SUNPOWER CORP
Form 10-K
February 17, 2017
Table of Contents

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

FORM 10-K

T ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended January 1, 2017
OR
o 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 001-34166

SunPower Corporation
(Exact Name of Registrant as Specified in Its Charter)

Delaware	94-3008969
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)

77 Rio Robles, San Jose, California 95134
(Address of Principal Executive Offices and Zip Code)
(408) 240-5500
(Registrant's Telephone Number, Including Area Code)

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

Title of each class	Name of each exchange on which registered
Common Stock $0.001 par value	Nasdaq Global Select Market
Preferred Stock Purchase Rights	Nasdaq Global Select Market

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Securities registered pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes T No o
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 of Section 15(d) of the Act. Yes o No x
Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Sections 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 T No o

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes T No o

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§229.405 of this chapter) is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. T

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant on July 3, 2016 was $906 million. Such aggregate market value was computed by reference to the closing price of the common stock as reported on the Nasdaq Global Select Market on July 1, 2016. For purposes of determining this amount only, the registrant has defined affiliates as including Total Energies Nouvelles Activités USA, formerly known as Total Gas & Power USA, SAS and the executive officers and directors of registrant on July 1, 2016.

The total number of outstanding shares of the registrant's common stock as of February 10, 2017 was 138,651,751.

DOCUMENTS INCORPORATED BY REFERENCE

Parts of the registrant's definitive proxy statement for the registrant's 2017 annual meeting of stockholders are incorporated by reference in Items 10, 11, 12, 13, and 14 of Part III of this Annual Report on Form 10-K.

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1

Table of Contents

TABLE OF CONTENTS

Table of Contents

INTRODUCTORY NOTES

Trademarks

The following terms, among others, are our trademarks and may be used in this report: SunPower®, Maxeon®, Oasis®, EnergyLink™, InvisiMount®, Tenesol®, Greenbotics®, Customer Cost of Energy™ ("CCOE™"), SunPower Spectrum™, Helix™, Equinox™, Signature™, SolarBridge®, and The Power of One™. Other trademarks appearing in this report are the property of their respective owners.

Unit of Power

When referring to our solar power systems, our facilities' manufacturing capacity, and total sales, the unit of electricity in watts for kilowatts ("KW"), megawatts ("MW"), and gigawatts ("GW") is direct current ("DC"), unless otherwise noted as alternating current ("AC").

Levelized Cost of Energy ("LCOE")

LCOE is an evaluation of the life-cycle energy cost and life-cycle energy production of an energy producing system. It allows alternative technologies to be compared to different scales of operation, investment or operating time periods. It captures capital costs and ongoing system-related costs, along with the amount of electricity produced, and converts them into a common metric. Key drivers for LCOE reduction for photovoltaic products include panel efficiency, capacity factors, reliable system performance, and the life of the system.

Customer Cost of Energy™ ("CCOE™")

Our customers are focused on reducing their overall cost of energy by intelligently integrating solar and other distributed generation, energy efficiency, energy management, and energy storage systems with their existing utility-provided energy. The CCOE™ measurement is an evaluation of a customer's overall cost of energy, taking into account the cost impact of each individual generation source (including the utility), energy storage systems, and energy management systems. The CCOE measurement includes capital costs and ongoing operating costs, along with the amount of electricity produced, stored, saved, or re-sold, and converts all of these variables into a common metric. The CCOE metric allows a customer to compare different portfolios of generation sources, energy storage, and energy management, and to tailor towards optimization.

Cautionary Statement Regarding Forward-Looking Statements

This Annual Report on Form 10-K contains forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Forward-looking statements are statements that do not represent historical facts and the assumptions underlying such statements. We use words such as "anticipate," "believe," "continue," "could," "estimate," "expect," "intend," "may," "plan," "predict," "project," "potential," "will," "would," "should," and similar expressions to identify forward-looking statements. Forward-looking statements in this Annual Report on Form 10-K include, but are not limited to, our plans and expectations regarding future financial results, expected operating results, business strategies, projected costs and cost reduction, development of new products and improvements to our existing products, our manufacturing capacity and manufacturing costs, the adequacy of our agreements with our suppliers, our ability to monetize utility projects, competitive positions, management's plans and objectives for future operations, the sufficiency of our cash and our liquidity, our ability to obtain financing, our ability to comply with debt covenants or cure any defaults, trends in average selling prices, the success of our joint ventures and acquisitions, expected capital expenditures, warranty matters, outcomes of litigation, our exposure to foreign exchange, interest and credit risk, general business and economic conditions in our markets, industry trends, the impact of changes in government incentives, expected restructuring charges, and the likelihood of any impairment of project assets and long-lived assets. These forward-looking statements are based on information available to us as of the date of this Annual Report on Form 10-K and current expectations, forecasts and assumptions and involve a number of risks and uncertainties that could cause actual results to differ materially from those anticipated by these forward-looking statements. Such risks and uncertainties include a variety of factors, some of which are beyond our control. Please see "Item 1A. Risk Factors" herein and our other filings with the Securities and Exchange Commission ("SEC") for additional information on risks and uncertainties that could cause actual results to differ. These forward-looking statements should not be relied upon as representing our views as of any subsequent date, and we are under no obligation to, and expressly disclaim any responsibility to, update or alter our forward-looking statements, whether as a result of new information, future events or otherwise.

The following information should be read in conjunction with the Consolidated Financial Statements and the accompanying Notes to Consolidated Financial Statements included in this Annual Report on Form 10-K. Our fiscal year ends on the Sunday closest to the end of the applicable calendar year. All references to fiscal periods apply to our fiscal quarter or year, which end on the Sunday closest to the calendar month end.

PART I

ITEM 1. BUSINESS

Corporate History

SunPower has been a leader in the solar industry for 30 years, originally incorporated in California in 1985 and reincorporated in Delaware during 2004 in connection with our initial public offering. In November 2011, our stockholders approved the reclassification of all outstanding former class A common stock and class B common stock into a single class of common stock listed on the Nasdaq Global Select Market under the symbol "SPWR." In fiscal 2011, we became a majority owned subsidiary of Total Energies Nouvelles Activités USA, formerly known as Total Gas & Power USA, SAS ("Total"), a subsidiary of Total S.A. ("Total S.A.").

Company Overview

We are a leading global energy company dedicated to changing the way our world is powered. We deliver complete solar solutions to residential, commercial, and power plant customers worldwide by offering:

- Cutting-edge solar module technology and solar power systems that are designed to generate electricity over a system life typically exceeding 25 years;
- Integrated Smart Energy software solutions that enable customers to effectively manage and optimize their CCOE measurement;
- Installation, construction, and ongoing maintenance and monitoring services; and
- Financing solutions that provide customers a variety of options for purchasing or leasing high efficiency solar products at competitive energy rates.

Our global reach is enhanced by Total S.A.'s long-standing presence in many countries where significant solar installation goals are being established.

Residential

Residential Systems

We offer a complete set of residential solutions that deliver value to homeowners and our dealer partners. We have developed the capability to deliver AC panels with factory-integrated microinverters. AC system architecture, as compared with DC systems, facilitates direct panel installation, eliminating the need to mount or assemble additional components on the roof or the side of a building, driving down system costs, improving overall system reliability, and providing improved, cleaner design aesthetics. As part of our complete solution approach, we offer our Equinox™ residential market product, a fully-integrated solar platform utilizing Maxeon® cells, AC panel architecture, and EnergyLink™ monitoring hardware to combine solar power production and energy management, allowing residential customers to quickly and easily complete their system installations and to ensure always-on connectivity so homeowners can easily access their data anytime, anywhere. The Equinox platform is also sold with our Smart Energy software analytics, which provides our customers with detailed information about their energy consumption and production, enabling them to further reduce their energy costs.

We offer the SunPower® InvisiMount® residential mounting system in our product portfolio. The InvisiMount® system is designed specifically for use with our panels and reduces installation time through pre-assembled parts and integrated grounding. The InvisiMount system is well-suited for residential sloped roof applications and provides design flexibility and enhanced aesthetics by delivering a unique, "floating" appearance.

We support our hardware development with investments in our proprietary set of advanced monitoring applications (the "SunPower Monitoring System") and our EnergyLink™ customer portal, which enable customers to gain visibility into their solar system production and household energy consumption. This software is available for use on the web or through the SunPower mobile application on smartphones and tablets. In fiscal 2016, we issued nine software upgrades to our EnergyLink customer portal offering and, as a result, have experienced increases in customer traffic, engagement, satisfaction, and referrals.

Sales Channels, Residential Leasing Program and other Financing Options

We sell our residential solar energy solutions to end customers through a variety of means, including cash sales and long-term leases directly to end customers, sales to resellers, including the Company's third-party global dealer network, and sales of the Company's operations and maintenance (“O&M”) services.

We offer financing programs that are designed to offer customers a variety of options to obtain high efficiency solar products and systems, including loans arranged through our third-party lending partners, in some cases for no money down, or by leasing high efficiency solar systems at competitive energy rates. Our residential lease program, in partnership with third-party investors, provides U.S. customers SunPower systems under 20-year lease agreements that include system maintenance and warranty coverage, including warranties on system performance. SunPower residential lease customers have the option to purchase their leased solar systems upon the sale or transfer of their home. These financing options enhance our ability to provide individually-tailored solar solutions to a broad range of residential customers.

We also have the ability to sell residential systems to 8point3 Energy Partners LP, a joint Yieldco vehicle in which we have an approximately 37% ownership stake, through transactions in which we sell portfolios of residential leases. For additional information on transactions with 8point3 Energy Partners LP, please see "Item 8. Financial Statements and Supplementary Data—Note 10. Equity Method Investments" in our Annual Report on Form 10-K for the fiscal year ended January 3, 2016.

Commercial

Commercial Roof and Ground Mounted Systems

As part of our complete solution product approach, we offer our Helix™ commercial market product. The Helix system is a pre-engineered, modular solution that combines our industry-leading solar module technology with integrated plug-and-play power stations, cable management systems, and mounting hardware that is built to last and fast to install, enabling customers to scale their solar programs quickly with minimal business disruption. The Helix platform is standardized across rooftop, carport and ground installations and designed to lower system cost while improving performance. The Helix platform is also bundled with our Smart Energy software analytics, which provides our customers with detailed information about their energy consumption and production, enabling them to further reduce their energy costs.

We also offer a variety of commercial solutions designed to address a wide range of site requirements for commercial rooftop, parking lot and open space applications, including a portfolio of solutions utilizing framed panels and a variety of internally or externally developed mounting methods for flat roof and high tilt roof applications. Our commercial flat rooftop systems are designed to be lightweight and interlock, enhancing wind resistance and providing for secure, rapid installations.

We offer parking lot structures designed specifically for SunPower panels, balance of system components, and inverters and in fiscal 2015 expanded our capability to design and install innovative solar structures and systems for carport applications. These systems are typically custom design-build projects that utilize standard templates and design best practices to create a solution tailored to unique site conditions. SunPower's highest efficiency panels are especially well suited to stand-alone structures, such as those found in parking lot applications, because our systems require less steel and other materials per unit of power or energy produced as compared with our competitors.

Sales Channels and Financing Options

We sell our commercial solar energy solutions to commercial and public entity end customers through a variety of means, including direct sales of turn-key engineering, procurement and construction ("EPC") services, sales to our third-party global dealer network and to 8point3 Energy Partners, and sales of our O&M services. We also offer some of our commercial customers alternatives to purchasing systems, such as selling energy to them under power purchase agreements ("PPAs").

Power Plants

Power Plant Systems

We offer the industry's first modular solar power block, the Oasis® system, which combines SunPower solar panels and tracker technology into a scalable 1.5 MW solar power block, which streamlines the construction process while optimizing the use of available land by conforming to the contours of the production site. The power block kits are shipped pre-assembled to

Table of Contents

the job site for rapid field installation. The Oasis operating system is designed to support future grid interconnection requirements for large-scale solar power plants, such as voltage ride-through and power factor control. More than 2 GW of the Oasis system is installed or under contract worldwide. The Oasis system was deployed at the 748 MW Solar Star Projects in California, formerly known as Antelope Valley Solar Projects, the world's largest solar power project to date. Our robotic solar power plant cleaning system technology has been deployed on many of the utility-scale solar power systems for which we provide O&M services. The robots may be configured for use with a variety of solar panels and mounting types, including fixed-tilt arrays and single access trackers and significantly reduce water use and improve system performance.

Our single axis tracking systems automatically pivot solar panels to track the sun's movement throughout the day. This tracking feature increases the amount of sunlight that is captured and converted into energy by up to 30% over flat or fixed-tilt systems, depending on geographic location and local climate conditions. A single motor and drive mechanism can control 10 to 20 rows, or more than 200 KW, of solar panels. This multi-row feature represents a cost advantage for our customers over dual axis tracking systems, as such systems require more motors, drives, land, and power to operate per KW of capacity.

Utility-Scale Solar Power System Construction and Development

Our global project teams have established a scalable, fully integrated, vertical approach to constructing and developing utility-scale photovoltaic power plants in a sustainable way. Our industry experienced power plant development and project finance teams evaluate sites for solar developments; obtain land rights through purchase and lease options; conduct environmental and grid transmission studies; and obtain building, construction and grid-interconnection permits, licenses, and regulatory approvals.

We enter into turnkey EPC agreements with customers under which we design, engineer, construct, commission, and deliver functioning rooftop- and ground-mounted solar power systems. This includes the development, execution, and sale of solar power plants, which generally include the sale or lease of related real estate. Under such development projects, the plants and project development rights, initially owned by us, are later sold to third parties. In the United States, commercial and electric utility customers typically choose to purchase solar electricity under a PPA with an investor or financing company that buys the system from us. In other areas, such as the Middle East, Africa, and South America, projects are typically purchased by an investor or financing company and operated as central-station solar power plants.

Sales Channels and Financing

Our power plant business refers to sales of our large-scale solar products and systems, including power plant project development and project sales, EPC services for power plant construction, power plant O&M services and component sales for power plants developed by third parties, sometimes on a multi-year, firm commitment basis. Our utility-scale solar power systems are typically purchased by an investor or financing company and operated as central-station solar power plants. We also sell utility-scale solar power plants to 8point3 Energy Partners.

We are able to utilize various means to finance our utility-scale power plant development and construction projects, which include arranging tax equity financing structures, utilizing non-recourse project debt facilities, and executing our HoldCo strategy in conjunction with project sales to 8point3 Energy Partners.

Operations and Maintenance

Our solar power systems are designed to generate electricity over a system life typically exceeding 25 years. We offer our customers various levels of post-installation O&M services with the objective of optimizing our customers' electrical energy production over the life of the system. The terms and conditions of post-installation O&M services may provide for remote monitoring of system production and performance, including providing performance reports, preventative maintenance, including solar module cleanings, corrective maintenance, and rapid-response outage restoration, including repair or replacement of all system components covered under warranty or major maintenance agreements.

We incorporate leading information technology platforms to facilitate the management of our solar power systems operating worldwide. Real-time flow of data from our customers' sites is aggregated centrally where an engine applies advanced solar specific algorithms to detect and report potential performance issues. Our work management system routes any anomalies to the appropriate responders to help ensure timely resolution. Our performance model, PVSim, was developed over the last 20 years and has been audited by independent engineers. Solar panel performance coefficients are established through independent third-party testing. The SunPower Monitoring System also provides customers real-time performance status of their solar power system, with access to historical or daily system performance data through our customer website (www.sunpowermonitor.com). The SunPower Monitoring System is available through applications on Apple® and Android™

devices. Some customers choose to install "digital signs" or kiosks to display system performance information from the lobby of their facility. We believe these displays enhance our brand and educate the public and prospective customers about solar power.

We typically provide a system output performance warranty, separate from our standard solar panel product warranty, to customers that have subscribed to our post-installation O&M services. The system output performance warranty expires upon termination of the post-installation O&M services related to the system. In connection with system output performance warranties, we agree to pay liquidated damages in the event the system does not perform to the stated specifications, with certain exclusions. The warranty excludes system output shortfalls attributable to force majeure events, customer curtailment, irregular weather, and other similar factors. In the event that the system output falls below the warrantied performance level during the applicable warranty period, and provided that the shortfall is not caused by a factor that is excluded from the performance warranty, the warranty provides that SunPower will pay the customer an amount based on the value of the shortfall of energy produced relative to the applicable warrantied performance level. For leased systems, we provide a system output performance warranty with similar terms and conditions as that for non-leased systems.

We calculate our expectation of system output performance based on a particular system’s design specifications, including the type of panels used, the type of inverters used, site irradiation measures derived from historical weather data, our historical experience as a manufacturer, EPC services provider, and project developer as well as other unique design considerations such as system shading. The warrantied system output performance level varies by system depending on the characteristics of the system and the negotiated agreement with the customer, and the level declines over time to account for the expected degradation of the system. Actual system output is typically measured annually for purposes of determining whether warrantied performance levels have been met.

Our primary remedy for the system output performance warranty is our ongoing O&M services which enable us to quickly identify and remediate potential issues before they have a significant impact on system performance. We also have remedies in the form of our standard product warranties and third-party original equipment manufacturer warranties that cover certain components, such as inverters, to prevent potential losses under our system output performance warranties or to minimize further losses.

Technology

We believe that we possess a technological advantage as the leading manufacturer of back-contact, back-junction cells that enables our panels to produce more electricity, last longer and resist degradation more effectively. We believe that our technology allows us to deliver:

- superior performance, including the ability to generate up to 45% more power per unit area than conventional solar cells;
- superior aesthetics, with our uniformly black surface design that eliminates highly visible reflective grid lines and metal interconnection ribbons;
- superior reliability, as confirmed by multiple independent reports and internal reliability data;
- superior energy production per rated watt of power, as confirmed by multiple independent reports; and
- solar power systems that are designed to generate electricity over a system life typically exceeding 25 years.

With industry-leading conversion efficiencies, we continuously improve our Maxeon® solar cells and believe they perform better and are tested more extensively to deliver maximum return on investment when compared with the products of our competitors.

Panels

Solar panels are solar cells electrically connected together and encapsulated in a weatherproof panel. Solar cells are semiconductor devices that convert sunlight into direct current electricity. Our solar cells are designed without highly reflective metal contact grids or current collection ribbons on the front of the solar cell, which provides additional efficiency and allows our solar cells to be assembled into solar panels with a more uniform appearance. Our X-Series solar panels, made with our Maxeon Gen 3 solar cells, have demonstrated panel efficiencies exceeding 22% in high-volume production. In fiscal 2016, one of our standard production modules set a world record for aperture area efficiency as tested by National Renewable Energy Laboratory ("NREL"). We believe our X-Series solar panels are the highest efficiency solar panels available for the mass market, and we continue to focus on increasing cell efficiency even as we produce solar cells with over 25% efficiency in a lab

Table of Contents

setting. Because our solar cells are more efficient relative to conventional solar cells, when our solar cells are assembled into panels, the assembly cost per watt is less because more power can be incorporated into a given size panel. Higher solar panel efficiency allows installers to mount a solar power system with more power within a given roof or site area and can reduce per watt installation costs. Our suite of SunPower solar panels provides customers a variety of features to fit their needs, including the SunPower® Signature™ Black design which allows the panels to blend seamlessly into the rooftop. We offer panels that can be used both with inverters that require transformers as well as with the highest performing transformer-less inverters to maximize output. Both our X-Series and E-Series panels have proven performance with low levels of degradation, as validated by third-party performance tests. Additionally, in fiscal 2016, we launched a new line of solar panels under the Performance Series product name. These products utilize a proprietary manufacturing process to assemble conventional silicon solar cells into panels with increased efficiency and reliability compared with conventional panels. Designed to target a new set of customers and global markets, we expect Performance Series panels to contribute to the growth of all three of SunPower's business segments.

Balance of System Components

"Balance of system components" are components of a solar power system other than the solar panels, and include mounting structures, charge controllers, grid interconnection equipment, and other devices, depending on the specific requirements of a particular system and project. We possess advanced module-level control electronics in our technology portfolio that enable longer series strings and significant balance of system components cost reductions in large arrays.

Inverters

Every solar power system needs an inverter to transform the direct current electricity collected from the solar panels into utility-grade AC power that is ready for use. We sell inverters manufactured by third parties, some of which are SunPower-branded. We also have integrated microinverter technology that converts DC generated by a single solar photovoltaic panel into AC directly on the panel. We are utilizing this technology to develop next generation microinverters for use with our high efficiency solar panels. Panels with these factory-integrated microinverters perform better in shaded applications compared to conventional string inverters and allow for optimization and monitoring at the solar panel level, enabling maximum energy production by the solar system.

Warranties

SunPower provides a 25-year standard solar panel product warranty for defects in materials and workmanship. The solar panel product warranty also warrants that the panel will provide 95% of the panel's minimum peak power rating for the first five years, declining due to expected degradation by no more than 0.4% per year for the following 20 years, such that the power output at the end of year 25 will be at least 87% of the panel's minimum peak power rating. Our warranty provides that we will repair or replace any defective solar panels during the warranty period. We also pass through long-term warranties from the original equipment manufacturers of certain system components to customers for periods ranging from five to 20 years. In addition, we generally warrant our workmanship on installed systems for periods ranging up to 25 years.

Smart Energy

We see "Smart Energy" as a way to harness our world's energy potential by connecting the most powerful and reliable solar systems on the market with an increasingly vast array of actionable data that can help our customers make smarter decisions about their energy use. Our Smart Energy initiative is designed to add layers of intelligent control to homes, buildings and grids—all personalized through easy-to-use customer interfaces. In order to enhance the portfolio of Smart Energy solutions we offer, we continue to invest in integrated technology solutions to help customers manage and optimize their CCOE measurement.

We have an investment in Tendril Networks, Inc. and have licensed its data-driven Energy Services Management Platform. We believe that this open, cloud-based software platform provides the infrastructure, analytics and understanding required to power the development of new Smart Energy applications that will deliver personalized energy services to our residential customers.

We have also negotiated several agreements with residential and commercial energy storage providers to integrate storage technology into our residential and commercial solar solutions. By combining storage with energy management, we lower our customers' cost of energy through improvements in self-consumption, rate arbitrage, demand management, and grid and market participation. We continue to work to make combined solar and storage solutions broadly commercially available.

Table of Contents

We are developing next generation microinverters for use with our high efficiency solar panels in order to enhance our portfolio of Smart Energy solutions. Panels with these factory-integrated microinverters can convert direct current generated by the solar panel into alternating current, enabling optimization and monitoring at the solar panel level to ensure maximum energy production by the solar system.

Research and Development

We engage in extensive research and development efforts to improve solar cell efficiency through enhancement of our existing products, development of new techniques, and reducing manufacturing cost and complexity. Our research and development group works closely with our manufacturing facilities, our equipment suppliers and our customers to improve our solar cell design and to lower solar cell, solar panel and system product manufacturing and assembly costs. In addition, we have dedicated employees who work closely with our current and potential suppliers of crystalline silicon, a key raw material used in the manufacture of our solar cells, to develop specifications that meet our standards and ensure the high quality we require, while at the same time controlling costs. Under our Research & Collaboration Agreement with Total, our majority stockholder, we have established a joint committee to engage in long-term research and development projects with continued focus on maintaining and expanding our technology position in the crystalline silicon domain and ensuring our competitiveness. Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Research and Development."

Supplier Relationships, Manufacturing, and Panel Assembly

We purchase polysilicon, ingots, wafers, solar cells, balance of system components, and inverters from various manufacturers on both a contracted and a purchase order basis. We have contracted with some of our suppliers for multi-year supply agreements. Under such agreements, we have annual minimum purchase obligations and in certain cases prepayment obligations. Please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations" for further information regarding the amount of our purchase obligations in fiscal 2017 and beyond. Under other supply agreements, we are required to make prepayments to vendors over the terms of the arrangements. As of January 1, 2017, advances to suppliers totaled $284.8 million. We may be unable to recover such prepayments if the credit conditions of these suppliers materially deteriorate or if we are otherwise unable to fulfill our obligations under these supply agreements. For further information regarding our future prepayment obligations, please see "Item 8. Financial Statements and Supplementary Data—Note 9. Commitments and Contingencies—Advances to Suppliers." We currently believe our supplier relationships and various short- and long-term contracts will afford us the volume of material and services required to meet our planned output over the next several years. For more information about risks related to our supply chain, please see "Item 1A. Risk Factors—Risks Related to Our Supply Chain."

We are working with our suppliers and partners along all steps of the value chain to reduce costs by improving manufacturing technologies and expanding economies of scale. Crystalline silicon is the principal commercial material for solar cells and is used in several forms, including single-crystalline, or monocrystalline silicon, multicrystalline, or polycrystalline silicon, ribbon and sheet silicon, and thin-layer silicon. Our solar cell value chain starts with high purity silicon called polysilicon. Polysilicon is created by refining quartz or sand.

Polysilicon is melted and grown into crystalline ingots and sawed into wafers by business partners specializing in those processes. The wafers are processed into solar cells in our manufacturing facilities located in the Philippines and Malaysia. During fiscal 2016, we substantially completed the construction of the solar cell manufacturing facility that we own and operate in the Philippines. Once fully operational, which is expected to occur in the first half of fiscal 2017, the facility has a planned annual capacity of 350 MW. The solar cell manufacturing facility we own and operate in Malaysia has a total rated annual capacity of over 800 MW.

We use our solar cells to manufacture our X- and E-series solar panels at our solar panel assembly facilities located in Mexico and France, while we source solar cells from third parties for use in our Performance Series solar panels at our solar panel assembly facility in Mexico. Our solar panel manufacturing facilities have a combined total rated annual capacity of close to 1.9 GW.

We source the solar panels and balance of system components based on quality, performance, and cost considerations both internally and from third-party suppliers. We typically assemble proprietary components, while we purchase generally available components from third-party suppliers. The balance of system components, along with the EPC cost to construct the project, can comprise as much as two-thirds of the cost of a solar power system. Therefore, we focus on standardizing our products with the goal of driving down installation costs, such as with our Equinox, Helix, and SunPower® Oasis® systems.

Table of Contents

Customers

We operate in three end-customer segments: (i) Residential Segment, (ii) Commercial Segment and (iii) Power Plant Segment. The Residential and Commercial Segments combined are referred to as Distributed Generation. Our scope and scale allow us to deliver solar solutions across all segments, ranging from consumer homeowners to the largest commercial and governmental entities in the world. Our customers typically include investors, financial institutions, project developers, electric utilities, independent power producers, commercial and governmental entities, production home builders, residential owners and small commercial building owners. We leverage a combination of direct sales as well as a broad partner ecosystem to efficiently reach our global customer base.

We work with development, construction, system integration, and financing companies to deliver our solar power products and solutions to wholesale sellers, retail sellers, and retail users of electricity. In the United States, commercial and electric utility customers typically choose to purchase solar electricity under a PPA with an investor or financing company that buys the system from us. End-user customers typically pay the investors and financing companies over an extended period of time based on energy they consume from the solar power systems, rather than paying for the full capital cost of purchasing the solar power systems. Our utility-scale solar power systems are typically purchased by an investor or financing company, such as 8point3 Energy Partners, and operated as central-station solar power plants. In addition, our third-party global dealer network and our new homes division have deployed thousands of SunPower rooftop solar power systems to residential customers. See "Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations - Revenue" for our significant customers.

Competition

The market for solar electric power technologies is competitive and continually evolving. In the last year, we faced increased competition, resulting in price reductions in the market and reduced margins, which may continue and could lead to loss of market share. Our solar power products and systems compete with many competitors in the solar power market, including, but not limited to:

- Residential and Commercial: Canadian Solar Inc., Hanwha Corporation, JA Solar Holdings Co., Kyocera Corporation, LG Corporation, Mitsubishi Corporation, NRG Energy, Inc., Panasonic Corporation, Recurrent Energy, Sharp Corporation, SolarWorld AG, Sungevity, Inc., SunRun, Inc., Tesla, Inc., Trina Solar Ltd., Vivint, Inc., and Yingli Green Energy Holding Co. Ltd.

- Utility and Power Plant: Abengoa Solar S.A., Acciona Energia S.A., AES Solar Energy Ltd., Chevron Energy Solutions (a subsidiary of Chevron Corporation), EDF Energy plc, First Solar Inc., NextEra Energy, Inc., NRG Energy, Inc., Sempra Energy, Silverado Power LLC., Skyline Solar, Inc., Solargen Energy, Inc., Solaria Corporation, and Tenaska, Inc.

We also face competition from resellers that have developed related offerings that compete with our product and service offerings, or have entered into strategic relationships with other existing solar power system providers. We compete for limited government funding for research and development contracts, customer tax rebates and other programs that promote the use of solar, and other renewable forms of energy with other renewable energy providers and customers.

In addition, universities, research institutions, and other companies have brought to market alternative technologies, such as thin films, which compete with our technology in certain applications. Furthermore, the solar power market in general competes with conventional fossil fuels supplied by utilities and other sources of renewable energy such as wind, hydro, biomass, solar thermal, and emerging distributed generation technologies such as micro-turbines, sterling engines and fuel cells.

In the large-scale on-grid solar power systems market, we face direct competition from a number of companies, including those that manufacture, distribute, or install solar power systems as well as construction companies that have expanded into the renewable sector. In addition, we will occasionally compete with distributed generation equipment suppliers.

We believe that the key competitive factors in the market for solar systems include:

- total system price;
- LCOE evaluation;
- CCOE evaluation;

10

Table of Contents

- power efficiency and performance;
- aesthetic appearance of solar panels and systems;
- speed and ease of installation through modular solutions such as Oasis and Helix systems;
- strength of distribution relationships;
- availability of third-party financing and investments;
- established sales channels to customers such as 8point3 Energy Partners;
- timeliness of new product introductions;
- bankability, strength, and reputation of our company; and
- warranty protection, quality, and customer service.

We believe that we can compete favorably with respect to each of these elements, although we may be at a disadvantage in comparison to larger companies with broader product lines, greater technical service and support capabilities, and financial resources. For more information on risks related to our competition, please see the risk factors set forth under the caption "Item 1A. Risk Factors" including "Risks Related to Our Sales Channels—The increase in the global supply of solar cells and panels, and increasing competition, may cause substantial downward pressure on the prices of such products and cause us to lose sales or market share, resulting in lower revenues, earnings, and cash flows."

Intellectual Property

We rely on a combination of patent, copyright, trade secret, trademark, and contractual protections to establish and protect our proprietary rights. "SunPower" and the "SunPower" logo are our registered trademarks in countries throughout the world for use with solar cells, solar panels, energy monitoring systems, inverters, and mounting systems. We also hold registered trademarks for, among others, "Maxeon," "Oasis," "EnergyLink," "Equinox," "Helix," "InvisiMount," "Pantheon," "Serengeti," "Smarter Solar," "Smart Energy," "Solar Showdown," "SolarBridge," "Solaire," "Solaire Generation," "SunTile," "SunPower Electric," "SuPo Solar," "Tenesol," "TrueAC," "Greenbotics," "PowerLight," "More Energy. For Life.," "The Planet's Most Powerful Solar," "The Power of One," "The World's Standard for Solar," and "Use More Sun" in certain countries. We are seeking and will continue to seek registration of the "SunPower" trademark and other trademarks in additional countries as we believe is appropriate. As of January 1, 2017, we held registrations for 32 trademarks in the United States, and had 17 trademark registration applications pending. We also held 152 trademark registrations and had over 45 trademark applications pending in foreign jurisdictions. We typically require our business partners to enter into confidentiality and non-disclosure agreements before we disclose any sensitive aspects of our solar cells, technology, or business plans. We typically enter into proprietary information agreements with employees, consultants, vendors, customers, and joint venture partners.

We own multiple patents and patent applications that cover aspects of the technology in the solar cells, mounting products, and electrical and electronic systems that we currently manufacture and market. We continue to file for and receive new patent rights on a regular basis. The lifetime of a utility patent typically extends for 20 years from the date of filing with the relevant government authority. We assess appropriate opportunities for patent protection of those aspects of our technology, designs, methodologies, and processes that we believe provide significant competitive advantages to us, and for licensing opportunities of new technologies relevant to our business. As of January 1, 2017, we held 404 patents in the United States, which will expire at various times through 2035, and had 385 U.S. patent applications pending. We also held 348 patents and had 778 patent applications pending in foreign jurisdictions. While patents are an important element of our intellectual property strategy, our business as a whole is not dependent on any one patent or any single pending patent application. We additionally rely on trade secret rights to protect our proprietary information and know-how. We employ proprietary processes and customized equipment in our manufacturing facilities. We therefore require employees and consultants to enter into confidentiality agreements to protect them.

When appropriate, we enforce our intellectual property rights against other parties. For more information about risks related to our intellectual property, please see the risk factors set forth under the caption "Item 1A. Risk Factors" including "Risks Related to Our Intellectual Property—We depend on our intellectual property, and we may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in the loss of significant rights," "Risks Related to Our Intellectual Property—We rely substantially upon trade secret laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenue could suffer,"

Table of Contents

and "Risks Related to Our Intellectual Property—We may not obtain sufficient patent protection on the technology embodied in the solar products we currently manufacture and market, which could harm our competitive position and increase our expenses."

Backlog

We believe that backlog is not a meaningful indicator of our future business prospects. In the residential and commercial markets we often sell large volumes of solar panel, mounting systems, and other solar equipment to third parties, which are typically ordered by our third-party global dealer network and customers under standard purchase orders with relatively short delivery lead-times. We often require project financing for development and construction of our solar power plant projects, which require significant investments before the equity is later sold to investors. Our solar power system project backlog would therefore exclude sales contracts signed and completed in the same quarter and contracts still conditioned upon obtaining financing. Based on these reasons, we believe backlog at any particular date is not necessarily a meaningful indicator of our future revenue for any particular period of time.

Regulations

Public Policy Considerations

Different policy mechanisms have been used by governments to accelerate the adoption of solar power. Examples of customer-focused financial mechanisms include capital cost rebates, performance-based incentives, feed-in tariffs, tax credits, and net metering. Some of these government mandates and economic incentives are scheduled to be reduced or to expire, or could be eliminated altogether. Capital cost rebates provide funds to customers based on the cost and size of a customer’s solar power system. Performance-based incentives provide funding to a customer based on the energy produced by their solar power system. Feed-in tariffs pay customers for solar power system generation based on energy produced, at a rate generally guaranteed for a period of time. Tax credits reduce a customer’s taxes at the time the taxes are due. Net metering allows customers to deliver to the electric grid any excess electricity produced by their on-site solar power systems, and to be credited for that excess electricity at or near the full retail price of electricity.

In addition to the mechanisms described above, new market development mechanisms to encourage the use of renewable energy sources continue to emerge. For example, many states in the United States have adopted renewable portfolio standards which mandate that a certain portion of electricity delivered to customers come from eligible renewable energy resources. Some states, such as California and Hawaii, have significantly expanded their renewable portfolio standards in recent years. In certain developing countries, governments are establishing initiatives to expand access to electricity, including initiatives to support off-grid rural electrification using solar power. For more information about how we avail ourselves of the benefits of public policies and the risks related to public policies, please see the risk factors set forth under the caption "Item 1A. Risk Factors" including "Risks Related to Our Sales Channels—The reduction, modification or elimination of government incentives could cause our revenue to decline and harm our financial results," and "Risks Related to Our Sales Channels—Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services."

Environmental Regulations

We use, generate, and discharge toxic, volatile, or otherwise hazardous chemicals and wastes in our research and development, manufacturing, and construction activities. We are subject to a variety of foreign, U.S. federal and state, and local governmental laws and regulations related to the purchase, storage, use, and disposal of hazardous materials.

We believe that we have all environmental permits necessary to conduct our business and expect to obtain all necessary environmental permits for future activities. We believe that we have properly handled our hazardous materials and wastes and have appropriately remediated any contamination at any of our premises. For more information about risks related to environmental regulations, please see the risk factors set forth under the caption "Item 1A. Risk Factors" including "Risks Related to Our Operations—Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines."

The Iran Threat Reduction and Syria Human Rights Act of 2012

Section 13(r) of the Securities Exchange Act of 1934, as amended (the “Exchange Act”), requires us to disclose whether Total S.A. or any of its affiliates (collectively, the “Total Group”) engaged during the 2016 calendar year in certain Iran-related activities. While the Total Group has not engaged in any activity that would be required to be disclosed pursuant to

Table of Contents

subparagraphs (A), (B) or (C) of Section 13(r)(1), affiliates of Total S.A. may be deemed to have engaged in certain transactions or dealings with the government of Iran that would require disclosure pursuant to Section 13(r)(1)(D), as discussed below. Unless otherwise noted, all foreign currency translations to U.S. dollars in this section are made using exchange rates as of January 1, 2017.

Upstream

Following the suspension of certain international economic sanctions against Iran on January 16, 2016, the Total Group commenced various business development activities in Iran. The Total Group entered into a memorandum of understanding ("MOU") with the National Iranian Oil Company ("NIOC"), pursuant to which NIOC provided technical data on certain oil and gas projects so that the Total Group could assess potential developments in Iran in compliance with the remaining applicable international economic sanctions. The Total Group subsequently proposed to develop and operate the South Pars Phase 11 gas field offshore Iran in the Persian Gulf along the international border with Qatar. This resulted in the negotiation and signing, on November 8, 2016, of a heads of agreement ("HOA") for the development and operation of the field. The parties to the HOA are NIOC, Total E&P South Pars S.A.S. (a wholly owned affiliate of Total S.A.), CNPC International Ltd. (a wholly owned affiliate of China National Petroleum Company) and Petropars Ltd. (a wholly owned affiliate of NIOC). The HOA contains the key principles and commercial terms that will be adopted in a definitive contract for the development and operation of South Pars Phase 11, should such definitive contract be finally agreed. The project is expected to have a production capacity of 370,000 boe/d and the produced gas will be fed into Iran's gas network. The Total Group is expected to operate the project with a 50.1% interest alongside Petropars (19.9%) and CNPC (30%). The required investment is expected to be approximately $4 billion, of which The Total Group would finance 50.1%, with all equity contributions and payments in non-U.S. currency. In preparation for the South Pars Phase 11 project, The Total Group commenced engineering and reservoir studies, which were presented in part to Pars Oil & Gas Company (a NIOC affiliate) in 2016 during a technical workshop. In the event of new or reinstated international economic sanctions, if such sanctions were to prevent the Total Group from performing under the anticipated contract for South Pars Phase 11, The Total Group expects to be able to terminate the contract and recover its past costs from NIOC (unless prevented by sanctions).

Regarding other potential oil and gas projects covered by the aforementioned MOU, The Total Group held technical meetings in 2016 with representatives of NIOC and its affiliated companies and carried out a technical review of the South Azadegan oil field in Iran as well as the Iran LNG Project (a project contemplating a 10 Mt/y LNG production facility at Tombak Port on Iran's Persian Gulf coast), the results of which were partially disclosed to NIOC and relevant affiliated companies.

In addition, in connection with anticipated activities under the aforementioned MOU and HOA, The Total Group attended meetings in 2016 with the Iranian oil and gas ministry and several Iranian companies with ties to the government of Iran.

Also in 2016, The Total Group was selected, along with other international oil and gas companies, to form an advisory group to the oil and gas ministries of Iran and Oman concerning a possible future gas pipeline between the two countries. In that regard, The Total Group entered into a confidentiality agreement and attended meetings with these companies and ministries.

In addition, The Total Group registered in 2016 a branch office of a new entity, Total Iran B.V., a wholly-owned affiliate of Total S.A., the purpose of which is to serve as the representation office for the Total Group in Iran. This entity replaces Total E&P Iran, which previously served the same purpose, but only for Exploration & Production.

Neither revenues nor profits were recognized from any of the aforementioned activities in 2016, and the Total Group expects to conduct similar business development activities in 2017.

Some payments are yet to be reimbursed to the Total Group with respect to past expenditures and remuneration under buyback contracts entered into between 1997 and 1999 with NIOC for the development of the South Pars 2&3 and Dorood fields. With respect to these contracts, development operations were completed in 2010 and the Total Group is no longer involved in the operation of these fields.

Concerning payments to Iranian entities in 2016, Total E&P Iran (100%), Elf Petroleum Iran (99.8%), Total Sirri (100%) and Total South Pars (99.8%) collectively made payments of approximately IRR 3 billion (approximately $92,705) to (i) the Iranian administration for taxes and social security contributions concerning the personnel of the aforementioned local office and residual buyback contract-related obligations, and (ii) Iranian public entities for payments with respect to the maintenance

Table of Contents

of the aforementioned local office (e.g., utilities, telecommunications). The Total Group expects similar types of payments to be made by these affiliates in 2017, albeit in higher amounts due to increased business development activity in Iran. Neither revenues nor profits were recognized from the aforementioned activities in 2016.

Furthermore, Total E&P UK Limited ("TEP UK"), a wholly-owned affiliate of The Total Group, holds a 43.25% interest in a joint venture at the Bruce field in the UK with BP Exploration Operating Company Limited (37.5%, operator), BHP Billiton Petroleum Great Britain Ltd (16%) and Marubeni Oil & Gas (North Sea) Limited (3.75%). This joint venture is party to an agreement (the "Bruce Rhum Agreement") governing certain transportation, processing and operation services provided to a joint venture at the Rhum field in the UK that is co-owned by BP (50%, operator) and the Iranian Oil Company UK Ltd ("IOC"), a subsidiary of NIOC (50%) (together, the "Rhum Owners"). TEP UK owned and operated the pipeline of the Frigg UK Association and the St Fergus Gas Terminal and was party to an agreement governing provision of transportation and processing services to the Rhum Owners (the "Rhum FUKA Agreement") (the Bruce Rhum Agreement and the Rhum FUKA Agreement being referred to collectively as the "Rhum Agreements"). On August 27, 2015, TEP UK signed a sale and purchase agreement to divest its entire interest in the Frigg UK Association pipeline and St Fergus Gas Terminal to NSMP Operations Limited ("NSMP"). On March 15, 2016, the divestment was completed and TEP UK's interest in the Rhum FUKA Agreement was novated to NSMP. As from this date, TEP UK's only interest in the Rhum FUKA Agreement is in relation to the settlement of historical force majeure claims with the Rhum Owners relating to the period when the Rhum field was shut down. To The Total Group's knowledge, provision of all services under the Rhum Agreements was initially suspended in November 2010, when the Rhum field stopped production following the adoption of EU sanctions, other than critical safety-related services (i.e., monitoring and marine inspection of the Rhum facilities), which were permitted by EU sanctions regulations. On October 22, 2013, the UK government notified IOC of its decision to apply a temporary management scheme to IOC's interest in the Rhum field within the meaning of UK Regulations 3 and 5 of the Hydrocarbons (Temporary Management Scheme) Regulations 2013 (the "Hydrocarbons Regulations"). From October 22, 2013 until the termination of the temporary management scheme on March 16, 2016 (as further explained below), all correspondence by TEP UK in respect of IOC's interest in the Rhum Agreements was with the UK government in its capacity as temporary manager of IOC's interests. On December 6, 2013, the UK government authorized TEP UK, among others, under Article 43a of EU Regulation 267/2012, as amended by 1263/2012 and under Regulation 9 of the Hydrocarbons Regulations, to carry out activities in relation to the operation and production of the Rhum field. In addition, on September 4, 2013, the U.S. Treasury Department issued a license to BP authorizing BP and certain others to engage in various activities relating to the operation and production of the Rhum field. Following receipt of all necessary authorizations, the Rhum field resumed production on October 26, 2014 with IOC's interest in the Rhum field and the Rhum Agreements subject to the UK government's temporary management pursuant to the Hydrocarbons Regulations. Services were provided by TEP UK under the Rhum Agreements from October 26, 2014 and TEP UK received tariff income and revenues from BP and the UK government (in its capacity as temporary manager of IOC's interest in the Rhum field) in accordance with the terms of the Rhum Agreements until the termination of the temporary management scheme in March 2016. As IOC ceased to be a listed person within the meaning of the Hydrocarbons Regulations on January 16, 2016, the UK government gave notice to IOC on January 22, 2016 of the termination of the temporary management scheme with effect from March 16, 2016 in accordance with regulation 26(1)(a) and 27(1)(a) of the Hydrocarbons Regulations. As a result, since March 16, 2016, TEP UK has liaised directly with IOC concerning its interest in the Bruce Rhum Agreement, and services have been provided by TEP UK under the Bruce Rhum Agreement to IOC as Rhum Owner. In 2016, these activities generated for TEP UK gross revenue of approximately £8 million (approximately $9.9 million) and net profit of approximately £0.20 million (approximately $0.2 million). Subject to the foregoing, TEP UK intends to continue such activities so long as they continue to be permissible under UK and EU law and not be in breach of remaining applicable international economic sanctions.

Downstream

The Total Group does not own or operate any refineries or chemicals plants in Iran and did not purchase Iranian hydrocarbons when prohibited by applicable EU and U.S. economic and financial sanctions (refer to point 1.9.1, above).

The Total Group resumed its trading activities with Iran in February 2016 via its wholly-owned affiliates Totsa Total Oil Trading S.A. and Total Trading Asia Pte Ltd. During 2016, approximately 50 Mb of crude oil from Iran were purchased for nearly €1.8 billion (approximately $1.9 billion) pursuant to a mix of spot and term contracts. Most of this crude oil was used to supply the Total Group's refineries and, therefore, it is not possible to estimate the related gross revenue and net profit. However, approximately 1.4 Mb of this crude oil were sold to entities outside of the Total Group. In addition, in 2016 approximately 11 Mb of petroleum products were bought from/sold to entities with ties to the government of Iran. These operations generated gross revenue of nearly €374 million (approximately $393.5 million) and net profit of approximately €2.7 million (approximately $2.8 million). The affiliates expect to continue these activities in 2017.

Table of Contents

Saft Groupe S.A. (“Saft”), a wholly-owned affiliate of the Total Group, in 2016 sold signaling and backup battery systems for metros and railways as well as products for the utilities and oil and gas sectors to companies in Iran, including some having direct or indirect ties with the Iranian government. In 2016, this activity generated gross revenue of approximately €5.6 million (approximately $5.9 million) and net profit of approximately €800,000 (approximately $841,636). Saft expects to continue this activity in 2017.

Saft also attended the Iran Oil Show in 2016, where it discussed business opportunities with Iranian customers, including those with direct or indirect ties with the Iranian government. Saft expects to conduct similar business development activities in 2017.

Total Solar (formerly named Total Energie Developpement), a wholly-owned affiliate of the Total Group, had preliminary discussions in 2016 regarding the potential development of solar projects with companies in Iran, including some having direct or indirect ties with the Iranian government. Neither revenues nor profits were recognized from this activity in 2016, and Total Solar expects to continue this activity in 2017.

Total S.A. signed in 2016 a non-binding memorandum of understanding with the National Petrochemical Company, a company owned by the government of Iran, to consider a project for the construction in Iran of a steamcracker and polyethylene production lines. In relation to the early stages of this project, several visits to Iran were conducted in 2016 and one employee has been seconded to Total Iran B.V. Total S.A. recognized no revenue or profit from this activity in 2016 and similar activities are expected to continue in 2017.

Representatives of the companies Le Joint Français (a subsidiary of Hutchinson SA) and Hutchinson SNC, wholly-owned affiliates of the Total Group, conducted multiple visits to Iran in 2016 to discuss business opportunities in the car industry sector with several companies, including some having direct or indirect ties with the Iranian government. These companies recognized no revenue or profit from this activity in 2016 and expect to continue such discussions in the future.

Hutchinson Gmbh, a wholly-owned affiliate of the Total Group, sold plastic tubing for automobiles in 2016 to Iran Khodro, a company in which the government of Iran holds a 20% interest and which is supervised by Iran’s Industrial Management Organization. In 2016, these activities generated gross revenue of approximately €900,000 (approximately $946,840) and net profit of approximately €150,000 (approximately $157,807). This company expects to continue this activity in 2017.

Hanwha Total Petrochemicals (“HTC”), a joint venture in which Total Holdings UK Limited (a wholly-owned affiliate of The Total Group) holds a 50% interest and Hanwha General Chemicals holds a 50% interest, purchased nearly 25 Mb of condensates from NIOC for approximately KRW 1,300 billion (approximately $1.1 million). These condensates are used as raw material for certain of the Total Group's steamcrackers. HTC expects to continue this activity in 2017.

Total Research & Technology Feluy (“TRTF”), a wholly-owned affiliate of The Total Group, commenced in 2016 the process to file a patent in Iran for pipes comprising a multimodal metallocene-catalyzed polyethylene resin. Related to this process, TRTF had contacts with Iranian government officials, but no fees were paid. TRTF expects to continue the patent filing process in 2017.

Until December 2012, at which time it sold its entire interest, the Total Group held a 50% interest in the lubricants retail company Beh Total (now named Beh Tam) along with Behran Oil (50%), a company controlled by entities with ties to the government of Iran. As part of the sale of the Total Group's interest in Beh Tam, Total S.A. agreed to license the trademark “Total” to Beh Tam for an initial 3-year period for the sale by Beh Tam of lubricants to domestic consumers in Iran. In 2014, Total E&P Iran ("TEPI"), a wholly-owned affiliate of Total S.A., received, on behalf of Total S.A., royalty payments of approximately IRR 24 billion (nearly $1 million) from Beh Tam for such license. These payments were based on Beh Tam's sales of lubricants during the previous calendar year. In 2015, royalty payments were suspended due to a procedure brought by the Iranian tax authorities against TEPI. At the end of 2016, this procedure was still pending and no royalty payments had been received since 2015. Representatives of Total Outre Mer, a wholly-owned affiliate of the Total Group, made several visits to Beh Tam and Behran Oil during 2016 regarding the possible purchase of shares of Beh Tam. Subsequent to an internal reorganization, the matter was transferred to Total Oil Asia-Pacific Ltd, another wholly-owned affiliate of the Total Group, which had several exchanges with representatives of Behran Oil. As of the end of 2016, no agreement had been reached, no money was paid or received by either company. Similar discussions may take place in the future.

Table of Contents

Total Marketing Middle East FZE (“TMME”), a wholly-owned affiliate of the Total Group, sold lubricants to Beh Tam in 2016. The sale in 2016 of approximately 54 tons of lubricants and special fluids generated gross revenue of approximately AED 420,000 (approximately $30,711) and net profit of approximately AED 360,000 (approximately $26,324). TMME expects to continue this activity in 2017.

Total Marketing France (“TMF”), a company wholly-owned by Total Marketing Services (“TMS”), itself a company wholly-owned by Total S.A. and six Total Group employees, provided in 2016 fuel payment cards to the Iranian embassy in France for use in the Total Group's service stations. In 2016, these activities generated gross revenue of nearly €22,000 (approximately $23,145) and net profit of nearly €900 (approximately $947). TMF expects to continue this activity in 2017.

TMF also sold jet fuel in 2016 to Iran Air as part of its airplane refueling activities at Paris Orly airport in France. The sale of approximately 2.8 million liters of jet fuel generated gross revenue of approximately €982,000 (approximately $1.0 million) and net profit of approximately €10,000 (approximately $10,520). TMF expects to continue this activity through at least February 2017, when the contract arrives at its term.

Air Total International (“ATI”), a wholly-owned affiliate of the Total Group, on two occasions in 2016 sold jet fuel to a broker based at Le Bourget airport near Paris that was destined for the refueling of an Iranian government airplane (official presidential/ministerial visits). These sales generated gross revenue of approximately €8,000 (approximately $8,416) and net profit of approximately €1,600 (approximately $1,683). ATI may conduct similar activities in 2017.

Total Belgium (“TB”), a company wholly-owned by the Total Group, provided in 2016 fuel payment cards to the Iranian embassy in Brussels (Belgium) for use in the Total Group's service stations. In 2016, these activities generated gross revenue of approximately €1,500 (approximately $1,578) and net profit of approximately €300 (approximately $316). TB expects to continue this activity in 2017.

Proxifuel, a company wholly-owned by the Total Group, sold in 2016 heating oil to the Iranian embassy in Brussels. In 2016, these activities generated gross revenue of approximately €200 (approximately $210) and net profit of approximately €80 (approximately $84). Proxifuel expects to continue this activity in 2017.

Caldeo, a company wholly-owned by TMS, sold in 2016 approximately 3 cubic meters of domestic heating oil to the Iranian embassy in France, which generated gross revenue of nearly €435 (approximately $458) and net profit of nearly €115 (approximately $121). Caldeo expects to continue this activity in 2017.

Total Namibia (PTY) Ltd (“TN”), a wholly-owned affiliate of Total South Africa (PTY) Ltd (of which the Total Group holds 50.1%), sold petroleum products and services during 2016 to Rössing Uranium Limited, a company in which the Iranian Foreign Investment Co. holds an interest of 15.3%. In 2016, these activities generated gross revenue of nearly N$249 million (approximately $18.2 million) and net profit of approximately N$8 million (approximately $0.6 million). TN expects to continue this activity in 2017.

Employees

As of January 1, 2017, we had approximately 8,902 full-time employees worldwide, of which 1,290 were located in the United States, 3,588 were located in the Philippines, 1,633 were located in Malaysia, and 2,391 were located in other countries. Of these employees, 6,588 were engaged in manufacturing, 881 in construction projects, 406 in research and development, 492 in sales and marketing, and 535 in general and administrative services. Although in certain countries we have works councils and statutory employee representation obligations, our employees are generally not represented by labor unions on an ongoing basis. We have never experienced a work stoppage, and we believe our relations with our employees are good.

Geographic Information

Information regarding financial data by segment and geographic area is available in Note 5 and Note 17 under "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements."

Seasonal Trends

Table of Contents

Our business is subject to industry-specific seasonal fluctuations including changes in weather patterns and economic incentives, among others. Sales have historically reflected these seasonal trends with the largest percentage of total revenues realized during the last two quarters of our fiscal year. The construction of solar power systems or installation of solar power components and related revenue may decline during cold winter months. In the United States, many customers make purchasing decisions towards the end of the year in order to take advantage of tax credits or for other budgetary reasons. In addition, revenues may fluctuate due to the timing of project sales, construction schedules, and revenue recognition of certain projects, such as those involving real estate, which may significantly impact the quarterly profile of the Company's results of operations. We may also retain certain development projects on our balance sheet for longer periods of time than in preceding periods in order to optimize the economic value we receive at the time of sale in light of market conditions, which can fluctuate after we have committed to projects. Delays in disposing of projects, or changes in amounts realized on disposition, may lead to significant fluctuations to the period-over-period profile of our results of operations and our cash available for working capital needs.

Available Information

We make available our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K, and amendments to those reports filed or furnished pursuant to Section 13(a) or Section 15(d) of the Securities Exchange Act of 1934 (the "Exchange Act") free of charge on our website at www.sunpower.com, as soon as reasonably practicable after they are electronically filed with or furnished to the SEC. The contents of our website are not incorporated into, or otherwise to be regarded as part of this Annual Report on Form 10-K. Copies of such material may be obtained, free of charge, upon written request submitted to our corporate headquarters: SunPower Corporation, Attn: Investor Relations, 77 Rio Robles, San Jose, California, 95134. Copies of materials we file with the SEC may also be accessed at the SEC's Public Reference Room at 100 F Street NE, Washington, D.C., or at the SEC's website at www.sec.gov. The public may obtain additional information on the operation of the SEC's Public Reference Room by calling the SEC at 1-800-SEC-0330.

Table of Contents

ITEM 1A. RISK FACTORS

Our business is subject to various risks and uncertainties, including those described below and elsewhere in this Annual Report on Form 10-K, which could adversely affect our business, results of operations, and financial condition. Although we believe that we have identified and discussed below certain key risk factors affecting our business, there may be additional risks and uncertainties that are not currently known to us or that are not currently believed by us to be material that may also harm our business, results of operations and financial condition.

Risks Related to Our Sales Channels

Our operating results are subject to significant fluctuations and are inherently unpredictable.

We do not know whether our revenue will continue to grow, or if it will continue to grow sufficiently to outpace our expenses, which we also expect to grow. As a result, we may not be profitable on a quarterly basis. Our quarterly revenue and operating results are difficult to predict and have in the past fluctuated significantly from quarter to quarter. The principal reason for these significant fluctuations in our results is that we derive a substantial portion of our total revenues from our large commercial and utility-scale and power plant customers, and, consequently:

- the amount, timing and mix of sales to our large commercial, utilities and power plant customers, often for a single medium or large-scale project, may cause large fluctuations in our revenue and other financial results because, at any given time, a single large-scale project can account for a material portion of our total revenue in a given quarter;
- our inability to monetize our projects as planned, or any delay in obtaining the required government support or initial payments to begin recognizing revenue under the relevant recognition criteria, and the corresponding revenue impact, may similarly cause large fluctuations in our revenue and other financial results;
- our ability to monetize projects as planned is also subject to market conditions, including fluctuations in demand based on the availability of regulatory incentives and other factors, changes in the internal rate of return expected by customers in light of market conditions, the increasing number of power plants being constructed or available for sale and competition for financing, which can make both financing and disposition more challenging and may significantly affect project sales prices;
- market conditions may deteriorate after we have committed to projects, resulting in delays in disposing of projects, or changes in amounts realized on disposition, which may lead to significant fluctuations in the period-over-period profile of our results of operations and our cash available for working capital needs;
- in the event a project is subsequently canceled, abandoned, or is deemed unlikely to occur, we will charge all prior capital costs as an operating expense in the quarter in which such determination is made, which could materially adversely affect operating results;
- a delayed disposition of a project could require us to recognize a gain on the sale of assets instead of recognizing revenue;
- our agreements with these customers may be canceled if we fail to meet certain product specifications or materially breach the agreement;
- in the event of a customer bankruptcy, our customers may seek to terminate or renegotiate the terms of current agreements or renewals; and

- the failure by any significant customer to pay for orders, whether due to liquidity issues or otherwise, could materially and adversely affect our results of operations.

Any decrease in revenue from our large commercial and utility-scale power plant customers, whether due to a loss or delay of projects or an inability to collect, could have a significant negative impact on our business. See also "Item 7A. Quantitative and Qualitative Disclosures About Market Risk." See also "Risks Related to Our Sales Channels - Revenues from a limited number of customers and large projects are expected to continue to comprise a significant portion of our total

Table of Contents

revenues and any decrease in revenues from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a material adverse effect on our business, results of operations and financial condition."

Sales to our residential and light commercial customers are similarly susceptible to fluctuations in volumes and revenue, as well as fluctuations in demand based on the availability of regulatory incentives and other factors. In addition, demand from our commercial and residential customers may fluctuate based on the perceived cost-effectiveness of the electricity generated by our solar power systems as compared to conventional energy sources, such as natural gas and coal (which fuel sources are subject to significant price swings from time to time), and other non-solar renewable energy sources, such as wind. Declining average selling prices immediately affect our residential and light commercial sales volumes, and therefore lead to large fluctuations in revenue.

Further, our revenue mix of materials sales versus project sales can fluctuate dramatically from quarter to quarter, which may adversely affect our margins and financial results in any given period.

Any of the foregoing may cause us to miss our financial guidance for a given period, which could adversely impact the market price for our common stock and our liquidity.

We base our planned operating expenses in part on our expectations of future revenue and a significant portion of our expenses is fixed in the short term. If revenue for a particular quarter is lower than we expect, we likely will be unable to proportionately reduce our operating expenses for that quarter, which would materially adversely affect our operating results for that quarter. See also "-Risks Related to Our Sales Channels-Our business could be adversely affected by seasonal trends and construction cycles," "-Risks Related to Our Sales Channels-The reduction, modification or elimination of government incentives could cause our revenue to decline and harm our financial results" and "-Risks Related to Our Sales Channels-Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services."

We may not achieve some or all of the expected benefits of our restructuring plans and our restructuring may adversely affect our business.

We announced restructuring plans in August 2016 and December 2016 to realign our downstream investments, optimize our supply chain, and reduce operating expenses, in response to market dislocation, including expected near-term challenges primarily relating to our power plant and commercial segments, and to reduce costs and focus on improving cash flow while positioning us to succeed in the next phase of industry growth. As part of such plans, our Board of Directors approved the closure of our Philippine-based Fab 2 manufacturing facility. Implementation of our restructuring plans may be costly and disruptive to our business, and we may not be able to obtain the cost savings and benefits that were initially anticipated in connection with our restructuring. Additionally, as a result of our restructuring, we may experience a loss of continuity, loss of accumulated knowledge, or inefficiency during transitional periods. Reorganization and restructuring can require a significant amount of management and other employees' time and focus, which may divert attention from operating and growing our business. If we fail to achieve some or all of the expected benefits of restructuring, it could have a material adverse effect on our competitive position, business, financial condition, results of operations and cash flows. For more information about our restructuring plans, see our Current Reports on Form 8-K filed on August 9, 2016 and December 7, 2016 and "Item 8. Financial Statements and Supplementary Data–Notes to Consolidated Financial Statements–Note 8. Restructuring."

The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our solar power plants, our residential lease program and our customers, and is affected by general economic conditions and other factors.

Our growth strategy depends on third-party financing arrangements. We often require project financing for development and construction of our solar power plant projects, which require significant investments before the equity is later sold to investors. Many purchasers of our systems projects have entered into third-party arrangements to finance their systems over an extended period of time, while many end-customers have chosen to purchase solar electricity under a power purchase agreement ("PPA") with an investor or financing company that purchases the system from us or our authorized dealers. We often execute PPAs directly with the end-user, with the expectation that we will later assign the PPA to a financier. Under such arrangements, the financier separately contracts with us to acquire and build the solar power system, and then sells the electricity to the end-user under the assigned PPA. When executing PPAs with end-users, we seek to mitigate the risk that financing will not be available for the project by allowing termination of the PPA in such event without penalty. However, we may not always be successful in negotiating for penalty-free termination rights for failure to obtain financing, and certain end-

Table of Contents

users have required substantial financial penalties in exchange for such rights. These structured finance arrangements are complex and may not be feasible in many situations.

Global economic conditions, including conditions that may make it more difficult or expensive for us to access credit and liquidity, could materially and adversely affect our business and results of operations. Credit markets are unpredictable, and if they become more challenging, we may be unable to obtain project financing for our projects, customers may be unable or unwilling to finance the cost of our products, we may have difficulties in reaching agreements with financiers to finance the construction of our solar power systems, or the parties that have historically provided this financing may cease to do so, or only do so on terms that are substantially less favorable for us or our customers, any of which could materially and adversely affect our revenue and growth in all segments of our business.

Our plans to continue to grow our residential lease program may be delayed if credit conditions prevent us from obtaining or maintaining arrangements to finance the program. We are actively arranging additional third-party financing for our residential lease program; however, if we encounter challenging credit markets, we may be unable to arrange additional financing partners for our residential lease program in future periods, which could have a negative impact on our sales. In the event we enter into a material number of additional leases without obtaining corresponding third-party financing, our cash, working capital and financial results could be negatively affected. In addition, a rise in interest rates would likely increase our customers’ cost of financing or leasing our products and could reduce their profits and expected returns on investment in our products. The general reduction in available credit to would-be borrowers or lessees, worldwide economic uncertainty, and the condition of worldwide housing markets could delay or reduce our sales of products to new homebuilders and authorized resellers.

The availability of financing depends on many factors, including market conditions, the demand for and supply of solar projects, and resulting risks of refinancing or disposing of such projects. It also depends in part on government incentives, such as tax incentives. In the United States, with the expiration of the Treasury Grant under Section 1603 of the American Recovery and Reinvestment Act program, we have needed to identify interested financiers with sufficient taxable income to monetize the tax incentives created by our solar systems. In the long term, as we look toward markets not supported (or supported less) by government incentives, we will continue to need to identify financiers willing to finance residential solar systems without such incentives. Our failure to effectively do so could materially and adversely affect our business and results of operations. In addition, the new administration and Congress have expressed interest in comprehensive reform of the U.S. tax code, which could result in the reduction or elimination of various industry-specific tax incentives in return for an overall reduction in corporate tax rates.

The lack of project financing, due to tighter credit markets or other reasons, could delay the development and construction of our solar power plant projects, thus reducing our revenues from the sale of such projects. We may in some cases seek to pursue partnership arrangements with financing entities to assist residential and other customers to obtain financing for the purchase or lease of our systems, which would expose us to credit or other risks. We face competition for financing partners and if we are unable to continue to offer a competitive investment profile, we may lose access to financing partners or they may offer financing on less favorable terms than our competitors, which could materially and adversely affect our business and results of operations.

If we fail to successfully execute our cost reduction roadmap, or fail to develop and introduce new and enhanced products and services, we may be unable to compete effectively, and our ability to generate revenues would suffer.

Our solar panels are currently competitive in the market compared with lower cost conventional solar cells, such as thin-film, due to our products’ higher efficiency, among other things. Given the general downward pressure on prices for solar panels driven by increasing supply and technological change, a principal component of our business strategy is reducing our costs to manufacture our products to remain competitive. We also focus on standardizing our products with the goal of driving down installation costs. If our competitors are able to drive down their manufacturing and installation costs or increase the efficiency of their products faster than we can, our products may become less competitive even when adjusted for efficiency. Further, if raw materials costs and other third-party component costs were to increase, we may not meet our cost reduction targets. If we cannot effectively execute our cost reduction roadmap, our competitive position will suffer, and we could lose market share and our margins would be adversely

affected as we face downward pricing pressure.
The solar power market is characterized by continually changing technology and improving features, such as increased efficiency, higher power output and enhanced aesthetics. Technologies developed by our direct competitors, including thin-film solar panels, concentrating solar cells, solar thermal electric and other solar technologies, may provide energy at lower costs than our products. We also face competition in some markets from other energy generation sources, including conventional fossil fuels, wind, biomass, and hydro. In addition, other companies could potentially develop a highly reliable renewable energy system that mitigates the intermittent energy production drawback of many renewable energy systems. Companies could also offer other value-added improvements from the perspective of utilities and other system owners, in which case such

Table of Contents

companies could compete with us even if the cost of electricity associated with any such new system is higher than that of our systems. We also compete with traditional utilities that supply energy to our potential customers. Such utilities have greater financial, technical, operational and other resources than we do. If electricity rates decrease and our products become less competitive by comparison, our operating results and financial condition will be adversely affected.

Our failure to further refine our technology, reduce cost in our manufacturing process, and develop and introduce new solar power products could cause our products or our manufacturing facilities to become less competitive or obsolete, which could reduce our market share, cause our sales to decline, and cause the impairment of our assets. This risk requires us to continuously develop new solar power products and enhancements for existing solar power products to keep pace with evolving industry standards, competitive pricing and changing customer preferences, expectations, and requirements. It is difficult to successfully predict the products and services our customers will demand. If we cannot continually improve the efficiency of our solar panels as compared with those of our competitors, our pricing will become less competitive, we could lose market share and our margins would be adversely affected. We have new products, such as our Performance Series, which have not yet been mass-deployed in the market. We need to prove their reliability in the field as well as drive down their cost in order to gain market acceptance.

As we introduce new or enhanced products or integrate new technology and components into our products, we will face risks relating to such transitions including, among other things, the incurrence of high fixed costs, technical challenges, acceptance of products by our customers, disruption in customers' ordering patterns, insufficient supplies of new products to meet customers' demand, possible product and technology defects arising from the integration of new technology and a potentially different sales and support environment relating to any new technology. Our failure to manage the transition to newer products or the integration of newer technology and components into our products could adversely affect our business's operating results and financial condition.

We may fail to realize the expected benefits of our YieldCo strategy, which could materially adversely affect our business, financial condition, and results of operations.

In June 2015, 8point3 Energy Partners, a joint YieldCo vehicle formed by us and First Solar, Inc. to own, operate and acquire solar energy generation assets, launched an initial public offering of Class A shares representing its limited partner interests. The IPO was consummated on June 24, 2015, whereupon the Class A shares were listed on The NASDAQ Global Select Market under the trading symbol "CAFD."

Immediately after the IPO, we contributed a portfolio of solar generation assets to 8point3 Energy Partners in exchange for cash proceeds as well as equity interests in several 8point3 Energy Partners affiliated entities (collectively, the "8point3 Group"). Additionally, we entered into a Right of First Offer Agreement with 8point3 Energy Partners in connection with the IPO under which we granted 8point3 Energy Partners a right of first offer to purchase certain of our solar energy projects that are in various stages of development in our project pipeline. We have sold four of these projects to 8point3 Energy Partners to date, including two projects which are currently in the process of being sold in phases.

We may be unable to fully realize our expected strategic and financial benefits from the 8point3 Group on a timely basis or at all. The operations of the 8point3 Group are not consolidated with ours. Instead, we account for our investments in the 8point3 Group using the equity method, whereby the book value of our investments is recorded as a non-current asset and our portion of their earnings is recorded in the Consolidated Statements of Operations under the caption "Equity in earnings (loss) of unconsolidated investees."

There is no assurance that we will realize a return on our equity investments in the 8point3 Group. The ability of the 8point3 Group to make cash distributions will depend primarily upon its cash flow, which is not solely a function of 8point3 Energy Partners' profitability. There is no assurance that we will receive any further cash distributions. Accordingly, we may never recover the value of the assets we contribute to the YieldCo vehicle, and we may realize less of a return on such contribution than if we had retained or operated these assets. In addition, 8point3 Energy Partners may be unable to obtain funding through the sale of equity securities or otherwise. If adequate funds and other resources are not available on acceptable terms, 8point3 Group may be unable to purchase assets that we wish to

sell, or otherwise function as anticipated and planned. In such event, our YieldCo strategy may not succeed, and our business, financial condition and results of operations would be materially adversely affected.
We believe that the viability of our YieldCo strategy will depend, among other things, upon our ability to continue to develop revenue-generating solar assets, to build and manage relationships with sponsors, and to productively manage our relationship with First Solar and the 8point3 Group, which are subject to the project-level, joint venture relationship, business, and industry risks described herein. If we are unable to realize the strategic and financial benefits that we expect to derive from

Table of Contents

our YieldCo strategy and 8point3 Energy Partners in particular, our business, financial condition and results of operations could be materially adversely affected.

The increase in the global supply of solar cells and panels, and increasing competition, may cause substantial downward pressure on the prices of such products and cause us to lose sales or market share, resulting in lower revenues, earnings, and cash flows.

Global solar cell and panel production capacity has been materially increasing overall, and solar cell and solar panel manufacturers currently have excess capacity, particularly in China. Excess capacity and industry competition have resulted in the past, and may continue to result, in substantial downward pressure on the price of solar cells and panels, including SunPower products. Intensifying competition could also cause us to lose sales or market share. Such price reductions or loss of sales or market share could have a negative impact on our revenue and earnings, and could materially adversely affect our business, financial condition and cash flows. In addition, our internal pricing forecasts may not be accurate in such a market environment, which could cause our financial results to be different than forecasted. See also under this section, “Risks Related to Our Sales Channels - If we fail to successfully execute our cost reduction roadmap, or fail to develop and introduce new and enhanced products and services, we may be unable to compete effectively, and our ability to generate revenues would suffer.”

The reduction, modification or elimination of government incentives could cause our revenue to decline and harm our financial results.

The market for on-grid applications, where solar power is used to supplement a customer’s electricity purchased from the utility network or sold to a utility under tariff, depends in large part on the availability and size of government mandates and economic incentives because, at present, the cost of solar power generally exceeds retail electric rates in many locations and wholesale peak power rates in some locations. Incentives and mandates vary by geographic market. Various government bodies in most of the countries where we do business have provided incentives in the form of feed-in tariffs, rebates, and tax credits and other incentives and mandates, such as renewable portfolio standards and net metering, to end-users, distributors, system integrators and manufacturers of solar power products to promote the use of solar energy in on-grid applications and to reduce dependency on other forms of energy. These various forms of support for solar power are subject to change (as for example occurred in 2011 in Germany and other European countries, and in 2015 with Nevada’s decision to change net energy metering), and are expected in the longer term to decline. Even changes that may be viewed as positive (such as the extension at the end of 2015 of U.S. tax credits related to solar power) can have negative effects if they result, for example, in delaying purchases that otherwise might have been made before expiration or scheduled reductions in such credits. Governmental decisions regarding the provision of economic incentives often depend on political and economic factors that we cannot predict and that are beyond our control. The reduction, modification or elimination of grid access, government mandates or economic incentives in one or more of our customer markets would materially and adversely affect the growth of such markets or result in increased price competition, either of which could cause our revenue to decline and materially adversely affect our financial results.

Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services.

The market for electric generation products is heavily influenced by federal, state and local government laws, regulations and policies concerning the electric utility industry in the United States and abroad, as well as policies promulgated by electric utilities. These regulations and policies often relate to electricity pricing and technical interconnection of customer-owned electricity generation, and changes that make solar power less competitive with other power sources could deter investment in the research and development of alternative energy sources as well as customer purchases of solar power technology, which could in turn result in a significant reduction in the demand for our solar power products. The market for electric generation equipment is also influenced by trade and local content laws, regulations and policies that can discourage growth and competition in the solar industry and create economic barriers to the purchase of solar power products, thus reducing demand for our solar products. In addition, on-grid applications depend on access to the grid, which is also regulated by government entities. We anticipate that our solar power products and their installation will continue to be subject to oversight and regulation in accordance with federal, state, local and foreign regulations relating to construction, safety, environmental protection, utility interconnection and metering, trade, and related matters. It is difficult to track the requirements of individual states or local jurisdictions and design equipment to comply with the varying standards. In addition, the U.S., European Union and Chinese governments, among others, have imposed tariffs or are in the process of evaluating the imposition of tariffs on solar panels, solar cells, polysilicon, and potentially other components. These and any other tariffs or similar taxes or duties may increase the price of our solar products and adversely affect our cost reduction roadmap, which could harm our results of operations and financial condition. Any new regulations or policies pertaining to our solar power

products may result in significant additional expenses to us, our resellers and our resellers' customers, which could cause a significant reduction in demand for our solar power products.
As owners and operators of solar power systems that deliver electricity to the grid, certain of our affiliated entities may be considered public utilities for purposes of the Federal Power Act, as amended (the "FPA"), and are subject to regulation by the Federal Energy Regulatory Commission ("FERC"), as well as various local and state regulatory bodies.

Although we are not directly subject to FERC regulation under the FPA, we are considered to be a "holding company" for purposes of Section 203 of the FPA, which regulates certain transactions involving public utilities, and such regulation could adversely affect our ability to grow the business through acquisitions. Likewise, investors seeking to acquire our public utility subsidiaries or acquire ownership interests in their securities may require prior FERC approval to do so. Such approval could result in transaction delays or uncertainties.

Public utilities under the FPA are required to obtain FERC acceptance of their rate schedules for wholesale sales of electricity and to comply with various regulations. FERC may grant our affiliated entities the authority to sell electricity at market-based rates and may also grant them certain regulatory waivers, such as waivers from compliance with FERC's accounting regulations. These FERC orders reserve the right to revoke or revise market-based sales authority if FERC subsequently determines that our affiliated entities can exercise market power in the sale of generation products, the provision of transmission services, or if it finds that any of the entities can create barriers to entry by competitors. In addition, if the entities fail to comply with certain reporting obligations, FERC may revoke their power sales tariffs. Finally, if the entities were deemed to have engaged in manipulative or deceptive practices concerning their power sales transactions, they would be subject to potential fines, disgorgement of profits, and/or suspension or revocation of their market-based rate authority. If our affiliated entities were to lose their market-based rate authority, such companies would be required to obtain FERC's acceptance of a cost-of-service rate schedule and could become subject to the accounting, record-keeping, and reporting requirements that are imposed on utilities with cost-based rate schedules, which would impose cost and compliance burdens on us and have an adverse effect on our results of operations. In addition to the risks described above, we may be subject to additional regulatory regimes at state or foreign levels to the extent we own and operate solar power systems in such jurisdictions.

As our sales to residential customers have continued to grow, we have increasingly become subject to substantial financing and consumer protection laws and regulations.

As we continue to seek to expand our retail customer base, our activities with customers – and in particular, our financing activities with our residential customers – are subject to consumer protection laws that may not be applicable to our commercial and power plant segments, such as federal truth-in-lending, consumer leasing, and equal credit opportunity laws and regulations, as well as state and local finance laws and regulations. Claims arising out of actual or alleged violations of law may be asserted against us by individuals or governmental entities and may expose us to significant damages or other penalties, including fines.
We may incur unexpected warranty and product liability claims that could materially and adversely affect our financial condition and results of operations.

Our current standard product warranty for our solar panels and their components includes a 25-year warranty period for defects in materials and workmanship and for greater than promised declines in power performance. We believe our warranty offering is in line with industry practice. This long warranty period creates a risk of extensive warranty claims long after we have shipped product and recognized revenue. We perform accelerated lifecycle testing that exposes our products to extreme stress and climate conditions in both environmental simulation chambers and in actual field deployments in order to highlight potential failures that could occur over the 25-year warranty period. We also employ measurement tools and algorithms intended to help us assess actual and expected performance; these attempt to compare actual performance against an expected performance baseline that is intended to account for many factors (like weather) that can affect performance. Although we conduct accelerated testing of our solar panels and components, they have not and cannot be tested in an environment that exactly simulates the 25-year warranty period and it is difficult to test for all conditions that may occur in the field. Further, there can be no assurance that our efforts to accurately measure and predict panel and component performance will be successful. Although we have not faced any material warranty claims to date, we have sold products under our warranties since the early 2000s and have therefore not experienced the full warranty cycle.

In our project installations, our current standard warranty for our solar power systems differs by geography and end-customer application and usually includes a limited warranty of 10 years for defects in workmanship, after which the customer may typically extend the period covered by its warranty for an additional fee. We also typically provide a system output performance warranty, separate from our standard solar panel product warranty, to customers that have subscribed to our post-installation O&M services. The long warranty period and nature of the warranties create a risk of extensive warranty claims long after we have completed a project and recognized revenues. Warranty and product liability claims may also result from defects or quality issues in certain technology and components (whether manufactured by us or third parties) that we incorporate into our solar power systems, such as solar cells, panels, inverters, and microinverters, over which we may have little or no control. See also “-Risks Related to Our Supply Chain-We will continue to be dependent on a limited number of third-party suppliers for certain raw materials and components for our products, which could prevent us from delivering our products to our customers within required timeframes and could in turn result in sales and installation delays, cancellations, penalty payments and loss of market share.” While we generally pass through to our customers manufacturer warranties we receive from our suppliers, in some circumstances, we may be responsible for repairing or replacing defective parts during our warranty period, often including those covered by manufacturers’ warranties, or incur other non-warranty costs. If a manufacturer disputes or otherwise fails to honor its warranty obligations, we may be required to incur substantial costs before we are compensated, if at all, by the manufacturer. Furthermore, our warranties may exceed the period of any warranties from our suppliers covering components, such as third-party solar cells, third-party panels and third-party inverters, included in our systems. In addition, manufacturer warranties may not fully compensate us for losses associated with third-party claims caused by defects or quality issues in their products. For example, most manufacturer warranties exclude certain losses that may result from a system component’s failure or defect, such as the cost of de-installation, re-installation, shipping, lost electricity, lost renewable energy credits or other solar incentives, personal injury, property damage, and other losses. In certain cases the direct warranty coverage we provide to our customers, and therefore our financial exposure, may exceed our recourse available against cell, panel or other manufacturers for defects in their products. In addition, in the event we seek recourse through warranties, we will also be dependent on the creditworthiness and continued existence of the suppliers to our business. In the past, certain of our suppliers have entered bankruptcy and our likelihood of a successful warranty claim against such suppliers is minimal.

Increases in the defect rate of SunPower or third-party products, including components, could cause us to increase the amount of warranty reserves and have a corresponding material, negative impact on our results of operations. Further, potential future product or component failures could cause us to incur substantial expense to repair or replace defective products or components, and we have agreed in some circumstances to indemnify our customers and our distributors against liability from some defects in our solar products. A successful indemnification claim against us could require us to make significant damage payments. Repair and replacement costs, as well as successful indemnification claims, could materially and negatively impact our financial condition and results of operations.

Like other retailers, distributors and manufacturers of products that are used by customers, we face an inherent risk of exposure to product liability claims in the event that the use of the solar power products into which solar cells, solar panels, and microinverters are incorporated results in injury, property damage or other damages. We may be subject to warranty and product liability claims in the event that our solar power systems fail to perform as expected or if a failure of our solar power systems or any component thereof results, or is alleged to result, in bodily injury, property damage or other damages. Since our solar power products are electricity-producing devices, it is possible that our systems could result in injury, whether by product malfunctions, defects, improper installation or other causes. In addition, since we only began selling our solar cells and solar panels in the early 2000s and the products we are developing incorporate new technologies and use new installation methods, we cannot predict the extent to which product liability claims may be brought against us in the future or the effect of any resulting negative publicity on our business. Moreover, we may not have adequate resources to satisfy a successful claim against us. We rely on our general liability insurance to cover product liability claims. A successful warranty or product liability claim against us that is not covered by insurance or is in excess of our available insurance limits could require us to make significant payments of damages. In addition, quality issues can have various other ramifications, including delays in the recognition of revenue, loss of revenue, loss of future sales opportunities, increased costs associated with repairing or replacing products, and a negative impact on our goodwill and reputation, any of which could adversely affect our business, operating results and financial condition.

Revenues from a limited number of customers and large projects are expected to continue to comprise a significant portion of our total revenues and any decrease in revenues from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a material adverse effect on our business, results of operations and financial condition.

Even though over the long term we expect our customer base and number of large projects to expand and our revenue streams to diversify, a substantial portion of our revenues will continue to depend on sales to a limited number of customers as well as construction of a limited number of large projects, and the loss or delay of sales to, or construction of, or inability to collect from those customers or for those projects, or an increase in expenses (such as financing costs) related to any such large projects, would have a significant negative impact on our business. In fiscal 2016, our top customer accounted for 15% of our

Table of Contents

total revenue. These larger projects create concentrated operating and financial risks. The effect of recognizing revenue or other financial measures on the sale of a larger project, or the failure to recognize revenue or other financial measures as anticipated in a given reporting period because a project is not yet completed under applicable accounting rules by period end, may materially affect our financial results. In addition, if construction, warranty or operational challenges arise on a larger project, or if the timing of such a project unexpectedly changes for other reasons, our financial results could be materially, adversely affected. Our agreements for such projects may be cancelled or we may incur large liquidated damages if we fail to execute the projects as planned, obtain certain approvals or consents by a specified time, meet certain product and project specifications, or if we materially breach the governing agreements, or in the event of a customer's or project entity's bankruptcy, our customers may seek to cancel or renegotiate the terms of current agreements or renewals. In addition, the failure by any significant customer to make payments when due, whether due to liquidity issues, failure of anticipated government support or otherwise, could materially adversely affect our business, results of operations and financial condition.

We do not typically maintain long-term agreements with our customers and accordingly we could lose customers without warning, which could adversely affect our operating results.

Our product sales to residential dealers and components customers typically are not made under long-term agreements. We often contract to construct or sell large projects with no assurance of repeat business from the same customers in the future. Although we believe that cancellations on our purchase orders to date have been infrequent, our customers may cancel or reschedule purchase orders with us on relatively short notice. Cancellations or rescheduling of customer orders could result in the delay or loss of anticipated sales without allowing us sufficient time to reduce, or delay the incurrence of, our corresponding inventory and operating expenses. In addition, changes in forecasts or the timing of orders from these or other customers expose us to the risks of inventory shortages or excess inventory. These circumstances, in addition to the completion and non-repetition of large projects, declining average selling prices, changes in the relative mix of sales of solar equipment versus solar project installations, and the fact that our supply agreements are generally long-term in nature and many of our other operating costs are fixed, could cause our operating results to fluctuate and may result in a material adverse effect in our business, results of operations, and financial condition. In addition, since we rely partly on our network of international dealers for marketing and other promotional programs, if our dealers fail to perform up to our standards, our operating results could be adversely affected.

Our business could be adversely affected by seasonal trends and construction cycles.

Our business is subject to significant industry-specific seasonal fluctuations. Our sales have historically reflected these seasonal trends, with the largest percentage of our total revenues realized during the second half of each fiscal year. There are various reasons for this seasonality, mostly related to economic incentives and weather patterns. For example, in European countries with feed-in tariffs, the construction of solar power systems may be concentrated during the second half of the calendar year, largely due to the annual reduction of the applicable minimum feed-in tariff and the fact that the coldest winter months in the Northern Hemisphere are January through March. In the United States, many customers make purchasing decisions towards the end of the year in order to take advantage of tax credits. In addition, sales in the new home development market are often tied to construction market demands, which tend to follow national trends in construction, including declining sales during cold weather months.

The competitive environment in which we operate often requires us to undertake customer obligations, which may turn out to be costlier than anticipated and, in turn, materially and adversely affect our business, results of operations and financial condition.

We are often required, as a condition of financing or at the request of our end customer, to undertake certain obligations such as:

- system output performance warranties;
- system maintenance;

- penalty payments or customer termination rights if the system we are constructing is not commissioned within specified timeframes or other construction milestones are not achieved;
- guarantees of certain minimum residual value of the system at specified future dates;
- system put-rights whereby we could be required to buy back a customer's system at fair value on a future date if certain minimum performance thresholds are not met; and
- indemnification against losses customers may suffer as a result of reductions in benefits received under the solar commercial investment tax credit ("ITC") under Section 48(c) of the Internal Revenue Code of 1986, as amended (the "Code"), and Treasury grant programs under Section 1603 of the American Recovery and Reinvestment Act (the "Cash Grant").

Table of Contents

Such financing arrangements and customer obligations involve complex accounting analyses and judgments regarding the timing of revenue and expense recognition, and in certain situations these factors may require us to defer revenue or profit recognition until projects are completed or until contingencies are resolved, which could adversely affect our revenues and profits in a particular period.

Risks Related to Our Liquidity

We may be unable to generate sufficient cash flows or obtain access to external financing necessary to fund our operations and make adequate capital investments as planned due to the general economic environment and the continued market pressure driving down the average selling prices of our solar power products, among other factors.

To develop new products, support future growth, achieve operating efficiencies, and maintain product quality, we must make significant capital investments in manufacturing technology, facilities and capital equipment, research and development, and product and process technology. We also anticipate increased costs as we make advance payments for raw materials or pay to procure such materials (especially polysilicon), increase our sales and marketing efforts, invest in joint ventures and acquisitions, invest in our residential lease business, and continue our research and development. Our manufacturing and assembly activities have required and will continue to require significant investment of capital and substantial engineering expenditures. In addition, we expect to invest a significant amount of capital to develop solar power systems and plants for sale to customers. Developing and constructing solar power plants requires significant time and substantial initial investments. The delayed disposition of such projects, or the inability to realize the full anticipated value of such projects on disposition, could have a negative impact on our liquidity. See under this section, “Risks Related to Our Operations - Project development or construction activities may not be successful and we may make significant investments without first obtaining project financing, which could increase our costs and impair our ability to recover our investments.” See also under this section, “Risks Related to Our Sales Channels - A limited number of customers and large projects are expected to continue to comprise a significant portion of our revenues and any decrease in revenues from those customers or projects, payment of liquidated damages, or an increase in related expenses, could have a material adverse effect on our business, results of operations and financial condition.”

Our capital expenditures and use of working capital may be greater than we anticipate if we decide to make additional investments in the development and construction of solar power plants, or if sales of power plants and associated receipt of cash proceeds is delayed, or if we decide to accelerate increases in our manufacturing capacity internally or through capital contributions to joint ventures. In addition, we could in the future make additional investments in certain of our joint ventures or could guarantee certain financial obligations of our joint ventures, which could reduce our cash flows, increase our indebtedness and expose us to the credit risk of our joint venture partners. In addition, if our financial results or operating plans deviate from our current assumptions, we may not have sufficient resources to support our business plan. See under this section, “Risks Related to Our Liquidity - We have a significant amount of debt outstanding. Our substantial indebtedness and other contractual commitments could adversely affect our business, financial condition and results of operations, as well as our ability to meet our payment obligations under our debentures and our other debt.”

Certain of our customers also require performance bonds issued by a bonding agency, or bank guarantees or letters of credit issued by financial institutions, which are returned to us upon satisfaction of contractual requirements. If there is a contractual dispute with the customer, the customer may withhold the security or make a draw under the security, which could have an adverse impact on our liquidity. Our uncollateralized letter of credit facility with Deutsche Bank, as of January 1, 2017, had an outstanding amount of $45.8 million. Our bilateral letter of credit agreements with The Bank of Tokyo-Mitsubishi UFJ, Ltd. (“BTMU”), Credit Agricole, and HSBC Bank USA, National Association, which as of January 1, 2017 had an outstanding amount of $244.8 million, are guaranteed by Total S.A. pursuant to the Credit Support Agreement between us and Total S.A. dated June 29, 2016 (the “Credit Support Agreement”). Any draws under these uncollateralized facilities would require us to immediately reimburse the bank for the drawn amount. A default under the Credit Support Agreement or the guaranteed letter of credit facility, or the acceleration of our other indebtedness greater than $25 million, could cause Total S.A. to declare all amounts due and payable to Total S.A. and direct the bank to cease issuing additional letters of credit on our behalf, which could have a material adverse effect on our operations.

In addition, the Credit Support Agreement will terminate as of December 2018 by its terms, and we may be unable to find adequate credit support in replacement, on acceptable terms or at all. In such case, our ability to obtain adequate amounts of debt financing, through our letter of credit facility or otherwise, may be harmed.

We manage our working capital requirements and fund our committed capital expenditures, including the development and construction of our planned solar power plants, through our current cash and cash equivalents, cash generated from

Table of Contents

operations, and funds available under our revolving credit facilities with (i) Credit Agricole Corporate and Investment Bank ("Credit Agricole") and (ii) Mizuho Bank Ltd. and Goldman Sachs Bank USA (the "Construction Revolver"). On February 17, 2016, we entered into an amendment to the credit agreement with Credit Agricole, expanding our available borrowings under the revolving credit facility to $300 million and adding a $200.0 million letter of credit subfacility, subject to the satisfaction of certain conditions. As of January 1, 2017, $295.3 million remained undrawn under our revolving credit facility with Credit Agricole, with the utilized portion of the facility pertaining to outstanding letters of credit that are fully cash collateralized; however, we are currently not in compliance with the covenant for the Credit Agricole credit facility that requires the ratio that our debt at the end of each quarter to our EBITDA for the last twelve months, as defined, to not exceed 4.5 to 1. We are not in default with Credit Agricole; however, we may not draw on the facility without collateralizing additional future borrowings with cash. We expect to not be in compliance with the aforementioned financial ratio covenant for the Credit Agricole credit facility for at least the remainder of fiscal 2017, which will affect the availability of borrowings under the line, if not remedied. As of January 1, 2017, we had $189.5 million available under the Construction Revolver.

The lenders under our credit facilities and holders of our debentures may also require us to repay our indebtedness to them in the event that our obligations under other indebtedness or contracts in excess of the applicable threshold amount, are accelerated and we fail to discharge such obligations. If our capital resources are insufficient to satisfy our liquidity requirements, for example, due to cross acceleration of indebtedness, we may seek to sell additional equity securities or debt securities or obtain other debt financings. Market conditions, however, could limit our ability to raise capital by issuing new equity or debt securities on acceptable terms, and lenders may be unwilling to lend funds on acceptable terms. The sale of additional equity securities or convertible debt securities may result in additional dilution to our stockholders. Additional debt would result in increased expenses and could impose new restrictive covenants that may be different from those restrictions contained in the covenants under certain of our current debt agreements and debentures. Financing arrangements, including project financing for our solar power plants and letters of credit facilities, may not be available to us, or may not be available in amounts or on terms acceptable to us. If additional financing is not available, we may be forced to seek to sell assets or reduce or delay capital investments, any of which could adversely affect our business, results of operations and financial condition.

If we cannot generate sufficient cash flows, find other sources of capital to fund our operations and solar power plant projects, make adequate capital investments to remain technologically and price competitive, or provide bonding or letters of credit required by our projects, we may need to sell additional equity securities or debt securities, or obtain other debt financings. If adequate funds from these or and other sources are not available on acceptable terms, our ability to fund our operations, develop and construct solar power plants, develop and expand our manufacturing operations and distribution network, maintain our research and development efforts, provide collateral for our projects, meet our debt service obligations, or otherwise respond to competitive pressures would be significantly impaired. Our inability to do any of the foregoing could have a material adverse effect on our business, results of operations and financial condition.

We have a significant amount of debt outstanding. Our substantial indebtedness and other contractual commitments could adversely affect our business, financial condition, and results of operations, as well as our ability to meet our payment obligations under the debentures and our other debt.

We currently have a significant amount of debt and debt service requirements. As of January 1, 2017, we had approximately $1.6 billion of outstanding debt for borrowed money.

This level of debt could have material consequences on our future operations, including:

- making it more difficult for us to meet our payment and other obligations under the debentures and our other outstanding debt;
- resulting in an event of default if we fail to comply with the financial and other restrictive covenants contained in our debt agreements (with certain covenants becoming more restrictive over time), which event of default could result in all or a significant portion of our debt becoming immediately due and payable;
-

reducing the availability of our cash flows to fund working capital, capital expenditures, project development, acquisitions and other general corporate purposes, and limiting our ability to obtain additional financing for these purposes;

- subjecting us to the risk of increased sensitivity to interest rate increases on our indebtedness with variable interest rates, including borrowings under our credit agreement with Credit Agricole;
- limiting our flexibility in planning for, or reacting to, and increasing our vulnerability to, changes in our business, the industry in which we operate and the general economy; and
- placing us at a competitive disadvantage compared with our competitors that have less debt or have lower leverage ratios.

In the event, expected or unexpected, that any of our joint ventures is consolidated with our financial statements, such consolidation could significantly increase our indebtedness. See also under this section, “Risks Related to Our Operations - We may in the future be required to consolidate the assets, liabilities and financial results of certain of our existing or future joint ventures, which could have an adverse impact on our financial position, gross margin and operating results.”

Our ability to meet our payment and other obligations under our debt instruments depends on our ability to generate significant cash flows, which, to some extent, is subject to general economic, financial, competitive, legislative and regulatory factors as well as other factors that are beyond our control. We cannot assure you that our business will generate cash flows from operations, or that future borrowings will be available to us under our existing or any future credit facilities or otherwise, in an amount sufficient to enable us to meet our payment obligations under our debentures and our other debt and to fund other liquidity needs. If we are unable to generate sufficient cash flows to service our debt obligations, we may need to refinance or restructure our debt, including our debentures, sell assets, reduce or delay capital investments, or seek to raise additional capital. There can be no assurance that we will be successful in any refinancing effort.

Although we are currently in compliance with the financial and other covenants contained in our debt agreements (except for the financial covenant for the Credit Agricole credit facility discussed above), we cannot assure you that we will be able to remain in compliance with such covenants in the future. We may not be able to cure future violations or obtain waivers from our creditors in order to avoid a default. An event of default under any of our debt agreements could have a material adverse effect on our liquidity, financial condition, and results of operations.

Our current tax holidays in the Philippines, Malaysia, and Switzerland have expired or will expire within the next several years, and other related international tax developments could adversely affect our results.

We benefit from income tax holiday incentives in the Philippines in accordance with our subsidiary’s registration with the Philippine Economic Zone Authority (“PEZA”), which provide that we pay no income tax in the Philippines for those operations subject to the ruling. Tax savings associated with the Philippines tax holidays were approximately $10.0 million, $21.2 million, and $8.3 million in fiscal 2016, 2015, and 2014, respectively. Our income tax holidays were granted as manufacturing lines were placed in service and have expired within this fiscal year. We have applied for extensions and renewals upon expiration; however, while we expect all approvals to be granted, we can offer no assurance that they will be. We believe that if our Philippine tax holidays are not extended or renewed, (a) gross income attributable to activities covered by our PEZA registrations will be taxed at a 5% preferential rate, and (b) our Philippine net income attributable to all other activities will be taxed at the statutory Philippine corporate income tax rate, currently 30%. An increase in our tax liability could materially and adversely affect our business, financial condition and results of operations.

We have an auxiliary company ruling in Switzerland where we sell our solar power products. The auxiliary company ruling confirmed our entitlement to a reduced effective Swiss tax rate of approximately 11.5%. Tax savings associated with this status were approximately $1.9 million, $1.6 million, and $3.5 million in fiscal 2016, 2015, and 2014, respectively. The current ruling expires in 2019. If the ruling is not renewed in 2019, Swiss income would be taxable at the full Swiss tax rate of approximately 24.2%.

We also benefit from a tax holiday granted by the Malaysian government to our former joint venture AUOSP (now our wholly-owned subsidiary, SunPower Malaysia Manufacturing Sdn. Bhd.) subject to certain hiring, capital spending, and manufacturing requirements. We postponed the construction of an additional manufacturing facility (“Fab 3B”), which resulted in failure to meet certain hiring conditions required to continue to benefit from the tax ruling. We have successfully negotiated with the Malaysian government to modify the requirements of the tax holiday; we are currently in compliance with the modified requirements of the tax holiday and we expect to remain in compliance with the updated requirements. In addition, we are currently awaiting a ruling for the extension of our tax holiday for a second five-year term (through June 30, 2021). Although we currently expect an extension to be granted, should we fail to meet certain requirements in the future and are unable to renegotiate the tax ruling further, we could be retroactively and prospectively subject to statutory tax rates and repayment of certain incentives which could negatively impact our business.

More generally, with the finalization of specific actions contained within the Organization for Economic Development and Cooperation's ("OECD") Base Erosion and Profit Shifting ("BEPS") study ("Actions"), many OECD countries have acknowledged their intent to implement the Actions and update their local tax regulations. Among the considerations required by the Actions is the need for appropriate local business operational substance to justify any locally granted tax incentives, such as those described above, and that the incentives are not determined to constitute "state aid" which would invalidate the incentive. If we fail to maintain sufficient operational substance or if the countries determine the incentive regimes do not conform with the BEPS regulations being considered for implementation, adverse material economic impacts may result.

Table of Contents

A change in our effective tax rate can have a significant adverse impact on our business, and an adverse outcome resulting from examination of our income or other tax returns could adversely affect our results.

A number of factors may adversely affect our future effective tax rates, such as the jurisdictions in which our profits are determined to be earned and taxed; changes in the valuation of our deferred tax assets and liabilities; adjustments to estimated taxes upon finalization of various tax returns; adjustments to our interpretation of transfer pricing standards; changes in available tax credits, grants and other incentives; changes in stock-based compensation expense; the availability of loss or credit carryforwards to offset taxable income; changes in tax laws or the interpretation of such tax laws (for example, proposals for fundamental U.S. international tax reform); changes in U.S. generally accepted accounting principles ("U.S. GAAP"); expiration or the inability to renew tax rulings or tax holiday incentives; and the repatriation of non-U.S. earnings for which we have not previously provided for U.S. taxes. A change in our effective tax rate due to any of these factors may adversely affect our future results from operations. Significant judgment is required to determine the recognition and measurement attributes prescribed in the accounting guidance for uncertainty in income taxes. The accounting guidance for uncertainty in income taxes applies to all income tax positions, including the potential recovery of previously paid taxes, which if settled unfavorably could adversely affect our provision for income taxes. In addition, we are subject to examination of our income tax returns by various tax authorities. We regularly assess the likelihood of adverse outcomes resulting from any examination to determine the adequacy of our provision for income taxes. An adverse determination of an examination could have an adverse effect on our operating results and financial condition. See “Item 8. Financial Statements and Supplementary Data–Notes to Consolidated Financial Statements–Note 12. Derivative Financial Instruments.”
Additionally, longstanding international tax norms that determine each country’s jurisdiction to tax cross-border international trade are evolving (for example, those relating to the Actions currently being undertaken by the OECD and similar actions by the G8 and G20) and the change in Administration in the U.S. may lead to further changes in (or departure from) these norms. As these and other tax laws and related regulations change, our financial results could be materially impacted. Given the unpredictability of these possible changes and their potential interdependency, it is very difficult to assess whether the overall effect of such potential tax changes would be cumulatively positive or negative for our earnings and cash flow, but such changes could adversely impact our financial results.
Our credit agreements contain covenant restrictions that may limit our ability to operate our business.

We may be unable to respond to changes in business and economic conditions, engage in transactions that might otherwise be beneficial to us, or obtain additional financing, because our debt agreements, our Credit Support Agreement with Total S.A., our Affiliation Agreement with Total, foreign exchange hedging agreements and equity derivative agreements contain, and any of our other future similar agreements may contain, covenant restrictions that limit our ability to, among other things:

- incur additional debt, assume obligations in connection with letters of credit, or issue guarantees;
- create liens;
- make certain investments or acquisitions;
- enter into transactions with our affiliates;
- sell certain assets;
- redeem capital stock or make other restricted payments;
- declare or pay dividends or make other distributions to stockholders; and
- merge or consolidate with any person.

Our ability to comply with these covenants is dependent on our future performance, which will be subject to many factors, some of which are beyond our control, including prevailing economic conditions. In addition, our failure to comply with these covenants could result in a default under our other debt instruments, which could permit the holders to accelerate such debt. If any of our debt is accelerated, we may not have sufficient funds available to repay such debt, which could materially and negatively affect our financial condition and results of operations.

Table of Contents

Risks Related to Our Supply Chain

We will continue to be dependent on a limited number of third-party suppliers for certain raw materials and components for our products, which could prevent us from delivering our products to our customers within required timeframes and could in turn result in sales and installation delays, cancellations, penalty payments, and loss of market share.

We rely on a limited number of third-party suppliers, including our joint ventures, for certain raw materials and components for our solar cells, panels and power systems, such as polysilicon, inverters and module material. If we fail to maintain our relationships with our suppliers or to build relationships with new suppliers, or if suppliers are unable to meet demand through industry consolidation, we may be unable to manufacture our products or our products may be available only at a higher cost or after a long delay.

To the extent the processes that our suppliers use to manufacture components are proprietary, we may be unable to obtain comparable components from alternative suppliers. In addition, the financial markets could limit our suppliers' ability to raise capital if required to expand their production or satisfy their operating capital requirements. As a result, they could be unable to supply necessary raw materials, inventory and capital equipment which we would require to support our planned sales operations to us, which would in turn negatively impact our sales volume, profitability, and cash flows. The failure of a supplier to supply raw materials or components in a timely manner, or to supply raw materials or components that meet our quality, quantity and cost requirements, could impair our ability to manufacture our products or could increase our cost of production. If we cannot obtain substitute materials or components on a timely basis or on acceptable terms, we could be prevented from delivering our products to our customers within required timeframes.

Any such delays could result in sales and installation delays, cancellations, penalty payments or loss of revenue and market share, any of which could have a material adverse effect on our business, results of operations, and financial condition.

Our long-term, firm commitment supply agreements could result in excess or insufficient inventory, place us at a competitive disadvantage on pricing, or lead to disputes, each of which could impair our ability to meet our cost reduction roadmap, and in some circumstances may force us to take a significant accounting charge.

If our supply agreements provide insufficient inventory to meet customer demand, or if our suppliers are unable or unwilling to provide us with the contracted quantities, we may be forced to purchase additional supply at market prices, which could be greater than expected and could materially and adversely affect our results of operations. Due to the industry-wide shortage of polysilicon experienced before 2011, we purchased polysilicon that we resold to third-party ingot and wafer manufacturers who deliver wafers to us that we then use in the manufacturing of our solar cells. Without sufficient polysilicon, some of those ingot and wafer manufacturers would not have been able to produce the wafers on which we rely. We have historically entered into multiple long-term fixed supply agreements for periods of up to 10 years to match our estimated customer demand forecasts and growth strategy for the next several years. The long-term nature of these agreements, which often provide for fixed or inflation-adjusted pricing, may prevent us from benefiting from decreasing polysilicon costs, has, and may continue to, cause us to pay more at unfavorable payment terms than the current market prices and payment terms available to our competitors, and has in the past, and could again in the future, cause us to record an impairment. In the event that we have inventory in excess of short-term requirements of polysilicon, in order to reduce inventory or improve working capital, we may, and sometimes do, elect to sell such inventory in the marketplace at prices below our purchase price, thereby incurring a loss.

Additionally, because certain of these agreements are "take or pay," if our demand for polysilicon from these suppliers were to decrease in the future, we could be required to purchase polysilicon that we do not need, resulting in either storage costs or payment for polysilicon we nevertheless choose not to accept from such suppliers. Further, we face significant, specific counterparty risk under long-term supply agreements when dealing with suppliers without a long, stable production and financial history. In the event any such supplier experiences financial difficulties or goes into bankruptcy, it could be difficult or impossible, or may require substantial time and expense, for us to recover any or all of our prepayments. Any of the foregoing could materially harm our financial condition and results of operations.

Table of Contents

We utilize construction loans, term loans, sale-leaseback, preferred equity, and other financing structures to fund acquisition, development, construction, and expansion of photovoltaic power plant projects in the future, and such funds may or may not continue to be available as required to further our plans. Furthermore, such project financing increases our consolidated debt and may be structurally senior to other debt such as our Credit Agricole revolving credit facility and outstanding convertible debentures.

Certain of our subsidiaries and other affiliates are separate and distinct legal entities and, except in limited circumstances, have no obligation to pay any amounts due with respect to our indebtedness or indebtedness of other subsidiaries or affiliates, and do not guarantee the payment of interest on or principal of such indebtedness. Such subsidiaries may borrow funds to finance particular projects. In the event of a default under a project financing which we do not cure, the lenders or lessors generally have rights to the power plant project and related assets. In the event of foreclosure after a default, we may not be able to retain any interest in the power plant project or other collateral supporting such financing. In addition, any such default or foreclosure may trigger cross default provisions in our other financing agreements, including our corporate debt obligations, which could materially and adversely affect our results of operations. In the event of our bankruptcy, liquidation or reorganization (or the bankruptcy, liquidation or reorganization of a subsidiary or affiliate), such subsidiaries’ or other affiliates’ creditors, including trade creditors and holders of debt issued by such subsidiaries or affiliates, will generally be entitled to payment of their claims from the assets of those subsidiaries or affiliates before any assets are made available for distribution to us or the holders of our indebtedness. As a result, holders of our corporate indebtedness will be effectively subordinated to all present and future debts and other liabilities (including trade payables) of certain of our subsidiaries. As of January 1, 2017, our subsidiaries had approximately $427.9 million in subsidiary project financing, which is effectively senior to our corporate debt, such as our Credit Agricole revolving credit facility, our 4.00% debentures due 2023, our 0.875% debentures due 2021, and our 0.75% debentures due 2018.

Risks Related to Our Operations

We have significant international activities and customers, and plan to continue these efforts, which subject us to additional business risks, including logistical complexity and political instability.

A substantial portion of our sales are made to customers outside of the United States, and a substantial portion of our supply agreements are with supply and equipment vendors located outside of the United States. We have solar cell and module production lines located at our manufacturing facilities in the Philippines, Mexico, France, and Malaysia. Risks we face in conducting business internationally include:

- multiple, conflicting and changing laws and regulations, export and import restrictions, employment laws, environmental protection, regulatory requirements, international trade agreements, and other government approvals, permits and licenses;

- difficulties and costs in staffing and managing foreign operations as well as cultural differences;

- potentially adverse tax consequences associated with our permanent establishment of operations in multiple countries;

- relatively uncertain legal systems, including potentially limited protection for intellectual property rights, and laws, changes in the governmental incentives we rely on, regulations and policies which impose additional restrictions on the ability of foreign companies to conduct business in certain countries or otherwise place them at a competitive disadvantage in relation to domestic companies;

- taxation by the U.S. of the repatriation of non-U.S. earnings taxed at rates lower than the U.S. statutory effective tax rate;

- inadequate local infrastructure and developing telecommunications infrastructures;
- financial risks, such as longer sales and payment cycles and greater difficulty collecting accounts receivable;
- currency fluctuations, government-fixed foreign exchange rates, the effects of currency hedging activity, and the potential inability to hedge currency fluctuations;

Table of Contents

- political and economic instability, including wars, acts of terrorism, political unrest, boycotts, curtailments of trade and other business restrictions;

- trade barriers such as export requirements, tariffs, taxes and other restrictions and expenses, which could increase the prices of our products and make us less competitive in some countries; and

- liabilities associated with compliance with laws (for example, the Foreign Corrupt Practices Act in the United States and similar laws outside of the United States).

We have a complex organizational structure involving many entities globally. This increases the potential impact of adverse changes in laws, rules and regulations affecting the free flow of goods and personnel, and therefore heightens some of the risks noted above. Further, this structure requires us to effectively manage our international inventory and warehouses. If we fail to do so, our shipping movements may not map with product demand and flow. Unsettled intercompany balances between entities could result, if changes in law, regulations or related interpretations occur, in adverse tax or other consequences affecting our capital structure, intercompany interest rates and legal structure. If we are unable to successfully manage any such risks, any one or more could materially and negatively affect our business, financial condition and results of operations.

If we experience interruptions in the operation of our solar cell production lines, or we are not successful in integrating and continuing to operate our newly acquired manufacturing subsidiary (the former joint venture, AUOSP, in which we acquired our partner's interest in fiscal 2016), our revenue and results of operations may be materially and adversely affected.

If our solar cell or module production lines suffer problems that cause downtime, we might be unable to meet our production targets, which would adversely affect our business. Our manufacturing activities require significant management attention, a significant capital investment and substantial engineering expenditures.

In September 2016 we completed the acquisition of 100% of the voting equity interest in our former joint venture AUOSP (now our wholly owned subsidiary). The former AUOSP constructed a manufacturing facility in Malaysia, which we call Fab 3. The success of our manufacturing operations in Malaysia and elsewhere is subject to significant risks including:

- cost overruns, delays, supply shortages, equipment problems and other operating difficulties;

- custom-built equipment may take longer or cost more to engineer than planned and may never operate as designed;

- incorporating first-time equipment designs and technology improvements, which we expect to lower unit capital and operating costs, but which may not be successful;

- our ability to obtain or maintain third party financing to fund capital requirements;

- difficulties in maintaining or improving our historical yields and manufacturing efficiencies;

- difficulties in protecting our intellectual property and obtaining rights to intellectual property developed by the former AUOSP or other manufacturing partners;

- difficulties in hiring and retaining key technical, management, and other personnel;

- difficulties in successfully or timely integrating the former AUOSP's operations with our own, or implementing IT infrastructure or an effective control environment; and

- potential inability to obtain, or obtain in a timely manner, financing, or approvals from governmental authorities for operations.

Any of these or similar difficulties may unexpectedly delay or increase costs of our supply of solar cells.

Table of Contents

If we do not achieve satisfactory yields or quality in manufacturing our solar products, our sales could decrease and our relationships with our customers and our reputation may be harmed.

The manufacture of solar cells is a highly complex process. Minor deviations in the manufacturing process can cause substantial decreases in yield and in some cases, cause production to be suspended or yield no output. We have from time to time experienced lower than anticipated manufacturing yields. As we expand our manufacturing capacity and qualify additional suppliers, we may initially experience lower yields. If we do not achieve planned yields, our product costs could increase, and product availability would decrease resulting in lower revenues than expected. In addition, in the process of transforming polysilicon into ingots, a significant portion of the polysilicon is removed in the process. In circumstances where we provide the polysilicon, if our suppliers do not have very strong controls in place to ensure maximum recovery and utilization, our economic yield can be less than anticipated, which would increase the cost of raw materials to us.

Additionally, products as complex as ours may contain undetected errors or defects, especially when first introduced. For example, our solar cells or solar panels may contain defects that are not detected until after they are shipped or are installed because we cannot test for all possible scenarios. These defects could cause us to incur significant warranty, non-warranty, and re-engineering costs, divert the attention of our engineering personnel from product development efforts, and significantly affect our customer relations and business reputation. If we deliver solar products with errors or defects, including cells or panels of third-party manufacturers, or if there is a perception that such solar products contain errors or defects, our credibility and the market acceptance and sales of our products could be harmed. In addition, some of our arrangements with customers include termination or put rights for non-performance. In certain limited cases, we could incur liquidated damages or even be required to buy back a customer’s system at fair value on specified future dates if certain minimum performance thresholds are not met.

A change in our 1603 Treasury cash grant proceeds or solar investment tax credits could adversely affect our business, revenues, margins, results of operations and cash flows.

We have incorporated into our financial planning and agreements with our customers certain assumptions regarding the future level of U.S. tax incentives, including the ITC and Cash Grant, which is administered by the U.S. Treasury Department (“Treasury”) and provides cash grant payments in lieu of the ITC. The ITC and Cash Grant allow qualified applicants to claim an amount equal to 30% of the eligible cost basis for qualifying solar energy property. We hold projects and have sold projects to certain customers based on certain underlying assumptions regarding the ITC and Cash Grant, including for CVSR and Solar Star. We have also accounted for certain projects and programs in our business using the same assumptions.

Owners of our qualifying projects and our residential lease program have applied or will apply for the ITC, and have applied for the Cash Grant. We have structured the tax incentive applications, both in timing and amount, to be in accordance with the guidance provided by Treasury and Internal Revenue Service (“IRS”). Any changes to the Treasury or IRS guidance which we relied upon in structuring our projects, failure to comply with the requirements, including the safe harbor protocols, lower levels of incentives granted, or changes in assumptions including the estimated residual values and the estimated fair market value of financed and installed systems for the purposes of Cash Grant and ITC applications, could materially and adversely affect our business and results of operations. While all grants related to our projects have been fully paid by Treasury, if the IRS or Treasury disagrees, as a result of any future review or audit, with the fair market value of, or other assumptions concerning, our solar projects or systems that we have constructed or that we construct in the future, including the systems for which tax incentives have already been paid, it could have a material adverse effect on our business and financial condition. We also have obligations to indemnify certain of our customers for the loss of tax incentives to such customers. We may have to recognize impairments or lower margins than initially anticipated for certain of our projects or our residential lease program. Additionally, if the amount or timing of the Cash Grant or ITC payments received varies from what we have projected, our revenues, margins and cash flows could be adversely affected and we may have to recognize losses, which would have a material adverse effect on our business, results of operations and financial condition.

There are continuing developments in the interpretation and application of how companies should calculate their eligibility and level of Cash Grant and ITC incentives. There have been recent cases in the U.S. district courts that challenge the criteria for a true lease, which could impact whether the structure of our residential lease program qualifies under the Cash Grant and ITC. Additionally, the Office of the Inspector General of the Treasury has issued subpoenas to a number of significant participants in the rooftop solar energy installation industry. The Inspector General is working with the Civil Division of the U.S. Department of Justice to investigate the administration and implementation of the Cash Grant program, including potential misrepresentations concerning the fair market value of certain solar power systems submitted for Cash Grant. While we have not received a subpoena, we could be asked to participate in the information gathering process. The results of the current investigation could affect the underlying assumption used by the solar industry, including us, in our Cash

Table of Contents

Grant and ITC applications, which could reduce eligibility and level of incentives and could adversely affect our results of operations and cash flows.

We were notified by an investor in Section 1603 residential inverted lease structures of an IRS examination of such investor's income tax filings. Under this structure, we transferred the cash grants to the investor pursuant to the 1603 program regulations. If the IRS redetermines the amount of the cash grant awards, the investor may be required to make corresponding adjustments to its taxable income or other changes. Such adjustments may provide us with an indication of IRS practice regarding the valuation of residential leased solar assets, and we would consider such adjustments in our accounting for our indemnification obligations to investors who receive cash grants and investment tax credits.

We obtain certain of our capital equipment used in our manufacturing process from sole suppliers and if this equipment is damaged or otherwise unavailable, our ability to deliver products on time will suffer, which in turn could result in order cancellations and loss of revenue.

Some of the capital equipment used in the manufacture of our solar power products has been developed and made specifically for us, is not readily available from multiple vendors and would be difficult to repair or replace if it were to become damaged or stop working. If any of these suppliers were to experience financial difficulties or go out of business, or if there were any damage to or a breakdown of our manufacturing equipment, our business would suffer. In addition, a supplier's failure to supply this equipment in a timely manner, with adequate quality and on terms acceptable to us, could delay our future capacity expansion or manufacturing process improvements and otherwise disrupt our production schedule or increase our costs of production.

Project development or construction activities may not be successful, and we may make significant investments without first obtaining project financing, which could increase our costs and impair our ability to recover our investments.

The development and construction of solar power electric generation facilities and other energy infrastructure projects involve numerous risks. We may be required to spend significant sums for preliminary engineering, permitting, legal, and other expenses before we can determine whether a project is feasible, economically attractive or capable of being built. In addition, we will often choose to bear the costs of such efforts prior to obtaining project financing, prior to getting final regulatory approval, and prior to our final sale to a customer, if any.

Successful completion of a particular project may be adversely affected by numerous factors, including:

- failures or delays in obtaining desired or necessary land rights, including ownership, leases and/or easements;
- failures or delays in obtaining necessary permits, licenses or other governmental support or approvals, or in overcoming objections from members of the public or adjoining land owners;
- uncertainties relating to land costs for projects;
- unforeseen engineering problems;
- access to available transmission for electricity generated by our solar power plants;
- construction delays and contractor performance shortfalls;
- work stoppages or labor disruptions and compliance with labor regulations;
- cost over-runs;
- availability of products and components from suppliers;

- adverse weather conditions;
- environmental, archaeological and geological conditions; and
- availability of construction and permanent financing.

Table of Contents

If we are unable to complete the development of a solar power plant, or fail to meet one or more agreed target construction milestone dates, we may be subject to liquidated damages and/or penalties under the EPC agreement or other agreements relating to the power plant, and we typically will not be able to recover our investment in the project. We expect to invest a significant amount of capital to develop projects initially owned by us or ultimately owned by third parties. If we are unable to complete the development of a solar power project, we may write-down or write-off some or all of these capitalized investments, which would have an adverse impact on our net income in the period in which the loss is recognized.

If we cannot offer residential lease customers an attractive value proposition due to an inability to continue to monetize tax benefits in connection with our residential lease arrangements, an inability to obtain financing for our residential lease program, challenges implementing our third-party ownership model in new jurisdictions, declining costs of retail electricity or otherwise, we may be unable to continue to increase the size of our residential lease program, which could have a material, adverse effect on our business, results of operations, and financial condition.

Our residential lease program has been eligible for the ITC and Cash Grant. We have relied on, and expect to continue to rely on, financing structures that monetize a substantial portion of those benefits. If we were unable to continue to monetize the tax benefits in our financing structures or such tax benefits were reduced or eliminated, we might be unable to provide financing or pricing that is attractive to our customers. Under current law, the ITC will be reduced from approximately 30% of the cost of the solar system to approximately 26% for solar systems placed into service after December 31, 2019 and then further reduced to approximately 22% for solar systems placed into service after December 31, 2020 before being reduced permanently to 10% for commercial projects and 0% for residential projects. In addition, Cash Grants are no longer available for new solar systems.

Changes in existing law and interpretations by the IRS, Treasury and the courts could reduce the willingness of financing partners to invest in funds associated with our residential lease program. Additionally, benefits under the Cash Grant and ITC programs are tied, in part, to the fair market value of our systems, as ultimately determined by the federal agency administering the benefit program. This means that, in connection with implementing financing structures that monetize such benefits, we need to, among other things, assess the fair market value of our systems in order to arrive at an estimate of the amount of tax benefit expected to be derived from the benefit programs. We incorporate third-party valuation reports that we believe to be reliable into our methodology for assessing the fair market value of our systems, but these reports or other elements of our methodology may cause our fair market value estimates to differ from those ultimately determined by the federal agency administering the applicable benefit program. If the amount or timing of Cash Grant payments or ITC received in connection with our residential lease program varies from what we have projected, due to discrepancies in our fair value assessments or otherwise, our revenues, cash flows and margins could be adversely affected.

Additionally, if any of our financing partners that currently provide financing for our solar systems decide not to continue to provide financing due to general market conditions, changes in tax benefits associated with our solar systems, concerns about our business or prospects or any other reason, or if they materially change the terms under which they are willing to provide future financing, we will need to identify new financing partners and negotiate new financing terms.

See also “Risks Related to Our Supply Chain - A change in our anticipated 1603 Treasury cash grant proceeds or solar investment tax credit could adversely affect our business, revenues, margins, results of operations and cash flows.”

We have to quickly build infrastructure to support our residential lease program, and any failure or delay in implementing the necessary processes and infrastructure could adversely affect our financial results. We establish credit approval limits based on the credit quality of our customers. We may be unable to collect rent payments from our residential lease customers in the event they enter into bankruptcy or otherwise fail to make payments when due. If we experience higher customer default rates than we currently experience or if we lower credit rating requirements for new customers, it could be more difficult or costly to attract future financing. See also “Risks Related to Our Sales Channels - The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our solar power plants, our residential lease program and our customers, and is affected by general

economic conditions."
We make certain assumptions in accounting for our residential lease program, including, among others, assumptions in accounting for our residual value of the leased systems. As our residential lease program grows, if the residual value of leased systems does not materialize as assumed, it will adversely affect our results of operations. At the end of the term of the lease, our customers have the option to extend the lease and certain of those customers may either purchase the leased systems at fair market value or return them to us. Should there be a large number of returns, we may incur de-installation costs in excess of amounts reserved.

We believe that, as with our other customers, retail electricity prices factor significantly into the value proposition of our products for our residential lease customers. If prices for retail electricity or electricity from other renewable sources decrease, our ability to offer competitive pricing in our residential lease program could be jeopardized because such decreases would make the purchase of our solar systems or the purchase of energy under our lease agreements and PPAs less economically attractive.

Our leases are third-party ownership arrangements. Sales of electricity by third parties face regulatory challenges in some states and jurisdictions. Other challenges pertain to whether third-party owned systems qualify for the same levels of rebates or other non-tax incentives available for customer-owned solar energy systems. Reductions in, or eliminations of, this treatment of these third-party arrangements could reduce demand for our residential lease program. As we look to extend the third party ownership model outside of the United States, we will be faced with the same risks and uncertainties we have in the United States. Our growth outside of the United States could depend on our ability to expand the third party ownership model, and our failure to successfully implement a third-party ownership model globally could adversely affect our financial results.

We act as the general contractor for many of our customers in connection with the installations of our solar power systems and are subject to risks associated with construction, cost overruns, delays and other contingencies tied to performance bonds and letters of credit, or other required credit and liquidity support guarantees, any of which could have a material adverse effect on our business and results of operations.

We act as the general contractor for many of our customers in connection with the installation of our solar power systems. Some customers require performance bonds issued by a bonding agency or letters of credit issued by financial institutions, or may require other forms of liquidity support. Due to the general performance risk inherent in construction activities, it has become increasingly difficult recently to attain suitable bonding agencies willing to provide performance bonding. Obtaining letters of credit may require collateral. In the event we are unable to obtain bonding or sufficient letters of credit or other liquidity support, we will be unable to bid on, or enter into, sales contracts requiring such bonding.

Almost all of our EPC contracts are fixed price contracts. We attempt to estimate all essential costs at the time of entering into the EPC contract for a particular project, and these are reflected in the overall price that we charge our customers for the project. These cost estimates are preliminary and may or may not be covered by contracts between us or the subcontractors, suppliers, and any other parties that may become necessary to complete the project. In addition, we require qualified, licensed subcontractors to install most of our systems. Thus, if the cost of materials or skilled labor were to rise dramatically, or if financing costs were to increase, our operating results could be adversely affected.

In addition, the contracts with some of our larger customers require that we would be obligated to pay substantial penalty payments for each day or other period beyond an agreed target date that a solar installation for any such customer is not completed, up to and including the return of the entire project sale price. This is particularly true in Europe, where long-term, fixed feed-in tariffs available to investors are typically set during a prescribed period of project completion, but the fixed amount declines over time for projects completed in subsequent periods. We face material financial penalties in the event we fail to meet the completion deadlines, including but not limited to a full refund of the contract price paid by the customers. In certain cases we do not control all of the events which could give rise to these penalties, such as reliance on the local utility to timely complete electrical substation construction. Furthermore, investors often require that the solar power system generate specified levels of electricity in order to maintain their investment returns, allocating substantial risk and financial penalties to us if those levels are not achieved, up to and including the return of the entire project sale price. Also, our customers often require protections in the form of conditional payments, payment retentions or holdbacks, and similar arrangements that condition its future payments on performance. Delays in solar panel or other supply shipments, other construction delays, unexpected performance problems in electricity generation or other events could cause us to fail to meet these performance criteria, resulting in unanticipated and severe revenue and earnings losses and financial penalties. Construction delays are often caused by inclement weather, failure to timely receive necessary approvals and permits, or delays in obtaining necessary solar panels, inverters or other materials. Additionally, we sometimes purchase land in connection with project development and assume the risk of project completion. All such risks could have a material adverse effect on our business and results of operations.

Acquisitions of other companies, project development pipelines and other assets, or investments in joint ventures with other companies could materially and adversely affect our financial condition and results of operations, and dilute our stockholders' equity.

To expand our business and maintain our competitive position, we have acquired a number of other companies and entered into several joint ventures over the past several years, including our 8point3 joint venture with First Solar, our

Table of Contents

acquisitions of Cogenra Solar, Inc. and Solaire Generation, Inc. in fiscal 2015, and our acquisition of 100% of the equity voting interest in AUOSP in fiscal 2016. In the future, we may acquire additional companies, project pipelines, products, or technologies or enter into joint ventures or other strategic initiatives.
Acquisitions and joint ventures involve a number of risks that could harm our business and result in the acquired business or joint venture not performing as expected, including:

- insufficient experience with technologies and markets in which the acquired business or joint venture is involved, which may be necessary to successfully operate and/or integrate the business or the joint venture;
- problems integrating the acquired operations, personnel, IT infrastructure, technologies or products with the existing business and products;
- diversion of management time and attention from the core business to the acquired business or joint venture;
- potential failure to retain or hire key technical, management, sales and other personnel of the acquired business or joint venture;
- difficulties in retaining or building relationships with suppliers and customers of the acquired business or joint venture, particularly where such customers or suppliers compete with us;
- potential failure of the due diligence processes to identify significant issues with product quality and development or legal and financial liabilities, among other things;
- potential inability to obtain, or obtain in a timely manner, approvals from governmental authorities or work councils, which could delay or prevent acquisitions, delay our ability to achieve synergies, or our successful operation of acquired companies or joint ventures;
- potential necessity to re-apply for permits of acquired projects;
- problems managing joint ventures with our partners, meeting capital requirements for expansion, potential litigation with joint venture partners and reliance upon joint ventures which we do not control; for example, our ability to effectively manage 8point3 Energy Partners with First Solar;
- differences in philosophy, strategy or goals with our joint venture partners;
- subsequent impairment of the acquired assets, including intangible assets; and
- assumption of liabilities including, but not limited to, lawsuits, tax examinations, warranty issues, environmental matters and liabilities associated with compliance with laws (for example, the FCPA).

The success of our joint venture 8point3 Energy Partners is subject to additional risks described under the risk factor “Risks Related to Our Sales Channels - We may fail to realize the expected benefits of our YieldCo strategy.”

Additionally, we may decide that it is in our best interests to enter into acquisitions or joint ventures that are dilutive to earnings per share or that negatively impact margins as a whole. In an effort to reduce our cost of goods sold, we have and may continue to enter into acquisitions or joint ventures involving suppliers or manufacturing partners, which would expose us to additional supply chain risks. Acquisitions or joint ventures could also require investment of significant financial resources and require us to obtain additional equity financing, which may dilute our stockholders’ equity, or require us to incur additional indebtedness. Such equity or debt financing may not be available on terms acceptable to us. In addition, we could in the future make additional investments in our joint ventures or guarantee certain financial obligations of our joint ventures, which could reduce our cash flows, increase our indebtedness and expose us to the credit risk of our joint ventures.

To the extent that we invest in upstream suppliers or downstream channel capabilities, we may experience competition or channel conflict with certain of our existing and potential suppliers and customers. Specifically, existing and potential suppliers and customers may perceive that we are competing directly with them by virtue of such investments and may decide to reduce or eliminate their supply volume to us or order volume from us. In particular, any supply reductions from our polysilicon, ingot or wafer suppliers could materially reduce manufacturing volume.

Table of Contents

Acquisitions could also result in dilutive issuances of equity securities, the use of our available cash, or the incurrence of debt, which could harm our operating results.

We may in the future be required to consolidate the assets, liabilities and financial results of certain of our existing or future joint ventures, which could have an adverse impact on our financial position, gross margin, and operating results.

The Financial Accounting Standards Board has issued accounting guidance regarding variable interest entities ("VIEs") that affects our accounting treatment of our existing and future joint ventures. We have variable interests in 8point3 Energy Partners, our joint venture with First Solar. To ascertain whether we are required to consolidate this entity, we determine whether it is a VIE and if we are the primary beneficiary in accordance with the accounting guidance. Factors we consider in determining whether we are the VIE's primary beneficiary include the decision making authority of each partner, which partner manages the day-to-day operations of the joint venture and each partner's obligation to absorb losses or right to receive benefits from the joint venture in relation to that of the other partner. Changes in the financial accounting guidance, or changes in circumstances at each of these joint ventures, could lead us to determine that we have to consolidate the assets, liabilities and financial results of such joint ventures. The consolidation of 8point3 Energy Partners would significantly increase our indebtedness. Consolidation of our VIEs could have a material adverse impact on our financial position, gross margin and operating results. In addition, we may enter into future joint ventures or make other equity investments, which could have an adverse impact on us because of the financial accounting guidance regarding VIEs.

Fluctuations in the demand for our products may cause impairment of our project assets and other long-lived assets or cause us to write off equipment or inventory, and each of these events would adversely affect our financial results.

We have tangible project assets on our Consolidated Balance Sheets related to capitalized costs incurred in connection with the development of solar power systems. Project assets consist primarily of capitalized costs relating to solar power system projects in various stages of development that we incur prior to the sale of the solar power system to a third party. These costs include costs for land and costs for developing and constructing a solar power system. These project assets could become impaired if there are changes in the fair value of these capitalized costs. If these project assets become impaired, we may write-off some or all of the capitalized project assets, which would have an adverse impact on our financial results in the period in which the loss is recognized.

In addition, if the demand for our solar products decreases, our manufacturing capacity could be underutilized, and we may be required to record an impairment of our long-lived assets, including facilities and equipment, which would increase our expenses. In improving our manufacturing processes consistent with our cost reduction roadmap, we could write off equipment that is removed from the manufacturing process. In addition, if product demand decreases or we fail to forecast demand accurately, we could be required to write off inventory or record excess capacity charges, which would have a negative impact on our gross margin. Factory-planning decisions may shorten the useful lives of long-lived assets, including facilities and equipment, and cause us to accelerate depreciation. Each of the above events would adversely affect our future financial results.

We may not be able to sustain our recent growth rate, and we may not be able to manage our future growth effectively.

We may not be able to continue to expand our business or manage future growth. We plan to continue to improve our manufacturing processes and build additional manufacturing production over the next five years, which will require successful execution of:

- expanding our existing manufacturing facilities and developing new manufacturing facilities, which would increase our fixed costs and, if such facilities are underutilized, would negatively impact our results of operations;

- ensuring delivery of adequate polysilicon, ingots, and third-party cells;

- enhancing our customer resource management and manufacturing management systems;
- implementing and improving additional and existing administrative, financial and operations systems, procedures and controls, including the need to centralize, update and integrate our global financial internal control;
- hiring additional employees;
- expanding and upgrading our technological capabilities;
- managing multiple relationships with our customers, suppliers and other third parties;

Table of Contents

- maintaining adequate liquidity and financial resources; and

- continuing to increase our revenues from operations.

Improving our manufacturing processes, expanding our manufacturing facilities or developing new facilities may be delayed by difficulties such as unavailability of equipment or supplies or equipment malfunction. Ensuring delivery of adequate polysilicon, ingots, and third-party cells is subject to many market risks including scarcity, significant price fluctuations and competition. Maintaining adequate liquidity is dependent upon a variety of factors including continued revenues from operations, working capital improvements, and compliance with our indentures and credit agreements. If we are unsuccessful in any of these areas, we may not be able to achieve our growth strategy and increase production capacity as planned during the foreseeable future. In addition, we need to manage our organizational growth, including rationalizing reporting structures, support teams, and enabling efficient decision making. For example, the administration of the residential lease program requires processes and systems to support this business model. If we are not successful or if we delay our continuing implementation of such systems and processes, we may adversely affect the anticipated volumes in our residential lease business. If we are unable to manage our growth effectively, we may not be able to take advantage of market opportunities, develop new solar cells and other products, satisfy customer requirements, execute our business plan, or respond to competitive pressures.
Fluctuations in foreign currency exchange rates and interest rates could adversely affect our business and results of operations.

We have significant sales globally, and we are exposed to movements in foreign exchange rates, primarily related to sales to European customers that are denominated in Euros. A depreciation of the Euro would adversely affect our margins on sales to European customers. When foreign currencies appreciate against the U.S. dollar, inventories and expenses denominated in foreign currencies become more expensive. An increase in the value of the U.S. dollar relative to foreign currencies could make our solar power products more expensive for international customers, thus potentially leading to a reduction in demand, our sales and profitability. As a result, substantial unfavorable changes in foreign currency exchange rates could have a substantial adverse effect on our financial condition and results of operations. Although we seek to reduce our currency exposure by engaging in hedging transactions where we deem it appropriate, we do not know whether our efforts will be successful. Because we hedge some of our expected future foreign exchange exposure, if associated revenues do not materialize, we could experience losses. In the past, we have experienced an adverse impact on our revenue, gross margin, cash position and profitability as a result of foreign currency fluctuations. In addition, any break-up of the Eurozone would disrupt our sales and supply chain, expose us to financial counterparty risk, and materially and adversely affect our results of operations and financial condition.
We are exposed to interest rate risk because many of our customers depend on debt financing to purchase our solar power systems. An increase in interest rates could make it difficult for our customers to obtain the financing necessary to purchase our solar power systems on favorable terms, or at all, and thus lower demand for our solar power products, reduce revenue and adversely affect our operating results. An increase in interest rates could lower a customer’s return on investment in a system or make alternative investments more attractive relative to solar power systems, which, in each case, could cause our customers to seek alternative investments that promise higher returns or demand higher returns from our solar power systems, which could reduce our revenue and gross margin and adversely affect our operating results. Our interest expense would increase to the extent interest rates rise in connection with our variable interest rate borrowings. Conversely, lower interest rates have an adverse impact on our interest income. See also "Item 7A. Quantitative and Qualitative Disclosures About Market Risk" and “Risks Related to Our Sales Channels-The execution of our growth strategy is dependent upon the continued availability of third-party financing arrangements for our solar power plants, our residential lease program and our customers, and is affected by general economic conditions.”

We depend on third-party contract manufacturers to assemble a portion of our solar cells into solar panels and any failure to obtain sufficient assembly and test capacity could significantly delay our ability to ship our solar panels and damage our customer relationships.

We outsource a portion of module manufacturing to contract manufacturers in China. As a result of outsourcing this final step in our production, we face several significant risks, including limited control over assembly and testing capacity, delivery schedules, quality assurance, manufacturing yields and production costs. If the operations of our third-party contract manufacturers were disrupted or their financial stability impaired, or if they were unable or unwilling to devote capacity to our solar panels in a timely manner, our business could suffer as we might be unable to produce finished solar panels on a timely basis. We also risk customer delays resulting from an inability to move module production to an alternate provider or to

Table of Contents

complete production internationally, and it may not be possible to obtain sufficient capacity or comparable production costs at another facility in a timely manner. In addition, migrating our design methodology to third-party contract manufacturers or to a captive panel assembly facility could involve increased costs, resources and development time, and utilizing additional third-party contract manufacturers could expose us to further risk of losing control over our intellectual property and the quality of our solar panels. Any reduction in the supply of solar panels could impair our revenue by significantly delaying our ability to ship products and potentially damage our relationships with new and existing customers, any of which could have a material and adverse effect on our financial condition and results of operation.

While we believe we currently have effective internal control over financial reporting, we may identify a material weakness in our internal control over financial reporting that could cause investors to lose confidence in the reliability of our financial statements and result in a decrease in the value of our common stock.

Our management is responsible for maintaining internal control over financial reporting designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of consolidated financial statements for external purposes in accordance with U.S. GAAP. Management concluded that as of the end of each of fiscal 2016, 2015, and 2014, our internal control over financial reporting and our disclosure controls and procedures were effective.

We need to continuously maintain our internal control processes and systems and adapt them as our business grows and changes. This process is expensive, time-consuming, and requires significant management attention. We cannot be certain that our internal control measures will continue to provide adequate control over our financial processes and reporting and ensure compliance with Section 404 of the Sarbanes-Oxley Act. Furthermore, as we grow our business or acquire other businesses, our internal controls may become more complex and we may require significantly more resources to ensure they remain effective. Failure to implement required new or improved controls, or difficulties encountered in their implementation, either in our existing business or in businesses that we may acquire, could harm our operating results or cause us to fail to meet our reporting obligations. If we or our independent registered public accounting firm identify material weaknesses in our internal controls, the disclosure of that fact, even if quickly remedied, may cause investors to lose confidence in our financial statements and the trading price of our common stock may decline.

Remediation of a material weakness could require us to incur significant expense and if we fail to remedy any material weakness, our financial statements may be inaccurate, our ability to report our financial results on a timely and accurate basis may be adversely affected, our access to the capital markets may be restricted, the trading price of our common stock may decline, and we may be subject to sanctions or investigation by regulatory authorities, including the Securities and Exchange Commission ("SEC") or The NASDAQ Global Select Market. We may also be required to restate our financial statements from prior periods.

Our agreements with Cypress Semiconductor Corporation (“Cypress”) require us to indemnify Cypress for certain tax liabilities. These indemnification obligations and related contractual restrictions may limit our ability to pursue certain business initiatives.

On October 6, 2005, while a subsidiary of Cypress, our former parent company, we entered into a tax sharing agreement with Cypress providing for each party’s obligations concerning various tax liabilities. The tax sharing agreement is structured such that Cypress would pay all federal, state, local and foreign taxes that are calculated on a consolidated or combined basis while we were a member of Cypress’s consolidated or combined group for federal, state, local and foreign tax purposes. Our portion of tax liabilities or benefits was determined based upon our separate return tax liability as defined under the tax sharing agreement. These tax liabilities or benefits were based on a pro forma calculation as if we were filing a separate income tax return in each jurisdiction, rather than on a combined or consolidated basis, subject to adjustments as set forth in the tax sharing agreement.

On June 6, 2006, we ceased to be a member of Cypress’s consolidated group for federal income tax purposes and certain state income tax purposes. On September 29, 2008, we ceased to be a member of Cypress’s combined group for all state income tax purposes. To the extent that we become entitled to utilize our separate portion of any tax credit or loss carryforwards existing as of such date, we will distribute to Cypress the tax effect, estimated to be 40% for federal and state income tax purposes, of the amount of such tax loss carryforwards so utilized, and the amount of any credit carryforwards so utilized. We will distribute these amounts to Cypress in cash or in our shares, at Cypress's option. During fiscal 2015 and fiscal 2016, we recorded an estimated liability to Cypress of $3.5 million and $0.2 million, respectively. As of January 1, 2017, we believe there is no additional future liability.

We are jointly and severally liable for any tax liability during all periods in which we were deemed to be a member of the Cypress consolidated or combined group. Accordingly, although the tax sharing agreement allocates tax liabilities between

Table of Contents

Cypress and all its consolidated subsidiaries, for any period in which we were included in Cypress's consolidated or combined group, we could be liable in the event that any federal or state tax liability was incurred, but not discharged, by any other member of the group.
We will continue to be jointly and severally liable to Cypress until the statute of limitations runs or all appeal options are exercised for all years in which we joined in the filing of tax returns with Cypress. If Cypress experiences adjustments to their tax liability pursuant to tax examinations, we may incur an incremental liability.
We would also be liable to Cypress for taxes that might arise from the distribution by Cypress of our former class B common stock to Cypress's stockholders on September 29, 2008, or "spin-off." In connection with Cypress's spin-off of our former class B common stock, we and Cypress, on August 12, 2008, entered into an amendment to our tax sharing agreement ("Amended Tax Sharing Agreement") to address certain transactions that may affect the tax treatment of the spin-off and certain other matters.
Subject to certain caveats, Cypress obtained a ruling from the IRS to the effect that the distribution by Cypress of our former class B common stock to Cypress's stockholders qualified as a tax-free distribution under Section 355 of the Code. Despite such ruling, the distribution may nonetheless be taxable to Cypress under Section 355(e) of the Code if 50% or more of the voting power or value of our stock was or is later acquired as part of a plan or series of related transactions that included the distribution of our stock. The Amended Tax Sharing Agreement requires us to indemnify Cypress for any liability incurred as a result of issuances or dispositions of our stock after the distribution, other than liability attributable to certain dispositions of our stock by Cypress, that cause Cypress's distribution of shares of our stock to its stockholders to be taxable to Cypress under Section 355(e) of the Code.
Under the Amended Tax Sharing Agreement, we also agreed that, until October 29, 2010, we would not effect a conversion of any or all of our former class B common stock to former class A common stock or any similar recapitalization transaction or series of related transactions. On November 16, 2011, we reclassified our former class A common stock and class B common stock into a single class of common stock. In the event this reclassification does result in the spin-off being treated as taxable, we could face substantial liabilities as a result of our obligations under the Amended Tax Sharing Agreement.
Our affiliation with Total S.A. may require us to join in certain tax filings with Total S.A. in the future. The allocation of tax liabilities between us and Total S.A., and any future agreements with Total S.A. regarding tax indemnification and certain tax liabilities may adversely affect our financial position.

We have not joined in tax filings on a consolidated, combined or unitary basis with Total S.A., and no tax sharing agreement is currently in place. We may in the future become required to join in certain tax filings with Total S.A. on a consolidated, combined, or unitary basis in certain jurisdictions, at which point we may seek to enter into a tax sharing agreement with Total S.A., which would allocate the tax liabilities among the parties. The entry into any future agreement with Total S.A. may result in less favorable allocation of certain liabilities than we experienced before becoming subject to consolidated, combined, or unitary filing requirements, and may adversely affect our financial position.
Our ability to use our net operating loss and credit carryforwards to offset future taxable income may be subject to certain limitations.

As of January 1, 2017, we estimate that we have available to offset future taxable income approximately $480 million of federal and $438.5 million of California state operating loss carry-forwards, which expire at various dates from 2028 to 2036, federal credit carryforwards of approximately $54.3 million, which expire at various dates from 2018 to 2036, and $7.5 million of California state credit carryforwards that do not expire. Our ability to utilize our net operating loss and credit carryforwards is dependent upon our ability to generate taxable income in future periods and may be limited due to restrictions imposed on utilization of net operating loss and credit carryforwards under federal and state laws upon a change in ownership, such as the transaction with Cypress.
Section 382 of the Code imposes restrictions on the use of a corporation's net operating losses, as well as certain recognized built-in losses and other carryforwards, after an "ownership change" occurs. A Section 382 "ownership

change" occurs if one or more stockholders or groups of stockholders who own at least 5% of our stock increase their ownership by more than 50 percentage points over their lowest ownership percentage within the prior three-year period (calculated on a rolling basis). The issuance of common stock upon a conversion of our outstanding convertible notes debentures, and/or other issuances or sales of our stock (including certain transactions involving our stock that are outside of our control) could result in (or could have resulted in) an ownership change under Section 382. If an "ownership change" occurs, Section 382 would impose an annual limit on the amount of pre-change net operating losses and other losses we can use to reduce our taxable

Table of Contents

income generally equal to the product of the total value of our outstanding equity immediately prior to the "ownership change" and the applicable federal long-term tax-exempt interest rate for the month of the "ownership change" (subject to certain adjustments). The applicable rate for ownership changes occurring in the month of February 2016 is 2.65%. Because U.S. federal net operating losses generally may be carried forward for up to 20 years, the annual limitation may effectively provide a cap on the cumulative amount of pre-ownership change losses, including certain recognized built-in losses that may be utilized. Such pre-ownership change losses in excess of the cap may be lost. In addition, if an ownership change were to occur, it is possible that the limitations imposed on our ability to use pre-ownership change losses and certain recognized built-in losses could cause a net increase in our U.S. federal income tax liability and require U.S. federal income taxes to be paid earlier than otherwise would be paid if such limitations were not in effect. Further, if for financial reporting purposes the amount or value of these deferred tax assets is reduced, such reduction would have a negative impact on the book value of our common stock.

Our headquarters and manufacturing facilities, as well as the facilities of certain subcontractors and suppliers, are located in regions that are subject to earthquakes, floods, and other natural disasters, and climate change and climate change regulation could have an adverse effect on our operations.

Our headquarters and research and development operations are located in California, and our manufacturing facilities are located in the Philippines, Malaysia, France, and Mexico. Any significant earthquake, flood, or other natural disaster in these countries or countries where our suppliers are located could materially disrupt our management operations and/or our production capabilities, and could result in our experiencing a significant delay in delivery, or substantial shortage, of our products and services.

In addition, legislators, regulators, and non-governmental organizations, as well as companies in many business sectors, are considering ways to reduce green-house gas emissions. Further regulation could be forthcoming at the federal or state level with respect to green-house gas emissions. Such regulation or similar regulations in other countries could result in regulatory or product standard requirements for our global business, including our manufacturing operations. Furthermore, the potential physical impacts of climate change on our operations may include changes in weather patterns (including floods, tsunamis, drought and rainfall levels), water availability, storm patterns and intensities, and temperature levels. These potential physical effects may adversely affect the cost, production, sales and financial performance of our operations.

We could be adversely affected by any violations of the FCPA and foreign anti-bribery laws.

The FCPA generally prohibits companies and their intermediaries from making improper payments to non-U.S. government officials for the purpose of obtaining or retaining business. Other countries in which we operate also have anti-bribery laws, some of which prohibit improper payments to government and non-government persons and entities. Our policies mandate compliance with these anti-bribery laws. We continue to acquire businesses outside of the United States and operate in many parts of the world that have experienced governmental corruption to some degree and, in certain circumstances, strict compliance with anti-bribery laws may conflict with local customs and practices. In addition, due to the level of regulation in our industry, our entry into new jurisdictions through internal growth or acquisitions requires substantial government contact where norms can differ from U.S. standards. While we implement policies and procedures and conduct training designed to facilitate compliance with these anti-bribery laws, thereby mitigating the risk of violations of such laws, our employees, subcontractors and agents may take actions in violation of our policies and anti-bribery laws. Any such violation, even if prohibited by our policies, could subject us to criminal or civil penalties or other sanctions, which could have a material adverse effect on our business, financial condition, cash flows and reputation.

We sell our solar products to agencies of the U.S. government, and as a result, we are subject to a number of procurement rules and regulations, and our business could be adversely affected by an audit by the U.S. government if it were to identify errors or a failure to comply with regulations.

We have sold and continue to sell our solar power systems to various U.S. government agencies. In connection with these contracts, we must comply with and are affected by laws and regulations relating to the award, administration, and performance of U.S. government contracts, which may impose added costs on our business. We are expected to perform in compliance with a vast array of federal laws and regulations, including, without limitation, the Federal Acquisition Regulation, the Truth in Negotiations Act, the Federal False Claims Act, the Anti-Kickback Act of 1986, the Trade Agreements Act, the Buy American Act, the Procurement Integrity Act, and the Davis Bacon Act. A violation of specific laws and regulations, even if prohibited by our policies, could result in the imposition of fines and penalties, reductions of the value of our contracts, contract modifications or termination, or suspension or debarment from government contracting for a period of time.

Table of Contents

In some instances, these laws and regulations impose terms or rights that are more favorable to the government than those typically available to commercial parties in negotiated transactions. For example, the U.S. government may terminate any of our government contracts either at its convenience or for default based on performance. A termination arising out of our default may expose us to liability and have a material adverse effect on our ability to compete for future contracts.

U.S. government agencies may audit and investigate government contractors. These agencies review a contractor's performance under its contracts, cost structure, and compliance with applicable laws, regulations, and standards. If an audit or investigation uncovers improper or illegal activities, we may be subject to civil or criminal penalties and administrative sanctions, including termination of contracts, forfeiture of profits, suspension of payments, fines, and suspension or prohibition from doing business with the U.S. government. In addition, we could suffer reputational harm if allegations of impropriety were made against us.

Compliance with environmental regulations can be expensive, and noncompliance with these regulations may result in adverse publicity and potentially significant monetary damages and fines.

We are required to comply with all foreign, U.S. federal, state and local laws and regulations regarding pollution control and protection of the environment. In addition, under some statutes and regulations, a government agency, or other parties, may seek recovery and response costs from owners or operators of property where releases of hazardous substances have occurred or are ongoing, even if the owner or operator was not responsible for such release or otherwise at fault. We use, generate and discharge toxic, volatile and otherwise hazardous chemicals and wastes in our research and development and manufacturing activities. Any failure by us to control the use of, or to restrict adequately the discharge of, hazardous substances could subject us to, among other matters, potentially significant monetary damages and fines or liabilities or suspensions in our business operations. In addition, if more stringent laws and regulations are adopted in the future, the costs of compliance with these new laws and regulations could be substantial. If we fail to comply with present or future environmental laws and regulations, we may be required to pay substantial fines, suspend production or cease operations, or be subjected to other sanctions.

In addition, U.S. legislation includes disclosure requirements regarding the use of "conflict" minerals mined from the Democratic Republic of Congo and adjoining countries and procedures regarding a manufacturer's efforts to prevent the sourcing of such "conflict" minerals. We have incurred and will incur additional costs to comply with the disclosure requirements, including costs related to determining the source of any of the relevant minerals and metals used in our products. The implementation of these requirements could affect the sourcing and availability of minerals used in the manufacture of solar products. As a result, there may only be a limited pool of suppliers who provide conflict free minerals, and we cannot be certain that we will be able to obtain products in sufficient quantities or at competitive prices. Since our supply chain is complex, we have not been able to sufficiently verify, and in the future we may not be able to sufficiently verify, the origins for these conflict minerals used in our products. As a result, we may face reputational challenges with our customers and other stakeholders if we are unable to sufficiently verify the origins for all minerals used in our products.

Our success depends on the continuing contributions of our key personnel.

We rely heavily on the services of our key executive officers and the loss of services of any principal member of our management team could adversely affect our operations. In addition, we anticipate that we will need to hire a number of highly skilled technical, manufacturing, sales, marketing, administrative and accounting personnel. In recent years, we have conducted several restructurings, which may negatively affect our ability to execute our strategy and business model. The competition for qualified personnel is intense in our industry. We may not be successful in attracting and retaining sufficient numbers of qualified personnel to support our anticipated growth. We cannot guarantee that any employee will remain employed with us for any definite period of time since all of our employees, including our key executive officers, serve at-will and may terminate their employment at any time for any reason.

Our insurance for certain indemnity obligations we have to our officers and directors may be inadequate, and potential claims could materially and negatively impact our financial condition and results of operations.

Pursuant to our certificate of incorporation, by-laws, and certain indemnification agreements, we indemnify our officers and directors for certain liabilities that may arise in the course of their service to us. Although we currently maintain directors and officers liability insurance for certain potential third-party claims for which we are legally or financially unable to indemnify them, such insurance may be inadequate to cover certain claims. In addition, in previous years, we have primarily self-insured with respect to potential third-party claims. If we were required to pay a significant amount on account of these liabilities for which we self-insured, our business, financial condition, and results of operations could be materially harmed.

Table of Contents

Risks Related to Our Intellectual Property

We depend on our intellectual property, and we may face intellectual property infringement claims that could be time-consuming and costly to defend and could result in the loss of significant rights.

From time to time, we, our respective customers, or third parties with whom we work may receive letters, including letters from other third parties, and may become subject to lawsuits with such third parties alleging infringement of their patents. Additionally, we are required by contract to indemnify some of our customers and our third-party intellectual property providers for certain costs and damages of patent infringement in circumstances where our products are a factor creating the customer's or these third-party providers' infringement liability. This practice may subject us to significant indemnification claims by our customers and our third-party providers. We cannot assure investors that indemnification claims will not be made or that these claims will not harm our business, operating results or financial condition. Intellectual property litigation is very expensive and time-consuming and could divert management's attention from our business and could have a material adverse effect on our business, operating results or financial condition. If there is a successful claim of infringement against us, our customers or our third-party intellectual property providers, we may be required to pay substantial damages to the party claiming infringement, stop selling products or using technology that contains the allegedly infringing intellectual property, or enter into royalty or license agreements that may not be available on acceptable terms, if at all. Parties making infringement claims may also be able to bring an action before the International Trade Commission that could result in an order stopping the importation into the United States of our solar products. Any of these judgments could materially damage our business. We may have to develop non-infringing technology, and our failure in doing so or in obtaining licenses to the proprietary rights on a timely basis could have a material adverse effect on our business.

We have filed, and may continue to file, claims against other parties for infringing our intellectual property that may be very costly and may not be resolved in our favor.

To protect our intellectual property rights and to maintain our competitive advantage, we have filed, and may continue to file, suits against parties who we believe infringe our intellectual property. Intellectual property litigation is expensive and time consuming, could divert management's attention from our business, and could have a material adverse effect on our business, operating results, or financial condition, and our enforcement efforts may not be successful. In addition, the validity of our patents may be challenged in such litigation. Our participation in intellectual property enforcement actions may negatively impact our financial results.

We rely substantially upon trade secret laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenue could suffer.

We seek to protect our proprietary manufacturing processes, documentation, and other written materials primarily under trade secret and copyright laws. We also typically require employees, consultants, and third parties, such as our vendors and customers, with access to our proprietary information to execute confidentiality agreements. The steps we take to protect our proprietary information may not be adequate to prevent misappropriation of our technology. Our systems may be subject to intrusions, security breaches, or targeted theft of our trade secrets. In addition, our proprietary rights may not be adequately protected because:

- others may not be deterred from misappropriating our technologies despite the existence of laws or contracts prohibiting such misappropriation;

- policing unauthorized use of our intellectual property may be difficult, expensive, and time-consuming, the remedy obtained may be inadequate to restore protection of our intellectual property, and moreover, we may be unable to determine the extent of any unauthorized use;

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the laws of other countries in which we market our solar products, such as some countries in the Asia/Pacific region, may offer little or no protection for our proprietary technologies; and

- reports we file in connection with government-sponsored research contracts are generally available to the public and third parties may obtain some aspects of our sensitive confidential information.

Reverse engineering, unauthorized copying, or other misappropriation of our proprietary technologies could enable third parties to benefit from our technologies without compensating us for doing so. Our joint ventures or our partners may not be deterred from misappropriating our proprietary technologies despite contractual and other legal restrictions. Legal protection in countries where our joint ventures are located may not be robust and enforcement by us of our intellectual property rights

44

Table of Contents

may be difficult. As a result, our joint ventures or our partners could directly compete with our business. Any such activities or any other inabilities to adequately protect our proprietary rights could harm our ability to compete, to generate revenue, and to grow our business.

We may not obtain sufficient patent protection on the technology embodied in the solar products we currently manufacture and market, which could harm our competitive position and increase our expenses.

Although we substantially rely on trade secret laws and contractual restrictions to protect the technology in the solar products we currently manufacture and market, our success and ability to compete in the future may also depend to a significant degree upon obtaining patent protection for our proprietary technology. We currently own multiple patents and patent applications which cover aspects of the technology in the solar cells and mounting systems that we currently manufacture and market. Material patents that relate to our systems products and services primarily relate to our rooftop mounting products and ground-mounted tracking products. We intend to continue to seek patent protection for those aspects of our technology, designs, and methodologies and processes that we believe provide significant competitive advantages.

Our patent applications may not result in issued patents, and even if they result in issued patents, the patents may not have claims of the scope we seek or we may have to refile patent applications due to newly discovered prior art. In addition, any issued patents may be challenged, invalidated, or declared unenforceable, or even if we obtain an award of damages for infringement by a third party, such award could prove insufficient to compensate for all damages incurred as a result of such infringement.

The term of any issued patent is generally 20 years from its earliest filing date and if our applications are pending for a long time period, we may have a correspondingly shorter term for any patent that may issue. Our present and future patents may provide only limited protection for our technology and may be insufficient to provide competitive advantages to us. For example, competitors could develop similar or more advantageous technologies on their own or design around our patents. Also, patent protection in certain foreign countries may not be available or may be limited in scope and any patents obtained may not be readily enforceable because of insufficient judicial effectiveness, making it difficult for us to aggressively protect our intellectual property from misuse or infringement by other companies in these countries. Our inability to obtain and enforce our intellectual property rights in some countries may harm our business. In addition, given the costs of obtaining patent protection, we may choose not to protect certain innovations that later turn out to be important.

We may not be able to prevent others from using the term SunPower or similar terms, or other trademarks which we hold, in connection with their solar power products which could adversely affect the market recognition of our name and our revenue.

“SunPower” and the SunPower logo are our registered trademarks in certain countries, including the United States, for uses that include solar cells and solar panels. We are seeking registration of these trademarks in other countries, but we may not be successful in some of these jurisdictions. We hold registered trademarks for SunPower®, Maxeon®, Oasis®, EnergyLink™, InvisiMount®, Tenesol®, Greenbotics®, Customer Cost of Energy™ ("CCOE™"), SunPower Spectrum™, Helix™, Equinox™, Signature™, SolarBridge®, The Power of One™, and many more marks, in certain countries, including the United States. We have not registered, and may not be able to register, these trademarks in other key countries. In the foreign jurisdictions where we are unable to obtain or have not tried to obtain registrations, others may be able to sell their products using trademarks compromising or incorporating “SunPower,” or a variation thereof, or our other chosen brands, which could lead to customer confusion. In addition, if there are jurisdictions where another proprietor has already established trademark rights in marks containing “SunPower,” or our other chosen brands, we may face trademark disputes and may have to market our products with other trademarks or without our trademarks, which may undermine our marketing efforts. We may encounter trademark disputes with companies using marks which are confusingly similar to the SunPower mark, or our other marks, which if not resolved favorably, could cause our branding efforts to suffer. In addition, we may have difficulty in establishing strong brand recognition with consumers if others use similar marks for similar products.

Our past and possible future reliance on government programs to partially fund our research and development programs could impair our ability to commercialize our solar power products and services.

Government funding of some of our research and development efforts imposed certain restrictions on our ability to commercialize results and could grant commercialization rights to the government. In some funding awards, the government is entitled to intellectual property rights arising from the related research. Such rights include a nonexclusive, nontransferable, irrevocable, paid-up license to practice or have practiced each subject invention developed under an award throughout the world by or on behalf of the government. Other rights include the right to require us to grant a license to the developed technology or products to a third party or, in some cases, if we refuse, the government may grant the license itself, if the

Table of Contents

government determines that action is necessary because we fail to achieve practical application of the technology, because action is necessary to alleviate health or safety needs, to meet requirements of federal regulations, or to give the United States industry preference. Accepting government funding can also require that manufacturing of products developed with federal funding be conducted in the United States.

We may be subject to information technology system failures or network disruptions that could damage our business operations, financial conditions, or reputation.

We may be subject to information technology system failures and network disruptions. These may be caused by natural disasters, accidents, power disruptions, telecommunications failures, acts of terrorism or war, computer viruses, physical or electronic break-ins, or similar events or disruptions. System redundancy may be ineffective or inadequate, and our disaster recovery planning may not be sufficient for all eventualities. Such failures or disruptions could result in delayed or canceled orders. System failures and disruptions could also impede the manufacturing and shipping of products, delivery of online services, transactions processing, and financial reporting.

We may be subject to breaches of our information technology systems, which could lead to disclosure of our internal information, damage our reputation or relationships with dealers and customers, and disrupt access to our online services. Such breaches could subject us to significant reputational, financial, legal, and operational consequences.

Our business requires us to use and store customer, employee, and business partner personally identifiable information ("PII"). This may include names, addresses, phone numbers, email addresses, contact preferences, tax identification numbers, and payment account information. Malicious attacks to gain access to PII affect many companies across various industries, including ours.

We use encryption and authentication technologies to secure the transmission and storage of data. These security measures may be compromised as a result of third-party security breaches, employee error, malfeasance, faulty password management, or other irregularity, and result in persons obtaining unauthorized access to our data. Third parties may attempt to fraudulently induce employees or customers into disclosing passwords or other sensitive information, which may in turn be used to access our information technology systems.

We devote resources to network security, data encryption, and other security measures to protect our systems and data, but these security measures cannot provide absolute security. Because the techniques used to obtain unauthorized access, disable or degrade service, or sabotage systems change frequently and may be difficult to detect for long periods of time, we may be unable to anticipate these techniques or implement adequate preventative measures and as a result, we may experience a breach of our systems and may be unable to protect sensitive data. In addition, hardware, software, or applications we develop or procure from third parties may contain defects in design or manufacture or other problems that could unexpectedly compromise information security. Unauthorized parties may also attempt to gain access to our systems or facilities through fraud, trickery or other forms of deceiving our team members, contractors and temporary staff. If we experience a significant data security breach or fail to detect and appropriately respond to a significant data security breach, we could be exposed to a risk of loss, litigation and possible liability, or government enforcement actions, any of which could detrimentally affect our business, results of operations, and financial condition.

PII may also be shared with contractors and third-party providers to conduct our business. Although such contractors and third-party providers typically implement encryption and authentication technologies to secure the transmission and storage of data, those third-party providers may experience a significant data security breach of the shared PII. See also "Risks Related to Our Intellectual Property - We rely substantially upon trade secret laws and contractual restrictions to protect our proprietary rights, and, if these rights are not sufficiently protected, our ability to compete and generate revenue could suffer."

Our business is subject to a variety of U.S. and international laws, rules, policies, and other obligations regarding privacy, data protection, and other matters.

We are subject to federal, state and international laws relating to the collection, use, retention, security, and transfer of PII. In many cases, these laws apply not only to third-party transactions, but also to transfers of information between one company and its subsidiaries, and among the subsidiaries and other parties with which we have commercial relations. The introduction of new products or expansion of our activities in certain jurisdictions may subject us to additional laws and regulations. In addition, foreign data protection, privacy, and other laws and regulations can be more restrictive than those in the United States. These U.S. federal and state and foreign laws and regulations, which can be enforced by private parties or

Table of Contents

government entities, are constantly evolving and can be subject to significant change. In addition, the application and interpretation of these laws and regulations are often uncertain, particularly in the new and rapidly evolving industry in which we operate, and may be interpreted and applied inconsistently from country to country and inconsistently with our current policies and practices. These existing and proposed laws and regulations can be costly to comply with and can delay or impede the development of new products, result in negative publicity, increase our operating costs, require significant management time and attention, and subject us to inquiries or investigations, claims or other remedies, including fines or demands that we modify or cease existing business practices.

A failure by us, our suppliers or other parties with whom we do business to comply with a posted privacy policies or with other federal, state or international privacy-related or data protection laws and regulations could result in proceedings against us by governmental entities or others, which could have a detrimental effect on our business, results of operations, and financial condition.

Risks Related to Our Debt and Equity Securities

Our debentures are effectively subordinated to our existing and any future secured indebtedness and structurally subordinated to existing and future liabilities and other indebtedness of our current and any future subsidiaries.

Our debentures are our general, unsecured obligations and rank equally in right of payment with all of our existing and any future unsubordinated, unsecured indebtedness. As of January 1, 2017, we and our subsidiaries had $1.1 billion in principal amount of senior unsecured indebtedness outstanding, which ranks pari passu with our debentures. Our debentures are effectively subordinated to our existing and any future secured indebtedness we may have, including for example, our $300.0 million revolving credit facility with Credit Agricole, to the extent of the value of the assets securing such indebtedness, and structurally subordinated to our existing and any future liabilities and other indebtedness of our subsidiaries. In addition to our unsecured indebtedness described above, as of January 1, 2017, we and our subsidiaries had $495.1 million in principal amount of senior secured indebtedness outstanding, which includes $139.7 million in non-recourse project debt and $293.1 million in non-recourse long-term debt related to our residential lease business. These liabilities may also include other indebtedness, trade payables, guarantees, lease obligations, and letter of credit obligations. Our debentures do not restrict us or our current or any future subsidiaries from incurring indebtedness, including senior secured indebtedness, in the future, nor do they limit the amount of indebtedness we can issue that is equal in right of payment.

Recent or future regulatory actions may adversely affect the trading price and liquidity of our debentures.

We believe that many investors in our debentures employ, or will seek to employ, a convertible arbitrage strategy with respect to our debentures. Investors that employ a convertible arbitrage strategy with respect to convertible debt instruments typically implement that strategy by selling short the common stock underlying the convertible debt instruments and dynamically adjusting their short position while they hold the debt instruments. Investors may also implement this strategy by entering into swaps on the common stock underlying the convertible debt instruments in lieu of or in addition to short selling the common stock. As a result, rules regulating equity swaps or short selling of securities or other governmental action that interferes with the ability of market participants to effect short sales or equity swaps with respect to our common stock could adversely affect the ability of investors in our debentures to conduct the convertible arbitrage strategy that we believe they employ, or will seek to employ, with respect to our debentures. This could, in turn, adversely affect the trading price and liquidity of our debentures.

The SEC and other regulatory and self-regulatory authorities have implemented various rules in recent years and may adopt additional rules in the future that may impact those engaging in short selling activity involving equity securities (including our common stock). In particular, Rule 201 of SEC Regulation SHO restricts certain short selling when the price of a “covered security” triggers a “circuit breaker” by falling 10% or more from the security’s closing price as of the end of regular trading hours on the prior day. If this circuit breaker is triggered, short sale orders can be displayed or executed for the remainder of that day and the following day only if the order price is above the then-current national best bid, subject to certain limited exceptions. Because our common stock is a “covered security”, these Rule 201 restrictions, if triggered, may interfere with the ability of investors in our debentures to effect short sales in our common stock and conduct a convertible arbitrage strategy.

In addition, during 2012, the SEC approved two proposals submitted by the national securities exchanges and the Financial Industry Regulatory Authority, Inc. (“FINRA”) concerning extraordinary market volatility that may impact the ability of investors to effect a convertible arbitrage strategy. One initiative is the “Limit Up-Limit Down” plan, which requires securities exchanges, alternative trading systems, broker-dealers, and other trading centers to establish policies and procedures that prevent the execution of trades or the display of bids or offers outside of specified price bands. If the bid or offer quotations for a security are at the far limit of the price band for more than 15 seconds, trading in that security will be subject to a five-minute trading pause. The Limit Up-Limit Down plan became effective, on a pilot basis, on April 8, 2013 and has been extended several times, most recently through April 21, 2017.

The second initiative revised existing national securities exchange and FINRA rules that establish the market-wide circuit breaker system. The market-wide circuit breaker system provides for specified market-wide halts in trading of listed stocks and options for certain periods following specified market declines. The changes lowered the percentage-decline thresholds for triggering a market-wide trading halt and shortened the amount of time that trading is halted. Market declines under the new system are measured based on a decline in the S&P 500 Index compared to the prior day's closing value rather than a decline in the Dow Jones Industrial Average compared to the prior quarterly closing value. The changes to the market-wide circuit breaker system became effective, on a pilot basis, on April 8, 2013 and have been extended so that the system will continue in effect so long as the Limit Up-Limit Down plan is effective, currently until April 21, 2017. The potential restrictions on trading imposed by the Limit Up-Limit Down plan and the market-wide circuit breaker system may interfere with the ability of investors in our debentures to effect short sales in our common stock and conduct a convertible arbitrage strategy.

The enactment of the Dodd-Frank Wall Street Reform and Consumer Protection Act, (the "Dodd-Frank Act") on July 21, 2010 also introduced regulatory changes that may impact trading activities relevant to our debentures. As a result of this legislation and implementing rules, certain interest rate swaps and credit default swaps are currently required to be cleared through regulated clearinghouses. Certain other swaps (regulated by the U.S. Commodity Futures Trading Commission (the "CFTC") and security-based swaps (regulated by the SEC) are likely going to be required to be cleared through regulated clearinghouses in the future. In addition, certain swaps and security-based swaps will be required to be traded on exchanges or comparable trading facilities. Furthermore, swap dealers, security-based swap dealers, major swap participants and major security-based swap participants will be required to comply with margin and capital requirements, the indirect cost of which will likely be borne by market participants. Market participants will also be subject to certain direct margin requirements. In addition, certain market participants are required to comply with public reporting requirements to provide transaction and pricing data on both cleared and uncleared swaps. Public reporting requirements will also apply with respect to security-based swaps in the future. These requirements could adversely affect the ability of investors in our debentures to maintain a convertible arbitrage strategy with respect to our debentures (including increasing the costs incurred by such investors in implementing such strategy). This could, in turn, adversely affect the trading price and liquidity of our debentures. Although some of the implementing rules have been adopted and are currently effective, we cannot predict how the SEC, CFTC, and other regulators will ultimately implement the legislation or the magnitude of the effect that this legislation will have on the trading price or liquidity of our debentures.

Although the direction and magnitude of the effect that the amendments to Regulation SHO, FINRA and securities exchange rule changes, and/or implementation of the Dodd-Frank Act may have on the trading price and the liquidity of our debentures will depend on a variety of factors, many of which cannot be determined at this time, past regulatory actions have had a significant impact on the trading prices and liquidity of convertible debentures. For example, between July 2008 and September 2008, the SEC issued a series of emergency orders placing restrictions on the short sale of the common stock of certain financial services companies. The orders made the convertible arbitrage strategy that many holders of convertible debentures employ difficult to execute and adversely affected both the liquidity and trading price of convertible debentures issued by many of the financial services companies subject to the prohibition. Any governmental action that similarly restricts the ability of investors in our debentures to effect short sales of our common stock, including the amendments to Regulation SHO, FINRA and exchange rule changes, and the implementation of the Dodd-Frank Act, could similarly adversely affect the trading price and the liquidity of our debentures.

Total's majority ownership of our common stock may adversely affect the liquidity and value of our common stock.

As of January 1, 2017, Total owned approximately 57% of our outstanding common stock. Pursuant to the Affiliation Agreement between us and Total, the Board of Directors of SunPower includes five designees from Total, giving

Total majority control of our Board. As a result, subject to the restrictions in the Affiliation Agreement, Total possesses significant influence and control over our affairs. Our non-Total stockholders have reduced ownership and voting interest in our company and, as a result, have less influence over the management and policies of our company than they exercised prior to Total's tender offer. As long as Total controls us, the ability of our other stockholders to influence matters requiring stockholder approval is limited. Total's stock ownership and relationships with members of our Board of Directors could have the effect of preventing minority stockholders from exercising significant control over our affairs, delaying or preventing a future change in control, impeding a merger, consolidation, takeover, or other business combination or discouraging a potential acquirer from making a tender offer or otherwise attempting to obtain control of us, limiting our financing options. These factors in turn could adversely affect the market price of our common stock or prevent our stockholders from realizing a premium over the market price of our common stock. The Affiliation Agreement limits Total and any member of the Total affiliated companies (“Total Group”) from effecting, seeking, or entering into discussions with any third party regarding any transaction that would result in the Total Group beneficially owning our shares in excess of certain thresholds during a standstill period. The Affiliation Agreement also imposes certain limitations on the Total Group’s ability to seek to affect a tender offer or merger to acquire 100% of our outstanding voting power. Such provisions may not be successful in preventing the Total Group from engaging in transactions which further increase their ownership and negatively impact the price of our common stock. See also “Risks Related to Our Liquidity - We may be unable to generate sufficient cash flows or obtain access to external financing necessary to fund our operations and make adequate capital investments as planned due to the general economic environment and the continued market pressure driving down the average selling prices of our solar power products, among other factors.” Finally, the market for our common stock has become less liquid and more thinly traded as a result of the Total tender offer. The lower number of shares available to be traded could result in greater volatility in the price of our common stock and affect our ability to raise capital on favorable terms in the capital markets.

Conversion of our outstanding 0.75% debentures, 0.875% debentures, 4.00% debentures, and future substantial issuances or dispositions of our common stock or other securities, could dilute ownership and earnings per share or cause the market price of our stock to decrease.

The conversion of some or all of our outstanding 0.75%, 0.875%, or 4.00% debentures into shares of our common stock will dilute the ownership interests of existing stockholders, including holders who had previously converted their debentures. Any sales in the public market of the common stock issuable upon such conversion could adversely affect prevailing market prices of our common stock. Sales of our common stock in the public market or sales of any of our other securities could dilute ownership and earnings per share, and even the perception that such sales could occur could cause the market prices of our common stock to decline. In addition, the existence of our outstanding debentures may encourage short selling of our common stock by market participants who expect that the conversion of the debentures could depress the prices of our common stock.

Future sales of our common stock in the public market could lower the market price for our common stock and adversely impact the trading price of our debentures.

In the future, we may sell additional shares of our common stock to raise capital. We cannot predict the size of future issuances or the effect, if any, that they may have on the market price for our common stock. In addition, a substantial number of shares of our common stock is reserved for issuance upon the exercise of stock options, restricted stock awards, restricted stock units, warrants, and upon conversion of the debentures and our outstanding 0.75%, 0.875%, and 4.00% debentures. The issuance and sale of substantial amounts of common stock, or the perception that such issuances and sales may occur, could adversely affect the trading price of our debentures and the market price of our common stock and impair our ability to raise capital through the sale of additional equity or equity-linked securities.

The price of our common stock, and therefore of our outstanding 0.75%, 0.875%, and 4.00% debentures, may fluctuate significantly.

Our common stock has experienced extreme price and volume fluctuations. The trading price of our common stock could be subject to further wide fluctuations due to many factors, including the factors discussed in this risk factors section. In addition, the stock market in general, and The NASDAQ Global Select Market and the securities of technology companies and solar companies in particular, have experienced severe price and volume fluctuations. These trading prices and valuations, including our own market valuation and those of companies in our industry generally, may not be sustainable. These broad market and industry factors may decrease the market price of our common stock, regardless of our actual operating performance. Because the 0.75%, 0.875%, and 4.00% debentures are convertible into our common stock (and/or cash equivalent to the value of our common stock), volatility or depressed prices of our common stock could have a similar effect on the trading price of the debentures.

If securities or industry analysts change their recommendations regarding our stock adversely, our stock price and trading volume could decline.

The trading market for our common stock is influenced by the research and reports that industry or securities analysts publish about us, our business or our market. If one or more of the analysts who cover us change their recommendation regarding our stock adversely, our stock price would likely decline. If one or more of these analysts ceases coverage of our company or fails to regularly publish reports on us, we could lose visibility in the financial markets, which in turn could cause our stock price or trading volume, and the value of our debentures, to decline.

Table of Contents

We do not intend to pay dividends on our common stock in the foreseeable future.

We have never declared or paid cash dividends. For the foreseeable future, we intend to retain any earnings, after considering any dividends on any preferred stock, to finance the development of our business, and we do not anticipate paying any cash dividends on our common stock. Any future determination to pay dividends will be at the discretion of our Board of Directors and will be dependent upon then-existing conditions, including our operating results and financial condition, capital requirements, contractual restrictions, business prospects, and other factors that our Board of Directors considers relevant. Accordingly, holders of our common stock must rely on sales of their common stock after price appreciation, which may never occur, as the only way to realize a return on their shares of common stock.

Delaware law and our certificate of incorporation and by-laws contain anti-takeover provisions, our outstanding 0.75%, 0.875%, and 4.00% debentures provide for a right to convert upon certain events, and our Board of Directors entered into a rights agreement and declared a rights dividend, any of which could delay or discourage takeover attempts that stockholders may consider favorable.

Provisions in our certificate of incorporation and by-laws may have the effect of delaying or preventing a change of control or changes in our management. These provisions include the following:

- the right of the Board of Directors to elect a director to fill a vacancy created by the expansion of the Board of Directors;
- the prohibition of cumulative voting in the election of directors, which would otherwise allow less than a majority of stockholders to elect director candidates;
- the requirement for advance notice for nominations for election to the Board of Directors or for proposing matters that can be acted upon at a stockholders' meeting;
- the ability of the Board of Directors to issue, without stockholder approval, up to 10 million shares of preferred stock with terms set by the Board of Directors, which rights could be senior to those of common stock;
- our Board of Directors is divided into three classes of directors, with the classes to be as nearly equal in number as possible;
- stockholders may not call special meetings of the stockholders, except by Total under limited circumstances; and
- our Board of Directors is able to alter our by-laws without obtaining stockholder approval.

Certain provisions of our outstanding debentures could make it more difficult or more expensive for a third party to acquire us. Upon the occurrence of certain transactions constituting a fundamental change, including an entity (such as Total) becoming the beneficial owner of 75% of our voting stock, holders of our outstanding debentures will have the right, at their option, to require us to repurchase, at a cash repurchase price equal to 100% of the principal amount plus accrued and unpaid interest on the debentures, all or a portion of their debentures. We may also be required to issue additional shares of our common stock upon conversion of such debentures in the event of certain fundamental changes. In addition, we entered into a Rights Agreement with Computershare Trust Company, N.A., commonly referred to as a "poison pill," which could delay or discourage takeover attempts that stockholders may consider favorable.

Table of Contents

ITEM 1B: UNRESOLVED STAFF COMMENTS

None.

ITEM 2: PROPERTIES

The table below presents details for each of our principal properties:

Facility	Location	Approximate Square Footage	Held	Lease Term
Solar cell manufacturing facility[1, 2]	Philippines	392,000	Owned	n/a
Solar cell manufacturing facility[3]	Malaysia	885,000	Owned	n/a
Former solar cell manufacturing facility[1, 4]	Philippines	641,000	Owned	n/a
Solar cell manufacturing support and storage facility	Philippines	167,000	Leased	2024
Former solar module assembly facility[1, 4]	Philippines	183,000	Owned	n/a
Solar module assembly facility	Mexico	320,000	Leased	2021
Solar module assembly facility	Mexico	186,000	Leased	2026
Solar module assembly facility	France	11,000	Owned	n/a
Solar module assembly facility	France	13,000	Leased	2018
Corporate headquarters	California, U.S.	129,000	Leased	2021
Global support offices	California, U.S.	163,000	Leased	2023
Global support offices	Texas, U.S.	69,000	Leased	2019
Global support offices	France	27,000	Leased	2023
Global support offices	Philippines	65,000	Owned	n/a

[1] The lease for the underlying land expires in May 2048 and is renewable for an additional 25 years.
[2] The solar cell manufacturing facility we operate in the Philippines has a total annual capacity of 350 MW.
[3] The solar cell manufacturing facility we operate in Malaysia has a total rated annual capacity of over 800 MW.
[4] We still own this facility as of January 1, 2017 but relevant operations ceased during fiscal 2016.

As of January 1, 2017, our principal properties include operating solar cell manufacturing facilities with a combined total annual capacity of over 1.1 GW and solar module assembly facilities with a combined total annual capacity of approximately 1.9 GW. For more information about our manufacturing capacity, see "Item 1. Business."

We do not identify or allocate assets by business segment. For more information on property, plant and equipment by country, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 5. Balance Sheet Components."

ITEM 3. LEGAL PROCEEDINGS

Tax Benefit Indemnification Litigation

On March 19, 2014, a lawsuit was filed by NRG Solar LLC, now known as NRG Renew LLC (“NRG”), against SunPower Corporation, Systems, our wholly-owned subsidiary (“SunPower Systems”), in the Superior Court of Contra Costa County, California. The complaint asserts that, according to the indemnification provisions in the contract pertaining to SunPower Systems’ sale of a large California solar project to NRG, SunPower Systems owes NRG $75.0 million in connection with certain tax benefits associated with the project that were approved by the U.S. Treasury Department ("Treasury") for an amount that was less than expected. We do not believe that the facts support NRG’s claim under the operative indemnification provisions and SunPower Systems is vigorously contesting the claim.

Additionally, SunPower Systems filed a cross-complaint against NRG seeking damages in excess of $7.5 million for breach of contract and related claims arising from NRG's failure to fulfill its obligations under the contract, including its obligation to take "reasonable, available steps" to engage Treasury. We are currently unable to determine if the resolution of this matter will have a material effect on our consolidated financial statements.

Table of Contents

Class Action and Derivative Suits

On August 16, 2016 and August 26, 2016, two securities class action lawsuits were filed against the Company and certain of its officers and directors (the "Defendants") in the United States District Court for the Northern District of California on behalf of a class consisting of those who acquired the Company's securities from February 17, 2016 through August 9, 2016 (the "Class Period"). The substantially identical complaints allege violations of Sections 10(b) and 20(a) of the Exchange Act,
15 U.S.C. §§78j(b) and 78t(a) and SEC Rule 10b-5, 17 C.F.R. §240.10b-5. The complaints were filed following the issuance of the Company's August 9, 2016 earnings release and revised guidance and generally allege that throughout the Class Period, Defendants made materially false and/or misleading statements and failed to disclose material adverse facts about the Company’s business, operations, and prospects. On December 9, 2017, the court consolidated the cases and appointed a lead plaintiff.

Four shareholder derivative actions have been filed in federal court, purporting to be brought on the Company's behalf against certain of the Company's current and former officers and directors based on the same events alleged in the securities class action lawsuits described above. The Company is named as a nominal defendant. The plaintiffs assert claims for alleged breaches of fiduciary duties, unjust enrichment, and waste of corporate assets for the period February 2016 through the present and generally allege that the defendants made or caused the Company to make materially false and/or misleading statements and failed to disclose material adverse facts about the Company’s business, operations, and prospects. The plaintiffs also claim that the alleged conduct is a breach of the Company's Code of Business Conduct and Ethics, and that defendants, including members of the Company's Audit Committee, breached their fiduciary duties by failing to ensure the adequacy of the Company's internal controls, and by causing or allowing the Company to disseminate false and misleading statements in the Company’s SEC filings and other disclosures. The securities class action lawsuits and the federal derivative actions have all been related by the Court and assigned to one judge.

Shareholder derivative actions purporting to be brought on the Company’s behalf were brought in the Superior Court of California for the County of Santa Clara against certain of the Company’s current and former officers and directors based on the same events alleged in the securities class action and federal derivative lawsuits described above, and alleging breaches of fiduciary duties.

The Company is currently unable to determine if the resolution of these matters will have a material adverse effect on the Company's financial position, liquidity, or results of operations.

Other Litigation

We are a party to various other litigation matters and claims that arise from time to time in the ordinary course of our business. While we believe that the ultimate outcome of such matters will not have a material adverse effect on our business, their outcomes are not determinable and negative outcomes may adversely affect our financial position, liquidity, or results of operations.

ITEM 4: MINE SAFETY DISCLOSURES

Not applicable.

Table of Contents

PART II

ITEM 5: MARKET FOR REGISTRANT’S COMMON EQUITY, RELATED STOCKHOLDER MATTERS AND ISSUER PURCHASES OF EQUITY SECURITIES

Market Information

Our common stock is listed on the Nasdaq Global Select Market under the trading symbol "SPWR." During fiscal 2016 and 2015, the high and low closing trading prices of our common stock were as follows:

	SPWR	
	High	Low
Fiscal Year 2016		
Fourth quarter	$9.11	$6.30
Third quarter	$16.07	$7.53
Second quarter	$22.09	$13.49
First quarter	$30.46	$20.38
Fiscal Year 2015		
Fourth quarter	$30.77	$19.12
Third quarter	$28.73	$20.95
Second quarter	$34.85	$30.01
First quarter	$33.60	$23.35

As of February 10, 2017, there were approximately 814 record holders of our common stock. A substantially greater number of holders are in "street name" or beneficial holders, whose shares are held of record by banks, brokers, and other financial institutions.

Dividends

We have never declared or paid any cash dividend on our common stock, and we do not currently intend to pay a cash dividend on our common stock in the foreseeable future. Certain of the Company's debt agreements place restrictions on the Company and its subsidiaries' ability to pay cash dividends. For more information on our common stock and dividend rights, see "Item 8. Financial Statements and Supplementary Data—Notes to Consolidated Financial Statements—Note 14. Common Stock."

Issuer Purchases of Equity Securities

The following table sets forth all purchases made by or on behalf of us or any "affiliated purchaser," as defined in Rule 10b-18(a)(3) under the Exchange Act, of shares of our common stock during each of the indicated periods.

Period	Total Number of Shares Purchased[1]	Average Price Paid Per Share	Total Number of Shares Purchased as Part of Publicly Announced Plans or Programs	Maximum Number of Shares That May Yet Be Purchased Under the Publicly Announced Plans or Programs

October 3, 2016 through October 30, 2016	44,123	$ 8.65	—	—
October 31, 2016 through November 27, 2016	6,626	$ 7.01	—	—
November 28, 2016 through January 1, 2017	19,129	$ 7.13	—	—
	69,878	$ 8.08	—	—

[1] The shares purchased represent shares surrendered to satisfy tax withholding obligations in connection with the vesting of restricted stock issued to employees.

Table of Contents

ITEM 6: SELECTED CONSOLIDATED FINANCIAL DATA

The following selected consolidated financial data should be read together with "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" and "Item 8. Financial Statements and Supplementary Data" included elsewhere in this Annual Report on Form 10-K.

(In thousands, except per share data)	Year Ended January 1, 2017	January 3, 2016	December 28, 2014	December 29, 2013	December 30, 2012
Consolidated Statements of Operations Data					
Revenue	$2,559,562	$1,576,473	$3,027,265	$2,507,203	$2,417,501
Gross margin	$189,966	$244,646	$625,127	$491,072	$246,398
Operating income (loss)	$(462,414)	$(206,294)	$251,240	$158,909	$(287,708)
Income (loss) from continuing operations before income taxes and equity in earnings (loss) of unconsolidated investees	$(564,595)	$(242,311)	$184,614	$41,583	$(329,663)
Income (loss) from continuing operations per share of common stock:					
Basic	$(3.41)	$(1.39)	$1.91	$0.79	$(3.01)
Diluted	$(3.41)	$(1.39)	$1.55	$0.70	$(3.01)

(In thousands)	As of January 1, 2017	January 3, 2016	December 28, 2014	December 29, 2013	December 30, 2012
Consolidated Balance Sheet Data					
Cash and cash equivalents	$425,309	$954,528	$956,175	$762,511	$457,487
Working capital	$824,524	$1,515,918	$1,273,236	$528,017	$976,627
Total assets	$4,567,167	$4,856,993	$4,345,582	$3,898,690	$3,340,948
Long-term debt	$451,243	$478,948	$214,181	$93,095	$375,661
Convertible debt, net of current portion	$1,113,478	$1,110,960	$692,955	$300,079	$438,629
Total stockholders' equity	$1,007,832	$1,449,149	$1,534,174	$1,116,153	$993,352

Table of Contents

ITEM 7: MANAGEMENT’S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

Overview

SunPower is a leading global energy company that delivers complete solar solutions to residential, commercial, and power plant customers worldwide through an array of hardware, software, and financing options and through utility-scale solar power system construction and development capabilities, O&M services, and "Smart Energy" solutions. Our Smart Energy initiative is designed to add layers of intelligent control to homes, buildings and grids—all personalized through easy-to-use customer interfaces. Of all the solar cells commercially available to the mass market, we believe our solar cells have the highest conversion efficiency, a measurement of the amount of sunlight converted by the solar cell into electricity. For more information about our business, please refer to the section titled "Part I. Item 1. Business" in this Annual Report on Form 10-K.

Segments Overview

We operate in three end-customer segments: (i) Residential Segment, (ii) Commercial Segment and (iii) Power Plant Segment. Our President and Chief Executive Officer, as the chief operating decision maker, reviews our business and manages resource allocations and measures performance of our activities among these three end-customer segments. The Residential and Commercial Segments combined are referred to as Distributed Generation. For more information about our business segments, see the section titled "Part I. Item 1. Business" in this Annual Report on Form 10-K. For more segment information, see "Item 8. Financial Statements and Supplementary Data—Note 17. Segment Information" in this Annual Report.

Unit of Power

When referring to our solar power systems, our facilities’ manufacturing capacity, and total sales, the unit of electricity in watts for kilowatts ("KW"), megawatts ("MW"), and gigawatts ("GW") is direct current ("DC"), unless otherwise noted as alternating current ("AC").

Seasonal Trends

Our business is subject to industry-specific seasonal fluctuations including changes in weather patterns and economic incentives, among others. Sales have historically reflected these seasonal trends with the largest percentage of total revenues realized during the last two quarters of a fiscal year. The construction of solar power systems or installation of solar power components and related revenue may decline during cold winter months. In the United States, many customers make purchasing decisions towards the end of the year in order to take advantage of tax credits or for other budgetary reasons. In addition, revenues may fluctuate due to the timing of project sales, construction schedules, and revenue recognition of certain projects, such as those involving the sale of real estate, which may significantly impact the quarterly profile of our results of operations. We may also retain certain development projects on our balance sheet for longer periods of time than in preceding periods in order to optimize the economic value we receive at the time of sale in light of market conditions, which can fluctuate after we have committed to projects. Delays in disposing of projects, or changes in amounts realized on disposition, may lead to significant fluctuations to the period-over-period profile of our results of operations and our cash available for working capital needs.

Fiscal Years

We have a 52-to-53-week fiscal year that ends on the Sunday closest to December 31. Accordingly, every fifth or sixth year will be a 53-week fiscal year. The current fiscal year, fiscal 2016, is a 52-week fiscal year, fiscal year 2015 was a 53-week fiscal year and had a 14-week fourth fiscal quarter, while fiscal year 2014 was a 52-week fiscal year. Fiscal 2016 ended on January 1, 2017, fiscal 2015 ended on January 3, 2016, and fiscal 2014 ended on December 28, 2014.

Outlook

Demand

In fiscal 2016 we faced market challenges, primarily in our Power Plant Segment, which impacted our margins and prompted us to implement changes to our business in order to realign our downstream investments, optimize our supply chain, and reduce operating expenses. Our actions included the consolidation of our manufacturing operations in order to accelerate operating cost reductions and improve overall operating efficiency. Factors that impacted our margins included write-downs totaling $46.2 million on certain solar power development projects during 2016 because of adjustments to pricing assumptions, as well as charges totaling $58.2 million that were recorded in fiscal 2016 in connection with the contracted sale of raw material inventory to third parties as we sought to improve our working capital. In fiscal 2017, we plan to focus on projects that we expect will be profitable; however, market conditions can deteriorate after we have committed to projects. For example, shifts in the timing of demand and changes in the internal rate of return ("IRR") that our customers expect can significantly affect project sale prices. A pronounced increase in expected customer and investor IRR rates in light of market conditions may continue to drive lower overall project sale prices in fiscal 2017. For more information see "Part I. Item 1A. Risk Factors—Risks Related to Our Sales Channels—Our operating results are subject to significant fluctuations and are inherently unpredictable" in this Annual Report on Form 10-K.

In the face of these near-term challenges, we remain focused on each of our three business segments as well as on continued investment in next-generation technology. We plan to expand the footprint of our SunPower Equinox™ and Helix™ complete solutions in our Residential and Commercial businesses. We plan to focus our Power Plant business development resources on a limited number of core markets, primarily in the Americas, where we believe we have a sustainable competitive advantage. Outside of these core markets, we will focus our Power Plant business on the sale of our new Oasis® complete solution, incorporating Performance Series panel technology, to developers and EPC companies in global markets. 8point3 Energy Partners remains a source of demand for our business and we plan to continue to sell to it our solar energy generating assets, including utility-scale solar power plants and commercial solar projects. We have used and expect to continue to use additional financing structures and sources of demand in order to maximize economic returns. For additional information on transactions with 8point3 Energy Partners and associated revenue recognition, see "Item 8. Financial Statements and Supplementary Data—Note 10. Equity Method Investments" in this Annual Report on Form 10-K.

In late fiscal 2015, the U.S. government enacted a budget bill that extended the solar commercial investment tax credit (the “Commercial ITC”) under Section 48(c) of the Internal Revenue Code of 1986 (the “IRC”) and the individual solar investment tax credit under Section 25D of the IRC (together with the Commercial ITC, the “ITC”) for five years, at rates gradually decreasing from 30% through 2019 to 22% in 2021. After 2021, the Commercial ITC is retained at 10%. We also saw other recent developments that contributed to a favorable policy environment, including (i) a significant focus on reducing world-wide carbon emissions through such events as the COP21 sustainable innovation forum held in Paris and the announcement of the Clean Power Plan in the United States, and (ii) domestic policy measures such as the extension of bonus depreciation and approval of California Net Metering "NEM 2.0." We believe these factors will strengthen long-term demand for our products in all three business segments in U.S. and global markets and provide us an opportunity to expand our suite of energy solutions. However, in the near term, the extension of the ITC has had adverse impacts on our business, as it has reduced the pressure for commercial or residential customers to make purchases before the end of 2016, which was the time when the ITC had previously been set to expire, and instead has pushed demand from these customers into future periods. In addition, the new administration and Congress have expressed interest in comprehensive reform of the U.S. tax code, which could result in the reduction or elimination of various industry-specific tax incentives in return for an overall reduction in corporate tax rates. For more information about the ITC and other policy mechanisms, please refer to the section titled "Item 1. Business—Regulations—Public Policy Considerations" in this Annual Report on Form 10-K. For more information about how we avail ourselves of the benefits of public policies and the risks related to public policies, please see the risk factors set forth under the caption "Part I. Item 1A. Risk Factors—Risks Related to Our Sales Channels" in this Annual Report on Form 10-K, including "—The reduction, modification or elimination of government incentives could cause our revenue to decline and harm our financial results" and "—Existing regulations and policies and changes to these regulations and policies may present technical, regulatory, and economic barriers to the purchase and use of solar power products, which may significantly reduce demand for our products and services."

Supply

We are focused on delivering complete solutions to customers in all three of our business segments. As part of our complete solution approach, we launched our SunPower Helix™ product for our Commercial Segment during fiscal 2015 and our SunPower Equinox™ product for our Residential Segment during fiscal 2016. The SunPower Equinox and Helix systems are pre-engineered modular solutions for residential and commercial applications, respectively, that combine our high-efficiency solar module technology with integrated plug-and-play power stations, cable management systems, and mounting hardware that enable our customers to quickly and easily complete system installations and manage their energy production. Our SunPower Equinox™ systems utilize our latest X-Series cell and ACPV technology for residential applications, where we are also expanding our initiatives on storage and Smart Energy solutions. During fiscal 2016 we also launched our new generation technology for our existing Oasis® modular solar power blocks for power plant applications. With the addition of these modular solutions in our residential and commercial applications, we are able to provide complete solutions across all end-customer segments. Additionally, we continue to focus on producing on our new lower cost, high efficiency Performance Series product line, which will enhance our ability to rapidly expand our global footprint with minimal capital cost.

Table of Contents

We continue to see significant and increasing opportunities in technologies and capabilities adjacent to our core product offerings that can significantly reduce our customers' CCOE measurement, including the integration of energy storage and energy management functionality into our systems, and have made investments to realize those opportunities, including our investment in a data-driven Energy Services Management Platform from Tendril Networks, Inc., and our strategic partnership with EnerNOC to deploy their Software as a Service energy intelligence software solution to our commercial and power plant customers, enabling our customers to make intelligent energy choices by addressing how they buy energy, how they use energy and when they use it. We have added advanced module-level control electronics to our portfolio of technology designed to enable longer series strings and significant balance of system components cost reductions in large arrays. We are developing next generation microinverter technology and currently offer solar panels that use microinverters designed to eliminate the need to mount or assemble additional components on the roof or the side of a building and enable optimization and monitoring at the solar panel level to ensure maximum energy production by the solar system. We also continue to work on making combined solar and distributed energy storage solutions broadly commercially available to certain customers in the United States through our agreement to offer Sunverge SIS energy solutions comprising batteries, power electronics, and multiple energy inputs controlled by software in the cloud.

We continue to improve our unique, differentiated solar cell and panel technology. We emphasize improvement of our solar cell efficiency and LCOE and CCOE performance through enhancement of our existing products, development of new products and reduction of manufacturing cost and complexity in conjunction with our overall cost-control strategies. We are now producing our solar cells with over 25% efficiency in the lab, have reached production panel efficiencies over 24%, and have started up our high-volume Performance Series production lines in Mexico.

We plan to reduce our overall solar cell manufacturing output to match profitable demand levels, with increasing bias toward our highest efficiency X-Series product platform, which utilizes our latest solar cell technology, and our Performance Series product, which utilizes conventional cell technology that we purchase from third parties in low-cost supply chain ecosystems such as China. We recently closed our Fab 2 cell manufacturing facility and our panel assembly facility in the Philippines and are focusing on our latest generation, lower cost panel assembly facilities in Mexico. As part of this realignment, we expect to reduce our back-contact panel assembly capacity while ramping production of our new Performance Series technology.

We are focused on reducing the cost of our solar panels and systems and are working with our suppliers and partners along all steps of the value chain to reduce costs by improving manufacturing technologies and expanding economies of scale. We also continually focus on reducing manufacturing cost and complexity in conjunction with our overall cost-control strategies. We believe that the global demand for solar systems is highly elastic and that our aggressive, but achievable, cost reduction roadmap will reduce installed costs for our customers across all business segments and drive increased demand for our solar solutions.

We also work with our suppliers and partners to ensure the reliability of our supply chain. We have contracted with some of our suppliers for multi-year supply agreements, under which we have annual minimum purchase obligations. For more information about our purchase commitments and obligations, please see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations—Liquidity and Capital Resources—Contractual Obligations" and "Item 8. Financial Statements and Supplementary Data—"Note 9. Commitments and Contingencies" in the Notes to the Consolidated Financial Statements in this Annual Report on Form 10-K.

We currently believe our supplier relationships and various short- and long-term contracts will afford us the volume of material and services required to meet our planned output; however, we face the risk that the pricing of our long-term contracts may exceed market value. We purchase our polysilicon under fixed-price long-term supply agreements; purchases in fiscal 2016 under these agreements significantly exceeded market value and the volume contracted to be purchased in fiscal 2017 exceeds our planned utilization, which may result in higher inventory balances until we are able to fully utilize the polysilicon inventory in future periods. We have also elected to sell polysilicon inventory in excess of short-term needs to third parties at a loss, and may enter into further similar transactions in future periods. For more information about these risks, please see "—Our long-term, firm commitment supply agreements could result in excess or insufficient inventory, place us at a competitive disadvantage on pricing, or lead to disputes, each of which could impair our ability to meet our cost reduction roadmap" and "—We will continue to be dependent on a limited number of third-party suppliers for certain raw materials and components for our products, which could prevent us from delivering our products to our customers within required timeframes and could in turn result in sales and installation delays, cancellations, penalty payments and loss of market share" under "Part 1. Item 1A. Risk Factors—Risks Related to Our Supply Chain" in this Annual Report on Form 10-K.

Projects Under Contract

Table of Contents

The table below presents significant construction and development projects under contract as of January 1, 2017:

Project	Location	Size (MW)	Third-Party Owner / Purchaser(s)	Power Purchase Agreement(s)	Expected Substantial Completion of Project[1]
Iberdrola Gala Solar Project	Oregon, USA	71	Avangrid Renewables, LLC	Customer A	2017
Boulder Solar Project II	Nevada, USA	62	AEP Renewables, LLC	Sierra Pacific Power Company	2017

[1]Expected completion of revenue recognition assumes completion of construction in the stated fiscal year.

As of January 1, 2017, an aggregate of approximately $222.6 million of remaining revenue is expected to be recognized on projects reflected in the table above through the expected completion dates noted. Projects will be removed from the table above in the period in which substantially all of the revenue for such project has been recognized.

Projects with Executed Power Purchase Agreements - Not Sold / Not Under Contract

The table below presents significant construction and development projects with executed PPAs, but not sold or under contract as of January 1, 2017:

Project	Location	Size (MW)	Power Purchase Agreement(s)	Expected Substantial Completion of Project[1]
Ticul Solar Projects	Mexico	399	Comision Federal Electricidad	2018
Guajiro Solar Project	Mexico	117	Comision Federal Electricidad	2018
El Pelicano Solar Project	Chile	111	Empresa de Transporte de Pasajeros Metro S.A.	2017

[1] Expected completion of revenue recognition assumes completion of construction and sale of the project in the stated fiscal year.

Our project pipeline extends beyond the projects represented in the tables above. Significant projects with development and milestone activities in progress will be excluded from the table above until an associated PPA has been executed.

Components of Results of Operations

The following section describes certain line items in our Consolidated Statements of Operations:

Revenue

We recognize revenue from the following activities and transactions within our end-customer segments:

- Solar power components: the sale of panels and balance of system components, primarily to dealers, system integrators and distributors, in some cases on a multi-year, firm commitment basis.

- Solar power systems: the design, manufacture, and sale of high-performance rooftop and ground-mounted solar power systems under construction and development agreements.

-

Residential leases: revenue recognized on systems under lease agreements with residential customers for terms of up to 20 years.

- Other: revenue related to our solar power services and solutions, such as post-installation systems monitoring and maintenance in connection with construction contracts and commercial PPAs.

For a discussion of how and when we recognize revenue, see "—Critical Accounting Estimates—Revenue Recognition."

Cost of Revenue

We generally recognize our cost of revenue in the same period that we recognize related revenue. Our cost of revenue fluctuates from period to period due to the mix of projects that we complete and the associated revenue that we recognize, particularly for construction contracts and large-scale development projects involving real estate. For a discussion of how and when we recognize revenue, see "—Critical Accounting Estimates—Revenue Recognition."

The cost of solar panels is the single largest cost element in our cost of revenue. Our cost of solar panels consists primarily of: (i) polysilicon, silicon ingots and wafers used in the production of solar cells; (ii) other materials and chemicals including glass, frame, and backing; and (iii) direct labor costs and assembly costs. Other cost of revenue associated with the construction of solar power systems includes real estate, mounting systems, inverters, capitalized financing costs, and construction subcontract and dealer costs. Other factors that contribute to our cost of revenue include salaries and personnel-related costs, depreciation, facilities related charges, freight, as well as charges related to sales of raw material inventory and write-downs on certain solar power development projects when costs exceed expected selling prices.

Gross Margin

Our gross margin each quarter is affected by a number of factors, including average selling prices for our solar power components, the timing and nature of project revenue recognition, the types of projects in progress, the gross margins estimated for those projects in progress, our product mix, our actual manufacturing costs, the utilization rate of our solar cell manufacturing facilities, and actual overhead costs.

Research and Development

Research and development expense consists primarily of salaries and related personnel costs; depreciation of equipment; and the cost of solar panel materials, various prototyping materials, and services used for the development and testing of products. Research and development expense is reported net of contributions under collaborative arrangements.

Sales, General and Administrative

Sales, general and administrative expense consists primarily of salaries and related personnel costs, professional fees, bad debt expenses, and other selling and marketing expenses.

Restructuring

Restructuring expense in fiscal 2016 consists mainly of costs associated with our August 2016 and December 2016 restructuring plans aimed to realign our downstream investments, optimize our supply chain, and reduce operating expenses in response to expected near-term challenges. Charges in connection with these plans consist primarily of asset impairments, severance benefits, and lease and related termination costs. For more information, see "Item 8. Financial Statements and Supplementary Data—Note 8. Restructuring" in this Annual Report.

Restructuring expense in fiscal 2015 and 2014 consists mainly of costs associated with our November 2014 reorganization plan aimed towards realigning resources consistently with SunPower's global strategy and improving overall operating efficiency and cost structure. Charges in connection with this plan are primarily related to severance benefits. Remaining restructuring costs are related to plans effected in prior fiscal periods. Restructuring activities related to these legacy plans were substantially complete as of January 1, 2017; however, we expect to continue to incur costs as we finalize previous estimates and actions in connection with these plans, primarily due to other costs, such as legal services.

Other Income (Expense), Net

Interest expense primarily relates to: (i) amortization expense recorded for warrants issued to Total S.A. in connection with the Liquidity Support Agreement executed in the first quarter of fiscal 2012; (ii) debt under our senior convertible debentures; (iii) fees for our outstanding letters of credit; and (iv) other outstanding bank and project debt.

Other, net includes gains or losses on foreign exchange and derivatives as well as gains or losses related to sales and impairments of certain investments.

In fiscal 2016, significant items contributing to Other income (expense), net consisted of a gain on the settlement of preexisting relationships in connection with our acquisition of AUOSP, a loss on our equity method investment in connection with our acquisition of AUOSP, and goodwill impairment. For more information on these items, see "—Note 3. Business

Table of Contents

Combinations" and "—Note 4. Goodwill and Other Intangible Assets" under "Item 8. Financial Statements and Supplementary Data" in this Annual Report.

Income Taxes

Deferred tax assets and liabilities are recognized for temporary differences between financial statement and income tax bases of assets and liabilities. Valuation allowances are provided against deferred tax assets when management cannot conclude that it is more likely than not that some portion or all deferred tax assets will be realized.

We currently benefit from income tax holidays incentives in the Philippines in accordance with our registration with the Philippine Economic Zone Authority ("PEZA"). We also benefit from a tax holiday granted by the Malaysian government to our former joint venture AUOSP (now our wholly-owned subsidiary, SunPower Malaysia Manufacturing Sdn. Bhd.) subject to certain hiring, capital spending, and manufacturing requirements. We have an auxiliary company ruling in Switzerland, where we sell our solar power products, which currently reduces our Swiss tax rate. For additional information see "—Note 1. The Company and Summary of Significant Accounting Policies" and "—Note 13. Income Taxes" under "Item 8. Financial Statements and Supplementary Data" in this Annual Report on Form 10-K.

For financial reporting purposes, during periods when we were a subsidiary of Cypress, income tax expense and deferred income tax balances were calculated as if we were a separate entity and had prepared our own separate tax return. Effective with the closing of our public offering of common stock in June 2006, we were no longer eligible to file federal and most state consolidated tax returns with Cypress. As of September 29, 2008, Cypress completed a spin-off of all of its shares of our former class B common stock to its shareholders, so we are no longer eligible to file any remaining state consolidated tax returns with Cypress. Under our tax sharing agreement with Cypress, we agreed to pay Cypress for any federal and state income tax credit or net operating loss carryforwards utilized in our federal and state tax returns in subsequent periods that originated while our results were included in Cypress's federal tax returns.

Equity in Earnings (Loss) of Unconsolidated Investees

Equity in earnings (loss) of unconsolidated investees represents our reportable share of earnings (loss) generated from entities in which we own an equity interest accounted for under the equity method.

Net Loss Attributable to Noncontrolling Interests and Redeemable Noncontrolling Interests

We have entered into facilities with third-party investors under which the parties invest in entities that hold SunPower solar power systems and leases with residential customers. We determined that we hold controlling interests in these less-than-wholly-owned entities and have fully consolidated these entities as a result. The investors were determined to hold noncontrolling interests, some of which are redeemable at the option of the noncontrolling interest holder. We apply the hypothetical liquidation at book value method in allocating recorded net income (loss) to each investor based on the change in the reporting period of the amount of net assets of the entity to which each investor would be entitled to under the governing contractual arrangements in a liquidation scenario.

Results of Operations

Revenue

	Fiscal Year					
(In thousands)	2016	% of total revenue	2015	% of total revenue	2014	% of total revenue

Distributed Generation						
Residential	$720,331	28%	$643,520	41%	$655,936	22%
Commercial	436,915	17%	277,143	17%	361,828	12%
Power Plant	1,402,316	55%	655,810	42%	2,009,501	66%
Total revenue	$2,559,562		$1,576,473		$3,027,265	