

Use of Non-GAAP Financial Measures

The Company has presented certain non-GAAP financial measures in this release. Generally, a non-GAAP financial measure is a numerical measure of a company's performance, financial position, or cash flows that either exclude or include amounts that are not normally excluded or included in the most directly comparable measure calculated and presented in accordance with generally accepted accounting principles in the United States of America, or GAAP. Reconciliation of each non-GAAP financial measure to the most directly comparable GAAP financial measure can be found in the accompanying tables to this press release. Non-GAAP financial measures presented by the Company include non-GAAP gross profit, gross margin, operating expenses, income (loss) from operations, net loss and net loss per share.

These non-GAAP financial measures do not reflect a comprehensive system of accounting, differ from GAAP measures with the same captions and may differ from non-GAAP financial measures with the same or similar captions that are used by other companies. In addition, these non-GAAP measures have limitations in that they do not reflect all of the amounts associated with the Company's results of operations as determined in accordance with GAAP. As such, these non-GAAP measures should be considered as a supplement to, and not as a substitute for, or superior to, financial measures calculated in accordance with GAAP. The Company uses these non-GAAP financial measures to analyze its operating performance and future prospects, develop internal budgets and financial goals, and to facilitate period-to-period comparisons. Enphase believes that these non-GAAP financial measures reflect an additional way of viewing aspects of its operations that, when viewed with its GAAP results, provide a more complete understanding of factors and trends affecting its business.

As presented in the "Reconciliation of Non-GAAP Financial Measures" tables in the accompanying press release, each of the non-GAAP financial measures excludes one or more of the following items for purposes of calculating non-GAAP financial measures to facilitate an evaluation of the Company's current operating performance and a comparison to its past operating performance:

Stock-based compensation expense. The Company excludes stock-based compensation expense from its non-GAAP measures primarily because they are non-cash in nature. Moreover, the impact of this expense is significantly affected by the Company's stock price at the time of an award over which management has limited to no control.

Acquisition-related net charges (credits). These items include: (1) revaluation of contingent consideration and its income tax effects, which represent accounting adjustments to state contingent consideration liabilities at their estimated fair value, and (2) amortization of acquired intangibles, which consists of customer relationships. These items relate to a specific prior acquisition and are not reflective of the Company's ongoing financial performance.

Restructuring charges. The Company excludes restructuring charges due to the nature of the expenses being unplanned and arising outside the ordinary course of continuing operations. These costs primarily consist of fees paid for restructuring-related management consulting services, cash-based severance costs related to workforce reduction actions, asset write-downs of property and equipment and lease loss reserves, and other contract termination costs resulting from restructuring initiatives.

Amortization of Debt Issuance Costs. The Company excludes amortization of debt issuance costs because the costs do not represent a cash outflow for the Company except in the period the financing was secured and such amortization expense is not reflective of the Company's ongoing financial performance.

ENPHASE ENERGY, INC.
RECONCILIATION OF NON-GAAP FINANCIAL MEASURES
(In thousands, except per share data)
(Unaudited)

	Three Months Ended			Twelve Months Ended	
	December 31, 2017	September 30, 2017	December 31, 2016	December 31, 2017	December 31, 2016
Gross profit (GAAP)	\$ 18,989	\$ 16,461	\$ 16,234	\$ 56,043	\$ 58,008
Stock-based compensation	275	347	281	1,072	1,188
Gross profit (Non-GAAP)	<u>\$ 19,264</u>	<u>\$ 16,808</u>	<u>\$ 16,515</u>	<u>\$ 57,115</u>	<u>\$ 59,196</u>
Gross margin (GAAP)	23.8%	21.4%	17.9%	19.6%	18.0%
Stock-based compensation	0.4%	0.4%	0.3%	0.4%	0.4%
Gross margin (Non-GAAP)	<u>24.2%</u>	<u>21.8%</u>	<u>18.2%</u>	<u>20.0%</u>	<u>18.4%</u>
Operating expenses (GAAP)	\$ 21,122	\$ 22,362	\$ 26,326	\$ 95,421	\$ 120,708
Stock-based compensation ⁽¹⁾	(1,174)	(1,381)	(1,807)	(5,655)	(9,138)
Amortization of acquisition-related intangibles	—	—	(15)	—	(150)
Restructuring, asset impairments and other charges	(1,991)	(4,071)	(1,060)	(16,918)	(3,777)
Operating expenses (Non-GAAP)	<u>\$ 17,957</u>	<u>\$ 16,910</u>	<u>\$ 23,444</u>	<u>\$ 72,848</u>	<u>\$ 107,643</u>
(1) Includes stock-based compensation as follows:					
Research and development	\$ 579	\$ 607	\$ 832	\$ 2,573	\$ 3,879
Sales and marketing	268	227	385	1,157	2,144
General and administrative	327	547	590	1,925	3,115
Total	<u>\$ 1,174</u>	<u>\$ 1,381</u>	<u>\$ 1,807</u>	<u>\$ 5,655</u>	<u>\$ 9,138</u>
Loss from operations (GAAP)	\$ (2,133)	\$ (5,901)	\$ (10,092)	\$ (39,378)	\$ (62,700)
Stock-based compensation	1,449	1,728	2,087	6,727	10,326
Amortization of acquisition-related intangibles	—	—	15	—	150
Restructuring, asset impairments and other charges	1,991	4,071	1,060	16,918	3,777
Income (loss) from operations (Non-GAAP)	<u>\$ 1,307</u>	<u>\$ (102)</u>	<u>\$ (6,930)</u>	<u>\$ (15,733)</u>	<u>\$ (48,447)</u>
Net loss (GAAP)	\$ (2,940)	\$ (6,854)	\$ (13,188)	\$ (45,192)	\$ (67,462)
Stock-based compensation	1,449	1,728	2,087	6,727	10,326
Amortization of acquisition-related intangibles	—	—	15	—	150
Restructuring, asset impairments and other charges	1,991	4,071	1,060	16,918	3,777
Non-cash interest expense	183	91	44	1,017	145
Income tax effect on acquisition/divestiture	—	—	653	—	653
Net income (loss) (Non-GAAP)	<u>\$ 683</u>	<u>\$ (964)</u>	<u>\$ (9,329)</u>	<u>\$ (20,530)</u>	<u>\$ (52,411)</u>
Net loss per share, basic and diluted (GAAP)	\$ (0.03)	\$ (0.08)	\$ (0.21)	\$ (0.54)	\$ (1.34)
Stock-based compensation	0.02	0.02	0.03	0.08	0.20
Amortization of acquisition-related intangibles	—	—	—	—	—
Restructuring, asset impairments and other charges	0.02	0.05	0.02	0.20	0.07
Non-cash interest expense	—	—	—	0.01	—
Income tax effect on acquisition/divestiture	—	—	0.01	—	0.01
Net income (loss) per share, diluted (Non-GAAP)	<u>\$ 0.01</u>	<u>\$ (0.01)</u>	<u>\$ (0.15)</u>	<u>\$ (0.25)</u>	<u>\$ (1.06)</u>
Shares used in per share calculation, basic and diluted (GAAP)	<u>85,689</u>	<u>84,862</u>	<u>61,881</u>	<u>82,939</u>	<u>50,519</u>
Shares used in per share calculation, diluted (Non-GAAP)	<u>95,620</u>	<u>84,862</u>	<u>61,881</u>	<u>82,939</u>	<u>50,519</u>