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

Form 10-Q

(Mark One)

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

For the quarterly period ended March 31, 2024

or

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

For the transition period from to

Commission File Number: 001-35480

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Enphase Energy, Inc.

(Exact name of registrant as specified in its charter)

Delaware	**20-4645388**
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

47281 Bayside Parkway
Fremont, CA 94538
(Address of principal executive offices, including zip code)

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

Not Applicable
(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Trading Symbol(s)	Name of each exchange on which registered
Common Stock, $0.00001 par value per share	**ENPH**	**Nasdaq Global Market**

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes ☒ No ☐

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit such files). Yes ☒ No ☐

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

Large accelerated filer	☒	Accelerated filer	☐
Non-accelerated filer	☐	Smaller reporting company	☐
		Emerging growth company	☐

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

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

As of April 19, 2024, there were 136,062,737 shares of the registrant’s common stock outstanding, $0.00001 par value per share.

ENPHASE ENERGY, INC.

FORM 10-Q FOR THE QUARTERLY PERIOD ENDED MARCH 31, 2024

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PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

ENPHASE ENERGY, INC.

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

	As of	
	March 31, 2024	December 31, 2023
ASSETS	**(unaudited)**	
Current assets:		
Cash and cash equivalents	$ 253,652	$ 288,748
Marketable securities	1,375,941	1,406,286
Accounts receivable, net of allowances of $1,739 and $2,502 at March 31, 2024 and December 31, 2023, respectively	364,364	445,959
Inventory	207,893	213,595
Prepaid expenses and other assets	100,721	88,930
Total current assets	2,302,571	2,443,518
Property and equipment, net	158,303	168,244
Operating lease, right of use asset, net	19,875	19,887
Intangible assets, net	62,625	68,536
Goodwill	213,625	214,562
Other assets	214,119	215,895
Deferred tax assets, net	261,862	252,370
Total assets	$ 3,232,980	$ 3,383,012
LIABILITIES AND STOCKHOLDERS' EQUITY		
Current liabilities:		
Accounts payable	$ 71,751	$ 116,164
Accrued liabilities	234,391	261,919
Deferred revenues, current	119,821	118,300
Warranty obligations, current	30,868	36,066
Debt, current	97,264	—
Total current liabilities	554,095	532,449
Long-term liabilities:		
Deferred revenues, non-current	359,300	369,172
Warranty obligations, non-current	146,296	153,021
Other liabilities	51,962	51,008
Debt, non-current	1,198,604	1,293,738
Total liabilities	2,310,257	2,399,388
Commitments and contingencies (Note 10)		
Stockholders' equity:		
Common stock, $0.00001 par value, 300,000 shares authorized; and 135,989 shares and 135,722 shares issued and outstanding at March 31, 2024 and December 31, 2023, respectively	1	1
Additional paid-in capital	941,315	939,338
Accumulated earnings (deficit)	(11,820)	46,273
Accumulated other comprehensive loss	(6,773)	(1,988)
Total stockholders' equity	922,723	983,624
Total liabilities and stockholders' equity	$ 3,232,980	$ 3,383,012

See Notes to Condensed Consolidated Financial Statements.

ENPHASE ENERGY, INC.

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

	Three Months Ended March 31,	
	2024	**2023**
Net revenues	$ 263,339	$ 726,016
Cost of revenues	147,831	399,645
Gross profit	115,508	326,371
Operating expenses:		
Research and development	54,211	57,129
Sales and marketing	53,307	64,621
General and administrative	35,182	36,265
Restructuring and asset impairment charges	1,907	693
Total operating expenses	144,607	158,708
Income (loss) from operations	(29,099)	167,663
Other income, net		
Interest income	19,709	13,040
Interest expense	(2,196)	(2,156)
Other income, net	87	426
Total other income, net	17,600	11,310
Income (loss) before income taxes	(11,499)	178,973
Income tax provision	(4,598)	(32,100)
Net income (loss)	$ (16,097)	$ 146,873
Net income (loss) per share		
Basic	$ (0.12)	$ 1.07
Diluted	$ (0.12)	$ 1.02
Shares used in per share calculation:		
Basic	135,891	136,689
Diluted	135,891	145,986

See Notes to Condensed Consolidated Financial Statements.

ENPHASE ENERGY, INC.

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

	Three Months Ended March 31,	
	2024	**2023**
Net income (loss)	$ (16,097)	$ 146,873
Other comprehensive income (loss):		
Foreign currency translation adjustments	(2,974)	1,077
Marketable securities		
Change in net unrealized gain (loss), net of income tax benefit (provision) of $(604) and $1,079 for the three months ended March 31, 2024 and 2023, respectively.	(1,811)	3,071
Comprehensive income (loss)	$ (20,882)	$ 151,021

See Notes to Condensed Consolidated Financial Statements.

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

	Three Months Ended March 31,	
	2024	**2023**
Common stock and paid-in capital		
Balance, beginning of period	$ 939,339	$ 819,120
Issuance of common stock from exercise of equity awards	1,186	40
Issuance of common stock related to 365 Pronto, Inc. post combination expense	—	6,307
Payment of withholding taxes related to net share settlement of equity awards	(60,042)	(71,845)
Stock-based compensation expense	60,833	58,997
Balance, end of period	$ 941,316	$ 812,619
Accumulated earnings (deficit)		
Balance, beginning of period	$ 46,273	$ 17,335
Repurchase of common stock	(41,996)	—
Net income (loss)	(16,097)	146,873
Balance, end of period	$ (11,820)	$ 164,208
Accumulated other comprehensive loss		
Balance, beginning of period	$ (1,988)	$ (10,882)
Foreign currency translation adjustments	(2,974)	1,077
Change in net unrealized gain (loss) on marketable securities, net of tax	(1,811)	3,071
Balance, end of period	$ (6,773)	$ (6,734)
Total stockholders' equity, ending balance	$ 922,723	$ 970,093

See Notes to Condensed Consolidated Financial Statements.

ENPHASE ENERGY, INC.

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS

(In thousands)

(Unaudited)

	Three Months Ended March 31,	
	2024	2023
Cash flows from operating activities:		
Net income (loss)	$ (16,097)	$ 146,873
Adjustments to reconcile net income (loss) to net cash provided by operating activities:		
Depreciation and amortization	20,137	16,591
Net amortization (accretion) of premium (discount) on marketable securities	2,825	(7,548)
Provision (benefit) for doubtful accounts	(130)	180
Asset impairment	332	—
Non-cash interest expense	2,132	2,034
Net gain from change in fair value of debt securities	(942)	(1,744)
Stock-based compensation	60,833	59,655
Deferred income taxes	(8,292)	(16,181)
Changes in operating assets and liabilities:		
Accounts receivable	77,359	(79,529)
Inventory	5,702	(855)
Prepaid expenses and other assets	(10,897)	(21,457)
Accounts payable, accrued and other liabilities	(66,284)	82,540
Warranty obligations	(11,923)	14,588
Deferred revenues	(5,554)	51,085
Net cash provided by operating activities	49,201	246,232
Cash flows from investing activities:		
Purchases of property and equipment	(7,371)	(22,476)
Purchases of marketable securities	(472,268)	(695,387)
Maturities and sale of marketable securities	497,373	354,333
Net cash provided by (used in) investing activities	17,734	(363,530)
Cash flows from financing activities:		
Partial settlement of convertible notes	(2)	—
Proceeds from issuance of common stock under employee equity plans	1,186	40
Payment of withholding taxes related to net share settlement of equity awards	(60,042)	(71,845)
Repurchase of common stock	(41,996)	—
Net cash used in financing activities	(100,854)	(71,805)
Effect of exchange rate changes on cash and cash equivalents	(1,177)	1,904
Net decrease in cash and cash equivalents	(35,096)	(187,199)
Cash and cash equivalents—Beginning of period	288,748	473,244
Cash and cash equivalents—End of period	$ 253,652	$ 286,045
Supplemental cash flow disclosure:		
Supplemental disclosures of non-cash investing activities:		
Purchases of property and equipment included in accounts payable	$ 7,898	$ 9,814

See Notes to Condensed Consolidated Financial Statements.

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

1. DESCRIPTION OF BUSINESS AND BASIS OF PRESENTATION

Description of Business

Enphase Energy, Inc. (the "Company") is a global energy technology company. The Company delivers smart, easy-to-use solutions that manage solar generation, storage and communication on one platform. The Company's intelligent microinverters work with virtually every solar panel made, and when paired with the Company's smart technology, results in one of the industry's best-performing clean energy systems.

Basis of Presentation and Consolidation

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

Unaudited Interim Financial Information

These accompanying unaudited condensed consolidated financial statements have been prepared pursuant to the rules and regulations of the U.S. Securities and Exchange Commission ("SEC") for interim financial reporting. In the opinion of management, these unaudited condensed consolidated financial statements reflect all adjustments, consisting of normal recurring items, considered necessary to present fairly the Company's financial condition, results of operations, comprehensive income (loss), stockholders' equity and cash flows for the interim periods indicated. The results of operations for the three months ended March 31, 2024 are not necessarily indicative of the operating results for the full year.

Use of Estimates

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. Significant estimates and assumptions reflected in the financial statements include revenue recognition, allowance for doubtful accounts, stock-based compensation, deferred compensation arrangements, income tax provision, inventory valuation, government grants, accrued warranty obligations, fair value of investments, convertible notes, fair value of acquired intangible assets and goodwill, useful lives of acquired intangible assets and property and equipment, incremental borrowing rate for right-of-use assets and lease liability. These estimates are based on information available as of the date of the financial statements; therefore, actual results could differ materially from those estimates due to risks and uncertainties, including uncertainty in the ongoing semiconductor supply and logistic constraints.

The year-end condensed consolidated balance sheet data was derived from audited financial statements but does not include all disclosures required by U.S. GAAP. The Company filed audited consolidated financial statements, which included all information and notes necessary for such a complete presentation in conjunction with its Annual Report on Form 10-K for the fiscal year ended December 31, 2023 filed with the SEC on February 9, 2024 (the “Form 10-K”).

Summary of Significant Accounting Policies

There have been no changes to the Company’s significant accounting policies as described in Note 2, “Summary of Significant Accounting Policies” of the notes to consolidated financial statements included in Part II, Item 8 of the Form 10-K.

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Recently Issued Accounting Pronouncements

Not Yet Adopted

In November 2023, the Financial Accounting Standard Board ("FASB") issued Accounting Standards Update ("ASU") 2023-07, "Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures" ("ASU 2023-07"). ASU 2023-07 requires additional disclosures for segment reporting, including disclosure of the title and position of the Chief Operating Decision Maker and requires a public entity that has a single reportable segment to provide all the disclosures required by the amendments in ASU 2023-07, and all existing segment disclosures in Topic 280. ASU 2023-07 is effective for fiscal periods beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Company plans to adopt ASU 2023-07 effective for the annual report on Form 10-K for the year ended December 31, 2024 and subsequent interim periods. Since ASU 2023-07 addresses only disclosures, the adoption of ASU 2023-07 is not expected to have a significant impact on the Company's consolidated financial statements.

Not Yet Effective

In December 2023, the FASB issued ASU 2023-09, "Income Taxes (Topic 740): Improvements to Income Tax Disclosures" ("ASU 2023-09"). ASU 2023-09 requires that an entity disclose specific categories in the effective tax rate reconciliation as well as provide additional information for reconciling items that meet a quantitative threshold, certain disclosures of state versus federal income tax expenses and taxes paid. ASU 2023-09 is effective for fiscal years beginning after December 15, 2024. The Company does not expect the adoption of ASU 2023-09 to have a significant impact on its consolidated financial statements and will adopt the standard effective January 1, 2025.

2. REVENUE RECOGNITION

Disaggregated Revenue

The Company has one major business activity, which is the design, manufacture and sale of solutions for the solar photovoltaic industry. Disaggregated revenue by primary geographical market and timing of revenue recognition for the Company's single product line are as follows:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Primary geographical markets:		
U.S.	$ 149,974	$ 472,961
International	113,365	253,055
Total	$ 263,339	$ 726,016
Timing of revenue recognition:		
Products delivered at a point in time	$ 233,145	$ 701,652
Products and services delivered over time	30,194	24,364
Total	$ 263,339	$ 726,016

Contract Balances

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

	March 31, 2024	December 31, 2023
	(In thousands)	
Receivables	$ 364,364	$ 445,959
Short-term contract assets (Prepaid expenses and other assets)	40,915	40,241
Long-term contract assets (Other assets)	121,633	124,190
Short-term contract liabilities (Deferred revenues, current)	119,821	118,300
Long-term contract liabilities (Deferred revenues, non-current)	359,300	369,172

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The Company receives payments from customers based upon contractual billing schedules. Accounts receivable are recorded when the right to consideration becomes unconditional. Contract assets include deferred product costs and commissions associated with the deferred revenue and will be amortized along with the associated revenue. The Company had no asset impairment charges related to contract assets for the three months ended March 31, 2024.

Significant changes in the balances of contract assets (prepaid expenses and other assets) as of March 31, 2024 are as follows (in thousands):

Contract Assets	
Contract Assets, beginning of period	$ 164,431
Amount recognized	(10,524)
Increased due to shipments	8,641
Contract Assets, end of period	$ 162,548

Contract liabilities are recorded as deferred revenue on the accompanying condensed consolidated balance sheets and include payments received in advance of performance obligations under the contract and are realized when the associated revenue is recognized under the contract.

Significant changes in the balances of contract liabilities (deferred revenues) as of March 31, 2024 are as follows (in thousands):

Contract Liabilities	
Contract Liabilities, beginning of period	$ 487,472
Revenue recognized	(30,194)
Increased due to billings	21,843
Contract Liabilities, end of period	$ 479,121

Remaining Performance Obligations

Estimated revenue expected to be recognized in future periods related to performance obligations that are unsatisfied or partially unsatisfied at the end of the reporting period are as follows:

	March 31, 2024
	(In thousands)
Fiscal year:	
2024 (remaining nine months)	$ 90,521
2025	113,226
2026	96,983
2027	77,353
2028	56,091
Thereafter	44,947
Total	$ 479,121

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

3. OTHER FINANCIAL INFORMATION

Inventory

Inventory consists of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Raw materials	$ 52,452	$ 30,849
Finished goods	155,441	182,746
Total inventory	$ 207,893	$ 213,595

Accrued Liabilities

Accrued liabilities consist of the following:

	March 31, 2024	December 31, 2023
	(In thousands)	
Customer rebates and sales incentives	$ 124,769	$ 158,338
Liability due to supply agreements	41,288	32,973
Freight	19,673	19,262
Salaries, commissions, incentive compensation and benefits	14,498	10,316
Income tax payable	1,471	8,531
Operating lease liabilities, current	5,148	5,220
VAT payable	6,033	3,243
Liabilities related to restructuring accruals	399	3,104
Other	21,112	20,932
Total accrued liabilities	$ 234,391	$ 261,919

4. GOODWILL AND INTANGIBLE ASSETS

The Company’s goodwill as of March 31, 2024 and December 31, 2023 was as follows:

Goodwill	March 31, 2024	December 31, 2023
	(In thousands)	
Goodwill, beginning of period	$ 214,562	$ 213,559
Currency translation adjustment	(937)	1,003
Goodwill, end of period	$ 213,625	$ 214,562

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (Unaudited)

The Company’s purchased intangible assets as of March 31, 2024 and December 31, 2023 were as follows:

	March 31, 2024				December 31, 2023				
	Gross	Additions	Accumulated Amortization	Net	Gross	Additions	Accumulated Amortization	Impairment	Net
	(In thousands)								
Intangible assets:									
Other indefinite-lived intangibles	$ 286	$ —	$ —	$ 286	$ 286	$ —	$ —	$ —	$ 286
Intangible assets with finite lives:									
Developed technology	51,054	—	(29,560)	21,494	51,044	—	(27,093)	—	23,951
Customer relationships	51,306	—	(31,103)	20,203	55,106	—	(29,527)	(3,807)	21,772
Trade names	37,700	—	(17,058)	20,642	37,700	—	(15,173)	—	22,527
Total purchased intangible assets	$140,346	$ —	$ (77,721)	$62,625	$144,136	$ —	$ (71,793)	$ (3,807)	$68,536

During the three months ended March 31, 2024, intangible assets decreased by less than $0.1 million due to the impact of foreign currency translation.

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Developed technology	$ 2,467	$ 2,455
Customer relationships	1,576	2,454
Trade names	1,885	1,885
Total amortization expense	$ 5,928	$ 6,794

Amortization of developed technology is recorded to cost of revenues, amortization of customer relationships and trade names are recorded to sales and marketing expense, and amortization of certain customer relationships is recorded as a reduction to revenue.

The expected future amortization expense of intangible assets as of March 31, 2024 is presented below:

	March 31, 2024
	(In thousands)
Fiscal year:	
2024 (remaining nine months)	$ 16,811
2025	21,397
2026	19,108
2027	5,023
Total	$ 62,339

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

5. CASH EQUIVALENTS AND MARKETABLE SECURITIES

The cash equivalents and marketable securities consist of the following:

	As of March 31, 2024					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
	(In thousands)					
Money market funds	$ 113,904	$ —	$ —	$ 113,904	$ 113,904	$ —
Certificates of deposit	45,432	46	—	45,478	—	45,478
Commercial paper	73,606	16	(49)	73,573	—	73,573
Corporate notes and bonds	424,500	372	(701)	424,171	—	424,171
U.S. Treasuries	170,120	16	(185)	169,951	—	169,951
U.S. Government agency securities	665,055	95	(2,382)	662,768	—	662,768
Total	$ 1,492,617	$ 545	$ (3,317)	$ 1,489,845	$ 113,904	$ 1,375,941

	As of December 31, 2023					
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value	Cash Equivalents	Marketable Securities
	(In thousands)					
Money market funds	$ 132,037	$ —	$ —	$ 132,037	$ 132,037	$ —
Certificates of deposit	55,863	58	(9)	55,912	750	55,162
Commercial paper	71,427	29	(19)	71,437	1,694	69,743
Corporate notes and bonds	406,093	934	(931)	406,096	462	405,634
U.S. Treasuries	327,773	152	(34)	327,891	—	327,891
U.S. Government agency securities	548,391	690	(1,225)	547,856	—	547,856
Total	$ 1,541,584	$ 1,863	$ (2,218)	$ 1,541,229	$ 134,943	$ 1,406,286

The following table summarizes the contractual maturities of the Company’s cash equivalents and marketable securities as of March 31, 2024:

	Amortized Cost	Fair Value
	(In thousands)	
Due within one year	$ 1,081,773	$ 1,080,140
Due within one to three years	410,844	409,705
Total	$ 1,492,617	$ 1,489,845

All available-for-sale securities have been classified as current, based on management's intent and ability to use the funds in current operations.

ENPHASE ENERGY, INC.

**NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)**

6. WARRANTY OBLIGATIONS

The Company’s warranty obligation activities were as follows:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Warranty obligations, beginning of period	$ 189,087	$ 131,446
Accruals for warranties issued during period	6,098	16,171
Expense (benefit) from changes in estimates	(12,361)	3,728
Settlements	(6,893)	(8,894)
Increase due to accretion expense	2,905	3,545
Other	(1,672)	38
Warranty obligations, end of period	177,164	146,034
Less: warranty obligations, current	(30,868)	(34,513)
Warranty obligations, non-current	$ 146,296	$ 111,521

Changes in Estimates

In the three months ended March 31, 2024, the Company recorded $12.4 million in warranty benefit from change in estimates, of which $9.3 million related to a decrease in product replacement costs for Enphase IQ®.Battery storage systems and $3.1 million related to continuing analysis of field performance data and diagnostic root-cause failure analysis for Enphase IQ battery storage systems.

In the three months ended March 31, 2023, the Company recorded $3.7 million in warranty expense from change in estimates, of which $9.9 million related to continuing analysis of field performance data and diagnostic root-cause failure analysis primarily for Enphase IQ Battery storage systems and prior generation products, partially offset by $6.2 million related to a decrease in product replacement costs and labor reimbursement.

7. FAIR VALUE MEASUREMENTS

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

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

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

- Level 2 - Valuations based on one or more quoted prices in markets that are not active or for which all significant inputs are observable, either directly or indirectly.

- Level 3 - Valuations based on inputs that are unobservable and significant to the overall fair value measurement.

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ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

The following table presents assets and liabilities measured at fair value on a recurring basis using the above input categories:

	March 31, 2024			December 31, 2023		
	(In thousands)					
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Assets:						
Cash and cash equivalents:						
Money market funds	$ 113,904	$ —	$ —	$ 132,037	$ —	$ —
Certificates of deposit	—		—	—	750	—
Commercial paper	—	—	—	—	1,694	—
Corporate notes and bonds	—	—	—	—	462	—
Marketable securities:						
Certificates of deposit	—	45,478	—	—	55,162	—
Commercial paper	—	73,573	—	—	69,743	—
Corporate notes and bonds	—	424,171	—	—	405,634	—
U.S. Treasuries	—	169,951	—	—	327,891	—
U.S. Government agency securities	—	662,768	—	—	547,856	—
Other assets						
Investments in debt securities	—	—	80,797	—	—	79,855
Total assets measured at fair value	$ 113,904	$1,375,941	$ 80,797	$ 132,037	$1,409,192	$ 79,855
Liabilities:						
Warranty obligations						
Current	$ —	$ —	$ 23,486	$ —	$ —	$ 28,667
Non-current	—	—	127,064	—	—	133,126
Total warranty obligations measured at fair value	—	—	150,550	—	—	161,793
Total liabilities measured at fair value	$ —	$ —	$ 150,550	$ —	$ —	$ 161,793

Notes due 2028, Notes due 2026 and Notes due 2025

The Company carries the Notes due 2028 (as defined in Note 9, “Debt”) and Notes due 2026 (as defined in Note 9, “Debt”) at face value less unamortized debt issuance costs on its condensed consolidated balance sheets. The Company carries the Notes due 2025 (as defined in Note 9, “Debt”) at face value less unamortized debt discount and issuance costs on its condensed consolidated balance sheets. As of March 31, 2024, the fair value of the Notes due 2028, Notes due 2026 and Notes due 2025 was $492.3 million, $579.8 million and $154.3 million, respectively. The fair value as of March 31, 2024 was determined based on the closing trading price per $100 principal amount as of the last day of trading for the period. The Company considers the fair value of the Notes due 2028, Notes due 2026 and Notes due 2025 to be a Level 2 measurement as they are not actively traded.

Investments in debt securities

Investment in debt securities is recorded in “Other assets” on the accompanying condensed consolidated balance sheet as of March 31, 2024 and December 31, 2023. The changes in the balance in investments in debt securities during the period were as follows:

	Three Months Ended March 31,	
	2024	**2023**
	(In thousands)	
Balance at beginning of period	$ 79,855	$ 56,777
Fair value adjustments included in other income, net	942	1,744
Balance at end of period	$ 80,797	$ 58,521

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Warranty obligations

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

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

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Balance at beginning of period	$ 161,793	$ 106,489
Accruals for warranties issued during period	6,082	16,025
Changes in estimates	(12,018)	1,245
Settlements	(6,540)	(7,834)
Increase due to accretion expense	2,905	3,545
Other	(1,672)	38
Balance at end of period	$ 150,550	$ 119,508

Quantitative and Qualitative Information about Level 3 Fair Value Measurements

As of March 31, 2024 and December 31, 2023, the significant unobservable inputs used in the fair value measurement of the Company's liabilities designated as Level 3 were as follows, of which the monetary impact for change in discount rate is captured in "Change in discount rate" in the table above:

Item Measured at Fair Value	Valuation Technique	Description of Significant Unobservable Input	Percent Used (Weighted Average) March 31, 2024	Percent Used (Weighted Average) December 31, 2023
Warranty obligations for products sold since January 1, 2014	Discounted cash flows	Profit element and risk premium	17%	17%
		Credit-adjusted risk-free rate	7%	7%

Sensitivity of Level 3 Inputs - Warranty Obligations

Each of the significant unobservable inputs is independent of the other. The profit element and risk premium are estimated based on the requirements of a third-party participant willing to assume the Company's warranty obligations. The discount rate is determined by reference to the Company's own credit standing at the fair value measurement date. Under the expected present value technique, increasing the profit element and risk premium input by 100 basis points would result in a $1.1 million increase to the liability. Decreasing the profit element and risk premium by 100 basis points would result in a $1.1 million reduction of the liability. Increasing the discount rate by 100 basis points would result in a $10.4 million reduction of the liability. Decreasing the discount rate by 100 basis points would result in a $11.7 million increase to the liability.

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8. RESTRUCTURING AND ASSET IMPAIRMENT CHARGES

2023 Restructuring Plan

In the fourth quarter of 2023, the Company implemented a new restructuring plan (the "2023 Restructuring Plan") designed to increase operational efficiencies and execution, reduce operating costs, and better align the Company's workforce and cost structure with current market conditions, and the Company's business needs, strategic priorities and ongoing commitment to profitable growth. The Company plans to complete its restructuring activities under the 2023 Restructuring Plan by June 30, 2024.

The following table presents the details of the Company's restructuring and asset impairment charges and accrued balance under the 2023 Restructuring Plan:

	Employee Severance and Benefits	Contract Termination Charges	Asset Impairment	Total
	(In thousands)			
Balance as of December 31, 2023	$ 1,304	$ 1,800	$ —	$ 3,104
Charges	270	1,305	332	1,907
Cash payments	(1,152)	(1,500)	—	(2,652)
Non-cash settlement and other	(267)	(1,361)	(332)	(1,960)
Balance as of March 31, 2024	$ 155	$ 244	$ —	$ 399

9. DEBT

The following table provides information regarding the Company's debt:

	March 31, 2024	December 31, 2023
	(In thousands)	
Convertible notes		
Notes due 2028	$ 575,000	$ 575,000
Less: unamortized debt issuance costs	(5,082)	(5,408)
Carrying amount of Notes due 2028	569,918	569,592
Notes due 2026	632,500	632,500
Less: unamortized debt issuance costs	(3,814)	(4,317)
Carrying amount of Notes due 2026	628,686	628,183
Notes due 2025	102,173	102,175
Less: unamortized debt discount	(4,467)	(5,644)
Less: unamortized debt issuance costs	(442)	(568)
Carrying amount of Notes due 2025	97,264	95,963
Total carrying amount of debt	1,295,868	1,293,738
Less: debt, current	(97,264)	—
Debt, non-current	$ 1,198,604	$ 1,293,738

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The following table presents the total amount of interest cost recognized in the consolidated statement of operations relating to the Notes:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Notes due 2028		
Amortization of debt issuance costs	$ 326	$ 316
Total interest cost recognized	$ 326	$ 316
Notes due 2026		
Amortization of debt issuance costs	$ 503	$ 485
Total interest cost recognized	$ 503	$ 485
Notes due 2025		
Contractual interest expense	$ 64	$ 64
Amortization of debt discount	1,177	1,105
Amortization of debt issuance costs	126	118
Total interest cost recognized	$ 1,367	$ 1,287
Convertible Senior Notes due 2023 (the “Notes due 2023”)		
Contractual interest expense	$ —	$ 50
Amortization of debt issuance costs	—	10
Total interest costs recognized	$ —	$ 60

Convertible Senior Notes due 2028

On March 1, 2021, the Company issued $575.0 million aggregate principal amount of its 0.0% convertible senior notes due 2028 (the “Notes due 2028”). The Notes due 2028 will not bear regular interest, and the principal amount of the Notes due 2028 will not accrete. The Notes due 2028 are general unsecured obligations and are governed by an indenture between the Company and U.S. Bank National Association, as trustee. The Notes due 2028 will mature on March 1, 2028, unless earlier repurchased by the Company or converted at the option of the holders. The Company received approximately $566.4 million in net proceeds, after deducting the initial purchasers’ discount, from the issuance of the Notes due 2028.

The initial conversion rate for the Notes due 2028 is 3.5104 shares of common stock per $1,000 principal amount of the Notes due 2028 (which represents an initial conversion price of approximately $284.87 per share). Upon conversion, the Company will settle conversions of the Notes due 2028 through payment or delivery, as the case may be, of cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company’s election.

The Company may not redeem the Notes due 2028 prior to September 6, 2024. The Company may redeem for cash all or any portion of the Notes due 2028, at the Company’s election, on or after September 6, 2024, if the last reported sale price of the Company’s common stock has been greater than or equal to 130% of the conversion price then in effect for the Notes due 2028 (i.e., $370.33, which is 130% of the current conversion price for the Notes due 2028) for at least 20 trading days (whether or not consecutive) during any 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the Notes due 2028 to be redeemed, plus accrued and unpaid special interest, if any to, but excluding, the relevant redemption date. No sinking fund is provided for the Notes due 2028.

ENPHASE ENERGY, INC.

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The Notes due 2028 may be converted on any day prior to the close of business on the business day immediately preceding September 1, 2027, in multiples of $1,000 principal amount, at the option of the holder only under any of the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price for the Notes due 2028 on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "Measurement Period") in which the "trading price" (as defined in the relevant indenture) per $1,000 principal amount of notes for each trading day of the Measurement Period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for the Notes due 2028 on each such trading day; (3) if the Company calls any or all of the Notes due 2028 for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after September 1, 2027 until the close of business on the second scheduled trading day immediately preceding the maturity date of March 1, 2028, holders of the Notes due 2028 may convert their notes at any time, regardless of the foregoing circumstances. Upon the occurrence of a fundamental change (as defined in the relevant indenture), holders may require the Company to repurchase all or a portion of their Notes due 2028 for cash at a price equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date.

As of March 31, 2024, the unamortized deferred issuance cost for the Notes due 2028 was $5.1 million on the condensed consolidated balance sheet.

Notes due 2028 Hedge and Warrant Transactions

In connection with the offering of the Notes due 2028, the Company entered into privately-negotiated convertible note hedge transactions ("Notes due 2028 Hedge") pursuant to which the Company has the option to purchase a total of approximately 2.0 million shares of its common stock (subject to anti-dilution adjustments), which is the same number of shares initially issuable upon conversion of the Notes due 2028, at a price of $284.87 per share. The total cost of the convertible note hedge transactions was approximately $161.6 million. The convertible note hedge transactions are expected generally to reduce potential dilution to the Company's common stock upon any conversion of the Notes due 2028 and/or offset any cash payments the Company is required to make in excess of the principal amount of converted notes, as the case may be.

Additionally, the Company separately entered into privately-negotiated warrant transactions (the "2028 Warrants") whereby the Company sold warrants to acquire approximately 2.0 million shares of the Company's common stock (subject to anti-dilution adjustments) at an initial strike price of $397.91 per share. The Company received aggregate proceeds of approximately $123.4 million from the sale of the 2028 Warrants. If the market value per share of the Company’s common stock, as measured under the 2028 Warrants, exceeds the strike price of the 2028 Warrants, the 2028 Warrants will have a dilutive effect on the Company’s earnings per share, unless the Company elects, subject to certain conditions, to settle the 2028 Warrants in cash. Taken together, the purchase of the Notes due 2028 Hedge and the sale of the 2028 Warrants are intended to reduce potential dilution from the conversion of the Notes due 2028 and to effectively increase the overall conversion price from $284.87 to $397.91 per share. The 2028 Warrants are only exercisable on the applicable expiration dates in accordance with the Notes due 2028 Hedge. Subject to the other terms of the 2028 Warrants, the first expiration date applicable to the Notes due 2028 Hedge is June 1, 2028, and the final expiration date applicable to the Notes due 2028 Hedge is July 27, 2028.

Given that the transactions meet certain accounting criteria, the Notes due 2028 Hedge and the 2028 Warrants transactions are recorded in stockholders’ equity, and they are not accounted for as derivatives and are not remeasured each reporting period.

Convertible Senior Notes due 2026

On March 1, 2021, the Company issued $575.0 million aggregate principal amount of 0.0% convertible senior notes due 2026 (the “Notes due 2026”). In addition, on March 12, 2021, the Company issued an additional $57.5 million aggregate principal amount of the Notes due 2026 pursuant to the initial purchasers’ full exercise of the over-allotment option for additional Notes due 2026. The Notes due 2026 will not bear regular interest, and the principal amount of the Notes due 2026 will not accrete. The Notes due 2026 are general unsecured obligations and are governed by an indenture between the Company and U.S. Bank National Association, as trustee. The Notes due 2026 will mature on March 1, 2026, unless repurchased earlier by the Company or converted at the option of the holders. The Company received approximately $623.0 million in net proceeds, after deducting the initial purchasers' discount, from the issuance of the Notes due 2026.

The initial conversion rate for the Notes due 2026 is 3.2523 shares of common stock per $1,000 principal amount of the Notes due 2026 (which represents an initial conversion price of approximately $307.47 per share). Upon conversion, the Company will settle conversions of Notes due 2026 through payment or delivery, as the case may be, of cash, shares of its common stock or a combination of cash and shares of its common stock, at the Company's election.

The Company may not redeem the Notes due 2026 prior to the September 6, 2023. The Company may redeem for cash all or any portion of the Notes due 2026, at the Company's election, on or after September 6, 2023, if the last reported sale price of the Company's common stock has been greater than or equal to 130% of the conversion price then in effect for the Notes due 2026 (i.e., $399.71, which is 130% of the current conversion price for the Notes due 2026) for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading day period ending on, and including, the trading day immediately preceding the date on which the Company provides notice of redemption. The redemption price will equal 100% of the principal amount of the Notes due 2026 to be redeemed, plus accrued and unpaid special interest, if any, to, but excluding, the relevant redemption date for the Notes due 2026. The redemption price will be increased as described in the relevant indentures by a number of additional shares of the Company in connection with such optional redemption by the Company. No sinking fund is provided for the Notes due 2026.

The Notes due 2026 may be converted on any day prior to the close of business on the business day immediately preceding September 1, 2025, in multiples of $1,000 principal amount, at the option of the holder only under any of the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2021 (and only during such calendar quarter), if the last reported sale price of the Company's common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price of the Notes due 2026 on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the "measurement period") in which the "trading price" (as defined in the relevant indenture) per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company's common stock and the conversion rate for Notes due 2026 on each such trading day; (3) if the Company calls any or all of the Notes due 2026 for redemption, at any time prior to the close of business on the scheduled trading day immediately preceding the redemption date; or (4) upon the occurrence of specified corporate events. On and after September 1, 2025 until the close of business on the second scheduled trading day immediately preceding the maturity date of March 1, 2026, holders of the Notes due 2026 may convert their notes at any time, regardless of the foregoing circumstances. Upon the occurrence of a fundamental change (as defined in the relevant indenture), holders may require the Company to repurchase all or a portion of their Notes due 2026 for cash at a price equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid special interest, if any, to, but excluding, the fundamental change repurchase date.

As of March 31, 2024, the unamortized deferred issuance cost for the Notes due 2026 was $3.8 million on the condensed consolidated balance sheet.

Notes due 2026 Hedge and Warrant Transactions

In connection with the offering of the Notes due 2026 (including in connection with the issuance of additional Notes due 2026 upon the initial purchasers' exercise of their over-allotment option), the Company entered into privately-negotiated convertible note hedge transactions (the "Notes due 2026 Hedge") pursuant to which the Company has the option to purchase a total of approximately 2.1 million shares of its common stock (subject to anti-dilution adjustments), which is the same number of shares initially issuable upon conversion of the Notes due 2026, at a price of $307.47 per share, which is the initial conversion price of the Notes due 2026. The total cost of the Notes due 2026 Hedge was approximately $124.6 million. The Notes due 2026 Hedge are expected generally to reduce potential dilution to the Company's common stock upon any conversion of the Notes due 2026 and/or offset any cash payments the Company is required to make in excess of the principal amount of converted notes, as the case may be.

Additionally, the Company separately entered into privately-negotiated warrant transactions, including in connection with the issuance of additional Notes due 2026 upon the initial purchasers' exercise of their over-allotment option (the "2026 Warrants"), whereby the Company sold warrants to acquire approximately 2.1 million shares of the Company's common stock (subject to anti-dilution adjustments) at an initial strike price of $397.91 per share. The Company received aggregate proceeds of approximately $97.4 million from the sale of the 2026 Warrants. If the market value per share of the Company's common stock, as measured under the 2026 Warrants, exceeds the strike price of the 2026 Warrants, the 2026 Warrants will have a dilutive effect on the Company's earnings per share, unless the Company elects, subject to certain conditions, to settle the 2026 Warrants in cash. Taken together, the purchase of the Notes due 2026 Hedge and the sale of the 2026 Warrants are intended to reduce potential dilution from the conversion of the Notes due 2026 and to effectively increase the overall conversion price from $307.47 to $397.91 per share. The 2026 Warrants are only exercisable on the applicable expiration dates in accordance with the 2026 Warrants. Subject to the other terms of the 2026 Warrants, the first expiration date applicable to the Warrants is June 1, 2026, and the final expiration date applicable to the 2026 Warrants is July 27, 2026.

Given that the transactions meet certain accounting criteria, the Notes due 2026 Hedge and the 2026 Warrants transactions are recorded in stockholders' equity, and they are not accounted for as derivatives and are not remeasured each reporting period.

Convertible Senior Notes due 2025

On March 9, 2020, the Company issued $320.0 million aggregate principal amount of its 0.25% convertible senior notes due 2025 (the "Notes due 2025"). The Notes due 2025 are general unsecured obligations and bear interest at an annual rate of 0.25% per year, payable semi-annually on March 1 and September 1 of each year. The Notes due 2025 are governed by an indenture between the Company and U.S. Bank National Association, as trustee. The Notes due 2025 will mature on March 1, 2025, unless earlier repurchased by the Company or converted at the option of the holders. The Company may not redeem the notes prior to the maturity date, and no sinking fund is provided for the notes. The Notes due 2025 may be converted, under certain circumstances as described below, based on an initial conversion rate of 12.2637 shares of common stock per $1,000 principal amount (which represents an initial conversion price of $81.54 per share). The conversion rate for the Notes due 2025 will be subject to adjustment upon the occurrence of certain specified events but will not be adjusted for accrued and unpaid interest. In addition, upon the occurrence of a make-whole fundamental change (as defined in the relevant indenture), the Company will, in certain circumstances, increase the conversion rate by a number of additional shares for a holder that elects to convert its notes in connection with such make-whole fundamental change. The Company received approximately $313.0 million in net proceeds, after deducting the initial purchasers' discount, from the issuance of the Notes due 2025.

The Notes due 2025 may be converted prior to the close of business on the business day immediately preceding September 1, 2024, in multiples of $1,000 principal amount, at the option of the holder only under the following circumstances: (1) during any calendar quarter commencing after the calendar quarter ending on June 30, 2020 (and only during such calendar quarter), if the last reported sale price of the Company’s common stock for at least 20 trading days (whether or not consecutive) during a period of 30 consecutive trading days ending on, and including, the last trading day of the immediately preceding calendar quarter is greater than or equal to 130% of the conversion price on each applicable trading day; (2) during the five business day period after any five consecutive trading day period (the “measurement period”) in which the “trading price” (as defined in the relevant indenture) per $1,000 principal amount of notes for each trading day of the measurement period was less than 98% of the product of the last reported sale price of the Company’s common stock and the conversion rate on each such trading day; or (3) upon the occurrence of specified corporate events. On and after September 1, 2024 until the close of business on the second scheduled trading day immediately preceding the maturity date of March 1, 2025, holders may convert their notes at any time, regardless of the foregoing circumstances. Upon the occurrence of a fundamental change (as defined in the relevant indenture), holders may require the Company to repurchase all or a portion of their Notes due 2025 for cash at a price equal to 100% of the principal amount of the notes to be repurchased plus any accrued and unpaid interest to, but excluding, the fundamental change repurchase date.

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As of March 31, 2024 the sale price of the Company’s common stock was greater than or equal to $106.00 (130% of the notes conversion price) for at least 20 trading days (whether consecutive or not) during a period of 30 consecutive trading days preceding the quarter-ended March 31, 2024. As a result, the Notes due 2025 are convertible at the holders’ option through June 30, 2024. Further, as the Notes due 2025 mature in less than a year, the Company classified the net carrying amount of the Notes due 2025 of $97.3 million as Debt, current on the condensed consolidated balance sheet as of March 31, 2024.

Partial repurchase of Notes due 2025

On December 29, 2023, the Company received a request for conversion of $2.0 thousand in the principal amount of the Notes due 2025. In February 2024, the principal amount of the converted Notes due 2025 was repaid in cash. In connection with the conversion, the Company also issued six shares of its common stock to the holders of the converted Notes due 2025, with an aggregate fair value of less than $0.1 million, representing the conversion value in excess of the principal amount of the Notes due 2025. Following this repurchase combined with repurchase in previous years, as of March 31, 2024, $102.2 million aggregate principal amount of the Notes due 2025 remained outstanding.

The derived effective interest rate on the Notes due 2025 host contract was determined to be 5.18%, which remains unchanged from the date of issuance. The remaining unamortized debt discount was $4.5 million as of March 31, 2024, and will be amortized over approximately 0.9 years from March 31, 2024.

Notes due 2025 Hedge and Warrant Transactions

In connection with the offering of the Notes due 2025, the Company entered into privately-negotiated convertible note hedge transactions (the “Notes due 2025 Hedge”) pursuant to which the Company has the option to purchase a total of approximately 3.9 million shares of its common stock (subject to anti-dilution adjustments), which is the same number of shares initially issuable upon conversion of the notes, at a price of $81.54 per share, which is the initial conversion price of the Notes due 2025. The total cost of the convertible note hedge transactions was approximately $89.1 million. The convertible note hedge transactions are expected generally to reduce potential dilution to the Company’s common stock upon any conversion of the Notes due 2025 and/or offset any cash payments the Company is required to make in excess of the principal amount of converted notes, as the case may be.

Additionally, the Company separately entered into privately-negotiated warrant transactions in connection with the offering of the Notes due 2025 whereby the Company sold the 2025 Warrants to acquire approximately 3.9 million shares of the Company’s common stock (subject to anti-dilution adjustments) at an initial strike price of $106.94 per share. The Company received aggregate proceeds of approximately $71.6 million from the sale of the 2025 Warrants. If the market value per share of the Company’s common stock, as measured under the 2025 Warrants, exceeds the strike price of the 2025 Warrants, the 2025 Warrants will have a dilutive effect on the Company’s earnings per share, unless the

Company elects, subject to certain conditions, to settle the 2025 Warrants in cash. Taken together, the purchase of the convertible note hedges in connection with the Notes due 2025 Hedge and the sale of the 2025 Warrants are intended to reduce potential dilution from the conversion of the Notes due 2025 and to effectively increase the overall conversion price from $81.54 to $106.94 per share. The 2025 Warrants are only exercisable on the applicable expiration dates in accordance with the agreements relating to each of the 2025 Warrants. Subject to the other terms of the 2025 Warrants, the first expiration date applicable to the 2025 Warrants is June 1, 2025, and the final expiration date applicable to the 2025 Warrants is September 23, 2025.

As of March 31, 2024, options to purchase approximately 1.3 million shares of common stock remained outstanding under the Notes due 2025 Hedge, and 2025 Warrants exercisable to purchase approximately 1.3 million shares remained outstanding.

10. COMMITMENTS AND CONTINGENCIES

Operating Leases

The Company leases office facilities under noncancellable operating leases that expire on various dates through 2034, some of which may include options to extend the leases for up to 12 years.

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The components of lease expense are presented as follows:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)	
Operating lease costs	$ 2,647	$ 2,592

The components of lease liabilities are presented as follows:

	March 31, 2024	December 31, 2023
	(In thousands except years and percentage data)	
Operating lease liabilities, current (Accrued liabilities)	$ 5,148	$ 5,220
Operating lease liabilities, non-current (Other liabilities)	18,781	18,802
Total operating lease liabilities	$ 23,929	$ 24,002
Supplemental lease information:		
Weighted average remaining lease term	5.8 years	5.8 years
Weighted average discount rate	6.9%	7.0%

Supplemental cash flow and other information related to operating leases were as follows:

	Three Months Ended March 31, 2024	Three Months Ended March 31, 2023
	(In thousands)	
Cash paid for amounts included in the measurement of lease liabilities:		
Operating cash flows from operating leases	$ 1,905	$ 1,702
Non-cash investing activities:		
Lease liabilities arising from obtaining right-of-use assets	$ 1,695	$ 1,516

Undiscounted cash flows of operating lease liabilities as of March 31, 2024 were as follows:

	Lease Amounts
	(In thousands)
Year:	
2024 (remaining nine months)	$ 4,964
2025	6,228
2026	4,565
2027	3,211
2028	2,621
Thereafter	7,795
Total lease payments	29,384
Less: imputed lease interest	(5,455)
Total lease liabilities	$ 23,929

Purchase Obligations

The Company has contractual obligations related to component inventory that its contract manufacturers procure on its behalf in accordance with its production forecast as well as other inventory related purchase commitments. As of March 31, 2024, these purchase obligations totaled approximately $116.7 million.

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Litigation

From time-to-time, the Company may be involved in litigation relating to claims arising out of its operations, the ultimate disposition of which could have a material adverse effect on its operations, financial condition or cash flows. The Company is not currently involved in any material legal proceedings; however, the Company may be involved in material legal proceedings in the future. Such matters are subject to uncertainty and there can be no assurance that such legal proceedings will not have a material effect on its business, results of operations, financial position or cash flows.

11. STOCKHOLDERS' EQUITY

In July 2023, the board of directors authorized a share repurchase program (the “2023 Repurchase Program”) pursuant to which the Company was authorized to repurchase up to $1.0 billion of the Company’s common stock. The Company may repurchase shares of common stock from time to time through solicited or unsolicited transactions in the open market, in privately negotiated transactions or pursuant to a Rule 10b5-1 plan. During the three months ended March 31, 2024, the Company repurchased and subsequently retired 332,735 shares of common stock from the open market at an average cost of $126.21 per share for a total of $42.0 million. As of March 31, 2024, $748.0 million remains available for repurchase of shares under the 2023 Repurchase Program.

12. STOCK-BASED COMPENSATION

Stock-based Compensation Expense

Stock-based compensation expense for all stock-based awards, which includes shares purchased under the Company’s employee stock purchase plan (“ESPP”), restricted stock units (“RSUs”) and performance stock units (“PSUs”), expected to vest is measured at fair value on the date of grant and recognized ratably over the requisite service period.

In addition, as part of certain business acquisitions, the Company was obligated to issue shares of common stock of the Company as payment subject to achievement of certain targets. For such payments, the Company records stock-based compensation classified as post-combination expense recognized ratably over the measurement period presuming the targets will be met.

The following table summarizes the components of total stock-based compensation expense included in the condensed consolidated statements of operations for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Cost of revenues	$ 4,182	$ 3,669
Research and development	24,550	21,478
Sales and marketing	18,178	21,419
General and administrative	13,923	13,089
Total	$ 60,833	$ 59,655

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
RSUs and PSUs	$ 58,787	$ 56,957
Employee stock purchase plan	2,046	2,040
Post combination expense	—	658
Total	$ 60,833	$ 59,655

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

As of March 31, 2024, there was approximately $442.9 million of total unrecognized stock-based compensation expense related to unvested equity awards, which are expected to be recognized over a weighted-average period of 2.5 years.

Equity Awards Activity

Stock Options

The following table summarizes stock option activity:

	Number of Shares Outstanding	Weighted-Average Exercise Price per Share	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
	(In thousands)		(Years)	(In thousands)
Outstanding at December 31, 2023	692	$ 2.01		
Exercised	(585)	1.87		$ 70,514
Canceled	—	—		
Outstanding at March 31, 2024	107	$ 2.77	0.5	$ 12,655
Vested and expected to vest at March 31, 2024	107	$ 2.77	0.5	$ 12,655
Exercisable at March 31, 2024	107	$ 2.77	0.5	$ 12,655

(1) The intrinsic value of options exercised is based upon the value of the Company's stock at exercise. The intrinsic value of options outstanding, vested and expected to vest, and exercisable as of March 31, 2024 is based on the closing price of the last trading day during the period ended March 31, 2024. The Company's stock fair value used in this computation was $120.98 per share.

The following table summarizes information about stock options outstanding at March 31, 2024:

	Options Outstanding			Options Exercisable	
Range of Exercise Prices	**Number of Shares**	**Weighted-Average Remaining Life**	**Weighted-Average Exercise Price**	**Number of Shares**	**Weighted-Average Exercise Price**
	(In thousands)	(Years)		(In thousands)	
\$0.70 —– \$0.70	46	0.1	\$ 0.70	46	\$ 0.70
\$0.84 —– \$0.84	34	0.3	0.84	34	0.84
\$2.76 —– \$2.90	19	0.8	2.81	19	2.81
\$3.96 —– \$3.96	6	1.0	3.96	6	3.96
\$64.17 —– \$64.17	2	3.1	64.17	2	64.17
Total	107	0.5	\$ 2.77	107	\$ 2.77

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
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Restricted Stock Units

The following table summarizes RSU activity:

	Number of Shares Outstanding	Weighted-Average Fair Value per Share at Grant Date	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
	(In thousands)		(Years)	(In thousands)
Outstanding at December 31, 2023	2,332	$ 177.64		
Granted	363	110.46		
Vested	(398)	179.38		$ 51,145
Canceled	(156)	174.94		
Outstanding at March 31, 2024	2,141	$ 166.12	1.5	$ 259,015
Expected to vest at March 31, 2024	2,141	$ 166.12	1.5	$ 259,006

(1) The intrinsic value of RSUs vested is based upon the value of the Company’s stock when vested. The intrinsic value of RSUs outstanding and expected to vest as of March 31, 2024 is based on the closing price of the last trading day during the period ended March 31, 2024. The Company’s stock fair value used in this computation was $120.98 per share.

Performance Stock Units

The following summarizes PSU activity:

	Number of Shares Outstanding	Weighted-Average Fair Value per Share at Grant Date	Weighted-Average Remaining Contractual Term	Aggregate Intrinsic Value [(1)]
	(In thousands)		(Years)	(In thousands)
Outstanding at December 31, 2023	396	$ 235.99		
Granted	721	127.15		
Vested	(98)	214.52		$ 12,642
Canceled	(98)	214.88		
Outstanding at March 31, 2024	921	$ 155.33	1.9	$ 111,431
Expected to vest at March 31, 2024	921	$ 155.33	1.9	$ 111,431

(1) The intrinsic value of PSUs vested is based upon the value of the Company’s stock when vested. The intrinsic value of PSUs outstanding and expected to vest as of March 31, 2024 is based on the closing price of the last trading day during the period ended March 31, 2024. The Company’s stock fair value used in this computation was $120.98 per share.

13. INCOME TAXES

For the three months ended March 31, 2024 and 2023, the Company’s income tax provision totaled $4.6 million and $32.1 million, respectively, on a net loss before income taxes of $11.5 million and a net income before income taxes of $179.0 million, respectively. For the three months ended March 31, 2024, the income tax provision was calculated using the annualized effective tax rate method and was primarily due to tax expense from equity compensation shortfalls, offset by tax benefit from year-to-date loss before income taxes. For the three months ended March 31, 2023, the income tax provision was calculated using the annualized effective tax rate method and was primarily due to projected tax expense in the U.S. and foreign jurisdictions that are profitable, partially offset by a tax deduction from employee stock compensation reported as a discrete event.

For the three months ended March 31, 2024 and 2023, in accordance with FASB guidance for interim reporting of income tax, the Company has computed its provision for income taxes based on a projected annual effective tax rate while excluding loss jurisdictions, which cannot be benefited.

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In December 2021, the Organization for Economic Co-operation and Development Inclusive Framework on Base Erosion Profit Shifting released Model Global Anti-Base Erosion rules (“Model Rules”) under Pillar Two. The Model Rules set forth the “common approach” for a Global Minimum Tax at 15 percent for multinational enterprises with a turnover of more than 750 million euros. Rules under Pillar Two were effective from January 1, 2024. The Company does not expect adoption of Pillar Two rules to have a significant impact on its consolidated financial statements during fiscal year 2024.

14. NET INCOME (LOSS) PER SHARE

Basic net income (loss) per share is computed by dividing net income (loss) by the weighted average number of shares of common stock outstanding during the period. Diluted net income per share is computed in a similar manner, but it also includes the effect of potential common shares outstanding during the period, when dilutive. Potential common shares for the three months ended March 31, 2023 include stock options, RSUs, PSUs, shares to be purchased under the ESPP, Notes due 2025, Notes due 2026, Notes due 2028, Notes due 2023 and the 2025 Warrants.

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

	Three Months Ended March 31,	
	2024	2023
	(In thousands, except per share data)	
Numerator:		
Net income (loss)	$ (16,097)	$ 146,873
Convertible senior notes interest and financing costs, net of tax	—	1,604
Adjusted net income (loss)	$ (16,097)	$ 148,477
Denominator:		
Shares used in basic per share amounts:		
Weighted average common shares outstanding	135,891	136,689
Shares used in diluted per share amounts:		
Weighted average common shares outstanding used for basic calculation	135,891	136,689
Effect of dilutive securities:		
Employee stock-based awards	—	2,434
Notes due 2023	—	900
Notes due 2025	—	1,253
2025 Warrants	—	635
Notes due 2026	—	2,057
Notes due 2028	—	2,018
Weighted average common shares outstanding for diluted calculation	135,891	145,986
Basic and diluted net income (loss) per share		
Net income (loss) per share, basic	$ (0.12)	$ 1.07
Net income (loss) per share, diluted	$ (0.12)	$ 1.02

ENPHASE ENERGY, INC.

NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

Diluted earnings per share for the three months ended March 31, 2023 includes the dilutive effect of potentially dilutive common shares by application of the treasury stock method for stock options, RSUs, PSUs, ESPP, the 2025 Warrants, and includes potentially dilutive common shares by application of the if-converted method for the Notes due 2025, Notes due 2026, Notes due 2028 and Notes due 2023. To the extent these potential common shares are antidilutive, they are excluded from the calculation of diluted net income per share.

Further, the Company under the relevant sections of the indentures, irrevocably may elect to settle principal in cash and any excess in cash or shares of the Company's common stock for the Notes due 2025, Notes due 2026 and Notes due 2028. If and when the Company makes such election, there will be no adjustment to the net income and the Company will use the average share price for the period to determine the potential number of shares to be issued based upon assumed conversion to be included in the diluted share count.

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

	Three Months Ended March 31,	
	2024	**2023**
	(In thousands)	
Employee stock-based awards	1,656	781
Notes due 2028	2,018	—
2028 Warrants	4,865	1,690
Notes due 2026	2,057	—
2026 Warrants	4,958	1,722
Notes due 2025	1,253	—
Total	16,807	4,193

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

Forward-Looking Statements

The following discussion and analysis of our financial condition and results of operations should be read together with our condensed consolidated financial statements and related notes appearing elsewhere in this Quarterly Report on Form 10-Q. This discussion contains forward-looking statements reflecting our current expectations and involves risks and uncertainties. In some cases, you can identify forward-looking statements by terminology such as "may," "will," "should," "expect," "plan," "anticipate," "believe," "estimate," "predict," "intend," "potential" or "continue" or the negative of these terms or other comparable terminology. Such statements, include but are not limited to statements regarding: our expectations as to future financial performance, including expenses, liquidity sources and cash requirements; the capabilities, performance and competitive advantage of our technology and products and planned changes; timing of new product releases, and the anticipated market adoption of our current and future products; our expectations regarding demand for our products; our business strategies, including anticipated trends and operating conditions; growth of and development in markets we target, and our expansion into new and existing markets; our performance in operations, including factors affecting our supply chain; our product quality and customer service; our expectations regarding geopolitical developments, such as the conflicts in Russia-Ukraine and Israel and the Gaza Strip and inflationary pressures and their impact on our business operations, financial performance and the markets in which we, our suppliers, manufacturers and installers operate; and the importance of and anticipated benefits from government incentives for solar products, including through changes in the tax laws, rules and regulations. You should be aware that the forward-looking statements contained in this report are based on our current views and assumptions, and are subject to known and unknown risks, uncertainties and other factors that may cause actual events or results to differ materially. For a discussion identifying some of the important factors that could cause actual results to vary materially from those anticipated in the forward-looking statements, see below, those discussed in the section entitled "Risk Factors" herein and those included in our Annual Report on Form 10-K for the year ended December 31, 2023 filed on February 9, 2024 (the "Form 10-K"). Unless the context requires otherwise, references in this report to "Enphase," "we," "us" and "our" refer to Enphase Energy, Inc. and its consolidated subsidiaries.

Business Overview

We are a global energy technology company. We deliver smart, easy-to-use solutions that manage solar generation, storage and communication on one platform. Our intelligent microinverters work with virtually every solar panel made, and when paired with our smart technology, result in one of the industry's best-performing clean energy systems. As of March 31, 2024, we have shipped approximately 75 million microinverters, and over 4.1 million Enphase residential and commercial systems have been deployed in more than 150 countries.

The Enphase® Energy System™, powered by IQ® Microinverters and IQ® Batteries, our current generation integrated solar, storage and energy management offering, enables self-consumption and delivers our core value proposition of yielding more energy, simplifying design and installation and improving system uptime and reliability. The IQ family of microinverters, like all of our previous microinverters, is fully compliant with NEC 2014 and 2017 rapid shutdown requirements. Unlike string inverters, this capability is built-in, with no additional equipment necessary.

The Enphase Energy System brings a high technology, networked approach to solar generation plus energy storage, by leveraging our design expertise across power electronics, semiconductors and cloud-based software technologies. Our integrated approach to energy solutions maximizes a home's energy potential while providing advanced monitoring and remote maintenance capabilities. The Enphase Energy System with IQ uses a single technology platform for seamless management of the whole solution, enabling rapid commissioning with the Enphase® Installer App and consumption monitoring with IQ® Gateway with IQ® Combiner+, Enphase® App, a cloud-based energy management platform, and our IQ Battery. System owners can use the Enphase App to monitor their home's solar generation, energy storage and consumption from any web-enabled device. Unlike some of our competitors, who utilize a traditional inverter, or offer separate components of solutions, we have built-in system redundancy in both photovoltaic generation and energy storage, eliminating the risk that comes with a single point of failure. Further, the nature of our cloud-based, monitored system allows for remote firmware and software updates, enabling cost-effective remote maintenance and ongoing utility compliance.

We sell primarily to solar distributors who combine our products with others, including solar modules products and racking systems, and resell to installers in each target region. In addition to our solar distributors, we sell directly to select large installers, original equipment manufacturers ("OEMs") and strategic partners. Our OEM customers include solar module manufacturers who integrate our microinverters with their solar module products and resell to both distributors and installers. Strategic partners include providers of solar financing solutions. We also sell certain products and services to homeowners primarily in support of our warranty services and legacy product upgrade programs via our online store.

Factors Affecting our Business and Operations

As we have a growing global footprint, we are subject to risk and exposure from the evolving macroeconomic environment, including the effects of increased global inflationary pressures and interest rates, fluctuations in foreign currency exchange rates, potential economic slowdowns or recessions and geopolitical pressures, including the unknown impacts of current and future trade regulations and the armed conflicts in Ukraine, the Gaza Strip and nearby areas. We continuously monitor the direct and indirect impacts of these circumstances on our business and financial results.

Demand for Products. The demand environment for our products experienced a broad-based slowdown beginning in the second quarter of 2023 in the United States and in the second half of 2023 in Europe that continued into the first quarter of 2024. This resulted in elevated inventory with distributors and installers, and as a result we sold fewer microinverters to distributors and installers during the second half of 2023 compared to the first half of 2023 as they responded to this slower demand environment. In the United States, this slowdown was primarily the result of higher interest rates and the transition from Net Energy Metering 2.0 ("NEM 2.0") to Net Energy Metering 3.0 ("NEM 3.0") in California, which has increased the payback period for our customers in California. In Europe, this slowdown was primarily the result of a decrease in purchases in the second half of 2023 after the initial surge of sales related to onset of the armed conflict in Ukraine in 2022, and overall channel inventory correction. In addition, there has been increased uncertainty in net energy metering policies and solar export penalties in a key European market. The phase out of net energy metering in that market was ultimately not approved but solar export penalties are still causing uncertainty among consumers. We expect some of these trends in the United States and Europe to continue to have an adverse effect on our revenue in 2024.

Products

The Enphase Energy System, powered by IQ Microinverters, IQ Batteries and other products and services, is an integrated solar, storage and energy management offering that enables self-consumption and delivers our core value proposition of yielding more energy, simplifying design and installation, and improving system uptime and reliability.

IQ Microinverters. We ship IQ8™ series microinverters into 24 countries worldwide. We are also shipping IQ8 Microinverters with peak output power of 480 W AC for the small-commercial market in North America, and grid-tied applications in South Africa, Mexico, Brazil, India, Vietnam, Thailand, the Philippines, France, Spain, Columbia, Panama and Costa Rica. The new IQ8 Microinverters are designed to maximize energy production and can manage a continuous DC current of 14 amperes, supporting higher powered solar modules through increased energy harvesting.

Our new IQ8 Microinverter, the IQ8P-3P™ for the small commercial solar market in North America, enables a peak output power of up to 480 W, supporting small three-phase commercial applications and newer, high-powered solar panels.

IQ Batteries. Our Enphase IQ Battery storage systems, with usable and scalable capacity of 10.1 kWh and 3.4 kWh for the United States, and 10.5 kWh and 3.5 kWh for Europe and other international countries, are based on our Ensemble OS™ energy system, which powers the world's first grid-independent microinverter-based storage systems. We currently ship our Enphase IQ Battery storage systems to customers in the United States, Canada, Mexico, Belgium, Germany, Austria, France, the Netherlands, Switzerland, Spain, Portugal, Sweden, Denmark and Greece. Enphase IQ Batteries in Europe can be installed with both single-phase and three-phase third-party solar energy inverters, enabling homeowners to upgrade their existing home solar systems with a residential battery storage solution that reduces costs while providing increased self-reliance.

Our latest Enphase System, which features the new IQ® Battery 5P and IQ8 Microinverters. The IQ Battery 5P is modular with 5 kWh capacity and the IQ8 Microinverters provide a peak output power of 384 W. The IQ Battery 5P is also available for customers in Australia, the United States, Puerto Rico, the United Kingdom and Italy. The IQ

Battery 5P is also available for customers in Australia, the United States, Puerto Rico, the United Kingdom, and Italy. The IQ Battery 5P is modular by design and is designed to deliver 3.84 kW continuous power and 7.68 kW peak power, which allows homeowners to start heavy loads like air conditioners easily during power outages.

Electric Vehicle ("EV") Chargers. The increasing penetration of EVs has implications for home energy management, as households not only consume significantly more power with an EV, but also have a large battery that can be used for both backup and grid service. Our EV chargers are compatible with most EVs sold in North America. Customers are able to purchase Enphase-branded EV chargers with a charging power range between 32 amperes and 64 amperes.

Our smart Enphase IQ® EV Chargers sold in the United States and Canada are Wi-Fi-equipped and include smart control and monitoring capabilities. The IQ EV Charger is designed to seamlessly integrate into our solar and battery system to help homeowners maximize electricity cost savings by charging directly from solar energy.

Results of Operations

Net Revenues

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Net revenues	$ 263,339	$ 726,016	$ (462,677)	(64)%

Three months ended March 31, 2024 and 2023

Net revenues decreased by $462.7 million, or 64%, in the three months ended March 31, 2024, as compared to the same period in 2023, driven primarily by a 71% and 26% decrease in microinverter units and IQ Batteries Megawatt-hours ("MWh") shipped, respectively. We sold approximately 1.4 million microinverter units in the three months ended March 31, 2024, as compared to approximately 4.8 million units in the three months ended March 31, 2023. We shipped 75.5 MWh of IQ Batteries in the three months ended March 31, 2024, as compared to 102.4 MWh shipped in the three months ended March 31, 2023. The decrease in total net revenues was partially offset by an increase in average selling price ("ASP") for our microinverters, primarily due to a favorable product mix as we sold more IQ8 microinverters relative to IQ7™ microinverters. The overall decrease in net revenues was due to a broad-based slowdown that began in the second quarter of 2023 in the United States and the second half of 2023 in Europe that resulted in elevated inventory with distributors and installers, and as a result we sold fewer microinverters to distributors and installers during the first quarter of 2024, as compared to the same period in 2023. In the United States, this slowdown was primarily the result of higher interest rates, high channel inventory and the transition from NEM 2.0 to NEM 3.0 in California. Higher interest rates resulted in larger monthly costs and longer pay-back periods for those customers who financed their systems. In Europe, this slowdown was primarily driven by a softer customer demand as utility rates dropped, policy changes were implemented, and the impacts of the Ukraine war were felt to be less impactful. This resulted in oversupply and the resulting channel inventory correction.

Cost of Revenues and Gross Margin

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Cost of revenues	$ 147,831	$ 399,645	$ (251,814)	(63)%
Gross profit	115,508	326,371	(210,863)	(65)%
Gross margin	43.9 %	45.0 %		

Three months ended March 31, 2024 and 2023

Cost of revenues decreased by $251.8 million, or 63%, in the three months ended March 31, 2024, as compared to the same period in 2023, primarily due to the lower volume of microinverter units and IQ Batteries shipped, as well as from the benefit recognized from tax credits of $18.6 million under the Advanced Manufacturing Production Tax Credit ("AMPTC") enacted under the Inflation Reduction Act of 2022 for U.S. manufactured microinverters shipped to customers during the three months ended March 31, 2024.

Gross margin decreased by 1.1 percentage points in the three months ended March 31, 2024, as compared to the same period in 2023. The decrease was primarily due to product mix and relatively higher fixed overheads, which was partially offset by (i) the benefit recognized from tax credits under the AMPTC of approximately 7.1 percentage points, (ii) a warranty benefit from change in estimates for a decrease in product replacement costs related to Enphase IQ Battery storage systems, and (iii) an increase in ASP for microinverters in the three months ended March 31, 2024.

Research and Development

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Research and development	$ 54,211	$ 57,129	$ (2,918)	(5)%
Percentage of net revenues	21 %	8 %		

Three months ended March 31, 2024 and 2023

Research and development expense decreased by $2.9 million, or 5%, in the three months ended March 31, 2024, as compared to the same period in 2023. The decrease was primarily due to restructuring actions from the 2023 Restructuring Plan that lowered equipment costs by $4.0 million, partially offset by $1.1 million of higher personnel-related expenses. The increase in personnel-related expenses was primarily due to an increase in stock-based compensation costs due to the timing of retention programs for employees. The amount of research and development expenses may fluctuate from period to period due to the differing levels and stages of development activity for our products.

Sales and Marketing

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Sales and marketing	$ 53,307	$ 64,621	$ (11,314)	(18)%
Percentage of net revenues	20 %	9 %		

Three months ended March 31, 2024 and 2023

Sales and marketing expense decreased by $11.3 million, or 18%, in the three months ended March 31, 2024, as compared to the same period in 2023. The decrease was primarily due to restructuring actions from the 2023 Restructuring Plan that lowered personnel-related expenses by $6.7 million due to a reduction in headcount and lower professional services, advertising and equipment costs by $4.6 million.

General and Administrative

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
General and administrative	$ 35,182	$ 36,265	$ (1,083)	(3)%
Percentage of net revenues	13 %	5 %		

Three months ended March 31, 2024 and 2023

General and administrative expense decreased by $1.1 million, or 3%, in the three months ended March 31, 2024, as compared to the same period in 2023. The decrease was primarily due to restructuring actions from the 2023 Restructuring Plan that lowered facility and equipment costs by $0.9 million and legal and professional services by $0.2 million.

Restructuring and Asset Impairment Charges

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Restructuring and asset impairment charges	$ 1,907	$ 693	$ 1,214	175 %
Percentage of net revenues	0.7 %	0.1 %		

Three months ended March 31, 2024 and 2023

Restructuring and asset impairment charges increased by $1.2 million, or 175%, in the three months ended March 31, 2024, as compared to the same period in 2023, as we implemented a new restructuring plan in the fourth quarter of 2023 to increase operational efficiencies, reduce operating costs, and to better align our workforce and cost structure with current market conditions, our business needs and strategic priorities.

Restructuring charges of $1.9 million in the three months ended March 31, 2024, primarily consisted of $1.3 million of contract termination charges, $0.3 million of asset impairment charges, and $0.3 million of employee severance and one-time benefits. Restructuring charges of $0.7 million in the three months ended March 31, 2023, primarily consisted of one-time termination benefits and other employee-related expenses.

Other Income, Net

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Interest income	$ 19,709	$ 13,040	$ 6,669	51 %
Interest expense	(2,196)	(2,156)	(40)	2 %
Other income, net	87	426	(339)	(80)%
Total other income, net	$ 17,600	$ 11,310	$ 6,290	56 %

Three months ended March 31, 2024 and 2023

Interest income of $19.7 million increased in the three months ended March 31, 2024, as compared to $13.0 million for the three months ended March 31, 2023, primarily due to an increase in interest rates.

Interest expense of $2.2 million in the three months ended March 31, 2024, primarily included $2.2 million for the coupon interest, debt discount amortization with the Notes due 2025 and amortization of debt issuance costs with the Notes due 2025, Notes due 2026 and Notes due 2028. Interest expense of $2.2 million in the three months ended March 31, 2023, primarily related to $2.2 million for the coupon interest expense, debt discount amortization with the Notes due 2025, amortization of debt issuance costs with the Notes due 2023, Notes due 2025, Notes due 2026 and Notes due 2028.

Other income, net, of $0.1 million in the three months ended March 31, 2024, primarily related to $0.9 million non-cash net gain related to change in the fair value of debt securities, $0.1 million in realized gain on investments, partially offset by $0.9 million net loss due to foreign currency denominated monetary assets and liabilities. Other income, net, of $0.4 million in the three months ended March 31, 2023, primarily related to a $1.8 million non-cash net gain related to a change in the fair value of debt securities, partially offset by $1.4 million net loss due to foreign currency denominated monetary assets and liabilities.

Income Tax Provision

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Income tax provision	$ 4,598	$ 32,100	$ (27,502)	(86)%

Three months ended March 31, 2024 and 2023

The income tax provision was $4.6 million in the three months ended March 31, 2024, as compared to $32.1 million in the same period in 2023. The decrease was primarily due to tax expense from equity compensation shortfalls, offset by tax benefit from year-to-date loss before income taxes as the U.S. and foreign jurisdictions are less profitable in 2024 as compared to 2023.

Liquidity and Capital Resources

Sources of Liquidity

As of March 31, 2024, we had $1.7 billion in net working capital, including cash, cash equivalents and marketable securities of $1.6 billion, of which approximately $1.6 billion were held in the United States. Our cash, cash equivalents and marketable securities primarily consist of U.S. treasuries, money market mutual funds, corporate notes, commercial paper and bonds and both interest-bearing and non-interest-bearing deposits, with the remainder held in various foreign subsidiaries. We consider amounts held outside the United States to be accessible and have provided for the estimated income tax liability on the repatriation of our foreign earnings.

	Three Months Ended March 31,		Change in	
	2024	2023	$	%
	(In thousands, except percentages)			
Cash, cash equivalents and marketable securities	$ 1,629,593	$ 1,778,397	$ (148,804)	(8)%
Total Debt	$ 1,295,868	$ 1,292,391	$ 3,477	0.3 %

Our cash, cash equivalents and marketable securities decreased by $148.8 million for the three months ended March 31, 2024, as compared to the same period in 2023, primarily due to repurchases of common stock pursuant to our share repurchase program and payments of withholding taxes related to net share settlement of equity awards.

Total carrying amount of debt increased by $3.5 million for the three months ended March 31, 2024, as compared to the same period in 2023, primarily due to accretion of debt discount and issuance costs.

We expect that our principal short-term (over the next 12 months) and long-term cash needs related to our operations will be to fund working capital, strategic investments, acquisitions, repurchases of common stock pursuant to our share repurchase program and payments of withholding taxes for net share settlement of equity awards, payments on our outstanding debt and the purchases of property and equipment. We plan to fund any cash requirements for the next 12 months and the longer term from our existing cash, cash equivalents and marketable securities on hand, and cash generated from operations. We anticipate that access to the debt market will be more limited compared to prior years as interest rates have increased and are expected to remain high. Our ability to obtain debt or any other additional financing that we may choose to, or need to, obtain will depend on, among other things, our development efforts, business plans, operating performance and the condition of the capital markets at the time we seek financing.

Repurchase of Common Stock. In July 2023, our board of directors authorized a share repurchase program (the “2023 Repurchase Program”) pursuant to which we were authorized to repurchase up to $1.0 billion of our common stock. The repurchases could be funded from available working capital and could be executed from time to time, subject to general business and market conditions and other investment opportunities, through open market purchases or privately negotiated transactions, including through Rule 10b5-1 plans. The program may be discontinued or amended at any time and expires on July 26, 2026. During the three months ended March 31, 2024, we repurchased 332,735 shares, for an aggregate amount of $42.0 million.

Cash Flows. The following table summarizes our cash flows for the periods presented:

	Three Months Ended March 31,	
	2024	2023
	(In thousands)	
Net cash provided by operating activities	$ 49,201	$ 246,232
Net cash provided by (used in) investing activities	17,734	(363,530)
Net cash used in financing activities	(100,854)	(71,805)
Effect of exchange rate changes on cash and cash equivalents	(1,177)	1,904
Net decrease in cash and cash equivalents	$ (35,096)	$ (187,199)

Cash Flows from Operating Activities

Cash flows from operating activities consisted of our net income (loss) adjusted for certain non-cash reconciling items, such as stock-based compensation expense, non-cash interest expense, change in the fair value of debt securities, deferred income taxes, asset impairment, depreciation and amortization, and changes in our operating assets and liabilities. Net cash provided by operating activities decreased by $197.0 million for the three months ended March 31, 2024, as compared to the same period in 2023, primarily due to lower revenue as well as relatively higher personnel-related and facility fixed costs.

Cash Flows from Investing Activities

For the three months ended March 31, 2024, net cash provided by investing activities of $17.7 million was primarily from the maturities of $25.1 million of marketable securities, net of purchases, partially offset by $7.4 million used in purchases of test and assembly equipment for U.S. manufacturing, related facility improvements and information technology enhancements, including capitalized costs related to internal-use software.

For the three months ended March 31, 2023, net cash used in investing activities of $363.5 million was primarily from the purchase of $341.1 million marketable securities, net of sale and maturities, $22.5 million used in purchases of test and assembly equipment to expand our supply capacity, related facility improvements and information technology enhancements, including capitalized costs related to internal-use software companies.

Cash Flows from Financing Activities

For the three months ended March 31, 2024, net cash used in financing activities of approximately $100.9 million was primarily from payment of $60.0 million in employee withholding taxes related to net share settlement of equity awards, $42.0 million used to repurchase our common stock under our share repurchase program, and less than $0.1 million from the partial settlement of the Notes due 2025, partially offset by $1.2 million net proceeds from employee stock option exercises.

For the three months ended March 31, 2023, net cash used in financing activities of approximately $71.8 million was primarily from the payment of $71.8 million in employee withholding taxes related to net share settlement of equity awards.

Contractual Obligations

Our contractual obligations primarily consist of our Notes due 2028, Notes due 2026 and Notes due 2025, obligations under operating leases and inventory component purchases. As of March 31, 2024, there have been no material changes from our disclosure in the Form 10-K, except that the Notes due 2025 mature in less than a year and are classified as Debt, current on the condensed consolidated balance sheet as of March 31, 2024. For more information on our future minimum operating leases and inventory component purchase obligations as of March 31, 2024, refer to Note 10, "Commitments and Contingencies - Purchase Obligations" and for more information on our notes and other related debt, refer to Note 9, "Debt" of the notes to condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q.

Critical Accounting Policies

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

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

Adoption of New and Recently Issued Accounting Pronouncements

Refer to Note 1, "Description of Business and Basis of Presentation - Summary of Significant Accounting Policies" of the notes to condensed consolidated financial statements included in Part I, Item 1 of this Quarterly Report on Form 10-Q for a discussion of adoption of new accounting pronouncements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

There have been no material changes in our market risk compared to the disclosures in Part II, Item 7A, "Quantitative and Qualitative Disclosures About Market Risk" in the Form 10-K. Also see the section entitled "Risk Factors" in Part I, Item 1A in the Form 10-K.

Item 4. Controls and Procedures

Evaluation of Disclosure Controls and Procedures

Our management, with the participation of our Chief Executive Officer and Chief Financial Officer, evaluated the effectiveness of our disclosure controls and procedures as of March 31, 2024. The term "disclosure controls and procedures," as defined in Rules 13a-15(e) and 15d-15(e) under the Securities Exchange Act of 1934, as amended (the "Exchange Act") includes, without limitation, controls and procedures designed to ensure that information required to be disclosed by a company in the reports that it files or submits under the Exchange Act is accumulated and communicated to the company's management, including its principal executive and principal financial officers, as appropriate to allow timely decisions regarding required disclosure. Based on the evaluation of our disclosure controls and procedures as of March 31, 2024, our Chief Executive Officer and Chief Financial Officer concluded that, as of such date, our disclosure controls and procedures were effective.

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

Changes in Internal Control

There were no changes in our internal control over financial reporting identified in management’s evaluation pursuant to Rules 13a-15(d) or 15d-15(d) of the Exchange Act during the period covered by this Quarterly Report on Form 10-Q that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

From time to time, we may be involved in litigation relating to claims arising out of our operations, the ultimate disposition of which could have a material adverse effect on our operations, financial condition, or cash flows. We are not currently involved in any material legal proceedings, and our management believes there are currently no material claims or actions pending against us.

Item 1A. Risk Factors

Investing in our securities involves a high degree of risk. Before investing in our securities, you should consider carefully the information contained in this quarterly report and in the Form 10-K, including the risk factors identified in Part I, Item 1A, “Risk Factors” thereof. This quarterly report contains forward-looking statements that involve risks and uncertainties. See “Forward-Looking Statements” in “Management’s Discussion and Analysis of Financial Conditions and Results of Operations” above. Our actual results could differ materially from those contained in the forward-looking statements. Any of the risks discussed in the Form 10-K, in other reports we file with the SEC, and other risks we have not anticipated or discussed, could have a material adverse impact on our business, financial condition or results of operations. There has been no material change to our risk factors from those disclosed in Part I, Item 1A, “Risk Factors” in the Form 10-K.

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

Unregistered Sales of Equity Securities

During the three months ended March 31, 2024, certain holders of the Notes due 2025 elected to convert $2,000 in aggregate principal amount of Notes due 2025 for a combination of an aggregate of $2,000 in cash and six shares of our common stock. The shares of common stock issued upon conversion of the Notes due 2025 were issued in reliance upon Sections 3(a)(9) of the Securities Act of 1933, as amended.

In connection with the conversion of the Notes due 2025, we exercised our rights under certain convertible note hedge transactions during the three months ended March 31, 2024 and received four shares of our common stock.

Stock Repurchase Program

In July 2023, our board of directors authorized the 2023 Repurchase Program pursuant to which we may repurchase up to an aggregate of $1.0 billion of our common stock. As of March 31, 2024, we have approximately $748.0 million remaining for repurchase of shares under the 2023 Repurchase Program. Purchases may be completed from time to time in the open market or privately negotiated transactions, including through Rule 10b5-1 plans. The program may be discontinued or amended at any time and expires on July 26, 2026.

The following table provides information about our repurchases of our common stock during the three months ended March 31, 2024 (in thousands, except per share amounts):

Period Ended	Total Number of Shares Purchased	Average Price Paid per Share[(1)]	Total Number of Shares Purchased as Part of Publicly Announced Programs	Approximate Dollar Value of Shares that May Yet Be Purchased Under the Programs[(2)]
January 2024	—	$ —	—	$ 790,002
February 2024	255,430	$ 125.27	255,430	$ 758,005
March 2024	77,305	$ 129.34	77,305	$ 748,006
Total	332,735		332,735	

(1) Average price paid per share includes brokerage commissions.

(2) During the three months ended March 31, 2024, we repurchased 332,735 shares of our common stock at a weighted average price of $126.21 per share for an aggregate amount of $42.0 million.

Item 3. Defaults Upon Senior Securities

None.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Rule 10b5-1 Trading Plans

Not applicable.

Item 6. Exhibits

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

Exhibit Number	Exhibit Description	Incorporation by Reference				Filed Herewith
		Form	SEC File No.	Exhibit	Filing Date	
3.1	Amended and Restated Certificate of Incorporation of Enphase Energy, Inc.	8-K	001-35480	3.1	4/6/2012	
3.2	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Enphase Energy, Inc.	10-Q	001-35480	3.1	8/9/2017	
3.3	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Enphase Energy, Inc.	10-Q	001-35480	2.1	8/6/2018	
3.4	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Enphase Energy, Inc.	8-K	001-35480	3.1	5/27/2020	
3.5	Certificate of Amendment of the Amended and Restated Certificate of Incorporation of Enphase Energy, Inc.	S-8	333-256290	4.5	5/19/2021	
3.6	Amended and Restated Bylaws of Enphase Energy, Inc.	8-K	001-35480	3.1	4/8/2022	
31.1	Certification of Chief Executive Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
31.2	Certification of Chief Financial Officer pursuant to Rule 13a-14(a)/15d-14(a).					X
32.1*	Certification of Chief Executive Officer and Chief Financial Officer pursuant to 18 U.S.C. Section 1350 as Adopted Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002, as amended.					X
101.INS	XBRL Instance Document.					X
101.SCH	XBRL Taxonomy Extension Schema Document.					X
101.CAL	XBRL Taxonomy Extension Calculation Linkbase Document.					X
101.DEF	XBRL Taxonomy Extension Definition Linkbase Document.					X
101.LAB	XBRL Taxonomy Extension Label Linkbase Document.					X
101.PRE	XBRL Taxonomy Extension Presentation Document.					X
104	Cover Page Interactive Data File (formatted as Inline XBRL and contained in Exhibits 101)					X

* The certifications attached as Exhibit 32.1 accompany this Quarterly Report on Form 10-Q pursuant to 18 U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act, and shall not be deemed “filed” by Enphase Energy, Inc. for purposes of Section 18 of the Securities Exchange Act of 1934, as amended, nor shall they be deemed incorporated by reference in any filing.

SIGNATURE

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

Dated: April 23, 2024

ENPHASE ENERGY, INC.

By: /s/ Mandy Yang

Mandy Yang
Chief Financial Officer
(Principal Financial Officer and
Principal Accounting Officer)
(Duly Authorized Officer)