% of our total net revenues in 2011. In the fourth quarter of 2011, we began selling our microinverter systems in France, Italy and the Benelux region.

Market Opportunity

The global solar PV market witnessed rapid growth from 18 gigawatts (GW), or $75.3 billion, of installed capacity coming online during 2010 to 25 GW, or $86.3 billion, in 2011. While global solar PV installations are expected to decline 7% to 23 GW in 2012, in future years growth is expected to remain robust, with new solar installations expected to reach 48 GW, or $105.8 billion, in 2015, according to IHS iSuppli. The solar PV market consists of two primary on-grid solar markets: distributed solar systems for residential and commercial buildings, and centralized large scale solar PV installations owned and operated by utilities.

The global market for inverter technology in 2011 was almost 27 GW, or $6.8 billion, and the market is expected to grow to 46 GW, or $10.1 billion, by 2015, according to IMS Research. Historically, traditional central inverters have been the only inverter technology used for solar PV installations. As compared to microinverter systems, we believe that traditional central inverters have a number of design and performance challenges limiting innovation and their ability to reduce cost of solar systems, including the following:

Productivity limits. If solar modules are wired using a traditional central inverter such that a group or string of modules are wired in series an entire string s output is limited by the output of the lowest-performing module. Because of its string design, there is a single point of failure risk with the traditional central inverter approach.

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Reliability issues. Traditional central inverters are the single most common component of solar installations to fail, resulting in system downtime and adversely impacting total energy output. As a result, central inverters typically carry warranties of only 5 to 10 years.

Complex design and installation requirements. The central inverter-based solar PV installation requires greater effort on the part of the installer, both in terms of design and on-site labor. Central inverter installations require string design and calculations for safe and reliable operation, as well as specialized equipment such as DC combiners, conduits and disconnects. In addition, the use of high-voltage DC requires specialized knowledge and training and safety precautions to install central inverter technology.

Lack of monitoring. The majority of solar installations with central inverter technology offer limited monitoring capabilities. A failure of the central inverter will often go unnoticed for days or even weeks. If a module fails or is not performing to specification, the resulting loss of energy can go unnoticed for an extended period of time.

Safety issues. Central inverter solar PV installations have a wide distribution of high-voltage (600 volts in the United States and 1,000 volts in Europe) DC wiring. If damaged, DC wires can generate sustained electrical arcs, reaching temperatures of more than 5,000 °F. This creates the risk of fire for solar PV installation owners and injury for installers and maintenance personnel.

These challenges of traditional central inverters have a direct impact on the cost and expected return on investment of solar installations to both installers and system owners:

Installer. Solar PV installers aim for simple installation design, fast installation times and maximum system performance and predictability. The installation of high-voltage DC central inverter technology, however, requires significant preparation, precautionary safety measures, time-consuming string calculations, extensive design expertise and specialized installation equipment, training and knowledge. Together, these factors significantly increase complexity and cost of installation and limit overall productivity for the installer.

System owner. Solar system owners aim for high energy production, low cost, high reliability and low maintenance requirements, as well as reduced fire risks. With traditional central inverters, owners often are unable to optimize the size or shape of their solar PV installations due to string design limitations. As such, they experience performance loss from shading and other obstructions, can face frequent system failures and lack the ability to effectively monitor the performance of their solar PV installation. In addition, central inverter installations operate at high-voltage DC which bears significant fire risks. Further, due to their large size, central inverter installations can affect architectural aesthetics of the house or commercial building.

Our Solution

Our microinverter solution brings a system-based, high technology approach to solar energy generation leveraging our design expertise across power electronics, semiconductors, networking, and embedded and web-based software technologies. Our microinverter system consists of three key components: our Enphase microinverter, Envoy communications gateway and Enlighten web-based software:

Our Enphase microinverter delivers efficient and reliable power conversion at the individual solar module level by introducing a digital architecture that incorporates custom application specific integrated circuits, or ASICs, specialized power electronics devices and an embedded software subsystem that optimizes energy production from each module and manages the core ASIC functions. A residential solar installation consists of 5 to 50 microinverters; a small commercial solar installation consists of 50 to 500 microinverters.

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Our Envoy communications gateway is installed in the system owner s home or business and serves as a networking hub that collects data from the microinverter array and sends the information to our hosted data center. One Envoy is typically sold with each solar installation and can support up to 100 Enphase microinverters.

Our Enlighten web-based software collects and analyzes this information to enable system owners to monitor and realize the highest performance of their solar PV system and also provides an online portal specifically designed for installers to enable them to track and manage all of their Enphase enabled projects and monitor and analyze the performance of their installed systems. Historically, Enlighten service revenue has represented less than 1% of total revenues in each reporting period.

Together, our Enphase microinverter, Envoy communications gateway and Enlighten web-based software function as a single unified system that enhances energy production, simplifies design and installation, reduces costs, increases system uptime and reliability, reduces fire safety risk and provides the ability to monitor performance at the individual module level in real-time. With an Enphase microinverter system, we believe solar system owners can achieve a higher return on investment over the lifetime of the solar system than would be achieved using a traditional central inverter approach.

Key elements of our solution include:

Productive Superior Energy Production. Our microinverter system enables the maximum possible energy production from each module, overcoming a fundamental design limitation of central inverters which are limited by the lowest performing module.

Reliable Longer Life and No Single Point of Failure. Reduction of component count, primarily through semiconductor integration in our microinverter, and the distributed architecture of our microinverter system, allow us to design a reliable system that can withstand harsh environmental conditions and offer system owners a 100% system uptime guarantee.

Simple Ease of Design and Installation. Using microinverter technology, an installer can design a system of any size and any roof configuration with a simple modular approach, with minimal impact to the aesthetics of a home or building.

Smart Module-Level Monitoring and Analytics. Our microinverter system allows us to collect energy production information in real-time on a per solar module basis, offering installers and system owners visibility into how their system is performing and the ability to continuously optimize energy production.

Safe All AC Solution. Important to both installers and system owners, microinverters are safer because they process low DC voltages relative to central inverters.

Competitive Strengths

We believe the following combination of capabilities and features of our business model distinguish us from our competitors and position us well to capitalize on the expected growth in the solar market and to become a global leader in the broader solar power industry:

Market Leader and Rapid Adoption. We are the market leader in the microinverter product category, and believe that our proven ability to innovate quickly will continue to allow us to build on our leading market position.

System Approach. By integrating the Enphase microinverter technology with Envoy, our proprietary communications gateway, and our Enlighten web-based software, we offer significant design and operating benefits beyond the core power conversion functionality.

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Strong Focus on Technology and Research and Development. Our proximity to Silicon Valley and the past experience of our founders and executive officers in the technology industry have enabled us to recruit engineers with strong skills in power electronics, semiconductors, powerline communications and networking, and software design, which we have complemented with significant solar industry expertise from other members of our team.

Field-Proven Reliability. Our microinverters have established significantly improved reliability relative to traditional central inverter technology. Based on data from a sample of 2009 and 2010 North American residential and small commercial installations, Westinghouse Solar indicates that our microinverters have a failure rate of 0.207% compared to a significantly higher failure rate of 9.43% for traditional central inverters.

Capital Efficient and Scalable Manufacturing. We outsource all of our hardware manufacturing to manufacturing partners, including Flextronics, resulting in a low fixed-cost structure and reduced capital expenditure and working capital requirements.

Rapidly Expanding Distribution Channels. Since we sold our first microinverter system in 2008, the base of installers using our products has grown to over 3,700 installers in North America as of March 1, 2012, and this number is increasing at a rate of approximately 100 each month.

Intense Focus on Customer Service for Installers. We believe we have cultivated an organizational focus on installer satisfaction that differentiates us from central inverter manufacturers, resulting in a high level of installer retention and repeat business.

Our Strategy

Our objective is to continue to be the leading provider of microinverter systems for the solar industry worldwide and to accelerate the shift from traditional central inverters to microinverter technology. Key elements of our strategy include:

Continue to Penetrate Our Core Markets. We intend to capitalize on our market leadership in the microinverter category and our growing momentum with installers and owners to further our market share position in our core markets in the United States and Canada.

Enter New Geographic Markets Rapidly. We intend to expand into new markets with new products and local go-to-market capabilities, including further expansion in France, Italy and the Benelux region.

Increase Power and Efficiency and Reduce Cost per Watt. Our engineering team is focused on continuing to increase average power conversion efficiency above 96% and AC output power beyond 215 watts and further reducing cost per watt.

Extend Our Technological Innovation. We distinguish ourselves from other inverter companies with our system-based and high-tech approach, and the ability to leverage strong research and development capabilities.

Expand Our Product Offering for Larger Commercial and Utility-Scale Installations. We intend to expand our product offering by introducing new microinverter systems targeted at larger commercial and utility-scale installations.

Development of a Smart Energy Management Platform. We intend to build upon our strong position as the leading supplier of microinverters and energy management systems to expand beyond solar and to create a smart energy management platform for

integrated smart energy devices and services.

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Challenges

Before you invest in our stock, you should carefully consider all the information in this prospectus, including matters set forth under the heading Risk Factors. We believe that the following are some of the major risks and uncertainties that may affect us:

Operating Losses. We have incurred net losses each year since our inception, and we may continue to incur additional net losses in future years as we continue to invest substantial resources to support the growth of our business.

Operating History. We have only been in existence since 2006 and did not begin shipping our products in commercial quantities until mid-2008, and this limited operating history makes it difficult to evaluate our current business and future prospects.

Demand for Solar Energy Solutions. Our future success depends on continued demand for solar energy solutions and the ability of solar equipment vendors to meet this demand. If the demand for solar energy solutions does not continue to grow or grows at a slower rate than we anticipate, our business will suffer.

Government Subsidies. Reductions in, or eliminations or expirations of, governmental incentives could result in decreased demand for and lower revenue from solar PV systems, which would adversely affect sales of our products.

Market Acceptance. If we fail to achieve broad market acceptance of our products, or fail to develop solutions to address larger commercial and utility scale markets, there would be an adverse impact on our ability to increase our revenue, gain market share and achieve and sustain profitability.

Gross Profit and Profitability. Our gross profit has varied in the past and is likely to continue to vary significantly from period to period, and fluctuations in gross profit may adversely affect our ability to manage our business or achieve or maintain profitability.

Competition. The inverter industry is highly competitive and we expect to face increased competition as new and existing companies introduce microinverter products which could negatively impact our results of operations and market share. SMA Solar Technology AG, Power-One Inc. and SunPower Corp., leading inverter vendors serving the residential and small commercial inverter markets, are expected to introduce microinverter products in 2012. In addition, several new entrants to the microinverter market have recently announced plans to ship or have already shipped products, including some of our OEM customers and partners.

Initial Capital Investments. Our microinverter system requires a higher upfront capital investment than our competition s central inverter products, and our potential customers may be unwilling to invest more capital upfront, which would negatively impact our growth and sales.

Corporate Information

We were incorporated as PVI Solutions, Inc. in March 2006 in the State of Delaware and changed our name to Enphase Energy, Inc. in July 2007. Our principal executive offices are located at 201 1st Street, Suite 100, Petaluma, CA 94952, USA, and our telephone number is (707) 774-7000. Our website address is *www.enphase.com*. Information contained on our website is not incorporated by reference into this prospectus, and you should not consider information contained on our website to be part of this prospectus or in deciding whether to purchase shares of our common stock.

Our name is a registered trademark of Enphase Energy, Inc. This prospectus contains additional trade names and trademarks of ours and of other companies.

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THE OFFERING

Common stock offered by us	7,272,727 shares
Over-allotment option	1,090,909 shares
Common stock to be outstanding after this offering	37,328,347 shares
Use of proceeds	We anticipate that we will use the net proceeds of this offering primarily for general corporate purposes. Pending the specific use of net proceeds as described in this prospectus, we intend to invest the net proceeds to us from this offering in short-term investment grade and U.S. government securities. See Use of Proceeds.
Proposed NASDAQ symbol	ENPH

Entities affiliated with Third Point LLC (Third Point), Madrone Partners L.P. (Madrone), KPCB Holdings, Inc., as nominee (KPCB), RockPort Capital Partners II, L.P. (RockPort) and Bay Partners have indicated an interest in purchasing up to an aggregate of $15.0 million of shares of our common stock in this offering at the price offered to the public. As of March 1, 2012, each of Third Point, Madrone, KPCB, RockPort and Bay Partners beneficially owned more than 5% of our common stock and each is affiliated with a member of our board of directors. Because these indications of interest are not binding agreements or commitments to purchase, these stockholders may elect not to purchase shares in this offering or the underwriters may elect not to sell any shares in this offering to such stockholders. The underwriters will not receive any underwriting discounts or commissions from any sales of shares to these existing stockholders.

The number of shares of our common stock that will be outstanding immediately after this offering is based on 30,055,620 shares of common stock outstanding as of December 31, 2011, after giving effect to (i) the conversion of our outstanding convertible preferred stock into 25,170,918 shares of common stock immediately prior to the completion of this offering and (ii) the conversion of the outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest as of December 31, 2011 into 3,186,644 shares of common stock at a conversion price of $6.50, the midpoint of the price range set forth on the cover page of this prospectus, and excludes:

- 357,459 shares of common stock issuable upon exercise of outstanding warrants as of December 31, 2011, with a weighted-average exercise price of $5.86 per share;
- 6,255,867 shares of common stock issuable upon the exercise of outstanding stock options under our 2006 Equity Incentive Plan, as of December 31, 2011, with a weighted-average exercise price of $1.83 per share;
- 2,643,171 shares of common stock reserved for future issuance under our 2011 Equity Incentive Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans ; and
- 669,603 shares of common stock reserved for future issuance under our 2011 Employee Stock Purchase Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans .

Unless otherwise indicated, all information in this prospectus assumes:

- the automatic conversion of all outstanding shares of our preferred stock into shares of our common stock effective immediately prior to the closing of this offering;

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the automatic conversion of outstanding warrants to purchase shares of our convertible preferred stock into warrants to purchase an aggregate number of 214,930 shares of common stock immediately prior to the completion of this offering;

the amendment and restatement of our certificate of incorporation and the amendment and restatement of our bylaws immediately upon the completion of this offering;

the automatic conversion of the outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest into 3,262,118 shares of common stock upon closing of this offering at a conversion price equal to $6.50, the midpoint of the price range set forth on the cover page of this prospectus, on April 4, 2012;

no exercise by the underwriters of their right to purchase up to an additional 1,090,909 shares of common stock from us; and

a 1-for-9.08 reverse stock split of our common stock and preferred stock, which was effected on March 23, 2012.

The outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest automatically converts into shares of our common stock upon closing of this offering at a conversion price equal to the lesser of $8.8984 or the initial public offering price. Because the number of shares that will be issued upon conversion of our junior secured convertible loan facility depends upon the actual initial public offering price per share in this offering and the closing date of this offering, the actual number of shares issuable upon such conversion and the number of shares outstanding following this offering may differ from the number of shares set forth above.

If our junior secured convertible loan facility converts at the initial public offering price, a $1.00 increase in the assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus, would decrease the number of shares of our common stock issued on conversion of our junior secured convertible loan facility, and therefore the number of shares to be outstanding after this offering, by 434,951 shares, assuming that the closing date of this offering is April 4, 2012. A $1.00 decrease in the assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus, would increase the number of shares of our common stock issued on conversion of the junior secured convertible loan facility, and therefore the number of shares to be outstanding after this offering, by 593,115 shares, assuming that the closing date of this offering is April 4, 2012. To the extent the closing date of this offering occurs after April 4, 2012, the junior secured convertible loan facility will continue to accrue interest at a rate of 9% and additional shares of our common stock will be issued upon conversion of this additional accrued interest. Likewise, if the closing date occurs prior to April 4, 2012, fewer shares will be issued upon conversion of the junior secured convertible loan facility.

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SUMMARY CONSOLIDATED FINANCIAL DATA

The following table summarizes our consolidated financial data. We have derived the summary consolidated statements of operations data for the years ended December 31, 2009, 2010 and 2011 and the consolidated balance sheet data as of December 31, 2011 from our audited consolidated financial statements included elsewhere in this prospectus. Our historical results are not necessarily indicative of our results to be expected in any future period. The summary of our consolidated financial data set forth below should be read together with our consolidated financial statements and the related notes, as well as the section entitled Management s Discussion and Analysis of Financial Condition and Results of Operations, appearing elsewhere in this prospectus.

	Year Ended December 31,		
	2009	2010	2011
	(in thousands, except per share data)		
Consolidated Statements of Operations Data:			
Net revenues	$ 20,194	$ 61,661	$ 149,523
Cost of revenues[1]	23,223	55,159	120,454
Gross profit (loss)	(3,029)	6,502	29,069
Operating expenses:			
Research and development[1]	8,411	14,296	25,099
Sales and marketing[1]	2,651	6,558	17,454
General and administrative[1]	2,603	6,365	15,228
Total operating expenses	13,665	27,219	57,781
Loss from operations	(16,694)	(20,717)	(28,712)
Other income (expense), net:			
Interest income	125	39	4
Interest expense	(356)	(914)	(3,006)
Other income (expense)		(185)	(576)
Total other income (expense), net	(231)	(1,060)	(3,578)
Net loss attributable to common stockholders	$ (16,925)	$ (21,777)	$ (32,290)
Net loss per share attributable to common stockholders, basic and diluted	$ (25.92)	$ (28.96)	$ (25.73)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted[2]	653	752	1,255
Pro forma net loss per share attributable to common stockholders, basic and diluted[2]			$ (1.26)
Pro forma shares used in computing pro forma net loss per share attributable to common stockholders, basic and diluted[2]			27,657

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	As of December 31, 2011		
	Actual	Pro Forma[3]	Pro Forma as Adjusted[4]
		(in thousands)	
Consolidated Balance Sheet Data:			
Cash and cash equivalents	$ 51,524	$ 51,524	$ 91,738
Working capital	29,417	30,816	71,030
Total assets	106,242	104,759	144,973
Term loans	14,677	14,677	14,677
Convertible notes	19,202		
Convertible preferred stock	93,596		
Common stock and additional paid-in capital	9,103	124,811	165,025
Total stockholders equity	13,974	33,092	73,306

	Year Ended December 31,		
	2009	2010	2011
		(in thousands)	
Other Operating Data:			
Microinverter units sold	126	414	1,002

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,		
	2009	2010	2011
		(in thousands)	
Cost of revenues	$ 17	$ 9	$ 39
Research and development	62	286	795
Sales and marketing	36	256	671
General and administrative	65	278	615
Total stock-based compensation expense	$ 180	$ 829	$ 2,120

(2) See Note 14 to Consolidated Financial Statements for a description of how we compute basic and diluted net loss attributable to common stockholders, basic and diluted net loss per share attributable to common stockholders and pro forma basic and diluted net loss per share attributable to common stockholders.

(3) Reflects the conversion of all outstanding shares of preferred stock into 25,170,918 shares of common stock, the conversion of outstanding warrants to purchase 198,256 shares of preferred stock into warrants to purchase 214,930 shares of common stock upon the closing of this offering, and conversion of the outstanding principal amount and paid-in-kind interest under our junior subordinated convertible loan facility into 3,186,644 shares of common stock (at an assumed offering price of $6.50 per share, which is the midpoint of the price range set forth on the cover of this prospectus).

(4) Reflects the pro forma adjustments described in (3) above and the sale of 7,272,727 shares of our common stock by us in this offering at an assumed initial public offering price of $6.50 per share (which is the midpoint of the price range set forth on the cover page of this prospectus), after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us in connection with the offering. A $1.00 increase or decrease in the assumed initial public offering price of $6.50 per share of common stock would increase or decrease pro forma cash and cash equivalents, working capital, total assets, common stock and additional paid in capital and total stockholders equity, each by $6.8 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions and estimated offering expenses payable by us in connection with the offering. The pro forma as adjusted information discussed above is illustrative only and will adjust based on the actual public offering price and other terms of this offering determined at pricing.

Because the number of shares that will be issued upon conversion of our junior secured convertible loan facility depends upon the actual initial public offering price per share in this offering and the closing date of this offering, the actual number of shares issuable upon such conversion may differ from the number of shares set forth above. See Prospectus Summary The Offering.

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RISK FACTORS

You should carefully consider the following risk factors and all other information contained in this prospectus before purchasing our common stock. Investing in our common stock involves a high degree of risk. If any of the following risks actually occurs, we may be unable to conduct our business as currently planned and our financial condition and results of operations could be seriously harmed. In addition, the trading price of our common stock could decline due to the occurrence of any of these risks, and you may lose all or part of your investment. See Special Note Regarding Forward-Looking Statements and Industry Data beginning on page 32.

Risks Related to Our Business

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 net losses each year since our inception, and we may continue to incur additional net losses in future years as we continue to invest substantial resources to support the growth of our business. We incurred net losses of $16.9 million, $21.8 million and $32.3 million in 2009, 2010 and 2011, respectively. As of December 31, 2011, our accumulated deficit was $88.8 million. We expect to incur additional costs and expenses related to the continued development and expansion of our business, including in connection with hiring additional personnel, marketing and developing our products, expanding into new product markets and geographies, and maintaining and enhancing our research and development operations. In addition, 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 limited operating history makes it difficult to evaluate our current business and future prospects.

We have only been in existence since 2006 and did not begin shipping our products in commercial quantities until mid-2008. Much of our growth has occurred in recent periods. Our limited 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.

Further, our efforts to achieve broader market acceptance for our microinverter systems and to expand beyond our existing markets may never succeed, which would adversely impact our ability to generate additional revenue or become profitable.

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 solution is utilized in solar 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

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systems as an alternative energy source at levels sufficient 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 carbon-based energy sources;
- levels of investment by end-users of solar energy products, which tend to decrease when economic growth slows; and
- the emergence, continuance or success of, or increased government support for, other alternative energy generation technologies and products.

If 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, recently have caused prices for solar technology solutions to decline rapidly. Furthermore, competition 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.

The cost of solar power currently exceeds retail electricity rates, and we believe will continue to do so for the foreseeable future. As a result, national, state and local government bodies in many countries, most notably Canada, France, Germany, Italy, Japan, Republic of China, Spain and the United States, have provided incentives in the form of feed-in tariffs, or FiTs, rebates, tax credits and other incentives to system owners, distributors, system integrators and manufacturers of solar PV systems to promote the use of solar electricity in on-grid applications and to reduce dependency on other forms of energy. Many of these government incentives expire, phase out over time, terminate upon the exhaustion of the allocated funding, require renewal by the applicable

authority or are being amended by governments due to changing market circumstances or changes to national, state or local energy policy.

To date we have generated substantially all of our revenues from North America and expect to generate a substantial amount of 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. 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. The guidelines include a safe harbor provision setting the beginning of construction at the point where the applicant has incurred or paid at least 5% of the total cost of the property, excluding land and certain preliminary planning activities. We believe the December 31, 2011 deadline associated with this program had a positive effect on our sales in the fourth quarter of 2011, as customers and installers took actions to begin construction or place eligible property into service before the deadline. While we expect this to continue to have a positive impact on our revenues for the first half of 2012 as deferred revenues recorded in connection with these sales are recognized, unless this program is further extended, the eventual phase-out of this program could adversely affect sales of our products in the future.

California is the largest single solar market in the United States, based on SEIA data, and a significant portion of our revenues are generated in California. 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 performance-based incentives which decrease in intervals over time. The Go Solar California program is scheduled to expire on December 31, 2016.

We also sell our products in Ontario, Canada, and consider this an important market. 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 the electricity produced over a 20-year contract term. The Government of Ontario has the authority to change the FiTs for future contracts at its discretion.

In the fourth quarter of 2011, we began selling our products in France, Italy and the Benelux region. A number of European countries, including Germany, Italy and the United Kingdom, have adopted reductions to their FiTs, and Spain recently announced a temporary suspension of all subsidies for new renewable energy projects. As we do increased business in Europe, reductions in European tariffs and subsidies could negatively affect our business, financial condition and results of operations.

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 could result in decreased demand for and lower revenue from solar PV systems, 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.

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Our microinverter systems may not achieve broad market acceptance, which would prevent us from increasing our revenue and market share.

If we fail to achieve broad 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 broad 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 and system owners will continue to adopt our microinverter solution, which is a relatively new technology with a limited history with respect to reliability and performance;
- whether installers and system owners 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 inverters. These installers often have made substantial investments in design, installation resources and training in traditional central inverter systems, which may create challenges for us to achieve their adoption of our microinverter solution.

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;

our ability to reduce and control product costs;

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;

price reductions on older generation 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;

increased warranty costs and reserves;

excess and obsolete inventory and inventory holding charges; and

expediting costs incurred to meet customer delivery requirements.

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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 inverter manufacturers and have faced almost no direct competition in selling our microinverter systems. Marketing and selling our microinverter solutions against traditional inverter solutions is highly competitive, and we expect competition to intensify as new and existing competitors enter the microinverter market. We believe that a number of companies have developed or are developing microinverters and other products that will compete directly with our microinverter systems. SMA Solar Technology AG, Power-One Inc. and SunPower Corp., leading inverter vendors serving the residential and small commercial inverter markets, are expected to introduce microinverter products in 2012. In addition, several new entrants to the microinverter market have recently announced plans to ship or have already shipped products, including some of our OEM customers and partners.

Currently, competitors in the inverter market range from large companies such as SMA Solar Technology AG, Fronius International GmbH and Power-One Inc. to emerging companies offering alternative microinverter or other solar electronics products. Some of our competitors have announced plans to introduce microinverter products that could compete with our microinverter systems. 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. 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 us and may be able to develop products that are more reliable or which provide more functionality than ours. In addition, some of our competitors have the financial resources to offer competitive products at aggressive or below-market pricing levels, which could cause us to lose sales or market share or require us to lower prices for our microinverter systems in order to compete effectively. Suppliers of solar products, particularly solar modules, have experienced eroding prices over the last several years and as a result many have faced margin compression and declining revenues. If we have to reduce our prices by more than we anticipated, or if we are unable to offset any future reductions in our average selling prices by increasing our sales volume, reducing our costs and expenses or introducing new products, our revenues and gross profit would suffer.

We also may face competition from some of our customers who evaluate our capabilities against the merits of manufacturing products internally. For instance, solar module manufacturers could 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 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.

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;

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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 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 North America, France, Italy and the Benelux region. However, we intend to introduce new microinverter systems targeted at larger commercial and utility-scale installations and to expand into other international markets. Our success in these new product and geographic markets will depend on a number of factors, such as:

timely qualification and certification of new products for larger commercial and utility-scale installations;

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;

our ability to reduce production costs in order to price our products competitively over time;

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 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;

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

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

We have offered 15-year limited warranties for our first and second generation microinverters and offer a 25-year limited warranty on our third 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 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 15 or 25-year warranties, 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

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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. In addition, any widespread product failures may damage our market reputation and cause us to lose customers.

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

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 cancelled, 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 cancelled or shipments are delayed, we may have excess inventory that we cannot sell. Historically, provisions for write-downs of inventories have not been significant. In the future 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 forego 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.

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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 represent a relatively small percentage of their overall revenues. As a result, fulfilling our orders may not be considered a priority in the event of constrained ability to fulfill all of their customer obligations in a timely manner. In addition, the facilities in which our 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 forego 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/or 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 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 are currently 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 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 supply of sole source or limited source components for our products would adversely affect our ability to meet scheduled product deliveries to our customers, could result in lost revenue or higher expenses and would harm our business.

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

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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 installations 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 installation, 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.

We rely primarily on distributors to assist in selling our products, and the failure of these distributors 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. For the year ended December 31, 2011, Focused Energy, Inc., Sunwize Technologies, Inc., and Solarnet Holdings, LLC collectively accounted for 38% of our total net revenues. In 2010, Focused Energy, Inc. and DC Power Systems, collectively accounted for 25% of our total net revenues. We do not have exclusive arrangements with these third parties and, as a result, many of our distributors also market and sell products from our competitors, which may reduce our sales. Our distributors may terminate their relationships with us at any time, or with short notice. Our distributors 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. Our future performance depends on our ability to effectively manage our relationships with our existing distributors, as well as to attract additional distributors 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 distributors, failure by these distributors to perform as expected, or failure by us to cultivate new distributor relationships, could hinder our ability to expand our operations and harm our revenue and operating results.

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.

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 a variant of our microinverter system that will enable an AC module for direct attachment of the microinverter to the backsheet of 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 microinverter solutions. 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.

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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

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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 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.

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

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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.

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 in the future, 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 product revenue in the third and fourth quarters to be positively affected by seasonal customer demand trends, including solar economic incentives, weather patterns and construction cycles. 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 facilities may limit our flexibility in responding to business opportunities and competitive developments and increase our vulnerability to adverse economic or industry conditions.

We have lending arrangements with several financial institutions, including loan and security agreements with Comerica Bank and Bridge Bank, National Association, with Horizon Technology Finance Corporation, and with Hercules Technology Growth Capital, Inc., as well as a junior convertible loan facility with certain of our existing preferred shareholders. The loan and security agreements with Comerica Bank and Bridge Bank, with Horizon Technology Finance, with Hercules, and with the lenders under our junior convertible loan facility, all restrict our ability to take certain actions such as incurring additional debt, encumbering our tangible or intangible property, paying dividends, or engaging in certain transactions, such as mergers and acquisitions, investments and asset sales. Our loan and security agreement with Bridge Bank and Comerica Bank also requires us to maintain certain financial covenants, including liquidity and tangible net worth ratios. These restrictions may limit our

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flexibility in responding to business opportunities, competitive developments and adverse economic or industry conditions. In addition, our obligations under our loan and security agreements with Bridge Bank and Comerica Bank, Horizon Technology Finance, as well as for our junior convertible loan facility, are secured by substantially all of our assets (excluding intellectual property), which limits our ability to provide collateral for additional financing. A breach of any of these covenants, or a failure to pay interest or indebtedness when due under any of our credit facilities, could result in a variety of adverse consequences, including the acceleration of our indebtedness and the forfeiture of our assets subject to security interests in favor of the lenders.

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 of 2002, or the Sarbanes-Oxley Act, will require us and potentially our independent registered public accounting firm to evaluate and report on our internal control over financial reporting beginning with our Annual Report on Form 10-K for the year ending December 31, 2013. The process of implementing our internal controls and complying with Section 404 will be expensive and time consuming, and will require significant attention of management. We cannot be certain that these measures will ensure that we implement and maintain adequate controls over our financial processes and reporting in the future. Even if we conclude, and our independent registered public accounting firm concurs, that our internal control over financial reporting provides reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles, because of its inherent limitations, internal control over financial reporting may not prevent or detect fraud or misstatements. Failure to implement required new or improved controls, or difficulties encountered in their implementation, could harm our results of operations or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm discover a material weakness, 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 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.

With respect to 2011, we and our independent registered public accounting firm identified a significant deficiency in our internal controls over financial reporting but this deficiency did not create a material weakness. The significant deficiency related to our need for continued improvements in the documentation of accounting policies and procedures and segregation of duties. We have made efforts to remediate this significant deficiency through hiring additional experienced accounting personnel and by realigning certain roles and responsibilities to improve segregation of duties. If significant deficiencies in our internal controls are not fully remediated or if additional significant deficiencies are identified, those significant deficiencies could lead to material weaknesses in the future, potentially causing us to fail to meet our future reporting obligations and the price of our common stock to decline.

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, contain rules that limit the ability of a company that undergoes an ownership change, which is generally any cumulative change in ownership of more than 50% of its stock 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

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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. As a result, 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.

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 will incur increased costs as a result of operating as a public company, and our management will be required to devote substantial time to new compliance initiatives.

As a public company, we will incur legal, accounting and other expenses that we did not incur as a private company. The Dodd-Frank Wall Street Reform and Consumer Protection Act, or the Dodd-Frank Act, the Sarbanes-Oxley Act and the rules implemented by the SEC and the NASDAQ Global Market impose significant regulatory requirements on public companies, including specific corporate governance practices. For example, the listing requirements of the NASDAQ Global Market require that we satisfy certain corporate governance requirements relating to independent directors, audit and compensation committees, distribution of annual and interim reports, stockholder meetings, stockholder approvals, solicitation of proxies, conflicts of interest, stockholder voting rights and codes of conduct. Our management and other personnel will need to devote a substantial amount of time to these compliance initiatives. Moreover, these rules and regulations will increase our legal and financial compliance costs and will make some activities more time-consuming and costly. For example, we expect these rules and regulations to make it more difficult and more expensive for us to obtain director and officer liability insurance, and we may be required to accept reduced policy limits and coverage or incur substantial additional costs to maintain the same or similar coverage. These rules and regulations could also make it more difficult for us to attract and retain qualified persons to serve on our board of directors, our board committees or as executive officers.

These rules and regulations also contain requirements that apply to manufacturers of products incorporating specified minerals. The Dodd-Frank Act requires public companies to report on their use of so-called conflict minerals originating from the Democratic Republic of Congo or its nine immediate neighbors. Certain minerals commonly used in semiconductors are on the list of conflict minerals, and additional minerals may be added to the list in the future. Compliance with these rules, which will require us to disclose our use of these minerals and to obtain an annual audit of our sourcing and the chain of custody of these minerals, will be time-consuming and costly.

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, excluding any proceeds from this offering, 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 expect that ultimately 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 for this planned expansion. If financing is not available on acceptable terms, if and when needed, our ability to fund our operations, expand our

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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, including those acquiring shares in this offering.

Natural disasters, terrorist 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, could hinder or delay the development and sale of our products. In the event that an earthquake, tsunami, typhoon, terrorist 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 for any extended period of time, our business, financial condition and results of operations would be materially adversely affected.

Changes in current or future 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 Canada, France, Italy 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. While we are not aware of any current or proposed export or import regulations which would materially restrict our ability to sell our products in countries such as Canada, France, Italy or China, 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.

Risks Related to This Offering and Our Common Stock

An active, liquid and orderly market for our common stock may not develop or be sustained, the trading prices of our common stock may be volatile and you may be unable to sell your shares at or above the offering price.

There has not been a public trading market for shares of our common stock prior to this offering. An active trading market may not develop or be sustained after this offering, which could depress the market price of our common stock and affect your ability to sell your shares. The initial public offering price for the shares of common stock sold in this offering may not be indicative of the price at which our common stock will trade after this offering.

The market price of our common stock could be subject to wide fluctuations in response to, among other things, the risk factors described in this section of this prospectus, 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,

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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;

our ability to forecast our customer demand, 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.

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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 will depend 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 principal stockholders, executive officers and directors own a significant percentage of our stock and will continue to have significant control of our management and affairs after the offering, and they may take actions that our stockholders may not view as beneficial.

Following the completion of this offering, our executive officers, directors, greater than 5% stockholders, and entities that are affiliated with them, will beneficially own an aggregate of approximately 63.7% of our outstanding common stock, on an as-converted basis, assuming these persons and entities do not purchase any shares of our common stock in this offering. However, certain of our current stockholders have indicated an interest in purchasing an aggregate of $15.0 million of shares of common stock in this offering, or 2,307,692 shares at the assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus. If these current stockholders purchase all such shares of common stock in this offering, our executive officers, directors, greater than 5% stockholders, and entities that are affiliated with them would beneficially own shares representing approximately 69.2% of our common stock after this offering. 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.

Our stock price could decline due to the large number of outstanding shares of our common stock eligible for future sale, which may dilute your voting power and your ownership interest in us.

Sales of substantial amounts of our common stock in the public market following this offering, or the perception that these sales could occur, could cause the market price of our common stock to decline. These sales could also make it more difficult for us to sell equity or equity-related securities in the future at a time and price that we deem appropriate.

Upon completion of this offering, as of December 31, 2011, we will have an aggregate of approximately 37,328,347 shares of common stock outstanding, assuming no exercise of the underwriters over-allotment option, no exercise of outstanding options and no exercise of outstanding warrants. The 7,272,727 shares sold pursuant to this offering will be immediately tradable without restriction. Of the remaining shares:

- no shares will be eligible for sale immediately upon completion of this offering; and

30,055,620 shares, as of December 31, 2011, will be eligible for sale upon the expiration of lock-up agreements, subject in some cases to volume and other restrictions of Rule 144 and Rule 701 under the Securities Act of 1933, as amended, or the Securities Act.

The number of shares eligible for sale upon expiration of lock-up agreements assumes (1) the conversion of all outstanding shares of our preferred stock into an aggregate of 25,170,918 shares of common stock and (2) the

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automatic conversion of the outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest as of December 31, 2011 into 3,186,644 shares of common stock upon closing of this offering at a conversion price equal to $6.50, assuming an initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus.

The lock-up agreements expire 180 days after the date of this prospectus, subject to potential extension in the event we release earning results or material news or a material event relating to us occurs near the end of the lock-up period. Morgan Stanley, as one of the representatives of the underwriters, may, in their sole discretion and at any time without notice, release all or any portion of the securities subject to lock-up agreements.

Based on shares of common stock and warrants outstanding on December 31, 2011, holders of approximately 29,747,889 shares and 293,474 shares of common stock issuable upon the exercise of outstanding warrants, representing 80% of our common stock, will have rights, subject to some conditions, to require us to file registration statements covering the sale of their shares or to include their shares in registration statements that we may file for ourselves or other stockholders. After the completion of this offering, we also intend to register approximately 3,312,774 shares of our common stock that have been issued or reserved for future issuance under our stock incentive plans. Once we register the offer and sale of shares for the holders of registration rights and option holders, they can be freely sold in the public market upon issuance, subject to the lock-up agreements or unless they are held by affiliates, as that term is defined in Rule 144 of the Securities Act.

We may also issue shares of our common stock or securities convertible into our common stock from time to time in connection with a financing, acquisition, investments or otherwise. Any such issuance could result in substantial dilution to our existing stockholders and cause the trading price of our common stock to decline.

Participation in this offering by certain existing stockholders would reduce the available public float for our shares.

Entities affiliated with Third Point, Madrone, KPCB Holdings, RockPort and Bay Partners have indicated an interest in purchasing up to an aggregate of $15.0 million of shares of our common stock in this offering at the price offered to the public, or an aggregate of 2,307,692 shares based on an initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus. As of March 1, 2012, each of Third Point, Madrone, KPCB, RockPort and Bay Partners beneficially owned more than 5% of our common stock and each is affiliated with a member of our board of directors. If these entities purchase all of these shares, the number of shares beneficially owned by each such stockholder after this offering, and the percentage of our common stock beneficially owned by each such stockholder after this offering, will increase. In addition, if these entities purchase all of these shares, the number of shares beneficially owned by all of our executive officers, directors and stockholders who beneficially owned more than 5% of our outstanding common stock after this offering as a group after this offering will be 28,428,587, and the percentage of common stock beneficially owned by this group after this offering will be approximately 69.2%.

If such existing stockholders purchase all or a portion of the shares in which they have indicated an interest in purchasing in this offering, such purchases would reduce the available public float for our shares because these entities would be restricted from selling the shares pursuant to lock-up agreements they have entered into with the underwriters in this offering and pursuant to restrictions under applicable securities laws. As a result, any purchase of shares by such existing stockholders in this offering would reduce the liquidity of our common stock relative to what it would have been had these shares been purchased by investors that were not affiliated with us.

Because our initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our outstanding common stock, new investors will incur immediate and substantial dilution.

The initial public offering price is substantially higher than the pro forma as adjusted net tangible book value per share of our common stock based on the expected total value of our total assets, less our intangible

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assets, less our total liabilities immediately following this offering. Therefore, if you purchase shares of our common stock in this offering, you will experience immediate and substantial dilution of $4.54 per share in the price you pay for our common stock based on the assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the front cover of this prospectus, as compared to the pro forma as adjusted net tangible book value as of December 31, 2011. Furthermore, investors purchasing our common stock in this offering will own only 19% of our shares outstanding even though they will have contributed 29% of the total consideration received by us in connection with our sales of common stock. To the extent outstanding options and warrants to purchase common stock are exercised, there will be further dilution. For a further description of the dilution that you will experience immediately after this offering, see the section titled Dilution.

Our management has broad discretion in the use of the net proceeds from this offering and may not use the net proceeds in ways that increase the value of your investment.

Our management will have broad discretion in the application of the net proceeds of this offering, and you will be relying on the judgment of our management regarding the application of these proceeds. We cannot assure you that our management will apply the net proceeds from this offering in ways that increase the value of your investment. We have not allocated the net proceeds from this offering for any specific purpose and we cannot specify with certainty the uses to which we will apply the net proceeds we will receive from this offering. Until we use the net proceeds from this offering, we plan to invest them, and these investments may not yield a favorable rate of return. If we do not invest or apply the net proceeds from this offering in ways that enhance stockholder value, we may fail to achieve expected financial results, which could cause our stock price to decline.

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 agreements restrict our ability to pay dividends. See Dividend Policy for more information. Consequently, your only opportunity to achieve a return on your investment in our company will be if the market price of our common stock appreciates and you sell your shares at a profit. There is no guarantee that the price of our common stock that will prevail in the market after this offering will ever exceed the price that you pay.

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 that will be in effect upon the closing of this offering 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 directory 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

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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, our chief executive officer 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 will govern us upon completion of this offering. These provisions 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. See Description of Capital Stock Preferred Stock and Description of Capital Stock Anti-Takeover Effects of Delaware Law and our Charter Documents.

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SPECIAL NOTE REGARDING FORWARD-LOOKING STATEMENTS AND INDUSTRY DATA

This prospectus contains forward-looking statements that are based on our management s beliefs and assumptions and on information currently available to our management. The forward-looking statements are contained principally in the sections entitled Prospectus Summary, Risk Factors, Management s Discussion and Analysis of Financial Condition and Results of Operations, Business and Compensation Discussion and Analysis. Forward-looking statements include information concerning our possible or assumed future results of operations, business strategies, technology developments, financing and investment plans, competitive position, industry and regulatory environment, potential growth opportunities and the effects of competition. Forward-looking statements include statements that are not historical facts and can be identified by terms such as anticipates, believes, could, seeks, estimates, expects, intends, may, plans, potential, predicts, projects, sh similar expressions and the negatives of those terms.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause our actual results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by the forward-looking statements. Given these uncertainties, you should not place undue reliance on these forward-looking statements. Also, forward-looking statements represent our management s beliefs and assumptions only as of the date of this prospectus. You should read this prospectus and the documents that we have filed as exhibits to the registration statement, of which this prospectus is a part, completely and with the understanding that our actual future results may be materially different from what we expect.

Important factors that could cause actual results to differ materially from our expectations are disclosed under Risk Factors and elsewhere in this prospectus, including, without limitation, in conjunction with the forward-looking statements appearing elsewhere in this prospectus. Some of the factors that we believe could affect our results include:

- our history of losses, which may continue in the future;
- our limited operating history, which makes it difficult to predict future results;
- the future demand for solar energy solutions;
- the reduction, elimination or expiration of government subsidies and economic incentives for on-grid solar electricity applications;
- our ability to achieve broad market acceptance of our microinverter systems;
- changes in the retail price of electricity derived from the utility grid or alternative energy sources;
- our ability to develop new and enhanced products in response to customer demands and rapid market and technological changes in the solar industry;
- the success of competing solar solutions that are or become available;

our ability to effectively manage the growth of our organization and expansion into new markets;

our ability to maintain or achieve anticipated product quality, product performance and cost metrics;

our inability to accurately estimate future warranty expense;

competition and other factors that may cause potential future price reductions for our products;

our ability to optimally match production with demand;

our dependence on a limited number of outside contract manufacturers and lack of supply contracts with these manufacturers;

general economic conditions in our domestic and international markets;

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our ability to retain key personnel and attract additional qualified personnel;

our ability to protect and defend our intellectual property; and

the other factors set forth under Risk Factors.

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

This prospectus also contains estimates and other information concerning our industry, including market size and growth rates, that are based on industry publications, surveys and forecasts, including those generated by the California Solar Initiative (CSI), the Solar Energy Industries Association (SEIA), IMS Research, the Datamonitor Group (Datamonitor), and IHS, Inc. (IHS iSuppli). Reports generated by IMS Research are The World Market for Photovoltaic Inverters 2011 Edition and Preliminary PV Inverter Quarterly Market Tracker Report 4Q11. This information involves a number of assumptions and limitations. Although we believe the information in these industry publications, surveys and forecasts is reliable, we have not independently verified the accuracy or completeness of the information. The industry in which we operate is subject to a high degree of uncertainty and risk due to variety of factors, including those described in Risk Factors. These and other factors could cause actual results to differ materially from those expressed in these publications, surveys and forecasts. This prospectus also contains product comparison data generated by Westinghouse Solar, a large solar installer that deploys our microinverter solution along with other inverter products. Although we believe the data generated by Westinghouse Solar is reliable, we have not independently verified the accuracy or completeness of the information.

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USE OF PROCEEDS

We estimate that the net proceeds from our sale of shares of 7,272,727 common stock in this offering at an assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses, will be approximately $40.2 million, or $46.8 million if the underwriters option to purchase additional shares is exercised in full. A $1.00 increase (decrease) in the assumed initial public offering price would increase (decrease) the net proceeds to us from this offering by $6.8 million, assuming the number of shares offered by us, as set forth on the cover page of this prospectus, remains the same and after deducting the estimated underwriting discounts and commissions.

The principal reasons for this offering are to increase our capitalization and financial flexibility, increase our visibility in the marketplace and create a public market for our common stock. As of the date of this prospectus, we have no current specific plans for the use for the net proceeds of this offering, or a significant portion thereof. We currently intend to use the net proceeds of this offering primarily for general corporate purposes. Overall, our management will have broad discretion in the application of our net proceeds from this offering, and investors will be relying on the judgment of our management regarding the application of these proceeds. Pending their use, we plan to invest the net proceeds from this offering in short term, interest bearing obligations, investment grade instruments, certificates of deposit or direct or guaranteed obligations of the U.S. government.

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DIVIDEND POLICY

We have never declared or paid dividends on our common stock and do not expect to pay dividends on our common stock for the foreseeable future. Instead, we anticipate that all of our earnings in the foreseeable future will be used for the operation and growth of our business. Any future determination to pay dividends on our common stock would be subject to the discretion of our board of directors and would depend upon various factors, including our results of operations, financial condition, liquidity requirements, restrictions that may be imposed by applicable law and our agreements and other factors deemed relevant by our board of directors. Our loan and security agreements with Horizon Technology Finance Corporation, Hercules Technology Growth Capital, Inc., Bridge Bank, National Association and Comerica Bank, as well as with the lenders under our junior convertible loan facility, all prohibit the payment of dividends.

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CAPITALIZATION

The following table sets forth our consolidated capitalization as of December 31, 2011 on:

- an actual basis;
- on a pro forma basis to reflect (1) the conversion of all outstanding shares of our preferred stock into 25,170,918 shares of common stock, (2) the automatic conversion of the outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest as of December 31, 2011 into 3,186,644 shares of common stock upon closing of this offering at a conversion price equal to $6.50, the midpoint of the price range set forth on the cover page of this prospectus, (3) the reclassification of our convertible preferred stock warrant liability to additional paid-in capital immediately prior to the completion of this offering, and (4) the write-off of debt issuance costs and debt discounts of $2,994,000 to accumulated deficit, as a result of the closing of this offering.
- on a pro forma as adjusted basis to reflect (1) the pro forma adjustment described above, (2) the sale of 7,272,727 shares of common stock in this offering at an assumed initial public offering price of $6.50 per share, the midpoint of the price range reflected on the front cover of this prospectus, after deducting estimated underwriting discounts and commissions and estimated offering expenses payable by us and (3) the filing of our amended and restated certificate of incorporation in connection with this offering.

Because the number of shares that will be issued upon conversion of our junior secured convertible loan facility depends upon the actual initial public offering price per share in this offering and the closing date of this offering, the actual number of shares issuable upon such conversion may differ from the number of shares set forth above. See Prospectus Summary The Offering.

You should read this table together with Management s Discussion and Analysis of Financial Condition and Results of Operations and our audited and unaudited consolidated financial statements and the related notes, each appearing elsewhere in this prospectus.

	As of December 31, 2011		
	Actual	Pro Forma	Pro Forma As Adjusted[1]
	(in thousands, except par value)		
Term loans	$ 14,677	$ 14,677	$ 14,677
Convertible notes[2]	19,202		
Convertible preferred stock warrant liability	1,399		
Stockholders equity:			
Convertible preferred stock, $0.00001 par value, 23,559 shares authorized, 22,221 shares issued and outstanding actual; no shares authorized, issued and outstanding pro forma and pro forma as adjusted	93,596		
Preferred stock, $0.00001 par value, no shares authorized, issued and outstanding actual; 10,000 shares authorized, no shares issued and outstanding pro forma and pro forma as adjusted			
Common stock, $0.00001 par value; 41,410 shares authorized, 1,698 shares issued and outstanding actual; 41,410 shares authorized, 30,057 issued and outstanding pro forma;			

and 100,000 shares authorized, 37,328 shares issued and outstanding pro forma as adjusted			
Additional paid-in capital	9,103	124,811	165,025
Accumulated deficit	(88,808)	(91,802)	(91,802)
Accumulated other comprehensive income	83	83	83
Total stockholders equity	13,974	33,092	73,306
Total capitalization	$ 49,252	$ 47,769	$ 87,983

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(1) A $1.00 increase (decrease) in the assumed initial public offering price would result in an approximately $6.8 million increase (decrease) in each of pro forma as adjusted additional paid-in capital, total stockholders equity and total capitalization. If the underwriters exercise their over-allotment option in full, there would be a $6.6 million increase in each of pro forma as adjusted additional paid-in capital, total stockholders equity and total capitalization.

(2) The convertible notes mature upon the closing of this offering, at which time each note will automatically convert into our common stock at a conversion price of $6.50, assuming an initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus.

The number of shares of common stock shown as issued and outstanding in the above table excludes:

357,459 shares of common stock issuable upon exercise of outstanding warrants, as of December 31, 2011, with a weighted-average exercise price of $5.86 per share;

6,255,867 shares of common stock issuable upon the exercise of outstanding stock options under our 2006 Equity Incentive Plan, as of December 31, 2011, with a weighted-average exercise price of $1.83 per share;

2,643,171 shares of common stock reserved for future issuance under our 2011 Equity Incentive Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans ; and

669,603 shares of common stock reserved for future issuance under our 2011 Employee Stock Purchase Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans .

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DILUTION

If you invest in our common stock, your interest will be diluted to the extent of the difference between the amount per share paid by purchasers of shares of our common stock in this initial public offering and the pro forma as adjusted net tangible book value per share of our common stock immediately after completion of this offering.

At December 31, 2011, we had net tangible book value of $13.7 million. Net tangible book value represents the amount of our net assets of $14.0 million less our intangible assets of $0.3 million. At December 31, 2011, our pro forma net tangible book value was $32.8 million (pro forma net assets of $33.1 million less pro forma intangible assets of $0.3 million) or $1.09 per share of common stock. Pro forma net tangible book value per share represents the amount of our net tangible book value increased by the amount of our convertible preferred stock warrant liability and divided by the pro forma shares of common stock outstanding at December 31, 2011, assuming (1) the automatic conversion of all outstanding shares of our preferred stock into an aggregate of 25,170,918 shares of common stock, (2) the automatic conversion of the outstanding principal amount of our junior secured convertible loan facility and paid-in-kind interest as of December 31, 2011 into 3,186,644 shares of common stock upon closing of this offering at a conversion price equal to $6.50, assuming an initial public offering price of $6.50 per share, the midpoint of the price range set forth on the cover page of this prospectus, and (3) the conversion of warrants to purchase 198,256 shares of preferred stock into warrants to purchase 214,930 shares of common stock in connection with this offering.

Because the number of shares that will be issued upon conversion of our junior secured convertible loan facility depends upon the actual initial public offering price per share in this offering and the closing date of this offering, the actual number of shares issuable upon such conversion may differ from the number of shares set forth above. See Prospectus Summary The Offering.

After giving effect to our sale of 7,272,727 shares of common stock in this offering at an assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the front cover of this prospectus, and after deducting estimated underwriting discounts and commissions and estimated offering expenses, our pro forma as adjusted net tangible book value at December 31, 2011 would have been $73.0 million, or $1.96 per share of common stock. This represents an immediate increase in pro forma net tangible book value of $0.87 per share to existing stockholders and an immediate dilution of $4.54 per share to new investors.

The following table illustrates this dilution:

Assumed initial public offering price per share		$ 6.50
Pro forma net tangible book value per share as of December 31, 2011 before giving effect to this offering	$ 1.09	
Increase in pro forma net tangible book value per share attributable to new investors purchasing shares in this offering	0.87	
Pro forma as adjusted net tangible book value per share after this offering		1.96
Dilution per share to new investors in this offering		$ 4.54

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The following table summarizes, on a pro forma as adjusted basis as of December 31, 2011, the total number of shares of common stock purchased from us, the total consideration paid to us and the average price per share paid to us by existing stockholders and by new investors purchasing shares in this offering at the assumed initial public offering price of $6.50 per share, the midpoint of the price range set forth on the front cover of this prospectus, before deducting estimated underwriting discounts and commissions and estimated offering expenses:

	Shares Purchased		Total Consideration		Average Price Per Share
	Number	Percent	Amount	Percent	
Existing stockholders	30,055,620	81%	$ 116,145,392	71%	$ 3.86
New investors	7,272,727	19%	47,272,726	29%	6.50
Total	37,328,347	100%	$ 163,418,118	100%	

A $1.00 increase or decrease in the assumed initial public offering price would increase or decrease, as applicable, total consideration paid to us by new investors and total consideration paid to us by all stockholders by approximately $6.8 million, assuming the number of shares offered by us remains the same as set forth on the cover page of this prospectus and without deducting the estimated underwriting discounts and commissions and estimated offering expenses that we must pay.

The foregoing dilution calculations exclude:

- 357,459 shares of common stock issuable upon exercise of outstanding warrants, as of December 31, 2011, with a weighted-average exercise price of $5.86 per share;
- 6,255,867 shares of common stock issuable upon the exercise of outstanding stock options under our 2006 Equity Incentive Plan, as of December 31, 2011, with a weighted-average exercise price of $1.83 per share;
- 2,643,171 shares of common stock reserved for future issuance under our 2011 Equity Incentive Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans ; and
- 669,603 shares of common stock reserved for future issuance under our 2011 Employee Stock Purchase Plan, which will become effective prior to the completion of this offering and contains provisions that will automatically increase its share reserve each year, as more fully described in Executive Compensation Employee Benefit Plans .

To the extent that any outstanding options or warrants are exercised, there will be further dilution to new investors.

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SELECTED CONSOLIDATED FINANCIAL DATA

The selected consolidated statement of operations data for each of the years ended December 2009, 2010 and 2011 and the selected consolidated balance sheet data as of December 31, 2010 and 2011 are derived from our audited consolidated financial statements included elsewhere in this prospectus. The selected consolidated statement of operations data for the year ended December 31, 2008 and the selected consolidated balance sheet data as of December 31, 2008 and 2009 are derived from our audited financial statements not included in this prospectus. The selected balance sheet data and the selected statement of operations data as of and for the year ended December 31, 2007 are derived from our unaudited consolidated financial statements not included in this prospectus. Our historical results are not indicative of the results to be expected in any future period. You should read these selected financial data in conjunction with Management s Discussion and Analysis of Financial Condition and Results of Operations and our financial statements and the related notes included elsewhere in this prospectus.

	Year Ended December 31,				
	2007	2008	2009	2010	2011
	(in thousands, except per share data)				
Consolidated Statement of Operations Data:					
Net revenues	$	$ 1,668	$ 20,194	$ 61,661	$ 149,523
Cost of revenues[1]		7,475	23,223	55,159	120,454
Gross profit (loss)		(5,807)	(3,029)	6,502	29,069
Operating expenses:					
Research and development[1]	2,068	5,354	8,411	14,296	25,099
Sales and marketing[1]	458	1,809	2,651	6,558	17,454
General and administrative[1]	742	1,727	2,603	6,365	15,228
Total operating expenses	3,268	8,890	13,665	27,219	57,781
Loss from operations	(3,268)	(14,697)	(16,694)	(20,717)	(28,712)
Other income (expense), net:					
Interest income	179	206	125	39	4
Interest expense		(9)	(356)	(914)	(3,006)
Other income (expense)		(1)		(185)	(576)
Total other income (expense), net	179	196	(231)	(1,060)	(3,578)
Net loss attributable to common stockholders	$ (3,089)	$ (14,501)	$ (16,925)	$ (21,777)	$ (32,290)
Net loss per share attributable to common stockholders, basic and diluted[2]	$ (9.22)	$ (24.70)	$ (25.92)	$ (28.96)	$ (25.73)
Shares used in computing net loss per share attributable to common stockholders, basic and diluted[2]	335	587	653	752	1,255
Pro forma net loss per share attributable to common stockholders, basic and diluted[2]					$ (1.26)
Pro forma shares used in computing pro forma net loss per share attributable to common stockholders basic and diluted[2]					27,657

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	As of December 31,				
	2007	2008	2009	2010	2011
			(in thousands)		
Consolidated Balance Sheet Data:					
Cash and cash equivalents	$ 2,548	$ 4,136	$ 8,642	$ 39,993	$ 51,524
Working capital	2,322	2,521	11,004	39,753	29,417
Total assets	3,325	8,710	20,947	59,504	106,242
Term loans		571	411	6,903	14,677
Convertible notes					19,202
Convertible preferred stock	6,209	21,871	47,859	93,596	93,596
Common stock and additional paid-in capital	81	298	509	1,403	9,103
Total stockholders equity	2,975	4,353	13,627	38,481	13,974

(1) Includes stock-based compensation expense as follows:

	Year Ended December 31,				
	2007	2008	2009	2010	2011
			(in thousands)		
Cost of revenues	$	$ 4	$ 17	$ 9	$ 39
Research and development		27	62	286	795
Sales and marketing		7	36	256	671
General and administrative	70	170	65	278	615
Total stock-based compensation expense	$ 70	$ 208	$ 180	$ 829	$ 2,120

(2) See Note 14 to Consolidated Financial Statements for a description of how we compute basic and diluted net loss attributable to common stockholders, basic and diluted net loss per share attributable to common stockholders and pro forma basic and diluted net loss per share attributable to common stockholders.

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MANAGEMENT S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with the consolidated financial statements and related notes thereto included in this prospectus. In addition to historical information, this discussion and analysis contains forward-looking statements that involve risks, uncertainties and assumptions. Our actual results could differ materially from those discussed in the forward-looking statements. We discuss factors that we believe could cause or contribute to these differences below and elsewhere in this prospectus, particularly the Special Note Regarding Forward-Looking Statements and Industry Data and Risk Factors sections.

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 are the market leader in the microinverter category and have grown rapidly since our first commercial shipment in mid-2008, with over 1,550,000 microinverter units sold as of December 31, 2011, representing over an estimated 40,000 system installations. We were the first company to commercially ship microinverter systems in volume. Our products have been installed in all 50 U.S. states and eight Canadian provinces, and we are rapidly taking market share from traditional central inverter manufacturers.

We were founded in March 2006 and began generating revenue in June 2008. From inception to December 31, 2011, we have raised over $115.2 million in net proceeds from the private placements of convertible preferred stock and convertible debt. The history of our product development and sales and marketing efforts is as follows:

- From inception to the second quarter of fiscal 2008, our efforts focused on developing a complete microinverter solution for the solar PV industry;
- In the second quarter of 2008, we began selling our first generation microinverter along with our Envoy communications gateway device and our Enlighten web-based monitoring service;
- In the first half of 2009, we focused on the development of our second generation microinverter and migrated our contract manufacturing to Flextronics, which provided us with access to commercial scale manufacturing and logistics services;
- In the third quarter of 2009, we began selling our second generation microinverter in volume;
- In 2010, we invested in our sales and marketing organization to increase market penetration, continued design innovations for our second generation microinverter, sold more than 400,000 units and commenced development of our third generation microinverter;
- In the second quarter of 2011, we began selling our third generation microinverter;

In the fourth quarter of 2011, we began selling our products in France, Italy and the Benelux region; and

During 2011, we sold more than 1,000,000 microinverters.

We sell our microinverter systems primarily to distributors who resell them to solar installers. Over 3,400 installers in North America have installed our microinverters through December 31, 2011, and this number is increasing by approximately 100 new installers per month. We also sell directly to large installers and through OEMs and strategic partners.

A substantial majority of our revenue has been generated by sales within the United States. Sales to customers in Canada commenced in 2009 and accounted for approximately 3%, 13% and 12% of our net

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revenues in 2009, 2010 and 2011, respectively. We anticipate that the majority of our 2012 revenues will continue to come from the United States, with the balance from Canada and Europe.

We have achieved substantial growth since we commenced commercial production in 2008. Our net revenues were $20.2 million, $61.7 million and $149.5 million for the years ended December 31, 2009, 2010 and 2011, respectively. Net losses were $16.9 million, $21.8 million and $32.3 million for the years ended December 31, 2009, 2010 and 2011, respectively. We expect to incur a net loss in 2012 and may continue to incur net losses in future years as we continue to invest substantial resources to support the growth of our business. However, over time, we believe the significant investments we are making to scale our business will allow us to achieve an increasingly efficient operating cost structure. We believe that this, combined with the differentiated value proposition of our microinverter solution including product cost reductions through further semiconductor integration, will allow us to improve our gross profit and reduce our operating expenses as a percentage of revenue.

Results of Operations

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

Net Revenues

We generate revenue from sales of our microinverter systems, which include microinverter units, 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 market our products in a manner that increases awareness for microinverter technology, the continual development and introduction of new products to meet the changing technology and performance requirements of our customers, and the diversification and expansion of our revenue base.

Cost of Revenues and Gross Profit

Cost of revenues is comprised primarily of product costs consisting of purchases from our contract manufacturers and other suppliers, warranty, personnel and logistics 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 of these costs, primarily personnel and depreciation and amortization of test equipment, are not directly affected by sales volume.

We outsource our manufacturing to third-party manufacturers and negotiate product pricing on a quarterly basis. In addition, a contract manufacturer also serves as our logistics provider by warehousing and delivering our products in the United States and Canada. We believe our contract manufacturing partners have sufficient production capacity to meet the growing demand for our products for the foreseeable future. However, shortages in the supply of certain key raw materials could adversely affect our ability to meet customer demand for our products.

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

Operating Expenses

Operating expenses consist of research and development, sales and marketing and general and administrative expenses. Personnel-related costs are the most significant component of each of these expense

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categories and include salaries, benefits, payroll taxes, recruiting costs, commissions and stock-based compensation. Our full-time employee headcount has grown from 58 at December 31, 2008, to 79 at December 31, 2009, to 153 at December 31, 2010 and to 298 at December 31, 2011. We expect to continue to hire significant numbers of new employees to support our growth. The timing of these additional hires could materially affect our operating expenses, both in absolute dollars and as a percentage of revenue, in any particular period. We expect to continue to invest substantial resources to support the growth of our company globally and anticipate that each of the following categories of operating expenses will increase in absolute dollar amounts for the foreseeable future.

Research and development expense includes personnel-related expenses such as salaries, stock-based compensation and employee benefits. Our research and development employees are engaged in the design and development of power electronics, semiconductors, powerline communications and networking and software functionality. Our 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 and timely development of new products that utilize technological innovation to drive down products costs. We intend to continue to invest substantial resources in our research and development efforts because we believe they are essential to maintaining our competitive position. Investments in research and development personnel costs are expected to increase in total dollars for the foreseeable future.

Sales and marketing expense consists primarily of personnel-related expenses such as salaries, commissions, stock-based compensation, employee benefits, and travel. It also includes trade shows, marketing, customer support and other indirect costs. We expect our sales and marketing expense to increase in absolute dollars for the foreseeable future as we continue to increase the number of our sales and channel support personnel to enable us to increase our market penetration geographically and into new markets by expanding our customer base of distributors, large installers, OEMs and strategic partners. Historically, all of our sales have been in the United States and Canada. In the first quarter of 2011 we opened sales offices in Italy and France, and began selling into France, Italy and the Benelux region in the fourth quarter of 2011. We expect to continue to expand our geographic footprint in the future.

General and administrative expense consists primarily of salaries, stock-based compensation and employee benefits for personnel related to our executive, finance, human resources, information technology and legal organizations, facilities cost, and fees for professional services. Professional services consist of outside legal, accounting and information technology consulting costs. We expect that after this offering we will incur additional accounting and legal costs related to compliance with securities and other regulations, as well as additional insurance, investor relations and other costs associated with being a public company.

Other Income (Expense), Net

Other income (expense), net includes interest income on invested cash balances and interest expense on amounts outstanding under our credit and convertible note facilities and non-cash interest expense related to the amortization of debt discounts and deferred financing costs. Other income (expense), net also includes mark-to-market adjustments to record our preferred stock warrants at fair value, which were issued in conjunction with credit facilities, as well as losses or gains on conversion of non-U.S. dollar transactions into U.S. dollars.

Provision (Benefit) for Income Taxes

We are subject to income taxes in the countries where we sell our products. Historically, we have primarily been subject to taxation in the United States because we have sold the vast majority of our products to customers in the United States. We anticipate that in the future, as we expand our sale of products to customers outside the United States, we would become subject to taxation based on the foreign statutory rates in the

countries where

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these sales took place and our effective tax rate could fluctuate accordingly. We have not recorded any United States federal or state income tax provision for any of the periods presented because we have experienced operating losses since inception. Due to the history of losses we have generated since inception, we have recorded a full valuation allowance on our deferred tax assets.

Summary Consolidated Statements of Operations

The following table sets forth a summary of our consolidated statements of operations for the periods presented (in thousands):

	Year Ended December 31,		
	2009	2010	2011
Net revenues	$ 20,194	$ 61,661	$ 149,523
Cost of revenues	23,223	55,159	120,454
Gross profit (loss)	(3,029)	6,502	29,069
Operating expenses:			
Research and development	8,411	14,296	25,099
Sales and marketing	2,651	6,558	17,454
General and administrative	2,603	6,365	15,228
Total operating expenses	13,665	27,219	57,781
Loss from operations	(16,694)	(20,717)	(28,712)
Other income (expense), net	(231)	(1,060)	(3,578)
Net loss	$ (16,925)	$ (21,777)	$ (32,290)

Comparison of 2009, 2010 and 2011

Net Revenues

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
Net revenues	$ 20,194	$ 61,661	$ 149,523	$ 41,467	$ 87,862

Net revenues for 2011 increased by 142% compared to 2010 due primarily to the number of microinverter units sold, which increased by 142% from approximately 414,000 units in 2010 to approximately 1.0 million units in 2011. The increase in units sold was attributable to sales of our third generation microinverter, which was introduced during the second quarter of 2011. The overall increase in unit sales was driven by deeper penetration of our existing customer base, the addition of new customers, further expansion into Canada, and broader acceptance of our products resulting from, among other factors, investments made in sales and marketing. During 2011, we continued to experience a slight decline in the average selling price of our microinverters. If 2010 average selling prices of our microinverters had remained constant, net revenues for 2011

would have been higher by approximately $5.3 million. The decline in average selling prices reflects, and is consistent with, recent market trends in the solar industry. We expect these trends to continue in the foreseeable future.

Net revenues for 2010 increased by 205% compared to 2009. The increase in net revenues was due to the number of microinverter units sold increasing by 229% from approximately 126,000 units in 2009 to approximately 414,000 units in 2010. The increase in units sold was driven by deeper penetration of our existing customer base, the addition of new customers, further expansion into Canada, and broader acceptance of our products resulting, among other factors, from investments made in sales and marketing. If 2009 average selling

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prices of our microinverters had remained constant, net revenues for 2010 would have been higher by approximately $1.7 million. The decline in average selling prices reflects, and was consistent with market trends in the solar industry.

Cost of Revenues and Gross Profit (Loss)

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
Cost of revenues	$ 23,223	$ 55,159	$ 120,454	$ 31,936	$ 65,295
Gross profit (loss)	(3,029)	6,502	29,069	9,531	22,567

Cost of revenues for 2011 increased from 2010 primarily due to an increase in the number of microinverter units sold to customers, consistent with the overall increase in net revenues as described above. Gross profit as a percentage of revenue increased from 10.5% in 2010 to 19.4% in 2011. Substantially all of this increase in gross profit as a percentage of revenue was driven by a reduction in material cost per unit primarily resulting from the introduction of our third generation microinverter. Our 2011 gross profit as a percentage of net revenues was also positively impacted by a 2% decrease in raw materials costs over the comparable 2010 period, design enhancements resulting in a higher level of product integration and efficiency gains in the manufacturing process of our third generation microinverter.

Cost of revenues for 2010 increased from 2009 primarily due to an increase in the number of microinverter units sold to customers, consistent with the overall increase in net revenues as described above. Gross profit (loss) as a percentage of revenue increased from (15%) in 2009 to 10.5% in 2010. Prior to 2010, we had negative gross profit as our sales were insufficient to cover our product costs as well as personnel costs, which are not directly affected by sales volume. In 2010, we achieved economies of scale and positive gross profit as we ramped up production of our higher margin second generation product.

Research and Development

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
Research and development	$ 8,411	$ 14,296	$ 25,099	$ 5,885	$ 10,803

Research and development expenses increased by $10.8 million in 2011 as compared to 2010, primarily due to a $7.1 million increase in personnel-related costs as a result of increases in research and development headcount. The increase in headcount reflects our continuing investment in enhancements of existing products as well as efforts to bring new products to market, including our third generation microinverter. In addition, depreciation and amortization related to research and development and the use of outside services for the development of new products increased by $2.2 million and $1.4 million, respectively, as compared to the prior year period.

Research and development expenses increased from 2009 to 2010 primarily due to increases in research and development headcount. Salaries and related personnel expenses accounted for $4.2 million of the $5.9 million increase in research and development expenses. In addition, outsourced engineering fees and other outside services fees increased by approximately $1.6 million related to the development of new features for our next generation of products. We plan to continue to invest in research and development as we develop new products and make further enhancements to existing products.

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Sales and Marketing

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
Sales and marketing	$ 2,651	$ 6,558	$ 17,454	$ 3,907	$ 10,896

Sales and marketing expenses increased by $10.9 million in 2011 as compared to 2010, primarily due to increases in sales and marketing headcount to support higher sales volumes and international expansion. Personnel-related costs increased by $8.1 million, which included a $2.3 million increase due to additions in sales and marketing headcount for international locations in 2011 compared to 2010. In addition, costs related to trade shows, the use of outside services and other directly related overhead costs contributed an additional $1.2 million, $1.1 million and $0.5 million, respectively, to the increase in fiscal 2011.

Sales and marketing expenses increased from 2009 to 2010 primarily due to increases in sales and marketing headcount. Salaries and related personnel expenses accounted for $3.0 million of the $3.9 million increase in sales and marketing expenses as a result of expansion of our sales organization in order to increase product awareness and expand our sales presence. We expect that sales and marketing expenses will continue to increase in absolute dollars as we expand sales operations domestically and internationally.

General and Administrative

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
General and administrative	$ 2,603	$ 6,365	$ 15,228	$ 3,762	$ 8,863

General and administrative expenses increased by $8.9 million in 2011 as compared to 2010, primarily due to a $4.7 million increase in personnel-related costs as a result of increases in general and administrative headcount and a $2.5 million increase in accounting, legal and other professional services incurred to assist us with building an infrastructure to support public company requirements. In addition, depreciation and amortization and facilities costs contributed $1.7 million to the increase in 2011 compared to 2010 as a result of increased capital expenditures and facilities costs incurred to support our increased headcount and the expansion of our operations. We expect to incur additional expenses as a result of operating as a public company, including costs to comply with the Sarbanes-Oxley Act and the rules and regulations applicable to companies listed on the NASDAQ Stock Market.

General and administrative expenses increased from 2009 to 2010 due to increases in general and administrative headcount. Salaries and related personnel expenses accounted for $2.3 million of the $3.8 million increase in general and administrative expenses. Also, professional services fees increased $690,000. The additional personnel and professional services fees are primarily the result of our on-going efforts to build the legal, finance, human resources, recruiting and information technology functions required of a public company. In addition, depreciation and amortization and facilities costs also contributed $0.6 million to the increase in 2010 over 2009.

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Other Income (Expense), Net

	Year Ended December 31,			Change	
	2009	2010	2011	2009 to 2010	2010 to 2011
			(in thousands)		
Other income (expense), net	$ (231)	$ (1,060)	$ (3,578)	$ (829)	$(2,518)

Other expense increased by $2.5 million in 2011 as compared to 2010. This increase was primarily due to an increase in interest expense from higher debt balances and non-cash interest charges. Non-cash interest charges totaled $1.8 million and $0.1 million for 2011 and 2010, respectively, and consisted of amortization of debt discounts as well as paid-in-kind interest on our convertible notes.

Other expense increased from 2009 to 2010 primarily due to interest expense related to increased borrowings in 2010.

Quarterly Results of Operations

The following table presents our unaudited quarterly results of operations for the 12 quarters in the period ended December 31, 2011. This unaudited quarterly information has been prepared on the same basis as our audited financial statements and includes all adjustments, consisting only of normal recurring adjustments, necessary for the fair presentation of the information for the quarters presented. You should read this information in conjunction with our audited consolidated financial statements and the related notes thereto. The results of operations for any quarter are not necessarily indicative of results of operations for any future period.

	Three Months Ended											
	Mar 31, 2009	Jun 30, 2009	Sep 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 31, 2011
						(in thousands)						
Net revenues	$ 1,159	$ 1,625	$ 5,407	$ 12,003	$ 11,587	$ 10,769	$ 18,690	$ 20,615	$ 18,069	$ 29,592	$ 44,728	$ 57,134
Costs of revenues	2,672	3,725	5,681	11,145	10,631	9,464	16,650	18,414	15,421	24,785	36,185	44,063
Gross profit	(1,513)	(2,100)	(274)	858	956	1,305	2,040	2,201	2,648	4,807	8,543	13,071
Operating expense:												
Research and development	1,752	2,061	2,249	2,349	2,735	3,160	3,968	4,433	5,345	6,143	6,431	7,180
Sales and marketing	513	489	661	988	855	1,280	1,954	2,468	3,010	4,265	4,567	5,612
General and administrative	534	482	533	1,054	1,099	1,387	1,900	1,979	3,250	3,889	3,980	4,109
Total operating expenses	2,799	3,032	3,443	4,391	4,689	5,827	7,822	8,880	11,605	14,297	14,978	16,901
Loss from operations	(4,312)	(5,132)	(3,717)	(3,533)	(3,733)	(4,522)	(5,782)	(6,679)	(8,957)	(9,490)	(6,435)	(3,830)
Other income (expense), net	(9)	(250)	28		(66)	(329)	(322)	(342)	(332)	(798)	(741)	(1,707)
Net loss	$ (4,321)	$ (5,382)	$ (3,689)	$ (3,533)	$ (3,799)	$ (4,851)	$ (6,104)	$ (7,021)	$ (9,289)	$ (10,288)	$ (7,176)	$(5,537)

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The following table presents the unaudited quarterly results of operations as a percentage of revenue:

	Three Months Ended											
	Mar 31, 2009	Jun 30, 2009	Sep 30, 2009	Dec 31, 2009	Mar 31, 2010	Jun 30, 2010	Sep 30, 2010	Dec 31, 2010	Mar 31, 2011	Jun 30, 2011	Sep 30, 2011	Dec 30, 2011
Net revenues	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%	100%
Costs of revenues	231	229	105	93	92	88	89	89	85	84	81	77
Gross profit	(131)	(129)	(5)	7	8	12	11	11	15	16	19	23
Operating expense:												
Research and development	151	127	42	20	24	29	21	22	30	21	14	13
Sales and marketing	44	30	12	8	7	12	10	12	17	14	10	10
General and administrative	46	30	10	9	9	13	10	10	18	13	9	7
Total operating expenses	242	187	64	37	40	54	42	43	64	48	33	30
Loss from operations	(372)	(316)	(69)	(29)	(32)	(42)	(31)	(32)	(50)	(32)	(14)	(7)
Other income (expense), net	(1)	(15)	1		(1)	(3)	(2)	(2)	(2)	(3)	(2)	(3)
Net loss	(373%)	(331%)	(68%)	(29%)	(33%)	(45%)	(33%)	(34%)	(51%)	(35%)	(16%)	(10%)

Quarterly Revenue Trends

Our quarterly results reflect seasonality and cyclicality in the sale of our products. In general, we expect our product revenue in the third and fourth quarters to be positively affected by seasonal customer demand trends, including solar economic incentives, weather patterns and construction cycles. Although these seasonal factors are common in the solar sector, historical patterns should not be considered a reliable indicator of our future sales activity or performance. In the future, the effects of seasonality and cyclicality may also be impacted by our expansion into international markets.

Total revenue and unit sales have generally increased over the 12 quarters presented due to the adoption of our existing products, the success of new product introductions and our ability to acquire new customers in our target markets as well as increased sales to existing customers. Quarterly revenue generally has increased sequentially during the last 12 quarters, with revenue increasing from the preceding period in nine of the 12 quarters presented. Sequential revenue growth in the fourth quarter of 2009 resulted from the successful introduction of our second generation microinverter launched at the end of the previous quarter. In the second quarter of 2010, revenues were negatively affected by an unexpected increase in channel inventory caused by temporary weakness in installer demand and overall market dynamics in the solar industry. Installer demand in early 2010 was impacted by an unseasonably long winter, resulting in sluggish consumer demand for solar systems. Since this time, we have improved our visibility into channel inventory levels through programs designed to incent our distributors to provide timely reporting related to inventory levels. In the first quarter of 2011, the decline in net revenues from the preceding quarter was primarily the result

of seasonality. We experienced substantial increases in revenues in the second and third quarters of 2011 due, in part, to the launch of our third generation microinverter in June 2011. During the fourth quarter of 2011, net revenues were positively impacted by sales driven, in part, by the anticipated expiration of certain government incentives for investments in renewable energy projects on December 31, 2011, including our sale of $6.4 million in December 2011 to a customer that is majority-owned by KPCB Holdings, Inc., as nominee, a related party which holds shares of our preferred and common stock and our convertible notes.

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Quarterly Gross Profit Trends

Our gross profit, as a percentage of revenue, is impacted by average selling prices, product costs, geographical mix and seasonality. Gross profit generally has improved over the 12 quarters presented due to improvements in product costs resulting from economies of scale and improvements in production processes and automation, which have lowered the overall unit production cost over time. Gross profit has also benefited from our generating sales volumes sufficient to cover personnel and other costs not directly affected by sales volume. Gross profit has improved sequentially in eleven of the 12 quarters presented. Gross profit has fluctuated on a quarterly basis primarily due to shifts in the average selling prices for our products and product costs. Gross profits in the third and fourth quarters of 2009 improved sequentially primarily due to the successful introduction of our lower-cost, second generation microinverter which had completely replaced our first-generation product by the end of 2009. Gross profits in the third and fourth quarters of 2010 were negatively impacted by costs incurred to expedite the procurement and delivery of certain raw materials and finished goods. Gross profit in the first quarter of 2011 increased sequentially due to lower product cost per unit and reduced use of expedited air-freight for finished goods to meet demand due to improvements in delivery scheduling. Gross profit continued to improve sequentially in each of the last three quarters of 2011 primarily due to an increasing mix of our third generation microinverter (introduced in June 2011), which has a lower cost per unit than our second generation microinverter. We anticipate that gross profit will fluctuate from quarter to quarter as a result of changes in average selling prices, product costs, geographical mix and seasonality.

Quarterly Operating Expense Trends

To establish operational scale and to accommodate our growth, our operating expenses increased sequentially in all quarters. Increases in operating expenses have been largely attributable to adding headcount in all areas including investments in research and development activities, sales and marketing efforts and increases in general and administrative expenses for accounting and professional fees. We expect to continue to increase our operating expenses in absolute dollar amounts to support the growth of our company, although over time we expect these expenses to decrease as a percentage of revenue.

Liquidity and Capital Resources

We have financed our operating activities and capital expenditures to date primarily through proceeds from the issuances of convertible preferred stock, debt borrowings and cash receipts from customers. As of December 31, 2011, we had $51.5 million in cash and cash equivalents and $29.4 million of working capital.

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

	Year Ended December 31,		
	2009	2010	2011
		(in thousands)	
Net cash used in operating activities	$ (18,887)	$ (17,852)	$ (367)
Net cash used in investing activities	(2,122)	(3,262)	(14,662)
Net cash provided by financing activities	25,515	52,465	26,482

Net Cash Used in Operating Activities

We have experienced net negative cash flows from operations as we have expanded our business and built our infrastructure. Our cash flows from operating activities will continue to be affected principally by the extent to which we manage our working capital and spend on increasing personnel in order to grow our business. Our largest source of operating cash flows is cash collections from our customers.

For the year ended December 31, 2011, despite a net loss of $32.3 million, cash used in operating activities approximated break-even primarily due to a $25.4 million increase in deferred revenues. In December 2011, we

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entered into agreements to sell microinverters to customers, with product delivery in 2012. These agreements were due, in part, to the anticipated expiration of certain government incentives for investments in renewable energy projects on December 31, 2011. Prior to December 31, 2011, we received $23.5 million in cash in advance from these customers, of which $23.0 million was included in deferred revenues. Delivery and recognition of these deferred revenues is expected in the first half of 2012. Our net loss included non-cash charges in the form of depreciation and amortization of $3.0 million, stock-based compensation of $2.1 million and non-cash interest expense of $1.8 million related to the amortization of debt discounts and deferred financing costs. Changes in working capital items other than deferred revenues used $1.0 million of operating cash flow and consisted of increases in accounts receivable, inventory and prepaid and other assets offset by increases in accounts payable and other accrued liabilities.

Accounts receivable and inventory increased by a total of $16.5 million from $12.5 million at December 31, 2010 to $29.0 million at December 31, 2011, reflecting increased revenue and inventory purchases. Increases in prepaid and other assets contributed an additional $1.6 million decrease in cash. These decreases in cash were offset by increases in accounts payable and other accrued liabilities of $17.3 million, due in large part to higher inventory levels required to fulfill our deferred revenue obligations.

Cash used in operating activities decreased from 2009 to 2010 by $1.0 million. The decrease was primarily driven by an improvement of working capital management of approximately $4.5 million as our sales volume increased substantially, partially offset by a $4.9 million increase in net loss due to the overall growth in our business activities and an increase in employee headcount across all functions.

Net Cash Used in Investing Activities

Net cash used in investing activities primarily relates to capital expenditures to support our growth.

Net cash used in investing activities in 2011 were $14.7 million and related primarily to purchases of manufacturing test equipment and the development of software for internal use.

Net cash used in investing activities in 2010 were $3.3 million and consisted of leasehold improvements for corporate offices, manufacturing test equipment, lab equipment for research and development, and the development of software for internal use.

Net cash used in investing activities in 2009 were $2.1 million and related primarily to purchases of manufacturing test equipment and lab equipment for research and development.

Net Cash Provided by Financing Activities

We have financed our operations primarily through private sales of convertible preferred stock and convertible notes totaling $115.2 million through December 31, 2011, and, to a lesser extent, the use of venture debt and credit facilities.

Net cash provided by financing activities in 2011 consisted of $19.7 million in net proceeds received from the issuance of our convertible notes, $9.3 million in net proceeds from an equipment financing facility and a venture debt term loan and $1.9 million from the sale of common stock partially offset by $2.6 million in direct costs incurred in connection with the preparation of our registration statement of which this prospectus is a part and $2.0 million related to payments on our term loans and capital lease obligations.

Net cash provided by financing activities in 2010 consisted of $45.7 million in net proceeds received from our Series E convertible preferred stock issuance and $7.0 million from a venture debt term loan.

Net cash provided by financing activities in 2009 consisted of $24.2 million in net proceeds received from our Series D convertible preferred stock issuance and $1.5 million from the issuance of convertible notes.

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Debt Obligations

Our debt obligations are summarized below. Our Convertible Facility, Term Loans and Revolving Line of Credit Facility are secured by substantially all of our assets except intellectual property and contain certain required financial covenants. As of December 31, 2011, we were in compliance with these required financial covenants.

Convertible Facility

In June 2011, we entered into a junior secured convertible loan facility, or Convertible Facility, with certain existing preferred stockholders that provided for up to $50.0 million in borrowings, of which we borrowed $12.5 million in an initial advance upon signing. In November 2011, we amended the Convertible Facility to provide for an aggregate of up to $80.0 million in borrowings. We borrowed $7.5 million in a second advance in November 2011 and may borrow up to an additional $60.0 million prior to the earlier of (i) a subsequent equity financing of more than $10.0 million or (ii) June 14, 2013, subject to the attainment of certain financial and operating conditions. In March 2012, we further amended the Convertible Facility to provide for the automatic conversion of the principal amount and paid-in-kind interest under the Convertible Facility into common stock upon closing of this offering at a conversion price equal to the lesser of $8.8984 or the initial public offering price. The Convertible Facility bears interest at a rate of 9.0%, with interest payable in-kind at maturity, which is the earlier to occur of the closing of (i) our initial public offering, (ii) a change in control or (iii) June 14, 2014. Because the notes were issued at a discount, we record interest expense in excess of the stated rate. The initial and second advances totaling $20.0 million, together with any accrued interest, are convertible into common stock at a conversion price equal to the lesser of $8.8984 or the initial public offering price. Additional borrowings and accrued interest are repayable at the holders option as follows: up to 50% convertible into common stock at a price equal to the lesser of $8.8984 or the initial public offering price, and the remainder in cash. In addition, we may prepay, at our election, up to 50% of any additional borrowings and related accrued interest at any time. In connection with this facility, in June and November 2011 we issued shares of common stock and warrants to purchase common stock. See Notes 7 and 10 to Consolidated Financial Statements. The Convertible Facility is secured by all of our assets except intellectual property, prohibits dividend payments and restricts prepayment of the convertible portion of any outstanding loans under the facility. The agreement also requires us to meet certain minimum gross profit metrics and maximum warranty claim rates in order to be eligible for further advances under the facility.

Equipment Financing Facility

On June 13, 2011, we entered into $5.0 million equipment financing facility with Hercules Technology Growth Capital, Inc. The equipment financing facility has a variable interest rate set at the higher of 5.75% above the prime lending rate and 9.0% annually and expires July 1, 2014. This facility is secured by the financed equipment and restricts our ability to pay dividends and take on certain types of additional liens. In connection with this facility, we issued warrants to purchase Series E preferred stock. See Note 10 to Consolidated Financial Statements. As of December 31, 2011, we have borrowed $4.9 million under the equipment financing facility.

Term Loans

We have a loan and security agreement with Horizon Technology Finance Corporation, or Original Term Loan, pursuant to which we borrowed $7.0 million at an interest rate of 12.6% for a 42-month term, maturing on October 1, 2013. On March 25, 2011, we entered into an amendment to the Original Term Loan to provide for an additional $2.0 million term loan, which was fully drawn upon at execution of the amendment and an additional $3.0 million term loan, which was fully drawn upon on September 22, 2011, together, the Additional Term Loans, both of which mature on the first calendar day of the month that follows the 42-month anniversary of the date of advance. As of December 31, 2011, $2.0

million of the outstanding principal balance of the Additional

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Term Loans will mature on October 1, 2014 and the remaining $3.0 million outstanding principal balance will mature on April 1, 2015. The Additional Term Loans have an interest rate of 10.75% and all borrowings have a 42-month term. Monthly payments for the first 12 months are interest only; subsequent monthly payments include interest and principal, based on a 30-month remaining amortization period. The other terms and conditions of the Original Term Loan remain substantially unchanged. The loan provides for penalties for early repayment and is secured by all our assets except intellectual property. The loan also prohibits any dividend payments and restricts our ability to take on certain additional liens, or make prepayments on certain other indebtedness.

Revolving Line of Credit Facility

In March, 2011, we entered into a revolving line of credit under a loan and security agreement with Bridge Bank, National Association and Comerica Bank that provides for up to $25.0 million in borrowings, based on a percentage of eligible receivables and a percentage of inventory, up to $10.0 million. The line of credit has a variable interest rate set at 1.25% above the bank s prime lending rate and was to expire March 24, 2013. The facility included a $5.0 million letter of credit subfacility. Any advance under the facility is collateralized by the underlying receivables or inventory and is secured by all of our assets except intellectual property. The agreement requires us to maintain minimum asset coverage and tangible net worth requirements and restricts our ability to pay dividends, take on certain additional liens, or make prepayments on certain other indebtedness.

On December 30, 2011, we increased our revolving line of credit from $25.0 million to $33.0 million, including an increase of the letter of credit subfacility from $5.0 million to $10.0 million, and further extended the availability of the facility until December 30, 2013. Available borrowings are based on 80% of eligible receivables and 50% of inventory, up to $13.2 million. As of December 31, 2011, we had not drawn down under this facility. As required by the terms of the agreement, in March 2012 we borrowed $2.6 million under this facility.

Line of Credit Agreement

We had a line of credit agreement with ATEL Ventures, Inc. that provided for borrowings of up to $1.0 million. The line of credit had an interest rate of approximately 14% and expired on January 1, 2012. As of December 31, 2011, this line of credit had an outstanding principal balance of $28,000, which was repaid in January 2012. Specific assets were pledged as collateral for amounts drawn under the line of credit. Any amounts drawn under the line of credit are subject to penalties for early repayment. The line of credit does not include financial covenants or other material covenant requirements.

Operating and Capital Expenditure Requirements

Since inception, our operations have been financed primarily through sales of our convertible preferred stock and convertible notes. Our principal current sources of liquidity are cash on our balance sheet, cash generated by sales of products, borrowings under our credit facilities and our Convertible Facility.

Based on our current financial condition, we believe that liquidity from available sources without giving effect to the proceeds from this offering will be adequate to fund our current and long-term debt obligations as well as our planned capital expenditures and business plans over the next 12 months. In the future, we expect our operating and capital expenditures to increase as we increase headcount, expand our business activities and grow our customer base which will result in higher needs for working capital. Our ability to generate cash from operations is also subject to

substantial risks described under the caption Risk Factors. If any of these risks occur, we may be unable to generate or sustain positive cash flow from operating activities or raise additional capital. We would then be required to use existing cash and cash equivalents to support our working capital and other cash requirements. If additional sources of liquidity are required to support our working capital requirements or operational expansion, we may seek to raise funds through debt financing or from other sources, but we can provide no assurance that these transactions could be consummated on acceptable terms to us or at all. Failure to raise sufficient capital when needed could have a material adverse effect on our business, results of operations and financial position.

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Contractual Obligations

The following table summarizes our outstanding contractual obligations as of December 31, 2011:

	Payments Due by Period				
	Total	Less Than 1 Year	1-3 Years	4-5 Years	More Than 5 Years
			(in thousands)		
Term Loans	$ 15,268	$ 5,095	$ 9,725	$ 448	$
Interest payments on debt	2,426	1,459	957	10	
Convertible notes	20,713		20,713		
Capital leases	189	112	77		
Operating leases	15,032	1,457	2,949	3,090	7,536
Purchase commitments under agreements[(1)]	138,194	33,653	37,530	67,011	
Total	$ 191,822	$ 41,776	$ 71,951	$ 70,559	$ 7,536

(1) Represents amounts associated with our contract manufacturers that are non-cancelable. Such purchase commitments are based on our forecasted manufacturing requirements and typically provide for fulfillment within agreed upon lead-times and/or commercially standard lead-times for the particular part or product. The timing and amount of payments represent our best estimate and may change due to changing business needs and other factors. Certain agreements specify future quantities and pricing of products to be supplied by our contract manufacturers for periods up to seven years. In the event we do not meet our minimum purchase commitments or if we terminate such long-term agreements, we are responsible for liquidated damages of up to $5.4 million.

Off-Balance Sheet Arrangements

Since our inception, we have not engaged in any off-balance sheet arrangements, such as the use of structured finance, special purpose entities or variable interest entities.

Critical Accounting Policies and Significant Management Estimates

Our 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 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, and such differences could be material.

Our significant accounting policies are discussed in Note 2 to Consolidated Financial Statements. We believe that the following accounting estimates are the most critical to aid in fully understanding and evaluating our reported financial results, and they require our most difficult, subjective or complex judgments, resulting from the need to make estimates about the effect of matters that are inherently uncertain.

Revenue Recognition

Our primary source of revenues is the sale of microinverter systems. Our products are fully functional at the time of shipment and do not require production, modification or customization. We currently sell our products primarily to distributors, who typically resell our products to end users. We also sell directly to large installers as well as through OEMs, who integrate our products into complete solutions, and strategic partners.

Revenues from the sales of microinverters and communication gateway devices are recognized when: (i) persuasive evidence of an arrangement exists; (ii) delivery of the products has occurred in accordance with the

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terms of the sales agreement and title of and risk of loss has passed to the customer; (iii) the sale price is fixed or determinable; and (iv) collection is reasonably assured. Title to the product typically passes upon shipment of the product, as our products are typically shipped FOB shipping point. We do not offer rights to return our products other than for normal warranty conditions. As such, we recognize revenues upon shipment, assuming all other revenue recognition criteria have been met. As of December 31, 2011, deferred revenues related to products included $23.0 million in payments received from customers in advance of revenue recognition, as delivery of the products has not yet occurred. See Note 16 to the Consolidated Financial Statements. We occasionally offer promotional program incentives including rebates and discounts on a limited time basis to installers and distributors based on the number of installations and unit sales, respectively. Such customer incentives are not material and are estimated using our historical experience. Incentives are recorded as reductions to net revenues at the time of sale or over the period of time in which they are earned, depending on the nature of the program.

Prior to June 2011, we sold Envoy communications gateway devices and our Enlighten web-based monitoring service separately. Revenues from our Enlighten web-based monitoring services were recognized ratably over the term of the service period, which is generally one or five years. Historically, Enlighten service revenue has represented less than 1% of total revenues in any given reporting period. Beginning in June 2011, each sale of an Envoy communications gateway device includes our Enlighten web-based monitoring service. After allocating the overall consideration from such sale to each deliverable using a best estimate of the selling price, (i) revenues from the sale of Envoy devices is recognized upon shipment, assuming all other revenue recognition criteria have been met and (ii) revenues from the web-based monitoring service is recognized ratably over the estimated economic life of the related Envoy devices. We expect revenues from our web-based monitoring service will continue to be insignificant.

Inventory Valuation

Inventories are valued at the lower of cost or market, on a first-in, first-out basis. Certain factors could affect the realizable value of our inventories including market and economic conditions, technological changes, new product introductions and changes in strategic direction. We consider historic usage, expected demand, anticipated sales price, the effect of new product introductions, product obsolescence, customer concentrations, product merchantability and other factors when evaluating the value of inventories. Inventory write-downs are equal to the difference between the cost of inventories and their estimated fair market value. Inventory write-downs are recorded as cost of revenues in the accompanying statements of operations and were $50,000, $0.1 million and $2.7 million in 2009, 2010 and 2011, respectively. Inventory write-downs in 2011 were primarily the result of inventory obsolescence related to products discontinued during the year.

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

Product Warranty

We provide a warranty against defects in materials and workmanship under normal use and service conditions for our microinverters. Our first and second generation microinverters include a 15-year limited warranty. Our third generation microinverters provide for a 25-year limited warranty period. Since we have only been producing microinverters for a comparatively short period, the calculation of warranty provisions is inherently uncertain. We accrue for estimated warranty costs at the time of sale based on anticipated warranty claims and actual historical warranty claims experience. Warranty provisions are computed on a per unit sold basis and are based on our best estimate of such costs and are included in cost of revenues. The warranty obligation is determined based on product failure rates, cost of replacement and service and delivery costs incurred to correct a product failure. Our warranty obligation requires management to make assumptions regarding estimated failure rates and replacement costs. Our estimated costs of warranty for previously sold products may change to the extent future products are not compatible with earlier generation products under

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warranty. Product failure rates are estimated primarily by using field monitoring of the actual failure rates of the microinverters we have sold to date. With over 1,550,000 of our microinverter units sold across North America through December 31, 2011, we have established reliability based on the units estimated mean time between failure, or MTBF, a metric that equates to a steady-state failure rate of approximately 0.3% per year for current generation products. The MTBF represents the predicted mean elapsed time to microinverter unit failure during system operation. In addition, due to our limited operating history, we also utilize third party data collected on similar equipment deployed in outdoor environments similar to those in which our microinverters are installed, as well as accelerated life cycle testing, which simulates the service life of the product in a short period of time. The accelerated life cycle tests incorporate test methodologies derived from standard tests used by solar module vendors to evaluate the period over which solar modules wear out. Predicted failure rates are updated periodically based on field return data. Corresponding replacement costs are updated periodically to reflect changes in our actual and estimated production costs for our microinverters. Furthermore, changes to the warranty provision as a percentage of microinverter units sold will vary based on the replacement cost of the specific generation of microinverter unit under warranty. In addition, different generations of microinverters may have different warranty terms which further contribute to changes in the warranty provision as a percentage of microinverter units sold. For example, our first and second generation microinverters have a 15-year warranty while our third generation microinverter has a 25-year warranty. If actual warranty costs differ significantly from these estimates, adjustments may be required in the future, which could adversely affect our gross profit and operating results. The warranty provision was $1.0 million, $1.9 million and $7.0 million in 2009, 2010 and 2011, respectively. The increase in warranty provision in 2011 compared to 2010 was comprised of approximately $3.7 million due to the number of microinverters sold, which increased by 142% from approximately 414,000 units in 2010 to approximately 1.0 million units in 2011, and approximately $1.4 million to reflect increased estimated replacement costs for certain products and other changes in estimates.

In addition, we support our microinverters with our Entrust program. We reimburse the system owner for any lost energy for up to one month if a microinverter unit should fail (which we refer to as our 100% uptime guarantee). We estimate that our microinverter systems achieve system uptimes of over 99.8%. Historically, disbursements under the Entrust program have been insignificant, and therefore no accruals have been recorded for any such future obligations.

Stock-Based Compensation

The accounting for share-based payments requires the measurement and recognition of compensation expense for all share-based payment awards made to employees and directors based on the grant date fair values of the awards. The fair value of each stock option granted is estimated using the Black-Scholes option pricing model. Stock-based compensation, net of estimated forfeitures, is recognized on a straight-line basis over the requisite service period, which is typically four years. Stock-based compensation expenses are classified based on the employee s functional department.

The Black-Scholes option pricing model requires management to make assumptions and to apply judgment in determining the fair value of our awards. The most significant assumptions and judgments include estimating the fair value of underlying stock, expected volatility and expected term. In addition, the recognition of stock-based compensation expense is impacted by estimated forfeiture rates.

Our board of directors has historically set the exercise price of options to purchase our common stock at a price per share not less than the fair value of the common stock at the time of grant. To determine the fair value of our common stock, our board of directors, with input from management, considered many factors, including but not limited to:

- valuations we performed using the methodologies described below;
- our historical, current and expected future operating performance;

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recent prices at which our preferred stock was sold, including the liquidation rights and other preferences of our preferred stock;

our financial condition at the date of grant;

achievement of product development milestones;

lack of marketability of our common stock associated with private company status and the potential future marketability of our common stock as a result of a liquidity event, such as an initial public offering;

business risks inherent in our business and in technology, solar and clean technology companies generally; and

macroeconomic trends and capital market conditions.

We estimated the expected volatility based on the historical volatilities of several comparable public companies within the solar and clean technology industries because our common stock has no trading history. The weighted-average expected life of options was calculated using the simplified method developed by the SEC staff. The risk-free interest rate is based on the U.S. Treasury yields in effect at the time of grant for periods corresponding to the expected term of the options. The expected dividend rate is zero based on the fact that we have not historically paid dividends and have no intention to pay cash dividends in the foreseeable future. The forfeiture rate is estimated based on the historical average period of time that options were outstanding and adjusted for expected changes in future exercise patterns.

Total stock-based compensation expense recognized for 2009, 2010 and 2011 was $0.2 million, $0.8 million and $2.1 million, respectively. The fair value of each option granted during the periods presented was estimated on the date of grant using the Black-Scholes option pricing model with the following weighted-average assumptions:

	Year Ended December 31,		
	2009	2010	2011
Expected term (in years)	5.9	6.0	6.0
Expected volatility	76.4%	73.3%	72.0%
Annual risk-free rate of return	2.8%	2.2%	1.8%
Dividend yield	0.0%	0.0%	0.0%

As of December 31, 2011, there was approximately $6.5 million of total unrecognized compensation cost related to unvested stock options, net of expected forfeitures, which is expected to be recognized over a weighted-average period of 3.0 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.

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The following table summarizes all option grants from January 1, 2010 through December 31, 2011:

Grant Date	Number of Options Granted	Per Share Exercise Price	Common Stock Fair Value Per Share at Grant Date
November 2011	46,024	$ 9.53	$ 9.81
September 2011	96,581	9.53	9.53
August 2011	342,970	9.53	9.53
June 2011	90,238	5.27	8.35
May 2011	244,810	4.09	6.99
January 2011	289,784	2.54	4.09
November 2010	325,534	2.09	3.54
July 2010	1,427,659	1.63	2.63
June 2010	481,530	1.63	2.27
January 2010	313,473	0.64	0.64

In February and March 2012, we granted options to purchase approximately 78,732 and 214,917 shares of common stock with an exercise price of $10.35 and $11.00 per share, respectively.

In the absence of a public trading market for our common stock, management and our board of directors determined the estimated fair value at the grant date of our common stock. We performed the valuation of our common stock in accordance with the guidelines outlined in the American Institute of Certified Public Accountants Practice Aid, Valuation of Privately-Held-Company Equity Securities Issued as Compensation. In order to value the common stock underlying all option grants, we determined our business equity value by taking a weighted combination of the value indications using two valuation approaches: an income approach and a market approach.

Valuation models employed in determining our enterprise value require the input of highly subjective assumptions. In determining enterprise value under the income approach, a discount rate is applied to the estimated future net cash flows of a company to derive a single present value representing the value of the enterprise. The discounted cash flow model used to calculate our enterprise value included, among others, the following assumptions: projections of revenues and expenses and related cash flows based on assumed long-term growth rates and demand trends; expected future investments to grow our business; and, an appropriate risk-adjusted discount rate. The market approach estimates the fair value of a company by applying market multiples of the corresponding financial metrics of publicly traded firms in similar lines of business to our historical and/or projected financial metrics. We selected comparable companies based on factors such as business similarity, financial risk, company size and geographic markets. In applying this method, valuation multiples were: (i) derived from historical operating data of the selected comparable entities; (ii) evaluated and/or adjusted based on our strengths and weaknesses relative to the comparable entities; and (iii) applied to our operating data to arrive at a value indication.

Enterprise value, adjusted for cash and debt, was allocated to the shares of convertible preferred stock, warrants, options and shares of common stock using an option pricing method or a probability-weighted estimated return method, or PWERM, depending on our stage of development. The option pricing method treats convertible preferred stock, warrants, options and shares of common stock as call options on the total equity value of a company, and uses the Black-Scholes option pricing model to price the call options. This model defines the securities fair values as functions of the current fair value of a company and requires the use of assumptions such as the anticipated holding period and the estimated volatility of the equity securities.

Under the PWERM, the value of common stock is estimated based upon an analysis of future values for the enterprise assuming various scenarios and potential future expected outcomes (e.g., an initial public offering, or

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IPO, a merger or sale, continuing as a private company, or dissolution with no value to common stockholders). Enterprise value is allocated to convertible preferred stock, warrants, options and shares of common stock based on the rights and characteristics of each equity instrument. The resulting share value is based upon the probability-weighted present value of expected future investment returns.

In 2010 and prior periods, our valuations were based upon the option-pricing method. Beginning January 2011, our valuations have been prepared based upon the PWERM.

The following discusses the factors considered by our board of directors in determining the exercise price of our common stock at each of the grant dates specified below and management s consideration of fair value for stock compensation purposes.

November 3, 2011. Our board of directors determined the exercise price of our common stock of $9.53 per share at the grant date based upon the results of our valuation as of September 30, 2011, which estimated the value of our common stock at $9.53 per share, and included the following key assumptions:

- Discount rate of 25% based on the calculated weighted average cost of capital and lack of marketability discount of 10% based on a reduction in the assumed time to a liquidity event to occur to approximately two months;
- Application of the PWERM, assuming 85% probability of an IPO, 10% probability of merger or sale, 5% probability of continuing as a private company and a 0% probability of dissolution/no value to common stockholders; and
- Reduction in the revenue multiples of the comparable companies used in the analysis due to the declines in the valuation of public solar companies from June 30, 2011 to September 30, 2011.

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $9.53 per share exercise price at the grant date and a revised estimated fair value of $9.81 per common share at the grant date, based on the following:

- Increase in net revenues of 28% from $44.7 million in the three months ended September 30, 2011 to $57.1 million in the three months ended December 31, 2011;
- Increase in gross profit percentage from 19.1% in the three months ended September 30, 2011 to 22.8% in the three months ended December 31, 2011.

We subsequently conducted a valuation as of December 31, 2011, which estimated the value of our common stock at $10.35 per share, and included the following key assumptions:

- Discount rate of 25% based on the calculated weighted average cost of capital and lack of marketability discount of 5% based on a reduction in the assumed time to a liquidity event to occur to approximately two months;

Application of the PWERM, assuming 90% probability of an IPO and 10% probability of merger or sale; and

A slight reduction in the revenue multiples of the comparable companies used in the analysis due to continued weakness in the valuation of public solar companies from September 30, 2011 to December 31, 2011.

A retrospective extrapolation based upon the fair value determined as of December 31, 2011 and consideration of the items discussed above resulted in a revised estimated fair value of $9.81 as of the November 3, 2011 grant date.

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As a result, additional compensation expense of $10,000 related to the November 3, 2011 grants will be recognized over the four year vesting period of the options.

August 23, 2011 and September 15, 2011. Our board of directors determined the exercise price of our common stock of $9.53 per share at the grant date based upon the results of our valuation as of June 30, 2011, which estimated the value of our common stock at $9.53 per share, and included the following key assumptions:

- Discount rate of 24% based on the calculated weighted average cost of capital and lack of marketability discount of 10% based on a reduction in the assumed time to a liquidity event to occur to approximately three months; and
- Application of the PWERM, assuming 75% probability of an IPO, 15% probability of merger or sale, 10% probability of continuing as a private company and a 0% probability of dissolution/no value to common stockholders.

We subsequently conducted a valuation as of September 30, 2011, which estimated the value of our common stock at $9.53 per share, and included the following key assumptions:

- Discount rate of 25% based on the calculated weighted average cost of capital and lack of marketability discount of 10% based on a reduction in the assumed time to a liquidity event to occur to approximately two months;
- Application of the PWERM, assuming 85% probability of an IPO, 10% probability of merger or sale, 5% probability of continuing as a private company and a 0% probability of dissolution/no value to common stockholders; and
- Reduction in the revenue multiples of the comparable companies used in the analysis due to the declines in the valuation of public solar companies from June 30, 2011 to September 30, 2011.

As a result, no additional stock compensation expense was recorded related to these grants.

June 3, 2011. Our board of directors determined the exercise price of our common stock of $5.27 per share at the grant date based upon the results of our valuation as of March 31, 2011, which estimated the value of our common stock at $5.27 per share, and included the following key assumptions:

- Discount rate of 23% based on the calculated weighted average cost of capital and lack of marketability discount of 14% based on a reduction in the assumed time to a liquidity event to occur to approximately six months; and
- Application of the PWERM, assuming 65% probability of an IPO, 15% probability of merger or sale, 15% probability of continuing as a private company and a 5% probability of dissolution/no value to common stockholders.

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $5.27 per share exercise price at the grant date and a revised estimated fair value of $8.35 per common share at the grant date, based on the following:

June 6, 2011 launch of our third generation microinverter and the sale of a significant amount of units in June 2011;

June 13, 2011 equipment financing with an unrelated third party of $5 million and the related issuance of warrants to purchase 25,285 shares of Series E convertible preferred stock at $8.8984 per share and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares;

June 14, 2011 Convertible Facility with certain existing preferred stockholders that provided for up to $50.0 million in borrowings and in consideration thereon, we issued (i) 208,209 shares of common

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stock at $5.27 per share in cash, and (ii) warrants to purchase 76,601 shares of common stock at $5.27 per share;

The June 15, 2011 filing of a registration statement on Form S-1 with the Securities and Exchange Commission for an initial public offering of common stock;

Substantial increase in revenues from $18.1 million in the three months ended March 31, 2011 to $29.6 million in the three months ended June 30, 2011;

Increase in the number of microinverters sold from 148,000 units in the first six months of 2010 to 327,000 units in the first six months of 2011 or 121%, and from 123,000 units in the three months ended March 31, 2011 to 204,000 units in the three months ended June 30, 2011 or 66% ;

Increase in gross profit percentage from 14.7 % in the three months ended March 31, 2011 to 16.2% in the three months ended June 30, 2011;

The results of our valuation as of June 30, 2011, which estimated the value of our common stock at $9.53 per share, and included the following key assumptions:

Discount rate of 24% based on the calculated weighted average cost of capital and lack of marketability discount of 10% based on a reduction in the assumed time to a liquidity event to occur to approximately three months; and

Application of the PWERM, assuming 75% probability of an IPO, 15% probability of merger or sale, and 10% probability of continuing as a private company.

A retrospective extrapolation based upon the fair value determined as of June 30, 2011 and consideration of the items discussed above resulted in a revised estimated fair value of $8.35 as of the June 3, 2011 grant date.

As a result, additional compensation expense of $241,000 related to the June 3, 2011 grants will be recognized over the four year vesting period of the options.

May 5, 2011. Our board of directors determined the exercise price of our common stock of $4.09 per share at the grant date based on results of our valuation as of January 31, 2011, which estimated the value of our common stock at $4.09 per share (as discussed below).

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $4.09 per share exercise price at the grant date and the estimated fair value of $6.99 per common share at the grant date, based on the following:

June 6, 2011 launch of our third generation microinverter;

June 13, 2011 equipment financing with an unrelated third party of $5 million and the related issuance of warrants to purchase 25,285 shares of Series E convertible preferred stock at $8.8984 per share and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares;

June 14, 2011 Convertible Facility with certain existing preferred stockholders that provided for up to $50.0 million in borrowings and in consideration thereon, we issued (i) 208,209 shares of common stock at $5.27 per share in cash, and (ii) warrants to purchase 76,601 shares of common stock at $5.27 per share;

The June 15, 2011 filing of a registration statement on Form S-1 with the Securities and Exchange Commission for an initial public offering of common stock;

Consideration of the results of our valuation as of June 30, 2011, which estimated the value of our common stock at $9.53 per share as of June 30, 2011, as discussed above; a retrospective extrapolation based upon the fair value determined as of June 30, 2011 and consideration of items discussed above resulted in a revised estimated fair value of $6.99 as of the May 5, 2011 grant date.

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As a result, additional compensation expense of $618,000 related to the May 5, 2011 grants will be recognized over the four year vesting period of the options.

January 2011. Our board of directors determined the exercise price of our common stock of $2.54 per share at the grant date based on results of our valuation as of November 30, 2010, which estimated the value of our common stock at $2.54 per share and included the following key assumptions:

- The business enterprise value based on a weighted income approach and market approach of $184.0 million, an increase from the prior external valuation of $167.5 million as of August 31, 2010;
- Discount rate of 35% based on the calculated weighted average cost of capital; and
- Lack of marketability discount of 24%.

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $2.54 per share exercise price at the grant date and the estimated fair value of $4.09 per common share at the grant date, based on the following:

- The issuance of Series E Convertible Preferred Stock at $6.174 per share in March, April and May 2010 resulting in cash proceeds of $45.7 million, and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares. We took into account all preferences and other rights, as described in Note 9 to Consolidated Financial Statements, when determining the value of our common stock as compared to the value of our convertible preferred stock. In particular, liquidation preferences ascribed to convertible preferred stock prior to any distribution of proceeds to holders of our common stock resulted in the value per share of our convertible preferred stock being more than the value per share of our common stock. In addition, we considered the application of PWERM which assumed a 50% probability of an IPO;
- Substantial increase in revenues from $18.7 million in the three months ended September 30, 2010, to $20.6 million in the three months ended December 31, 2010;
- Substantial increase in sales of microinverters from 126,000 in 2009 to 414,000 in 2010;
- Meaningful increase in gross profit percentage from (15)% in 2009 to 10.5% in 2010;
- Successful hiring of essential research and development, technical, sales and marketing and administrative personnel, increasing total headcount from 80 at December 31, 2009 to 154 at December 31, 2010;
- Considerable progress made throughout 2010 in the development of our third generation microinverter, which was expected to be available for sale in mid-2011; and
- Consideration of the results of our valuation as of January 31, 2011, which estimated the value of our common stock at $4.09 per share, and included the following key assumptions:

Discount rate of 24% based on the calculated weighted average cost of capital and lack of marketability discount of 15% based on a reduction in the assumed time to a liquidity event to occur to approximately one year; and

Application of the PWERM, assuming 50% probability of an IPO, 20% probability of merger or sale, 20% probability of continuing as a private company and a 10% probability of dissolution/no value to common stockholders.

As a result, additional compensation expense of $388,000 related to the January 2011 grants will be recognized over the four year vesting period of the options.

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November 2010. Our board of directors determined the exercise price of our common stock of $2.09 per share at the grant date based on results of our valuation as of August 31, 2010, which estimated the value of our common stock at $2.09 per share and included the following key assumptions:

- The business enterprise value based on a weighted income approach and market approach of $167.5 million, an increase from our prior valuation of $133.5 million as of February 28, 2010;
- Discount rate of 33% based on the calculated weighted average cost of capital; and
- Lack of marketability discount of 28% based on an assumed time to a liquidity event to occur of 1.75 years.

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $2.09 per share exercise price at the grant date and the estimated fair value of $3.54 per common share at the grant date, based on the following:

- The issuance of Series E Convertible Preferred Stock at $6.174 per share in March, April and May 2010 resulting in cash proceeds of $45.7 million, and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares;
- Substantial increase in revenues from $10.8 million in the three months ended June 30, 2010, to $18.7 million and $20.6 million in the three months ended September 30 and December 31, 2010, respectively;
- Substantial increase in sales of microinverters from 126,000 in 2009 to 414,000 in 2010;
- Meaningful increase in gross profit percentage from (15)% in 2009 to 10.5% in 2010;
- Successful hiring of essential research and development, technical, sales and marketing and administrative personnel, increasing total headcount from 80 at December 31, 2009 to 154 at December 31, 2010;
- Continued improvement in U.S. economy and financial and stock markets;
- Considerable progress made throughout 2010 in the development of our third generation microinverter, which was expected to be available for sale in mid-2011; and
- Consideration of our valuation as of January 31, 2011, which estimated the value of our common stock at $4.09 per share as of January 2011 (as discussed above); a retrospective straight-line extrapolation based on the fair value determined as of January 31, 2011 resulted in a revised estimated fair value of $3.54 per common share as of the November 11, 2010 grant date.

As a result, additional compensation expense of $408,000 related to the November 2010 grants will be recognized over the four year vesting period of the options.

July 2010. Our board of directors determined the exercise price of our common stock of $1.63 per share at the grant date based on our valuation as of February 28, 2010, which estimated the value of our common stock at $1.63 per share and included the following key assumptions:

The business enterprise value based on a weighted income approach and market approach of $133.5 million, an increase from the prior valuation of $49.9 million as of October 31, 2009;

Discount rate of 33% based on the calculated weighted average cost of capital; and

Lack of marketability discount of 45% based on an assumed time to a liquidity event to occur of approximately two years.

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However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $1.63 per share exercise price at the grant date and the estimated fair value of $2.63 per common share at the grant date, based on the following:

- The issuance of Series E Convertible Preferred Stock at $6.174 per share in March, April and May 2010 resulting in cash proceeds of $45.7 million, and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares;

- Substantial increase in gross profit percentage from 8.3% in the three months ended March 31, 2010 to 12.1% in the three months ended June 30, 2010;

- Increased likelihood of meeting operating performance benchmarks and forecasted results for the second half of 2010; and

- Consideration of our valuation as of January 31, 2011, which estimated the value of our common stock at $4.09 per share as of January 2011 (as discussed above); a retrospective straight-line extrapolation based on the fair value determined as of January 31, 2011 resulted in a revised estimated fair value of $2.63 per common share as of the July 15, 2010 grant date.

As a result, additional compensation expense of $1,236,000 related to the July 2010 grants will be recognized over the four-year vesting period of the options.

June 2010. Our board of directors determined the exercise price of our common stock of $1.63 per share at the grant date based on our valuation as of February 28, 2010, described above.

However, we subsequently determined that a stock compensation charge should be calculated for the difference between the $1.63 per share exercise price at the grant date and the estimated fair value of $2.27 per common share at the grant date, based on the following:

- The issuance of Series E Convertible Preferred Stock at $6.174 per share in March, April and May 2010, resulting in cash proceeds of $45.7 million, and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares;

- Substantial increase in the level of quarterly revenues from $5.4 million in the three months ended September 30, 2009 to $12.0 million and $11.6 million in the three months ended December 31, 2009 and March 31, 2010, respectively, and a concurrent improvement in gross profit percentage over such periods;

- Revised increased forecasts for operating performance for 2010 and subsequent years; and

- Consideration of our valuation as of January 31, 2011, which estimated the value of our common stock at $4.09 per share as of January 2011 (as discussed above); a retrospective straight-line extrapolation based on the fair value determined as of January 31, 2011 resulted in a revised estimated fair value of $2.27 per common share as of the June 3, 2010 grant date.

As a result, additional compensation expense of $264,000 related to the June 2010 grants will be recognized over the four year vesting period of the options.

January 2010. Our board of directors determined the exercise price of our common stock of $0.64 per share at the grant date based on our valuation as of October 31, 2009, which estimated the value of our common stock at $0.64 per share and included the following key assumptions:

The business enterprise value based on a weighted income approach and market approach of $49.9 million;

Discount rate of 43% based on the calculated weighted average cost of capital;

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Lack of marketability discount of 38% based upon an assumed time to a liquidity event to occur of approximately 2.5 years;

Our financial condition and related need for additional working capital; and

The sale of Series D Convertible Preferred Stock at $2.134 per share in April and June 2009; resulting in cash proceeds of approximately $24.2 million, and consideration of the voting, conversion, dividend, liquidation, and other rights and preferences of the preferred shares relative to those of the outstanding common shares.

Quantitative and Qualitative Disclosures about Market Risk

Concentrations of Credit Risk and Major Customers

We are potentially subject to financial instrument concentration of credit risk through our cash equivalents and trade accounts receivables. We place our cash and cash equivalents with major financial institutions that management assesses to be of high credit quality, to limit the exposure of each investment. Trade accounts receivables can be potentially exposed to a concentration of credit risk with our major customers. At December 31, 2011, we had amounts due from two customers that represented 24% and 10%, respectively, of the total accounts receivable balance. We currently do not foresee a credit risk associated with these receivables. As of December 31, 2010, our three largest accounts receivable balances represented 14%, 13% and 10% of the total accounts receivable balance. For the year ended December 31, 2011, three customers accounted for 17%, 11% and 10% of total net revenues. In 2010, two customers accounted for 14% and 11% of total net revenues. In 2009, three customers accounted for 19%, 10% and 10% of total net revenues.

Interest Rate Sensitivity

We had cash and cash equivalents of $51.5 million, $40.0 million and $8.6 million at December 31, 2011, 2010 and 2009, respectively, which was held for working capital purposes. We do not enter into investments for trading or speculative purposes. Due to the short-term nature of these investments, we do not believe that we have any material exposure to changes in the fair value as a result of changes in interest rates. Declines in interest rates, however, will reduce future investment income. Interest income was not material for all periods presented. Our revolving line of credit agreement was the only instrument we held with variable interest rates which could, if drawn upon, subject us to risks associated with changes in interest rates. As of December 31, 2011 and 2010, there were no amounts outstanding under this line of credit. If the interest rate on our line of credit rose 10%, our results from operations and cash flows would not be materially affected.

Foreign Currency Exchange Risk

Through December 31, 2010, substantially all of our transactions were denominated in U.S. dollars. In 2011, we began to operate and conduct business in foreign countries where our foreign entities use the local currency as their respective functional currency and, as a result, are exposed to movements in foreign currency exchange rates. More specifically, we face foreign currency exposure from the effect of fluctuating exchange rates on payables and receivables relating to transactions that are denominated in Euros and the New Zealand Dollar. These payables and receivables primarily arise from sales to customers and intercompany transactions. We also face currency exposure that arises from translating the results of our European and New Zealand operations, including sales and marketing and research and development expenses, to the U.S. dollar at exchange rates that have fluctuated from the beginning of a reporting period. Our exposure to foreign currency exchange risk related to our foreign operations was not material to our results of operations, cash flows or financial position.

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BUSINESS

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. To date, the solar industry has relied on the traditional central inverter approach to power conversion that has largely remained unchanged for the past two decades. We have built from the ground up a semiconductor-based microinverter system that converts energy at the individual solar module level and, combined with our proprietary networking and software technologies, provides advanced energy monitoring and control. Given the significant advantages over traditional central inverters, we believe that microinverter solutions will become the standard for residential and commercial solar.

We are the market leader in the microinverter category and have grown rapidly since our first commercial shipment in mid-2008, with more than 1,700,000 units sold to date, representing over an estimated 42,000 solar installations. We were the first company to commercially ship microinverter systems in volume. Our products have been installed in all 50 U.S. states and eight Canadian provinces, and we are rapidly taking market share from traditional central inverter manufacturers. For example, in California and according to CSI, based on total wattage of installations, our market share of the <10kW residential solar photovoltaics, or PV, inverter market and the 10kW to 100kW small commercial solar PV inverter market has increased from 0% in July 2008 to 28.1% and 15.8%, respectively, based on the three month moving averages at the end of December 2011. According to a 2010 SEIA report, California was the largest single solar market in the United States accounting for over 30% of all solar installations.

California Residential and Small Commercial Market Share (July 2008 December 2011)

Enphase Energy Market Share 3 Month Moving Average

Our market share of the broader Americas market, based on total dollar sales volume across all inverter technologies and all installation sizes, had increased to 10.6% in 2010, according to IMS Research data.

Our microinverter solution brings a system-based, high technology approach to solar energy generation leveraging our design expertise across power electronics, semiconductors, networking and software technologies. Our microinverter system consists of three key components: the Enphase microinverter; the Envoy communications gateway; and the Enlighten web-based software:

- Our Enphase microinverter delivers efficient and reliable power conversion at the individual solar module level by introducing digital architecture that incorporates a custom ASIC, specialized power electronics devices and an embedded software subsystem that optimizes energy production from each module and manages the core ASIC functions. A residential solar installation consists of 5 to 50 microinverters; a small commercial solar installation consists of 50 to 500 microinverters.

Our Envoy communications gateway is installed within the system owner s home or business and serves as a networking hub that collects data from the microinverter array and sends the information to

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our hosted data center. One Envoy is typically sold with each solar installation and can support up to 100 Enphase microinverters.

Our Enlighten web-based software collects and processes this information to enable system owners to monitor and analyze the performance of their solar PV system down to the individual solar module level. Enlighten also provides an online portal specifically designed for installers to enable them to track and manage all of their Enphase enabled projects. Historically, Enlighten service revenue has represented less than 1% of total revenues in each reporting period.

Together, our Enphase microinverter, Envoy communications gateway and Enlighten web-based software function as a single unified system that enhances energy production, simplifies design and installation, reduces costs, increases reliability and uptime, reduces fire risk, and provides the ability to monitor performance down to the module level in real-time compared to central inverter system. With an Enphase microinverter system, we believe system owners can achieve a higher return on investment over the lifetime of the solar system.

We sell our microinverter systems primarily to distributors who resell them to solar installers. Over 3,700 installers in North America have installed our microinverters through March 1, 2012, and this number is increasing by approximately 100 new installers per month. We also sell directly to large installers as well as through OEMs and strategic partners. We have achieved substantial growth since we commenced commercial production in 2008. The majority of our revenue has been generated by sales within the United States. Sales to customers in Canada commenced in 2009 and accounted for approximately 12% of our total net revenues in 2011. In early 2011 we established sales offices in France and Italy, and began selling into France, Italy and the Benelux region in the fourth quarter of 2011. Our total net revenues were $20.2 million, $61.7 million and $149.5 million for fiscal years 2009, 2010, and 2011, respectively.

Industry Overview

Solar Energy Is a Large and Growing Industry

According to The Datamonitor Group, the global electricity market represented $1.6 trillion in annual consumption in 2009. With global electricity needs expected to increase by approximately 45% from 2009 to 2035, according to the U.S. Department of Energy, coupled with increasing energy security and environmental concerns associated with traditional fossil fuels, suppliers and users of electricity are seeking more renewable sources of energy. Among renewable sources of electricity, solar energy has the most potential to meet the world s growing electricity needs. The global solar PV market witnessed rapid growth from 18 GW, or $75.3 billion, of installed capacity coming online during 2010 to 25 GW, or $86.3 billion, in 2011, and is expected to grow to 48 GW, or $105.8 billion, in 2015, according to IHS iSuppli.

The solar PV market has grown in Europe, largely driven by subsidies that have been implemented by numerous countries to develop a renewable energy industry and create jobs at the local level. In Europe, these subsidies take the form of FiTs, which guarantee eligible renewable electricity generators a premium price for the electricity they produce over a long term time horizon. The U.S. solar PV market is growing rapidly, as there are both federal incentive programs for solar energy available such as the Business Energy Investment Tax Credits, as well state-level implementations of Renewable Portfolio Standards and other state, local and utility subsidies and other programs geared toward encouraging the development of solar energy. The U.S. solar PV market grew over 100% in 2010 over 2009 and is projected to become the largest solar PV market in the world by 2015 by number of annual installations as the price of solar approaches the price of other electricity sources on the grid. Nearly 1 GW, or $5.1 billion, was installed in the United States in 2010, and the U.S. solar PV market is expected to grow to 6 GW, or $16.4 billion by 2015 according to IHS iSuppli.

Smaller solar installations typically attract higher FiT rates as the costs are higher and installed by residential owners rather than financial investors. Recent changes to local FiT rules by governments in Italy,

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Germany and Spain are favoring the smaller installations even more than before. As a result, growth in the global solar industry is expected to shift from utility-scale and commercial solar greenfield installations to residential and commercial rooftop solar installations.

Recent Market Developments

The solar PV installation market grew strongly in 2011 and new installations reached an estimated 25 GW, up 39% from 18 GW in 2010 according to IHS iSuppli. However, several European countries experienced a slowdown in new installations in 2011, as national governments revised solar tariffs and subsidies. This slowdown was offset by strong growth in other regions, including the United States. Given current budget difficulties, several governments are expected to revise solar tariffs and reduce support for solar PV installations in 2012. In addition, oversupply for solar modules and increasing competition from low cost Chinese module manufacturers weigh on the sector. Some of these challenges are expected to continue in 2012, with global solar PV installations expected to decline 7% to 23 GW, according to IHS iSuppli. Beyond 2012, growth is expected to remain robust with new solar installations expected to reach 48 GW by 2015, according to IHS iSuppli.

Solar Industry Segmentation

The solar PV market consists of two primary on-grid solar markets: distributed solar systems for residential and commercial buildings; and centralized large scale solar PV installations owned and operated by utilities. Residential deployments are typically small (<10 kW) roof-mounted installations to supplement power usage to residential dwellings. Commercial installations are small to large (>10 kW to 1 MW) deployments, typically also roof-mounted, to supplement electricity requirements of commercial buildings such as retail stores, apartment complexes, industrial manufacturing facilities and state and federally owned government office buildings. Utility-scale solar PV installations are very large (several MWs) PV arrays that are typically ground-mounted and located in remote regions that receive high solar irradiation, such as the American desert southwest region, and generate significant amounts of electricity that is transported by utility transmission lines to load centers. In 2010, the residential and commercial markets represented 72% of the U.S. solar inverter market, according to SEIA.

Typical Solar System Costs

There are four key components of the cost of installing a typical solar PV system: solar modules; installation; DC to AC inverters; and cabling and other. Solar modules represent 59% of the total cost. Installation represents 25% of the total cost and includes the costs of specialized solar installation and design professionals to construct the solar system at the home or business. The inverter represents 10% of the total cost and is used to transform the DC power generated by the solar module array to standard AC power used in homes and buildings. Finally, cabling and other represent 6% of the total cost and include wiring systems used to integrate the solar modules into the electrical systems. The wiring systems include disconnects for the DC side of the inverter, ground-fault protection, and over current protection for the solar modules.

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Breakdown of Total Solar System Costs

% of Total System Cost

Inverter Industry

Historically, traditional central inverters have been the only inverter technology used for solar PV installations. In an installation consisting of a traditional central inverter, the solar PV modules are connected in series strings. In a large installation, there are multiple series strings connected in parallel. The aggregated voltage from each of these strings is then fed into a large central inverter. The central inverter performs two key functions: (i) it establishes a maximum power point tracking, or MPPT, operating point for the system and (ii) converts power from high-voltage DC to grid-complaint AC. Since the beginning of solar PV industry, traditional central inverters have continued to use high-voltage analog technologies to convert DC to AC requiring complex design and string calculations to ensure safe and reliable system operation. In 2010, 99% of the GW volume of solar inverters deployed were traditional central inverters. The worldwide market for inverter technology in 2011 was almost 27 GW, or $6.8 billion, and the market is expected to grow to 46 GW, or $10.1 billion, by 2015, according to IMS Research.

Traditional Central Inverter Architecture

Challenges of Traditional Central Inverters

As compared to microinverter systems, we believe that traditional central inverters have a number of design and performance challenges limiting innovation and their ability to reduce the cost of solar systems, including the following:

Productivity limits. If solar modules are wired using a traditional central inverter such that a group or string of modules are wired in series an entire string s output is limited by the output of the lowest-performing module. If one module is dirty, shaded, or is not operating to its maximum specification, the whole string s output is lowered to the level of that module resulting in a loss of energy production. In addition, due to string design requirements, central inverters also limit the design and site selection

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for solar PV arrays, particularly in rooftop applications. As such, many of today s central inverter installations are not maximizing energy production and, therefore, the system owners are not realizing the full benefit of their investment.

Reliability issues. Traditional central inverters are the single most common component of solar installations to fail, resulting in system downtime and adversely impacting total energy output. If a central inverter fails, the downtime is significant since the entire array will not be producing energy until the inverter is repaired or replaced. The high-DC voltage and power levels processed by central inverters result in higher inverter failure rates and shorter product life due to higher stress on components. As a result, central inverters typically carry warranties of only 5-10 years while solar modules have warranties of 25 years, potentially requiring several inverter repairs or replacements over the life of the solar PV system.

Complex design and installation requirements. The central inverter-based solar PV installation requires greater effort on the part of the installer, both in terms of design and on-site labor. Central inverter installations require string design and calculations for safe and reliable operation, as well as specialized equipment such as DC combiners, conduits and disconnects. In addition, the use of high-voltage DC requires specialized knowledge and training and safety precautions to install central inverter technology. Installers must also know and inventory a family of inverters to manage different solar PV installation sizes. Once installed, the system is not expandable without a purchase of another central inverter. Central inverters also tend to be heavy, bulky and noisy and often have to be protected and located outside of plain view.

Lack of monitoring. The majority of solar installations with central inverter technology offer limited monitoring capabilities. A failure of the central inverter will often go unnoticed for days or even weeks. Even if some form of monitoring is available, it is limited to the inverter and cannot monitor the health and performance of individual solar modules. Therefore, if a module fails or is not performing to specification, the resulting loss of energy can go unnoticed.

Safety issues. Central inverter solar PV installations have a wide distribution of high-voltage DC wiring. If damaged, DC wires can generate sustained electrical arcs, reaching temperatures of more than 5,000 °F. This creates the risk of fire for solar PV installation owners and injury for installers and maintenance personnel. In fact, due to an increasing number of incidents, the 2011 National Electric Code now requires all inverters to be able to detect and interrupt DC arc faults.

These challenges of traditional central inverters have a direct impact on the cost and expected return on investment of solar installations to both installers and system owners:

Installer. Solar system installers aim for simple installation design, fast installation times and maximum system performance and predictability. The installation of high-voltage DC central inverter technology, however, requires significant preparation, precautionary safety measures, time-consuming string calculations, extensive design expertise and specialized installation equipment, training and knowledge. Together, these factors significantly increase complexity and cost of installation and limit overall productivity for the installer.

System owner. Solar system owners aim for high energy production, low cost, high reliability and low maintenance requirements, as well as reducing fire risks. With central inverter solutions, owners often are unable to optimize the size or shape of their solar PV installations due to string design limitations, experience performance loss from shading and other obstructions, can face frequent system failures and lack the ability to effectively monitor the performance of their solar PV installation. In addition, central inverter installations operate at high-voltage DC which bears significant fire risks. Further, central inverter installations can affect architectural aesthetics of the house or commercial building.

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Our Solution

We design, develop, manufacture and sell the leading microinverter system for the solar PV industry. To date the solar industry has relied on the traditional central inverter approach that has largely remained unchanged for the past two decades. We have built from the ground up a semiconductor-based microinverter system that converts energy at the individual solar module level and, combined with our proprietary networking and software technologies, provides advanced energy monitoring and control. This is vastly different than the central inverter approach that can only convert energy of the entire array of solar modules from a single high voltage electrical unit, and lacks intelligence about the energy producing capacity of the solar array. The different approaches are depicted in the figure below.

Traditional Central Inverter System vs. Microinverter System

Traditional Central Inverter Approach

Enphase Microinverter System

Our microinverter solution brings a system-based, high technology approach to solar energy generation leveraging our design expertise across power electronics, semiconductors, networking, and embedded and web-based software technologies. Our microinverter system consists of the following hardware and service components: our Enphase microinverter; our Envoy communications gateway; and our Enlighten web-based software service. Since inception approximately 99% of our net revenues have been derived from the sale of hardware products.

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Our Enphase microinverter delivers efficient and reliable power conversion at the individual solar module level by introducing a digital architecture that incorporates custom ASICs, specialized power electronics devices and an embedded software subsystem that optimizes energy production from each module and manages the core ASIC functions. A residential solar installation consists of 5 to 50 microinverters; a small commercial solar installation consists of 50 to 500 microinverters.

Our Envoy communications gateway is installed within the system owner s home or business and serves as a networking hub that collects data from the microinverter array and sends the information to our hosted data center. One Envoy is typically sold with each solar installation and can support up to 100 Enphase microinverters.

Our Enlighten web-based software collects and processes this information to enable system owners to monitor and analyze the performance of their solar PV system at the individual solar module level. Enlighten also provides an online portal specifically designed for installers to enable them to track and manage all of their Enphase enabled projects and monitor and analyze the performance of their systems. Historically, Enlighten service revenue has represented less than 1% of total revenues in any given reporting period.

Together, our Enphase microinverter, Envoy communications gateway and Enlighten web-based software function as a single unified system that enhances energy production, simplifies design and installation, reduces costs, increases system uptime and reliability, reduces fire safety risk, and provides the ability to monitor performance at the individual module level in real-time. With an Enphase microinverter system, we believe solar system owners can achieve a higher return on investment over the lifetime of the solar system than would be achieved using a traditional central inverter approach.

Key elements of our solution include:

Productive Superior Energy Production. Our microinverter system enables the maximum possible energy production from each module, overcoming a fundamental design limitation of central inverters which are limited by the lowest performing module. We believe that our microinverter systems achieve higher energy production and can generate superior returns on investment relative to central inverter solutions for system owners.

Reliable Longer Life and No Single Point of Failure. Reduction of component count, primarily through semiconductor integration in our microinverter, allows us to design a reliable system that can withstand harsh environmental conditions. In addition, because we process low voltages and power levels, our components experience less stress and last longer than traditional central inverters. Furthermore, the distributed architecture of our microinverter system improves system uptime. If a microinverter unit fails, it results in lost energy production from a single solar module only and not the entire array. We estimate that our microinverter systems achieve system uptimes of over 99.8%. Enphase microinverters are fully certified and comply with certain electrical standards, such as UL 1741 of the National Electrical Code standard, or NEC, and safety standards, such as CSA in Canada or UL in the United States. We offer a 25-year limited warranty on our latest generation microinverter and 100% system uptime guarantee.

Simple Ease of Design and Installation. Using microinverter technology, an installer can design a system of any size and any roof configuration with a simple modular approach. After initial installation, the system can be easily expanded by even a single module. Our single inverter per module approach converts directly to AC and enables a simpler, all AC design, eliminating the extra cost, training and complexity associated with typical high voltage DC implementation. Without these complexities, installation of microinverter technology is greatly simplified, improving installers productivity. This also enables a new class of solar installer, such as electricians and general contractors. Finally, our microinverters are installed on the roof and hidden from view, with minimal impact to the aesthetics of a home or building.

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Smart Module-Level Monitoring and Analytics. Our microinverter system allows us to collect energy production information in real time on a per solar module basis. This enables powerful system analytics and allows Enphase to offer installers and system owners visibility into how their system is performing and the ability to continuously optimize energy production which is particularly important when operating commercial solar installations. Such services include system performance and diagnostics, benchmarking, as well as system and module alerts and fault statistics.

Safe All AC Solution. Perhaps most important to both installers and system owners, microinverters are safer because they process low DC voltages relative to central inverters. High voltage arc faults associated with traditional central inverter are the leading cause of fires of solar PV installations. Microinverter technology mitigates this safety risk.

Due to the benefits of our solution, we believe solar installers achieve greater productivity and competitive differentiation over installers of traditional central inverter solar PV installations, and the solar system owner achieves a higher return on investment with an Enphase microinverter system over the life of the solar system.

LCOE Case Studies

The levelized cost of energy, or LCOE, case studies selected represent residential (<10kW) and small commercial (10-100kW) solar energy systems, and we believe the LCOE results are typical of the system sizes represented. Each case study represents an actual Enphase installation.

Upfront System Costs

Each case study identifies four primary cost areas:

Modules and Racking The modules and racking line item includes the cost of the solar modules and the racking and labor to construct the solar module array. These costs are generally consistent for either inverter type. We estimated the solar module costs at the time of installation, and they represent about 40% of the total upfront system cost. We estimated the racking and solar module array construction costs using an industry guideline of roughly $1 per Watt, or approximately 20% of the total upfront system cost. Together, these costs account for roughly 60% of the total upfront system cost.

Inverter The inverter line item includes the cost of the inverters (either microinverters or traditional central inverters) and the electrical system and labor to install them. The inverter alone represents about 10% of the total upfront system cost and the electrical system and labor costs represent an additional 5% of the total upfront system cost. We estimated the traditional central inverter, microinverter, electrical system and labor costs at the time of installation.

Design, Permit and Other The design, permit and other costs include the cost to design and permit the solar energy system. We estimated these costs which represent 3-4% of the total upfront system cost. In general, we believe that traditional central inverter-based systems are more complex and require more design time, resources and expertise.

Profit and Sales Tax We estimated the profit mark-up and sales tax, which together represent about 22% of the total upfront system cost.

The total upfront system cost includes each of the costs listed above. The total upfront system cost is represented both in absolute dollars and on a dollar per watt basis in each case study table presented below. These costs exclude any available federal or state rebates and incentives for both the microinverter and central inverter figures.

LCOE and IRR

We determined the financial return of each system using LCOE and IRR analyses. Both analyses incorporate the savings in electricity costs offset by solar energy production, in addition to rebates and incentives.

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Energy Harvest Additional energy harvest refers to the additional energy production that would be achieved by an Enphase microinverter system, as compared to the estimated energy production of a traditional central inverter for an installation of a similar size, as a result of the microinverter system s ability to convert energy at the individual solar module level. We calculated estimated energy production by using PVWatts, an online calculation tool developed by the National Renewable Energy Laboratory and used by solar industry participants, to estimate the energy production of grid connected PV systems at locations around the world. Then we applied a 5-6% increase in energy production to the Enphase system to account for the additional energy harvest expected by the microinverter system. In both case studies, the actual energy production results reported from Enlighten, our web-based monitoring system, are trending at or higher than predicted in the case studies, except for a brief period during which the residential installation was covered in snow and was not operational.

System Uptime System uptime impacts solar energy production and therefore the total lifetime cost of the system. The 98% system uptime for a traditional central inverter-based installation is the PVWatts default value, and the cost of an out of warranty central inverter replacement was factored in year 11. We estimated the uptime of the installed Enphase microinverter systems to be 99.8% based on an estimated failure rate of 0.3% for Enphase microinverter units, which we calculated based upon our analysis of the mean time between failure, or MTBF, of the Enphase microinverter units, and an assumed inverter replacement within 6 months of failure. We factored the cost of out of warranty microinverter replacements in years 16-20.

LCOE and IRR LCOE represents the ratio of the total lifetime cost of the system, which is the sum of the total upfront system cost plus the present value of the total lifetime cost of the system, to its total lifetime energy output. Because of its additional energy harvest, the Enphase system provides a higher cumulative energy production and a lower LCOE. IRR represents the annualized effective compounded return rate or discount rate that makes the net present value of all cash flows (both positive and negative) from the solar installations equal to zero. The IRR figures in the case studies are based on the cash flows (both positive and negative) from the perspective of the system owner. The Enphase system offers a higher IRR because the higher cumulative energy production results in a higher effective rate of return.

Residential Installation

The solar installation illustrated below represents a typical residential solar installation employing either a traditional central inverter approach or an Enphase microinverter system. The residence is in Ontario, Canada and experiences moderate sunshine. It has a standard roof line with two arrays, maximizing the number of solar panels and achieving the desired 7.5 kW DC system size. Some shading exists, but did not factor significantly in determining whether to use a traditional central inverter or an Enphase microinverter system over a traditional central inverter.

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The Enphase microinverter system compares favorably to a traditional central inverter system even on a total upfront system cost basis (<4% premium for the Enphase system). For installers, the ease of installation, all AC system design and improved energy production more than compensates for the small upfront cost premium.

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Small Commercial Installation

The 53.5 kW DC small commercial solar installation illustrated below consists of 228 solar modules. The building is in Arizona and experiences high sunshine. Some of the solar modules experience some shade from a small center tower visible in the picture. A single traditional central inverter system was also proposed as an alternative. The curved roof presented challenges for a central inverter requiring more complicated string design and sizing which increased the design time and cost. Because of the size of the installation, the central inverter required additional equipment to aggregate cable runs from multiple DC strings.

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The Enphase microinverter system, while more costly upfront, was simpler to design and did not require additional equipment. It also achieved the specific aesthetic goals of the building owner. Furthermore, the solar installation is monitored and a kiosk in the building lobby displays the Enlighten web-based monitoring system.

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Competitive Strengths

We believe the following combination of capabilities and features of our business model distinguish us from our competitors and position us well to capitalize on the expected growth in the solar market and to become a global leader in the broader solar power industry:

Market Leader and Rapid Adoption. We are the market leader in the microinverter product category, have developed strong brand recognition and offer a proven microinverter solution. Since the shipment of the first commercial product in 2008, we have successfully introduced three microinverter generations, raising average conversion efficiency from 94% to 96%, power from 175 to 215 watts, and have over 1,700,000 units sold to date. We believe that our proven ability to innovate quickly will continue to allow us to build on our leading market position, and expand our product portfolio and market reach.

System Approach. We built our solution from the ground up and employ a system approach with a powerful combination of digital electronics, networking and software technologies. Our system offers significant design and operating benefits beyond the core power conversion functionality underlying our microinverter. By integrating the Enphase microinverter technology with Envoy, our proprietary communications gateway, and our Enlighten web-based software, we deliver real-time module-level monitoring and analytics. As of March 1, 2012, our R&D organization included 99 engineers and is divided equally across critical power electronics and semiconductor, powerline communication and networking, and software design disciplines.

Strong Focus on Technology and Research and Development. Our proximity to Silicon Valley and the past experience of our founders and executive officers in the technology industry have enabled us to recruit engineers with strong skills in power electronics, semiconductors, Powerline communications and networking, and software design, which we have complemented with significant solar industry expertise from other members of our team. We have a strong research and development team and a portfolio of intellectual property, or IP, spanning across the previously mentioned technology areas. As of March 1, 2012, we had 15 issued U.S. patents, two issued non-U.S. patents, 52 pending U.S. patent applications and 111 pending non-U.S. counterpart patent applications. We believe our combination of engineering, management and operational expertise from the high technology and the solar industry will help us to continue to rapidly innovate and cost efficiently introduce new microinverter solutions.

Field-Proven Reliability. With over 1,700,000 of our microinverter units sold to date, our microinverters have established significantly improved reliability relative to traditional central inverter technology. Based on data from a sample of 2009 and 2010 North American residential and small commercial installations, Westinghouse Solar indicates that our microinverters have a failure rate of 0.207% compared to a significantly higher failure rate of 9.43% for traditional central inverters. We use proven technologies and design techniques to achieve higher reliability. In addition, we have designed and developed proprietary product verification test software and equipment and, as of March 1, 2012 employed a team of 36 engineers that ensures product quality and long-term reliability. As the result of ongoing advances in our microinverter system technology, we are confident enough in our product to offer our latest-generation microinverter product with a 25-year limited warranty consistent with the expected life of the solar PV installations.

Capital Efficient and Scalable Manufacturing. Our design and R&D philosophy leads to a product design that enables us to employ a manufacturing model that we believe is superior to that of central inverter manufacturers. Our digital architecture allows us to leverage semiconductor integration to reduce part count in a microinverter unit, which we believe will allow us to significantly reduce manufacturing costs. Our microinverter is built on a single PC board allowing for a greater degree of automation in the manufacturing process and further reducing manufacturing cost. In contrast, traditional central inverters have multiple PC boards and complex internal wiring requiring a greater amount of manual construction and thereby increasing the cost of manufacturing. We outsource all of our hardware manufacturing to manufacturing partners, including Flextronics. Our model results in a

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low fixed-cost structure and reduced capital expenditure and working capital requirements. In addition, our model provides greater flexibility to take advantage of market opportunities. For example, we recently expanded manufacturing to Canada to qualify for local content-based incentives and did so in less than three months with minimal capital expenditure. By expanding our production volume, we believe we can take advantage of economies of scale, enabling further reductions in the price per watt of our microinverter systems.

Rapidly Expanding Distribution Channels. We sold our first microinverter system in 2008. Over 3,700 installers in North America have installed our microinverters through March 1, 2012, and this number is increasing by approximately 100 installers per month. Our microinverter technology is enabling new channels and routes to market, including through opening new and larger distribution channels. For example, we have a supply and distribution agreement with Siemens Industry, Inc. to re-sell co-branded Enphase microinverter products and related solutions through Siemens network of over 50,000 North American electrical contractors. Our agreement with Siemens extends until January 31, 2014 and is terminable by either party upon one-year prior notice. To date, our agreement with Siemens has yet to generate any material revenue.

Intense Focus on Customer Service for Installers. We believe we have cultivated an organizational focus on installer satisfaction that differentiates us from central inverter manufacturers, resulting in a high level of installer retention and repeat business. We work very closely with our installers to provide assistance necessary to help them across every aspect of the design and installation process. We provide full-day in-person training and online training to approximately 3,000 installers per year. Our system allows us to remotely design, activate, update, monitor and troubleshoot all of our connected solar installations and analyze energy production trends, enabling higher levels of customer satisfaction.

We believe these competitive strengths will enable us to maintain our leadership position as the residential and commercial solar market shifts from traditional central inverter to microinverter technology, and central and new players enter this market.

Our Strategy

Our objective is to continue to be the leading provider of microinverter systems for the solar industry worldwide and to accelerate the shift from traditional central inverters to microinverter technology. Key elements of our strategy include:

Continue to Penetrate Our Core Markets. We intend to capitalize on our market leadership in the microinverter category and our growing momentum with installers and owners to further our market share position in our core markets in the United States and Canada. We currently focus our product offering for application in the residential and commercial markets. We plan to expand our sales and marketing and customer service efforts to increase our installer base and, in addition, extend enhanced field engineering capabilities to several larger direct commercial solar installers. In addition, our microinverter technology enables new entrants to become solar installers with minimal training. A majority of our installers are new to the solar industry and are installing solar modules for the first time. We intend to continue to bring new installers to the solar industry and expand our installer base.

Enter New Geographic Markets Rapidly. We intend to expand into new markets with new products and local go-to-market capabilities. In early 2011, we established sales offices in France and Italy, and began selling into France, Italy and the Benelux region in the fourth quarter of 2011. We have established a representative office in China to support local solar module partners, and to develop the residential and commercial solar opportunity for microinverter systems in Asia. We opened our new offices to enable us to diversify our customer base, gain market share in worldwide solar markets and reduce our geographic dependence, and enable us to become a global microinverter vendor with global market reach.

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Increase Power and Efficiency and Reduce Cost per Watt. Our engineering team is focused on continuing to increase average power conversion efficiency above 96% and AC output power beyond 215 watts. We intend to continue to leverage our semiconductor integration, power electronics expertise and manufacturing economies of scale to further reduce cost per watt. For example, our M215 Series microinverter is based on our next generation ASIC, which increases semiconductor content and integration of components, while at the same time lowering manufacturing costs and increasing conversion efficiency and reliability, improving the overall return on investment of the solar installation. We believe we are on a steeper cost per watt reduction curve relative to central inverters, enabling us to further penetrate the market.

Extend Our Technological Innovation. We distinguish ourselves from other inverter companies with our system-based and high-tech approach, and the ability to leverage strong research and development capabilities. As of March 1, 2012, we had 15 issued U.S. patents, two issued non-U.S. patents, 52 pending U.S. patent applications and 111 pending non-U.S. counterpart patent applications. Ten of our issued U.S. patents directly relate to DC to AC power conversion for alternative energy power systems. The remaining five cover anti-islanding safety technology, measurement of grid voltage and monitoring circuits coupled to AC lines, respectively. Our design capabilities have allowed us to successively increase efficiency, power output and reliability, while reducing the cost per watt of our microinverter solution. As of March 1, 2012, we employed 99 engineers focused on design and development of our microinverter system and a dedicated group of power-electronics engineers employing proprietary system-modeling and simulation tools and specifying new components in advance of our next generation architecture. Further, we are working on a variant of our current-generation microinverter that enables an AC module for direct attachment of the microinverter to the backsheet of the solar modules, which further reduces installation cost and time, and we are developing our fourth-generation product designed to lower costs and facilitate our expansion strategy into large commercial solar installations and new geographies.

Expand Our Product Offering for Larger Commercial and Utility-Scale Installations. We intend to expand our product offering by introducing new microinverter systems targeted at larger commercial and utility-scale installations. We expect these market segments to become a significant revenue opportunity for Enphase in the future. We also have programs in place focused on expanding our Enlighten web-based software platform and our networking capabilities for commercial and utility-scale installations.

Develop a Smart Energy Management Platform. We intend to build upon our strong position as the leading supplier of microinverter and energy management systems to expand beyond solar and to create a smart energy management platform for integrated smart energy devices and services. For example, our smart thermostat device integrates with the Enlighten web-based software, allowing owners to manage their solar PV installations and control their heating and cooling system from a single web-based platform. We see opportunities beyond the thermostat and intend to develop additional energy management devices and services in the area of energy consumption monitoring and enable the growing network of solar installers to become energy consultants and service providers.

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Our Products

Our microinverter system consists of three individual product components: our Enphase microinverter, Envoy communications gateway and Enlighten web-based software. These elements function as a single unified system that enhances energy production, simplifies design and installation, reduces costs, increases system uptime and reliability, reduces fire safety risk, and provides the ability to monitor performance down to the module level in real-time. Each of these elements and the specific products in our offering are displayed and described below:

Enphase System

Enphase Microinverter

Our microinverter converts the DC output from a single solar module into grid compliant AC. It delivers efficient and reliable power conversion at the individual solar module level through a purpose built digital architecture that incorporates custom ASICs, specialized power electronics devices, custom magnetics, powerline communications, or PLC, and networking technology and an embedded software subsystem that optimizes energy production from each module and manages the core ASIC functions. We offer two microinverter product lines today:

Second Generation Microinverter. Our second generation microinverter, including the M190, M210 and a twin pack version of the M190, the D380, has an average power conversion efficiency of 95%. It supports mono- and multi-crystalline solar modules from over 50 module vendors in 60-cell and 72-cell formats with nameplate power ratings of up to 240W STC. The maximum circuit size for this product is up to 15 microinverters. Each circuit is terminated directly to the AC load center using standard AC cabling. The microinverter is certified to UL1741 as a utility-interactive inverter, the U.S. and Canadian standard for static inverters and charge controllers for use in solar PV power systems, listed for sale in North America. We provide a 15-year limited warranty for our M190, M210 and D380 series microinverters.

Third Generation Microinverter. Our third generation microinverter, the M215, is based on our next generation ASIC and increases the maximum rated AC output power to 215W, with average power conversion efficiency of 96%. Our M215 microinverter addresses 60-cell solar modules with nameplate power ratings of up to 260W STC. In addition, it incorporates a new, proprietary AC cable that

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increases the compatible system circuit size to up to 17 microinverters, allowing for greater installation flexibility and simplified cabling on the microinverter unit itself, reducing both cost and size. In addition to receiving UL1741 certification, it has also received the European VDE and CE certifications for sale in Europe. We offer a 25-year limited warranty for our M215 series microinverter.

Both our M190 and M215 series microinverters are installed on the roof and hidden from view, with minimal impact on the aesthetics of a home or building.

We support our microinverters with our Entrust program, which provides system owners with a 100% uptime guarantee. Under the Entrust program, we reimburse the system owner for any lost energy for up to one month if a microinverter unit should fail. In addition to replacing a microinverter unit under warranty, we proactively notify the installer, and ship an advance replacement unit free of charge.

Envoy Communications Gateway

Our Envoy communications gateway is the networking hub for the microinverter array. It collects data from the solar module via our proprietary PLC technology and delivers it to our hosted, Enlighten web-based software application through an Ethernet connection to a broadband Internet router. The Envoy communication gateway can also provide critical information if no broadband connection is available through its imbedded web interface that provides configuration, control and system state information and is accessible by computer through an Ethernet connection and through its LCD display that provides high level status information. In addition, the Envoy communications gateway supports Zigbee, a low power wireless mesh communication protocol for communication with our Environ smart thermostat.

Enlighten Software

Installers and system owners use our Enlighten web-based software, which is included with the Envoy communications gateway, to track and display daily, weekly and annual energy production information. Installers also use the Enlighten installer dashboard to manage multiple systems from a single screen. In addition, we use Enlighten to activate a system and remotely troubleshoot, analyze and diagnose system problems. System owners and installers access our Enlighten web-based software through the following interfaces:

Enlighten Monitoring Service. The Enlighten web-based monitoring service provides real-time information to the installer and system owner on the energy production of the solar array. This service can be accessed by installers or system owners from any personal computer or a mobile device with a web browser.

Installer Dashboard. The installer dashboard is a web-based portal that is the first page each installer sees when he accesses his Enlighten account. It allows an Enphase installer to easily customize the page so several sites under management can be consolidated into a single view. In addition, we use the installer dashboard to communicate with our installers, with industry news, product updates and Enphase community postings.

Environ Smart Thermostat

Our Environ smart thermostat enables system owners to monitor and control heating and cooling of a home or business. This smart thermostat integrates with our Envoy communications gateway and our Enlighten web-based software. Users can control the temperature of their homes from anywhere they have access to a web browser, including a mobile device.

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Our Technology

Three years after the introduction of our first generation microinverter system, we have successfully commercialized the technology, creating a new product category. Our system has the following critical attributes:

- Converts DC power from the solar module into grid-compliant AC power efficiently and with minimal loss;
- Achieves low cost per watt and LCOE;
- Provides a robust communications network enabling real-time management of the solar PV installation;
- Ensures a high level of safety both during and after installation;
- Connects to the grid safely and to specification;
- Ensures long-term durability in harsh outdoor environments; and
- Manufacturable in high volumes and at high yields.

The critical technologies enabling our system are in the areas of power electronics and magnetics, semiconductors, powerline communications and networking, and embedded and web-based software. An overview of each of these technology elements and the essential function each play in the overall microinverter system is described below:

Enphase Microinverter

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Power Electronics

The performance and efficiency of our Enphase microinverter is driven by its core architecture and design. Key functions of the design include specialized power electronics, custom magnetics and advanced ASIC-based digital control that enable our Enphase microinverter to efficiently convert DC from the solar module to grid-compliant AC at optimal efficiency. Our Enphase microinverters utilize a sophisticated predictive model to accomplish this conversion and output a digitally synthesized AC waveform. Our Enphase microinverter conforms to safety standards as defined by UL1741 in North America and VDE0126 in Europe. Our microinverters also analyze both the DC and AC electrical characteristics of the system to determine safe and reliable operation.

We also utilize proprietary simulation and validation tools capable of modeling most elements of our hardware solution to accurately predict performance prior to hardware design and fabrication or, alternately, to identify and optimize critical design parameters. We use these simulation and validation capabilities to develop new and more sophisticated control algorithms, and to reduce our engineering investments and time to market.

Magnetics

Microinverter power conversion efficiency, cost and reliability are a function of the magnetics designed in the system. We design and utilize custom magnetic cores and windings to maximize the power density of a chosen magnetics core geometry, which in addition to high performance and low cost allows us to achieve improved thermal performance, reliability and a very low mechanical profile, an important criteria for mounting underneath or onto a solar module. We work to optimize pin spacing and other electrical properties to ensure we meet stringent regulatory requirements for electromagnetic emission.

Semiconductors

Unlike early microinverter technology or current central inverters, the Enphase microinverter is a microelectronics device built around a digital architecture. Around 30% of the bill of materials of each Enphase microinverter is composed of semiconductor content. We are on our fifth generation of ASICs responsible for all critical digital control functions of our microinverter, including detailed power analysis, digital control of the power conversion subsystem and powerline communications and networking. Unlike traditional inverters, our microinverters process low amounts of power (215W AC) and switch low DC voltages (30 volts DC). These features, combined with the ability to leverage low cost silicon in standard packages and pin counts, make possible a high degree of semiconductor integration. As a result, much of the functionality of our Enphase microinverter can be integrated into a standard CMOS ASIC instead of discrete electrical components, resulting in lower costs and a simplified overall hardware design. Our intent is to leverage semiconductor integration in the solar industry in the same fashion that semiconductors benefited the personal computer, telecommunications and consumer electronics industries, delivering more functionality and lower costs.

Our ASIC performs the critical power analysis and power conversion control functions of the microinverter. The power analysis function processes critical sensory input from the solar module and the AC grid, such as voltage and frequency and other information that enables the precise control of the synthesized output AC waveform. Our ASIC also provides the advanced digital control and state machine logic that controls the power conversion function. A high speed power sequencer that controls the transfer of energy from the DC side of the system to the AC side at very high frequency drives the power metal-oxide-semiconductor field-effect transistors, or MOSFETs, in our microinverter. In addition, our digital control system uses an innovative predictive control technology that allows the solar PV installation to anticipate and adapt to changing operating conditions and protect against grid anomalies, such as power surges.

Powerline Communications and Networking

A powerline communications networking link exists between each microinverter in the array and the Envoy gateway. Our powerline communications link uses a proprietary networking technology developed by Enphase utilizing the same AC wiring to transmit and receive data between devices as is used to distribute electricity.

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Our proprietary PLC technology is integrated into our custom ASIC. Our third generation microinverter, the M215, integrates our most advanced PLC technology, which offers improved modulation techniques and additional carrier frequencies to enhance performance. In addition, it increases the number of devices supported through more powerful data processing capabilities, and extends the range supported between devices with superior signal processing. Finally, it provides reduced communications latency with more frequent polling of end devices and improved link reliability through advanced error detection and correction.

An Enphase powerline communications installation must support a large number of microinverter endpoints transmitting a small amount of information on an infrequent basis over a dated electrical infrastructure with appliances, power strips, pumps, air conditioners, computers, televisions, and other electrical noise competing with the signal. The robustness of our PLC technology is a compelling attribute of our system and a primary focus of our intellectual property development and engineering resources. In addition, each communication link between a microinverter and the Envoy gateway is encrypted to enhance system security.

Embedded Software

The embedded software that runs in the CPU of our ASIC performs several key functions, including the MPPT algorithm that optimizes energy production from each solar module, the state machine that controls the microinverter s power analysis and power conversion functions, safety functions such as anti-islanding protection, which disables microinverter energy production when the AC grid is disconnected, and the energy information collected from each solar module and microinverter pair. It also actively monitors the operation of the solar PV installation. Finally, it enables the design of more complex functions in software such as sophisticated and intelligent mathematical modeling that reduces the burden on the hardware design.

Web-Based Software

In addition to the embedded software in each Enphase microinverter and Envoy communications gateway, our Enlighten web-based software provides a central point of monitoring and management for the installer and system owner. The system is built on an open source platform and is hosted externally by Rackspace US, Inc., a leading datacenter infrastructure provider. This allows us to minimize our fixed costs and leverage system uptime guarantees from our provider.

The core functionality of our web-based software includes:

Monitoring. The Enphase system provides monitoring granularity down to the individual solar module level. This enables the installer and system owner to determine how much energy each solar module is producing and identify poorly performing modules that need to be washed or replaced, including their specific location in the array.

Array Builder and Installer Portal. In addition to system level monitoring, analytics and diagnostics, the application is an invaluable tool for the installer for everything from system set-up with tools like the array builder to how they manage their entire fleet of systems with the web-based installer portal. An installer is able to visualize the amount of energy generated in a given day or over the life of the system to ensure its proper operation, identify which modules are not producing to specification and aggregate information from multiple systems for a unified, single view into all solar PV installations under management.

Home Energy Efficiency Device Control. Enlighten is a web-based software application for managing solar energy production and controlling energy efficiency devices connected to the Zigbee smart energy profile. Energy efficiency and control represents a potential area of growth for the company as we leverage our communications infrastructure and channel to deliver these additional services.

Our Enlighten web-based software also provides important back-end functionality to Enphase customer service. We use Enlighten to activate a microinverter array, troubleshoot an issue, communicate with the installer, issue and track return merchandise authorizations and analyze energy production trends.

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Customers and Sales

Today, our microinverter system is sold in the United States, Canada, France, Italy and the Benelux region. We sell our microinverter systems primarily to distributors who resell to installers and integrators, who in turn integrate our products into complete solar PV installations for residential and commercial system owners.

We work with many of the solar distributors, including Focused Energy LLC, SolarNet Holdings, LLC, SunWize Technologies, Inc., and Solar Solutions and Distribution LLC. Over 3,700 installers have installed our microinverters through March 1, 2012, and this number is increasing by approximately 100 new installers per month.

Installer Customer Growth

(Number of Installers)

In addition to our distributors, we sell directly to large installers, OEMs and strategic partners. Our OEM customers include solar module manufacturers who bundle our products and solutions with their solar module products and resell to both distributors and installers. Strategic partners include a variety of companies and arrangements, including industrial equipment suppliers and providers of solar financing solutions. For example, we have a supply and distribution agreement with Siemens to resell co-branded products and solutions to the electrical contractor distribution channel. We also sell the Enphase-branded product directly to electrical contractor distributors in North America.

To support our geographic expansion plans, we have also established sales and support offices in France and Italy with a go-to-market model similar to the model we use in the United States and Canada. We have established a representative office in China to enhance our support to the Chinese solar module manufacturers with a local on the ground resource, and to establish a sales presence in the country.

Manufacturing and Key Suppliers

We outsource the manufacturing of our products to two key manufacturing partners, Flextronics International Ltd. and Phoenix Contact GmbH & Co. KG. Flextronics assembles and tests our microinverter pursuant to a manufacturing services agreement which is renewable for successive one-year terms and is terminable for convenience by either party upon 90 days prior notice. Prices for such services are mutually agreed to by the parties on a quarterly basis and we are obligated to purchase manufactured products and raw materials that cannot be resold upon the termination of the agreement. Flextronics assembly and test plants for

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us are located in Fuyong, China, and New Market, Ontario, Canada. Flextronics also provides receiving, kitting, storage, transportation, inventory visibility and other value-added logistics services at locations managed by Flextronics pursuant to a logistics services agreement which is renewable for successive one-year terms and is terminable for convenience by either party upon 90 days prior notice. Phoenix manufacturers the custom AC cable for our third generation M215 microinverter system pursuant to a cooperation agreement with purchase commitments extending through April 2018. Phoenix has agreed the that price it charges us will be no greater than those that Phoenix charges other customers for similar products. The agreement further provides for minimum purchase requirements, and we are obligated to purchase manufactured products and raw materials that cannot be resold upon the termination of the agreement. Phoenix s facility is located in Blomberg, Germany.

We rely on several unaffiliated companies to supply certain components used in the fabrication of our microinverter system. For custom components, key sole source suppliers include Fujitsu Ltd. for our ASIC, Epcos AG for magnetic cores and Phoenix for AC cabling. Magnetic cores are purchased on a purchase order basis from Epcos AG. Our five-year master development and production agreement with Fujitsu extends until August 18, 2014 and is terminable for convenience by either party upon six months prior notice. Additional ASIC design projects are negotiated through mutual task orders governed by the master development agreement. For off-the-shelf components, key single source suppliers include Cree, Inc., for diodes and TDK-EPC Corporation for magnetic components.

Customer Service

We maintain high levels of customer engagement through our customer support group and the Enlighten web-based software portal, and have cultivated an organizational focus on customer satisfaction. Our dedicated customer support group, located at our headquarters in Petaluma, California, focuses on responding to inbound inquiries regarding any of our products and services. This support is provided free of charge to all of our customers in the United States and Canada. To support our international expansion into Europe, we have extended the customer support group to include local coverage based in Lyon, France and Milan, Italy. As of March 1, 2012, our customer support group consisted of 36 employees in the United States and four employees in Europe.

In addition, customized support programs are being developed for selected OEM partners, large direct installers and master distributors to help prioritize and track support issues for key partners and to provide a single point of contact.

Research and Development

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

We have a strong research and development team with wide-ranging expense in power electronics, semiconductors, powerline communications and networking, and software engineering. In addition, many members of our team have expertise in solar technologies. As of March 1, 2012, our research and development organization had a headcount of 135 people, 121 of whom are in the United States, one in Canada and 13 in New Zealand. Our research and development expense totaled $8.4 million, $14.3 million and $25.1 million for the years ended December 31, 2009, 2010 and 2011, respectively.

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Intellectual Property

Our success depends, in part, on our ability to maintain and protect our proprietary technologies. We rely primarily on patent, trademark, copyright and trade secrets laws in the United States and similar laws in other countries, confidentiality agreements and procedures and other contractual arrangements to protect our technology. As of March 1, 2012, we had 15 issued U.S. patents, two issued non-U.S. patents, 52 patent applications pending for examination in the United States and 111 independent patent applications pending for examination in other countries, all of which are related to U.S. applications. Ten of our issued U.S. patents directly relate to DC to AC power conversion for alternative energy power systems. The remaining five cover anti-islanding safety technology, measurement of grid voltage and monitoring circuits coupled to AC lines, respectively. Our issued patents are scheduled to expire between years 2027 and 2032.

We license certain power line communications technology and software for integration into our ASICs pursuant to a fully-paid, royalty-free license, which includes the right for us to source directly from the licensor s suppliers or manufacture certain ASIC hardware should the licensor fail, under certain conditions, to deliver such technology in the future. This license includes a limited exclusivity period during which the licensor has agreed not to license the licensed technology to any third party manufacturer of electronic components or systems for use in the solar energy market. The license carries a seventy-five year term, subject to earlier termination upon mutual agreement of the parties, or by us in connection with the insolvency of the licensor.

We also license digital intellectual property cores, or IP blocks, for integration into and distribution with certain electronic components built into our products, including our ASICs, complex programmable logic devices, or CPLDs, and field-programmable gate arrays, or FPGAs. This is a fully-paid, non-exclusive, non-transferrable, royalty-free license providing for the integration of such digital IP blocks in an unlimited number of electronic component designs and the distribution of such electronic components with our products. Other than in connection with the distribution of our products, our use of such digital IP blocks is limited to certain of our business sites. The license is perpetual, subject to earlier termination by either party upon the termination, suspension or insolvency of the other party s business, or by the licensor upon a breach of the license agreement by us. In addition, license open source software from third parties for integration into our Envoy products. Such open source software is licensed under open source licenses, including the Beer-Ware License, the GNU General Public License or the GNU Lesser General Public License, Artistic 2.0 License, Ruby License, OpenVPN License, BSD License, Apache License, and other open source licenses. These licenses are perpetual and require us to attribute the source of the software to the original software developer, which we provide via our website.

We continually assess appropriate occasions for seeking patent protection for those aspects of our technology, designs and methodologies and processes that we believe provide significant competitive advantages. A majority of our patents relate to DC to AC power conversion for alternative energy power systems, as well as power system monitoring, control and management systems.

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

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

We also require our customers and business partners to enter into confidentiality agreements before we disclose any sensitive aspects of our microinverter, technology or business plans.

We have not been subject to any material intellectual property claims.

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Competition

The markets for our products are extremely competitive, and we compete both with well-established traditional central inverter manufacturers and new technology start-ups. The principal areas in which we compete with other companies include:

- Product performance and features;
- Total cost of ownership (usually measured by LCOE);
- Breadth of product line;
- Local sales and distribution capabilities;
- Module compatibility and interoperability;
- Reliability and duration of product warranty;
- Technological expertise;
- Brand recognition and customer service and support;
- Compliance with industry standards and certifications and local electrical code;
- Size and financial stability of operations;
- Size of installed base; and
- Local manufacturing and product content.

Currently, competitors in the inverter market range from large, international companies such as Solar Technology AG, Fronius International GmbH and Power-One, Inc. to emerging companies offering alternative microinverter or other solar electronics products. We principally compete with the large, incumbent solar inverter companies because traditional central inverter solutions can be used as alternatives to our microinverter solution. We believe, however, that our microinverter solutions offer significant advantages and competitive differentiation relative to traditional central inverter technology, even when traditional central inverter technology is supplemented by DC-to-DC optimizers. SMA Solar Technology AG, Power-One Inc. and SunPower Corp., leading inverter vendors serving the residential and small commercial inverter markets, are expected to introduce microinverter products in 2012. In addition, several new entrants to the microinverter market, including some of our OEM customers and partners, have recently announced plans to ship or have already shipped products.

Employees

As of March 1, 2012, we employed 313 full-time employees. Of the full-time employees, 135 were engaged in research and development, 109 in sales and marketing, 49 in a general and administrative capacity and 20 in manufacturing and operations. Of these employees, 272 were in the United States, 13 in France, two in Canada, 10 in Italy, 14 in New Zealand and two in China.

None of our U.S. employees is represented by a labor union with respect to his or her employment with us; however, our employees in France and Italy are represented by a collective bargaining agreement. We have not experienced any employment-related work stoppages, and we consider our relations with our employees to be good.

Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations. Currently, we are not involved in any material legal proceedings.

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Facilities

Our current corporate headquarters is located in Petaluma, California, in an office consisting of approximately 23,000 square feet of office, testing and product design facilities and a portion of our U.S. customer service center. We have entered into agreements to lease space for a new corporate headquarters also to be located in Petaluma, California, in an office consisting of approximately 96,000 square feet. We occupied 48,000 square feet of our new headquarters in the first quarter of 2012 and, based on current estimates for completion of additional tenant improvements, we anticipate that we will complete our move to the new headquarters in the second quarter of 2012. The leases for the new corporate headquarters will expire ten years from the date tenant improvements are substantially completed, which was in February 2012 for the initial 48,000 square feet. Our current headquarters lease will expire when we have completely vacated the space, which we anticipate will be in the second quarter of 2012.

In addition to our headquarters, we lease approximately 7,500 square feet of warehouse, equipment assembly and general office space in Petaluma, California, on a month-to-month basis, approximately 15,000 square feet of research and development and product verification space in Petaluma, California, under a lease that will expire ten years from the date tenant improvements are substantially completed, which we anticipate will occur in the second quarter of 2012, approximately 10,000 square feet of general office and engineering lab space in Santa Clara, California, pursuant to a lease that will expire on December 31, 2015, 3,500 square feet of general office space in Boise, Idaho, that is used for our tier-1 customer call center operations, pursuant to a lease that will expire in November 2016, and approximately 8,000 square feet of general office and engineering lab space in Christchurch, New Zealand, that will be used for research and development operations, pursuant to a lease that expires in August 2016. We also have a small amount of sales and support office space in Lyon, France, Milan, Italy and Shanghai, China.

We outsource the manufacturing to manufacturing partners, and currently do not own or lease or plan to own or lease manufacturing facilities.

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

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MANAGEMENT

Executive Officers and Directors

The following table sets forth the names, ages and positions of our executive officers and directors as of March 1, 2012:

Name	Age	Position(s)
Executive Officers		
Paul B. Nahi	48	President, Chief Executive Officer, and Director
Sanjeev Kumar	48	Chief Financial Officer
Raghuveer R. Belur	44	Vice President of Products, and Director
Martin Fornage	48	Chief Technology Officer
Jeff Loebbaka	50	Vice President of Worldwide Sales
Greg Steele	50	Vice President of Operations
Bill Rossi	49	Chief Marketing Officer
Dennis Hollenbeck	60	Vice President of Engineering
Directors		
Neal Dempsey[1][2][3]	70	Director
Steven J. Gomo[2][3]	59	Director
Benjamin Kortlang[1][2]	36	Director
Jameson J. McJunkin[1]	37	Director
Chong Sup Park[2][3]	64	Director
Robert Schwartz[3]	50	Director
Stoddard M. Wilson[3]	46	Director

(1) Member of the Nominating and Corporate Governance Committee.
(2) Member of the Audit Committee.
(3) Member of the Compensation Committee.

Our executive officers are appointed by, and serve at the discretion of, our board of directors. There are no familial relationships among our directors and executive officers. Set forth below is biographical information, including the experiences, qualifications, attributes or skills that caused our board of directors to determine that each member of our board of directors should serve as a director as of the date of this prospectus.

Executive Officers

Paul B. Nahi has served as our President and Chief Executive Officer and as a member of our board of directors since January 2007. From 2003 to December 2006, Mr. Nahi served as President and Chief Executive Officer of Crimson Microsystems, Inc., a fabless semiconductor company, where he was responsible for all aspects of the company s operations. From 1999 to 2003, Mr. Nahi served as Chief Executive Officer and co-founder of Accelerant Networks, Inc., a semiconductor company, acquired by Synopsys Inc. in February 2004. From 1998 to 1999, Mr. Nahi served as the General Manager of the Communications and Media Divisions for NEC Electronics Corp., a global electronics company. From 1994 to 1998, Mr. Nahi served as the Senior Director for Diamond Multimedia Systems, Inc., a computer peripheral device company. Mr. Nahi holds a bachelor of science degree in computer science and a master of business administration degree from the University of Southern California. Mr. Nahi brings to our board of directors demonstrated leadership and management ability at senior levels. In addition, his years of experience in the semiconductor and electronics industries provide a valuable perspective for our board. He also brings continuity to our board

and historical knowledge of our company through his tenure as President and Chief Executive Officer.

Sanjeev Kumar has served as our Chief Financial Officer since December 2009. From December 2008 to July 2009, Mr. Kumar served as the Chief Financial Officer of HelioVolt Corporation, a producer of thin film solar products, where he was responsible for financial and accounting functions. From June 2006 to August 2008,

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Mr. Kumar served as the Chief Financial Officer of Energy Conversion Devices, Inc., a supplier of thin-film flexible solar laminates and batteries used in hybrid vehicles, where he was responsible for financial and accounting functions. Prior to 2006, Mr. Kumar served in a number of different finance positions, most recently as the Chief Financial Officer of Rutherford Chemicals LLC, a specialty chemical company, as Chief Financial Officer of the U.S. operations of Rhodia S.A., a publicly held chemicals company, and as Assistant Treasurer, with Occidental Petroleum Corporation, an oil and gas exploration and production company. Mr. Kumar previously served on the Board of Directors of Solar Integrated Technologies Inc., a publicly-listed company in the United Kingdom and Ovonyx, Inc., a privately-held company commercializing its phase-change semiconductor memory technology. Mr. Kumar holds a bachelor of arts degree in business administration from California State University, Los Angeles and a master of business administration degree from the University of Southern California.

Raghuveer R. Belur co-founded Enphase Energy with Mr. Fornage in March 2006, and has served as a member of our board of directors since March 2006. Mr. Belur has served as our Vice President of Product since September of 2010 and previously as Vice President of Marketing from January 2007 to September of 2010. Mr. Belur was our initial Chief Executive Officer from March 2006 to January 2007. From September 1997 to August 1999, Mr. Belur served as an Engineer for Cerent Corporation, an optical equipment company acquired by Cisco Systems, Inc., in August 1999. Mr. Belur holds a master of science degree in electrical engineering from Texas A&M University and a master of business administration degree from the Haas School of Business at the University of California, Berkeley. As a co-founder of our company and through his position as Vice President of Products, Mr. Belur brings to our board of directors continuity and historic knowledge of our company. In addition, his years of marketing and engineering experience in the electronics industry provide valuable insights for our board.

Martin Fornage co-founded Enphase Energy with Mr. Belur in March 2006, and has served as our Chief Technology Officer since July 2006. From December 1992 to July 1998, Mr. Fornage was a Hardware Engineer at Advanced Fibre Communications, Inc., a telecommunications company acquired by Tellabs, Inc., in May 2004, where he led the Hardware Engineering group in 1997. From September 1998 to February 2006, Mr. Fornage led a consulting firm providing system and assembly level design services to several large telecommunications equipment manufacturers and other companies. Mr. Fornage received his Ingenieur diplome d etat degree from ENSEA France.

Jeff Loebbaka has served as our Vice President of Worldwide Sales since May 2010. From July 2007 to June 2009, Mr. Loebbaka was Senior Vice President of Europe, Middle East and Africa, from July 2005 until June 2007, was Senior Vice President of Global Channel Sales and Marketing, and from October 2003 to June 2005, was Vice President Global Marketing at Seagate Technology LLC, a storage solutions provider. In these positions, he was responsible for sales functions within the geographic or business areas covered by his titles. From September 2000 to September 2003, Mr. Loebbaka served as Vice President and General Manager, and from June 1999 until August 2000, served as Vice President of Worldwide Channels and Corporate Marketing at Adaptec Inc., a RAID controller maker and data center company. From May 1996 to November 1998, Mr. Loebbaka was Vice President of Global Marketing at the Life Fitness Division of Brunswick Corporation, and from January 1995 until May 1996, was the Senior Director of Product Marketing at Zenith Data Systems, a division of Group Bull. Mr. Loebbaka held numerous marketing leadership roles at Apple Inc. from July 1987 until January 1995. Mr. Loebbaka holds a master of business administration degree from the Kellogg Graduate School of Management at Northwestern University and a bachelor of science in mechanical engineering from the University of Illinois.

Greg Steele has served as our Vice President of Operations since January 2008. From March 2006 to December 2007, Mr. Steele founded and served as the President of Wireless Hearing Solutions, an assistive listening device company, where he was responsible for all aspects of the company s operations. From January 2003 to May 2005, Mr. Steele served as the Chief Executive Officer for the Nelson Family of Companies, a human capital and staffing firm. From December 1998 to June 2001, Mr. Steele served as Chief Operating

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Officer, and from November 1994 to December 1998, served as Vice President of Operations for Advanced Fibre Communications, Inc., a telecommunications company acquired by Tellabs, Inc. in May 2004. From April 1984 to October 1990, Mr. Steele held various manufacturing and operations positions with Texas Instruments Inc., a global electronics company. From October 1990 to November 1994, Mr. Steele held various manufacturing and operations positions with DSC Communications Corporation, a telecommunications company. Greg Steele holds a bachelor of science degree in industrial engineering from Oregon State University.

Bill Rossi has served as our Chief Marketing Officer since September 2010. From December 2007 to July 2010, Mr. Rossi was head of Enterprise Marketing at Google Inc., an Internet search and services company, where he was responsible for marketing of Google applications to businesses. From December 2005 to December 2006, Mr. Rossi was Chief Executive Officer of Greenfield Networks Inc., an ethernet switch technology solutions company acquired by Cisco Systems, Inc., in December 2006, where he was responsible for all aspects of the company s operations. From November 1995 to November 2005, Mr. Rossi served as Vice President and General Manager of the Wireless Networking Business Unit at Cisco Systems, Inc. Mr. Rossi holds a master of business administration degree from Harvard Business School and a bachelor of arts and bachelor of science degree in electrical engineering from Dartmouth College.

Dennis Hollenbeck has served as our Vice President of Engineering since December 2010. From June 2005 to July 2006 Mr. Hollenbeck served as Vice President and General Manager for Maxtor Corp., a hard disc drive manufacturer, where he was responsible for engineering and operations. From June 2000 to September 2005, Mr. Hollenbeck served as Chief Operating Officer for eSilicon Corp., a custom chip design and fabrication service company. From July 1984 to June 2000, Mr. Hollenbeck held various positions with Quantum Corporation, a hard disc drive manufacturer. Mr. Hollenbeck holds a bachelor of engineering, electrical engineering from Youngstown State University.

Board of Directors

Neal Dempsey has served as a member of our board of directors since April 2010. Mr. Dempsey joined Bay Partners as a General Partner in 1989 and became a Managing Member in 2000. From December 1996 to April 2007, Mr. Dempsey served as a member of the board of directors of Brocade Communications Systems, Inc. Mr. Dempsey is presently a director of several privately-held companies and also serves as a director of FamiliesFirst, Inc., a Children and Family Services Agency. Mr. Dempsey holds a bachelor of arts degree from the University of Washington. As a venture capitalist, Mr. Dempsey has been involved with numerous technology companies in the communications, consumer services, energy services, enterprise software, software as a service, and wireless industries. Mr. Dempsey s years of venture capital investing, his previous experience as a public company director and his insights in building successful businesses provide a valuable perspective to the board of directors.

Steven J. Gomo has served as a member of our board of directors since March 2011. From August 2002 until October 2004, Mr. Gomo served as Senior Vice President of Finance and Chief Financial Officer, and from October 2004 until December 2011, as Executive Vice President of Finance and Chief Financial Officer, of NetApp, Inc., a computer storage and data management company. From November 2000 to April 2002, Mr. Gomo served as Chief Financial Officer of Gemplus International S.A., a smart card provider, and from February 1998 until August 2000, Mr. Gomo served as Chief Financial Officer of Silicon Graphics, Inc., a high-performance computer and computer graphics company. Prior to February 1998, Mr. Gomo held various finance, financial management, manufacturing, and general management positions at Hewlett-Packard Company. Mr. Gomo holds a master of business administration degree from Santa Clara University and a bachelor of science degree in business administration from Oregon State University. Mr. Gomo currently serves on the board of SanDisk Corporation and NetSuite Inc. Mr. Gomo brings to our board valuable financial and business expertise through his years of experience as a chief financial officer with publicy traded companies. Mr. Gomo provides an important role in leading the board s activities on financial and auditing matters, as well as collaborating with our independent registered public accounting firm and management team in these areas.

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Benjamin Kortlang has served as a member of our board of directors since May 2010. Since February 2008, Mr. Kortlang has been a Partner with Kleiner Perkins Caufield & Byers, a venture capital firm. From July 2000 to January 2008, Mr. Kortlang worked with Goldman, Sachs & Co., most recently co-heading Goldman s Alternative Energy Investing business. From June 2005 to February 2008, Mr. Kortlang was a Vice President within Goldman s Special Situations Group, before which he was a Vice President in Goldman s investment banking group focusing on Industrials and Natural Resources. From January 1996 to August 1998, Mr. Kortlang was an Associate with A.T. Kearney, Inc. where he focused on strategic and operations consulting in the energy, manufacturing, packaging, transportation and communications industries. From February 1993 to July 1994, Mr. Kortlang was a Business Analyst at National Australia Bank in strategic planning and macroeconomic forecasting. Mr. Kortlang holds a bachelor of business degree in economics and finance from Royal Melbourne Institute of Technology, a bachelor of commerce and an honors degree in econometrics from University of Melbourne and a master of business administration degree from the University of Michigan. As a venture capitalist, Mr. Kortlang s focus on growth-stage investing in alternative energy technologies provides a valuable industry perspective to our board. Mr. Kortlang s investing and business experience also provide our board with a valuable perspective on building alternative energy businesses.

Jameson J. McJunkin has served as a member of our board of directors since April 2009. Since April 2005, Mr. McJunkin has been a Managing Member of Madrone Capital Partners, a venture capital firm. From August 2000 to March 2005, Mr. McJunkin was a technology growth capital investor at TA Associates, Inc., a private equity firm. Prior to August 2000, Mr. McJunkin worked as a Product Manager at Cisco Systems, Inc. and as a strategy consultant at the Boston Consulting Group. Mr. McJunkin is a director of the Smithsonian National Air and Space Museum and several privately-held companies. He also serves on the Advisory Board for Rockport Capital Partners and The Global Environment Fund. Mr. McJunkin earned a bachelor of arts degree with high honors from the Woodrow Wilson School of Public and International Affairs at Princeton University and a master of business administration degree from the Stanford University Graduate School of Business. Mr. McJunkin has valuable experience as an investor in building emerging growth companies. His investing and business background, as well as his knowledge of the solar industry, provide a valuable perspective for our board of directors.

Dr. Chong Sup Park has served as a member of our board of directors since June 2011. Dr. Park served as President and Chief Executive Officer of Maxtor Corporation, a hard drive manufacturer, from February 1995 to August 1996, and from November 2004 to May 2006, prior to its acquisition by Seagate Technology LLC. Dr. Park served as Maxtor s director from February 1994 and its Chairman of the Board from May 1998 to May 2006. Dr. Park served as Investment Partner and Senior Advisor at H&Q Asia Pacific, a private equity firm, from April 2004 until September 2004, and as Managing Director of the firm from November 2002 to March 2004. Prior to joining H&Q, Dr. Park served as President and Chief Executive Officer of Hynix Semiconductor Inc., a DRAM and FLASH memory manufacturer, from March 2000 until May 2002, and from June 2000 to May 2002 he also served as its Chairman. Dr. Park currently serves as a member of the board of directors of Ballard Power Systems, Inc., Brooks Automation, Inc., Computer Sciences Corporation, and Seagate Technology. Within the past five years, Dr. Park also served as a member of the board of directors of STATS ChipPAC Ltd. and Smart Modular Technologies, Inc. Dr. Park earned his a bachelor of arts degree from Yonsei University, Seoul, a master of business administration degree from the University of Chicago, and a doctorate degree in business administration from Nova Southeastern University. Dr. Park brings to our board of directors valuable experience in leadership, technology, manufacturing, sales and marketing as a former board chair and Chief Executive Officer of global businesses in the storage, semiconductor and electronics industry. Dr. Park with his international background also adds business and cultural diversity to our board of directors perspective.

Robert Schwartz has served as a member of our board of directors since February 2007. Since June 2000, Mr. Schwartz has been Managing Partner of Third Point Ventures, the Sunnyvale, California-based venture capital arm of Third Point LLC, which is a registered investment adviser based in New York and the investment manager of the Third Point Funds. Since 1984, Mr. Schwartz has also been the President of RF Associates North, Inc., a privately-held technical manufacturer s representative firm. Mr. Schwartz is presently a director of several

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privately-held companies. Mr. Schwartz holds an undergraduate engineering degree from the University of California, Berkeley. Mr. Schwartz s background as an executive of a technical manufacturer s representative firm provides our board and management with important insights on supply chains and sales channels. In addition, his experience as a venture capital investor and his long-standing experience on our board enables him to provide key insight, historical knowledge and guidance to our management team and board of directors.

Stoddard M. Wilson has served as a member of our board of directors since April 2008. In February 1998, Mr. Wilson joined RockPort Partners as a General Partner, a merchant bank specializing in the energy and environmental sectors, and helped form their venture fund in 2001. From August 1996 to January 1998, Mr. Wilson served as a general manager of Montague Corporation, a manufacturing company. From July 1990 to June 1994, Mr. Wilson served as Director of External Affairs and held positions in Admissions, Development and Financial Assistance with Wilbraham & Monson Academy, a private secondary school. From June 1987 to May 1990, Mr. Wilson held technical, sales and marketing positions with AT&T Inc. Mr. Wilson is presently a director of several privately-held companies. Mr. Wilson holds two bachelor of arts degrees, in history and economics, from Brown University and a master of business administration degree from Harvard Business School. As a venture capitalist, Mr. Wilson s focus on energy and environmental technologies, as well as his experience in building and managing startup businesses, provides a valuable perspective to our board.

Director Independence

Upon the completion of this offering, our common stock is expected to be listed on the NASDAQ Global Market. Under the rules of the NASDAQ Stock Market, LLC, or NASDAQ, independent directors must make up a majority of a listed company s board of directors within a specified period following that company s listing date in conjunction with its initial public offering. In addition, applicable NASDAQ rules require that, subject to specified exceptions, each member of a listed company s audit, compensation and nominating committees be independent within the meaning of applicable NASDAQ rules. Audit committee members must also satisfy the independence criteria set forth in Rule 10A-3 under the Securities Exchange Act of 1934, as amended, or the Exchange Act.

In June 2011, our board of directors undertook a review of the independence of each director and considered whether any director has a material relationship with us that could compromise his ability to exercise independent judgment in carrying out his responsibilities. As a result of this review, our board of directors determined that all of our directors, other than Messrs. Nahi and Belur, qualify as independent directors within the meaning of the NASDAQ rules. Accordingly, a majority of our directors are independent, as required under applicable NASDAQ rules. As required under applicable NASDAQ rules, we anticipate that our independent directors will meet in regularly scheduled executive sessions at which only independent directors are present.

Board Composition

Our board of directors is currently composed of nine members. Our certificate of incorporation and our bylaws permit our board of directors to establish by resolution the authorized number of directors, and nine directors are currently authorized. Our directors hold office until their successors have been elected and qualified, or the earlier of their death, resignation or removal.

Following the completion of this offering, at each annual meeting of stockholders, a class of directors will be elected for a three-year term to succeed the class whose term is then expiring. The terms of the directors will expire upon the election and qualification of successor directors at the annual meeting of stockholders to be held during 2013 for the Class I directors, 2014 for the Class II directors and 2015 for the Class III directors.

Our Class I directors will be Raghuveer R. Belur, Jameson J. McJunkin and Stoddard M. Wilson;

Our Class II directors will be Neal Dempsey, Benjamin Kortlang and Robert Schwartz; and

Our Class III directors will be Steven J. Gomo, Chong Sup Park and Paul B. Nahi.

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The division of our board of directors into three classes with staggered three-year terms may delay or prevent a change of our management or a change in control. Under Delaware law, our directors may be removed for cause by the affirmative vote of the holders of a majority of our voting stock.

Board Committees

Our board of directors has an audit committee, a compensation committee and a nominating and corporate governance committee, each of which has the composition and responsibilities described below.

Audit Committee. Our audit committee oversees our corporate accounting and financial reporting processes. For that purpose, our audit committee, among other things:

- evaluates the qualifications and performance of our independent registered public accounting firm;
- determines and approves the scope of engagement and compensation of our independent registered public accounting firm;
- confers with management and our independent registered public accounting firm regarding the effectiveness of our internal control over financial reporting; and
- establishes procedures for the receipt, retention and treatment of complaints regarding accounting, internal accounting controls or auditing matters.

Our audit committee also has certain responsibilities, including without limitation, the following:

- selecting and hiring the independent registered public accounting firm;
- evaluating the independent registered public accounting firm;
- approving audit and non-audit services and fees; reviewing and discussing with management and the independent registered public accounting firm our annual audited and quarterly financial statements, the results of the independent audit and the quarterly reviews, and the reports and certifications regarding internal control over financial reporting and disclosure controls; and
- reviewing reports and communications from the independent registered public accounting firm.

The members of our audit committee are Messrs. Dempsey, Gomo, Park, and Kortlang. Our board of directors has determined that Mr. Gomo is an audit committee financial expert as defined under applicable SEC rules. Mr. Gomo has been appointed to serve as the chairman of our audit committee. Each member of our audit committee meets the requirements for independence for audit committee service under the current

requirements of the NASDAQ Global Market and Rule 10A-3 under the Exchange Act.

Compensation Committee. Our compensation committee oversees our corporate compensation policies, plans and benefits programs. The functions of the committee include:

- reviewing and approving the compensation and other terms of employment of our executive officers and senior members of management and reviewing and approving corporate performance goals and objectives relevant to such compensation; and

- administering our stock option plans, stock purchase plans, compensation plans and similar programs, including the adoption, amendment and termination of such plans.

The members of our compensation committee are Messrs. Dempsey, Gomo, Park, Schwartz, and Wilson. Dr. Park has been appointed to serve as the chairman of our compensation committee effective upon the completion of this offering. We believe that each member of our compensation committee meets the requirements for independence under the current requirements of the NASDAQ Global Market, is a non-employee director as defined by Rule 16b-3 promulgated under the Exchange Act, and is an outside director as defined pursuant to Section 162(m) of the Code.

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Nominating and Corporate Governance Committee. Our nominating and corporate governance committee consists of Messrs. Dempsey, Kortlang and McJunkin, each of whom is a non-employee member of our board of directors. Mr. Dempsey is the chairman of our nominating and corporate governance committee. Our board of directors has determined that each of the directors serving on our nominating and corporate governance committee is independent within the meaning of the listing standards of the NASDAQ Global Market. The functions of this committee include:

- assessing the performance of our management and our board of directors;
- identifying, reviewing, and evaluating candidates to serve on our board of directors, including nominations by stockholders of candidates for election to our board of directors;
- reviewing and evaluating incumbent directors;
- making recommendations to our board of directors regarding the membership of the committees of the board of directors; and
- developing a set of corporate governance principles.

Compensation Committee Interlocks and Insider Participation

Our compensation committee currently consists of Messrs. Dempsey, Gomo, Park, Schwartz, and Wilson. None of the members of our compensation committee has, at any time, been one of our officers or employees. None of our executive officers serves, or in the past year has served, as a member of the board of directors or compensation committee of any entity that has one or more executive officers serving on our board of directors or compensation committee. For more information, see Certain Relationships and Related Party Transactions appearing elsewhere in this prospectus.

Code of Business Conduct and Ethics

Our board of directors adopted a code of business conduct and ethics that applies to all of our employees, officers and directors, including those officers responsible for financial reporting. Upon the completion of this offering, the code of business conduct and ethics will be available on our website at *www.enphase.com*. We intend to disclose future amendments to the code, or any waivers of its requirements on our website to the extent permitted by the applicable rules and exchange requirements. The inclusion of our website address in this prospectus does not include or incorporate by reference the information on our website into this prospectus.

Non-Employee Director Compensation

Except as described below, during 2011 our non-employee directors did not receive any cash compensation, stock awards or other compensation for their services as members of our board of directors or any committee of our board of directors. Except as described below, as of December 31, 2011 none of our non-employee directors held any outstanding stock options or stock awards.

In connection with the appointment of Mr. Gomo to our board in March 2011, he received a stock option to purchase 33,039 shares of common stock with an exercise price of $4.09 per share. This option grant vests as to 688 shares per month, beginning from March 10, 2011. In connection with the appointment of Dr. Park to our board in June 2011, he received a stock option to purchase 33,039 shares of common stock with an exercise price of $9.53 per share. This option grant vests as to 688 shares per month, beginning from June 23, 2011.

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Director compensation table

The following table sets forth information regarding fees paid to our non-employee directors for their service on our board of directors during the year ended December 31, 2011.

Name	Fees earned or paid in cash	Option awards[1]	Total
Neal Dempsey	$	$	$
Steven J. Gomo		170,919	170,919
Benjamin Kortlang			
Jameson J. McJunkin			
Chong Sup Park		199,443	199,443
Robert Schwartz			
Stoddard M. Wilson			

(1) Amounts reflect the grant date fair value of stock options granted in 2011 calculated in accordance with applicable accounting guidance for share-based payment transactions. The valuation assumptions used in determining such amounts are described in Note 10 to Consolidated Financial Statements appearing elsewhere in this prospectus.

New Director Compensation Program

Effective upon completion of this offering our non-employee directors will receive the following cash compensation:

Annual retainer board member	$ 35,000
Additional retainer audit committee chair[1]	18,000
Additional retainer audit committee member[2]	8,000
Additional retainer compensation committee chair[1]	12,000
Additional retainer compensation committee member[2]	6,000
Additional retainer nominating and governance committee chair[1]	8,000
Additional retainer nominating and governance committee member[2]	3,000

(1) Assumes five committee meetings per year, after which a $1,500 per meeting fee will apply.
(2) Assumes five committee meetings per year, after which a $1,000 per meeting fee will apply.

In addition, each board member will receive an initial option grant with a target value of $120,000, with 25% of the shares vested on the grant date and 25% vesting on each annual anniversary thereafter, and an annual option grant with a target value of $75,000 vesting after one year, in each case using a Black-Scholes option value model and with an exercise price per share equal to the fair market value on the date of grant.

We also intend to seek to recruit and/or appoint either a non-employee chairman of our board of directors or a lead independent director. We expect that an annual cash retainer will be established for this position, and the chairman or lead independent director will be eligible to receive stock option grants in light of his or her role and responsibilities. We expect that the overall compensation for this position will reflect the value

brought by the specific individual appointed to this position, based on the responsibility and time commitments associated with this role, as well as market conditions at the relevant time.

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COMPENSATION DISCUSSION AND ANALYSIS

The following discussion provides an overview of our executive compensation philosophy, the overall objectives of our executive compensation program, and each compensation component that we provide. In addition, we explain how and why we arrived at specific compensation policies and decisions involving our executive officers, including Messrs. Nahi, Kumar, Hollenbeck, Loebbaka and Steele, who are referred to as our named executive officers and are listed in the Summary Compensation Table set forth under Executive Compensation, during 2011.

This Compensation Discussion and Analysis contains forward-looking statements that are based on our current plans, considerations, expectations, and determinations regarding future compensation programs. The actual compensation programs that we adopt may differ materially from currently planned programs that are summarized in this discussion.

Executive Compensation Philosophy and Objectives

We compete with many other companies in seeking to attract and retain a skilled management team. To meet this challenge, we have employed a compensation philosophy of offering our executive officers competitive compensation and benefits packages that focus on long-term value creation and rewarding the management team members for achieving our financial and strategic objectives.

We have oriented our executive compensation program to accomplish the following objectives:

- provide total compensation opportunities, which enable us to recruit and retain executives with the experience and skills to manage our growth and lead us to the next stage of development;
- create a direct and meaningful link between our business results, individual performance, and rewards;
- establish a clear alignment between the interests of our executives and the interests of our stockholders;
- reinforce a culture of ownership, excellence, and urgency; and
- offer total compensation that we believe is competitive and fair.

Compensation Program Design

To date, the compensation of our executive officers, including our named executive officers, has consisted of base salaries, cash bonuses, equity compensation in the form of stock options and restricted stock awards, employee benefits, relocation packages and certain post-employment arrangements.

The key component of our executive compensation program has been equity awards for shares of our common stock. As a privately-held company prior to this offering, we have emphasized the use of equity to provide incentives for our executive officers to focus on the growth of our overall enterprise value and, correspondingly, to create value for our stockholders. We have used stock options as our primary equity award vehicle. We believe that stock options offer our employees, including our named executive officers, a valuable long-term incentive that aligns their interests with the long-term interests of our stockholders.

We also offer cash compensation in the form of base salaries and cash bonuses that we believe, overall, are competitive within the market range for companies of similar size, stage of development, and growth potential.

We have not adopted policies or guidelines for allocating compensation between current and long-term compensation, between cash and non-cash compensation, or among different forms of non-cash compensation. Instead, we review each component of executive compensation separately and also take into consideration the

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value of each executive s compensation package as a whole, both based on its value and its relative size in comparison to the other members of the executive team.

Compensation-Setting Process

To obtain the skills and experience that we believe are necessary to lead our growth, most of our executive officers were hired from larger organizations and have significant experience in their roles. Their initial compensation arrangements were determined in individual negotiations with each executive in connection with his joining us, taking into account his qualifications, experience, and prior compensation levels.

Since July 2010, our compensation committee has been responsible for overseeing our executive compensation program, as well as determining and approving the ongoing compensation arrangements for our Chief Executive Officer and our other executive officers, including our named executive officers. Typically, our Chief Executive Officer makes recommendations to our compensation committee regarding compensation matters, except with respect to his own compensation, and will often attend the compensation committee meetings, while excusing himself from any discussions involving his own compensation. The recommended compensation of our Chief Executive Officer is proposed by our compensation committee. Once finalized, typically recommendations for executive compensation are presented by our compensation committee to our board of directors for its approval, though our compensation committee has the authority to approve the compensation of the executive officers within guidelines pre-determined by our board of directors. In July 2010, our board of directors approved a compensation committee charter that delegates to our compensation committee the authority to establish and review the compensation of our executive officers, including our named executive officers.

Our compensation committee is authorized to retain the services of executive compensation advisors from time to time, as it sees fit, in connection with the establishment of cash and equity compensation plans and arrangements and related policies. In August 2010, our compensation committee engaged Compensia, Inc., a national compensation consulting firm providing executive compensation advisory services, to assist it in evaluating our executive compensation philosophy, to provide market data on executive compensation practices and to provide guidance on administering our executive, employee and equity compensation programs. Compensia serves at the discretion of our compensation committee.

Use of Competitive Data

Beginning in 2011, to assess the competitiveness of our executive compensation program and current compensation levels and to assist it in setting compensation levels, our compensation committee refers to compensation data compiled with respect to the compensation of executives in comparable positions at a group of comparable companies, which we refer to as the peer group. The companies comprising the peer group have been selected on the basis of their similarity to us in size (as determined by revenue and market capitalization) and product or service similarity. Compensation data for the companies comprising the peer group is gathered from public filings and from Compensia s proprietary compensation databases.

For 2011, based on consultations with Compensia, our compensation committee approved the following companies as our peer group for purposes of determining compensation:

A123 Systems, Inc.	Digi International Inc.	Maxwell Technologies, Inc.

Acme Packet, Inc.	Echelon Corporation	Nanometrics Incorporated
Advanced Energy Industries, Inc.	EMCORE Corporation	Powersecure International, Inc.
Aruba Networks, Inc.	Energy Conversion Devices, Inc.	SatCon Technology Corporation
CalAmp Corp.	EnerNOC, Inc.	Sonus Networks, Inc.
Codexis, Inc.	Fortinet, Inc.	Vicor Corporation
Comverge, Inc.	Isilon Systems, a division of EMC Corporation	

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Our compensation committee intends to review the composition of the peer group periodically and make adjustments to its composition as necessary.

In addition to the peer group, beginning in 2011, our compensation committee reviewed survey data from the Radford Global Technology Survey to supplement its understanding of the market for executive compensation.

While our compensation committee reviews the compensation data for, and compensation practices from, the peer group to inform its decision-making process, it does not set compensation components to meet specific benchmarks. Our compensation committee uses peer-group data as a point of reference so that it can set total compensation levels that it believes are reasonably competitive, but also believes that over-reliance on benchmarking can result in compensation that is unrelated to the value delivered by our executives. While compensation levels may differ among executives on competitive factors, and the role, responsibilities and performance of each specific executive, there are no material differences in the compensation philosophies, objectives or policies for our executives, including our named executive officers.

Executive Compensation Program Components

The following describes each component of our executive compensation program, the rationale for each, and how awards are determined.

Base Salary

In February 2011, we adjusted the base salaries of our named executive officers (retroactive to January 2011) as follows:

We increased the base salary of Mr. Nahi by $60,000 to $310,000 to reflect his successful execution of our business strategy during 2010, particularly in increasing the market penetration of our products and growing our sales. This increase was also based on his success in positioning our company, consistent with this strategy, for a potential initial public offering of our equity securities, and the competitive market for chief executive officers of technology and alternative energy companies, as reflected in the market survey data and our peer group as reported to our compensation committee by Compensia. This adjustment raised Mr. Nahi s base salary to a level of approximately the 50th percentile of the appropriate market data as reported by Compensia.

We set the base salary of Mr. Hollenbeck at the time he joined our company in December 2010. While our compensation committee reviewed market data for top engineering positions at other technology companies provided by Compensia to understand the competitive landscape, Mr. Hollenbeck s base salary was determined based on our negotiations with him. At the time he joined us, his base salary approximated the 75th percentile of the market data reported by Compensia. We did not make any adjustment to his base salary in 2011.

We increased the base salary of Mr. Loebbaka, our Vice President of Worldwide Sales, by $10,000 to reflect the competitive market for sales executives of technology and alternative energy companies, as reflected in the market data as reported by Compensia. This adjustment raised his base salary to a level of approximately the 50